

DOT HILL SYSTEMS CORP
Form DEF 14A
April 30, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Dot Hill Systems Corp.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Title of each class of securities to which transaction applies:

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(6) Amount Previously Paid:

(7) Form, Schedule or Registration Statement No.:

(8) Filing Party:

(9) Date Filed:

DOT HILL SYSTEMS CORP.

2200 Faraday Avenue, Suite 100

Carlsbad, California 92008

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 15, 2009

Dear Stockholder:

You are cordially invited to attend the 2009 Annual Meeting of Stockholders of Dot Hill Systems Corp., a Delaware corporation. The meeting will be held on June 15, 2009 at 8:30 a.m. local time at our headquarters located at 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008, for the following purposes:

1. To elect the three nominees for director named herein to hold office until the 2012 Annual Meeting of Stockholders.
2. To approve the Dot Hill Systems Corp. 2009 Equity Incentive Plan.
3. To approve an amendment to the Dot Hill Systems Corp. 2000 Amended and Restated Employee Stock Purchase Plan.
4. To ratify the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP, independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2009.
5. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the proxy statement accompanying this notice.

The record date for the annual meeting is April 27, 2009. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment or postponement thereof.

Important Notice Regarding the Availability of Proxy Materials for the 2009 Annual Meeting of Stockholders to Be Held on June 15, 2009 at 8:30 a.m. local time at 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008.

The proxy statement and annual report to stockholders are available at <http://www.proxyvote.com>. The Board of Directors recommends that you vote FOR the proposals identified above.

By Order of the Board of Directors

/s/ DANA W. KAMMERSGARD

Dana W. Kammersgard

President and Chief Executive Officer

Carlsbad, California

April 30, 2009

Our 2008 Annual Report, which includes financial statements, is being mailed with the proxy statement accompanying this notice. Kindly notify American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038, telephone (877) 777-0800, if you did not receive a report, and a copy will be sent to you.

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy card as instructed in the proxy statement accompanying this notice as promptly as possible in order to ensure your representation at the meeting, or you may vote by telephone or on the Internet by following the instructions in the proxy statement accompanying this notice and on your proxy card. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other agent and you wish to vote at the meeting, you must request and obtain a proxy card issued in your name from that record holder.

DOT HILL SYSTEMS CORP.

2200 Faraday Avenue, Suite 100

Carlsbad, California 92008

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 15, 2009

QUESTIONS AND ANSWERS

Why am I receiving these proxy materials?

We sent you this proxy statement and the accompanying proxy card because the Board of Directors of Dot Hill Systems Corp. is soliciting your proxy to vote at its 2009 Annual Meeting of Stockholders. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the accompanying proxy card, or follow the instructions below to submit your proxy over the telephone or on the Internet.

We intend to mail this proxy statement and the accompanying proxy card on or about April 30, 2009 to all stockholders of record entitled to vote at the annual meeting.

Who can vote at the annual meeting?

Only stockholders of record at the close of business on April 27, 2009, the record date for the annual meeting, will be entitled to vote at the annual meeting. At the close of business on the record date, there were 48,380,369 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If at the close of business on the record date, your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy using the accompanying proxy card, the telephone or the Internet. Whether or not you plan to attend the meeting, we urge you to fill out and return the accompanying proxy card, or vote by proxy over the telephone or on the Internet as instructed below, to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank or Other Agent

If at the close of business on the record date, your shares were held, not in your name, but rather in an account at a brokerage firm, bank or other agent, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker, bank or other agent. The broker, bank or other agent holding your account is considered to be the stockholder of record for purposes of voting at the annual meeting.

As a beneficial owner, you have the right to direct your broker, bank or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy issued in your name from your broker, bank or other agent. Alternatively, you may vote by telephone or over the Internet as instructed by your broker, bank or other agent.

What am I voting on?

There are four matters scheduled for a vote at the annual meeting:

the election of the three directors named herein to hold office until our 2012 Annual Meeting of Stockholders,

the approval of our 2009 Equity Incentive Plan, or the 2009 Plan,

the approval of an amendment to our 2000 Amended and Restated Employee Stock Purchase Plan, or the Purchase Plan, and

the ratification of the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP, independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2009.

What if another matter is properly brought before the annual meeting?

Our Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the annual meeting, it is the intention of the persons named in the accompanying proxy to vote on those matters in accordance with their best judgment.

How do I vote?

For the election of directors, you may either vote For all the nominees or you may Withhold your vote for any nominee you specify. For any other matter to be voted on, you may vote For or Against or abstain from voting. The procedures for voting are as follows:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the annual meeting or vote by proxy using the accompanying proxy card, the telephone or the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person if you have already voted by proxy.

To vote in person, come to the annual meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the accompanying proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free (800) 690-6903 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the accompanying proxy card. Your vote must be received by 11:59 p.m., Eastern Time on June 14, 2009 to be counted.

To vote on the Internet, go to <http://www.proxyvote.com> to complete an electronic proxy card. You will be asked to provide the company number and control number from the accompanying proxy card. Your vote must be received by 11:59 p.m., Eastern Time on June 14, 2009 to be counted.

We provide Internet proxy voting to allow you to vote your shares on line, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

Beneficial Owner: Shares Registered in the Name of Broker, Bank or Other Agent

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker, bank or other agent. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker, bank or other agent included with these proxy materials, or contact your broker, bank or other agent to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of the close of business on April 27, 2009, the record date for the annual meeting.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of all three nominees for director, For the approval of the 2009 Plan, For the approval of an amendment to the Purchase Plan and For the ratification of the selection of Deloitte & Touche LLP as our independent auditors. If any other matter is properly presented at the meeting, one of the individuals named on your proxy card as your proxy will vote your shares using his or her best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the applicable vote at the annual meeting. If you are the record holder of your shares, you may revoke your proxy in any one of the following ways:

you may submit another properly completed proxy with a later date,

you may grant a subsequent proxy by telephone or through the Internet,

you may send a written notice that you are revoking your proxy to our Secretary at 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008, or

you may attend the annual meeting and vote in person (however, simply attending the meeting will not, by itself, revoke your proxy). Your most current proxy card or telephone or Internet proxy is the one that is counted.

If your shares are held by your broker, bank or other agent, you should follow the instructions provided by them.

When are stockholder proposals due for next year's annual meeting?

To be considered for inclusion in next year's proxy materials, a stockholder proposal must be submitted in writing by December 31, 2009, to our Secretary at 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008. If you wish to submit a proposal that is not to be included in next year's proxy materials, your proposal generally must be submitted in writing to the same address no later than January 30, 2010 but no earlier than December 31, 2009. Please review our bylaws, which contain additional requirements regarding advance notice of stockholder proposals.

How are votes counted?

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to any proposals other than the election of directors, Against votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal and will have the same effect as Against votes. Broker non-votes have no effect and will not be counted towards the vote total for any proposal, except for Proposals 2 and 3, for which broker non-votes will have the same effect as Against votes.

What are broker non-votes ?

Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine. Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be routine, but not with respect to non-routine matters. Under the rules and interpretations of the New York Stock Exchange, non-routine matters are generally those involving a contest or a matter that may substantially affect the rights or privileges of shareholders, such as mergers or shareholder proposals.

How many votes are needed to approve each proposal?

For the election of directors, the three nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. Only votes For or Withheld will affect the outcome.

To be approved, the 2009 Plan must receive For votes from the holders of a majority of the outstanding shares either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have the same effect as an Against vote.

To be approved, the amendment to the Purchase Plan must receive For votes from the holders of a majority of the outstanding shares either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have the same effect as an Against vote.

To be approved, the ratification of the selection of Deloitte & Touche LLP as our independent auditors must receive For votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares as of the close of business on the record date are represented by stockholders present at the meeting or by proxy. At the close of business on the record date, there were 48,380,369 shares outstanding and entitled to vote. Therefore, in order for a quorum to exist, 24,190,185 shares must be represented by stockholders present at the meeting or by proxy.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other agent) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in our quarterly report on Form 10-Q for the second quarter of 2009.

What proxy materials are available on the internet?

The proxy statement and annual report to stockholders are available at <http://www.proxyvote.com>.

PROPOSAL 1

ELECTION OF DIRECTORS

Our Certificate of Incorporation provides that our Board of Directors shall be divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. Vacancies on our Board may be filled only by persons elected by a majority of the remaining directors. A director elected by our Board to fill a vacancy in a class shall serve for the remainder of the full term of that class and until the director's successor is elected and qualified. This includes vacancies created by an increase in the number of directors.

Our Board of Directors currently consists of seven members. There are three directors in the class whose term of office expires at the 2009 Annual Meeting of Stockholders, Charles F. Christ, Thomas H. Marmen and Roderick M. Sherwood, III. Each of the nominees named above, except for Mr. Marmen, is currently a director who was previously elected by our stockholders. Mr. Marmen was recommended for election to our Board of Directors by Mr. Christ, one of our non-management directors and Chair of the Nominating and Corporate Governance Committee. In addition, we acquired our RAIDCore and Network Attached Software assets from Ciprico Inc. in September 2008, where Mr. Marmen currently serves as lead director. If elected at the annual meeting, each of the nominees named above would serve until the 2012 Annual Meeting of Stockholders and until his successor has been duly elected and qualified, or, if sooner, until the director's death, resignation or removal.

Directors are elected by a plurality of the votes present at the meeting or represented by proxy and they are entitled to vote at the meeting. The three nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. If no contrary indication is made, shares represented by executed proxies will be voted For the election of the three nominees named above or, if any nominee becomes unavailable for election as a result of an unexpected occurrence, For the election of a substitute nominee designated by our Board of Directors. Each of the three nominees has consented to be named in this proxy statement and agreed to serve as a director if elected, and our management has no reason to believe that any of the nominees will be unable to serve.

We invite all of our directors and nominees for director to attend our annual meeting of stockholders. All of our then directors attended our 2008 Annual Meeting of Stockholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE THREE NOMINEES NAMED ABOVE.

The following is biographical information as of February 1, 2009 for the three nominees for director and each director whose term will continue after the 2009 Annual Meeting of Stockholders.

Name	Age	Position
Kimberly E. Alexy	38	Director
Charles F. Christ	69	Chairman of the Board
Dana W. Kammersgard	53	President, Chief Executive Officer and Director
Joseph D. Markee	55	Director
Thomas H. Marmen	65	Director
Richard Mejia, Jr.	60	Director
Roderick M. Sherwood, III	55	Director

Nominees for Election for a Three-Year Term Expiring at our 2012 Annual Meeting of Stockholders

Charles F. Christ has served as our Chairman of the Board since July 2000. From 1997 to 1998, Mr. Christ served as President, Chief Executive Officer and a director of Symbios, Inc. (acquired by LSI Logic in 1998), a designer, manufacturer and provider of storage systems, as well as client-server integrated circuits, cell-based

applications-specific integrated circuits and host adapter boards. He was Vice President and General Manager of the Components Division of Digital Equipment Corp. (DEC), where he launched and managed StorageWorks, DEC's storage division. Mr. Christ received an M.B.A. degree from Harvard Business School, and completed his undergraduate degree earning a Bachelors in Industrial Engineering at General Motors Institute, now known as Kettering University.

Thomas H. Marmen has served as a member of our Board of Directors since November 2008. Mr. Marmen has over 30 years of experience in the storage and semiconductor manufacturing industries. During his career, he has been involved with various start ups, global enterprises and turnaround situations. Most recently, from April 2006 to April 2007, Mr. Marmen served as the president and chief executive officer of TimeLab Corporation, a semiconductor company. Prior to joining TimeLab, from January 2001 to December 2005, he was vice president and general manager for Broadcom Corporation, a broad-based semiconductor provider, where he was responsible for all aspects of the storage line of business including marketing, engineering and technical support for end-users. Mr. Marmen has also held various positions at other companies including RAIDCore Corp. where he was the company's chief executive officer, Quantum Corp. where he served as senior vice president and general manager for the High End Storage Division, Adaptec Inc. as its corporate vice president in the Enterprise Solutions Group and Materials Research Corporation (a subsidiary of SONY Corp.) as president and chief executive officer. In addition he spent 18 years at Digital Equipment Corporation holding various management positions in the company's storage, memory, disk drive and semi-conductor businesses. Mr. Marmen currently serves as the lead director at Ciprico Inc., which voluntarily filed for Chapter 11 bankruptcy in July 2008.

Roderick M. Sherwood, III has served as a member of our Board of Directors since June 2006. Mr. Sherwood has served as President and Chief Financial Officer of Westwood One, Inc., a radio and TV content provider and broadcasting company, since 2008. From 2005 to 2008, Mr. Sherwood served as Chief Financial Officer, Operations for The Gores Group, LLC, a private equity firm. From 2002 until 2005, Mr. Sherwood was Senior Vice President and Chief Financial Officer for Gateway, Inc. where he was responsible for corporate financial operations, processes and controls, treasury activities and cost reduction programs. He was also integrally involved in Gateway's acquisition of eMachines. Prior to his tenure with Gateway, Mr. Sherwood was Executive Vice President and Chief Financial Officer for Opware, Inc. (formerly Loudcloud, Inc.). Mr. Sherwood has over 25 years experience in successful financial and operations capacities for companies such as Chrysler Corporation and Hughes Electronics Corporation. Mr. Sherwood received his MBA degree from Harvard Business School and holds an Honors Bachelor of Arts Degree, with Distinction, in Economics from Stanford University.

Directors Continuing in Office Until the 2011 Annual Meeting of Stockholders

Dana W. Kammersgard has served as our President since August 2004. In March 2006, Mr. Kammersgard was appointed as a member of our Board of Directors and our Chief Executive Officer and President. From August 1999 to August 2004, Mr. Kammersgard served as our Chief Technical Officer. Mr. Kammersgard was a founder of Artecon, Inc., our predecessor company, and served as a director from its inception in 1984 until the merger of Artecon with Box Hill Systems Corp. to become Dot Hill Systems Corp. in August 1999. At Artecon, Mr. Kammersgard served in various positions since 1984, including Secretary and Senior Vice President of Engineering from March 1998 until August 1999 and as Vice President of Sales and Marketing from March 1997 until March 1998. Prior to co-founding Artecon, Mr. Kammersgard was the Director of Software Development at CALMA, a division of General Electric Company. Mr. Kammersgard holds a B.A. in Chemistry from the University of California, San Diego.

Richard Mejia, Jr. has served as a member of our Board of Directors since September 2008. In July 2008, Mr. Mejia retired from the San Diego office of Ernst & Young, LLP after 38 years of service where he served as partner for the last 25 years. During his 20 years in San Diego, his focus was on technology and life sciences companies and he held practice leadership positions for the Pacific Southwest area of the firm. He has extensive experience with mergers and acquisitions, securities offerings and other private and public financings. He has

also worked closely with public company boards in implementing corporate governance initiatives and compliance requirements. Mr. Mejia holds a B.S. in Accounting from the University of Southern California.

Directors Continuing in Office Until the 2010 Annual Meeting of Stockholders

Kimberly E. Alexy has served as a member of our Board of Directors since December 2005. Ms. Alexy is presently the Founder and Principal at Alexy Capital Management, a private investment management company she founded in 2005, and was formerly Senior Vice President and Managing Director of Equity Research for Prudential Securities in New York City from 1998 to 2003. She served as principal technology hardware analyst for the firm and provided research and ratings on technology companies within the hardware and storage industries. Prior to joining Prudential, Ms. Alexy was Vice President of Equity Research at Lehman Brothers where she covered technology hardware, channel and storage stocks. While at Lehman, Ms. Alexy worked on several initial public offerings and various mergers and acquisition transactions. Ms. Alexy is a Chartered Financial Analyst, and holds an M.B.A. in Finance and Accounting from the College of William and Mary and a B.A. in Psychology from Emory University. Ms. Alexy also presently serves as a Director at CalAmp Corp., a publicly traded wireless communications company.

Joseph D. Markee has served as a member of our Board of Directors since June 2004. Mr. Markee has served as Managing Director of Express Ventures, LLP, a venture capital firm, since November 2005 and was Chief Executive Officer for Figure 8 Wireless Inc., a wholly owned subsidiary of Chipcon Group ASA, until May 2005. Chipcon Group ASA is a leading provider of ZigBee ready software and networking solutions focused on standardized wireless communications. Prior to Figure 8, Mr. Markee was Co-Founder and Founding Chief Executive Officer of Copper Mountain Networks. Copper Mountain designs, develops and delivers subscriber access and broadband remote access server solutions for facilities-based carrier networks. From 1988 to 1995, Mr. Markee was Co-Founder and held several senior management roles at Primary Access, a remote access server company which was sold to 3Com Corporation in 1994. Mr. Markee is also a member of the Board of Directors of Metalink, Ltd., a global provider and developer of high performance wireline and wireless broadband communication silicon solutions. Mr. Markee graduated from the University of California, Davis where he received a B.S. in Electrical Engineering and Computer Science.

Executive Officers and Key Employees

The following is biographical information as of February 1, 2009 for our executive officers and key employees not discussed above.

Name	Age	Position
Hanif I. Jamal	48	Senior Vice President, Chief Financial Officer and Corporate Secretary
Ernest Hafersat	59	Senior Vice President of Worldwide Manufacturing, Operations and Supply Base Management
James Kuenzel	55	Senior Vice President of Engineering

Executive Officers

Hanif I. Jamal has served as our Senior Vice President, Chief Financial Officer, Treasurer and Corporate Secretary since July 2006. Prior to joining Dot Hill, Mr. Jamal was at Gateway Inc. where he was Vice President and Corporate Treasurer from April 2004 through July 2006 and Vice President of Gateway Financial Services from September 2002 to April 2004. Mr. Jamal also served in a number of leadership positions over 17 years within Hewlett-Packard Company in the customer financing division, HP Technology Finance. Mr. Jamal led HP's customer financing operations in North America, Latin America and Europe and was also Vice President and General Manager for HP's Commercial and Consumer Financing Division. In 1998, he established Hewlett

-Packard International Bank in Dublin, Ireland, and served as Managing Director through 2000. Mr. Jamal holds an MBA from Stanford Graduate School of Business and a Bachelor of Science degree, with Honors, in Management Sciences from the University of Manchester Institute of Science and Technology in the United Kingdom.

Key Employees

Ernest Hafersat has served as our Senior Vice President of Worldwide Manufacturing, Operations and Supply Base Management since November 2008, and previously served as our Vice President of Worldwide Manufacturing Operations and Supply Base Management since March 2008. Mr. Hafersat joined Dot Hill after leaving Western Digital Corporation where he held senior level positions in operations and engineering from 2005 to 2008. Prior to Western Digital, Mr. Hafersat was Vice President, Manufacturing Operations & Program Management for Carrier Access Corp. Previous positions include Vice President, Operations for Vari-l Corp., Vice President/ GM at Read-Rite Corp.-Philippines, Senior Director, Engineering/ NPI at Maxtor Corp. and Director of Engineering at Hyundai Semiconductor-Korea. Mr. Hafersat has overseen operations, supply base management, global supplier quality and engineering for both domestic and international multi-site facilities. His international experience includes China, Pacific Rim countries, Mexico and Costa Rica. Mr. Hafersat has a BSIE/BSEE from Waterbury State Technical University, and attended University of Hartford and Rennsler Polytechnic Institute with credits toward an MBA.

James Kuenzel has served as our Senior Vice President of Engineering since February 2006. Mr. Kuenzel joined Dot Hill after leaving Maranti Networks Inc. where he began his tenure in 2002 as Vice President of Engineering and then was appointed to President and Chief Operating Officer. Mr. Kuenzel has also held Vice President of Engineering positions at McData Corporation, Cabletron Systems, Inc. and Digital Equipment Corporation. Mr. Kuenzel attended Georgetown University Extension, University of Wisconsin Extension, and holds an A.A. in Electronics from Philco Ford Technical Institute.

INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Independence of the Board of Directors and its Committees

As required under Nasdaq Stock Market listing standards, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the board. Our Board of Directors consults with our counsel to ensure that the Board's determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in applicable Nasdaq listing standards, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and Dot Hill, our senior management and our independent auditors, the Board of Directors has affirmatively determined that our directors are independent directors within the meaning of the applicable Nasdaq listing standards, except for Mr. Kammersgard, our President and Chief Executive Officer, who is not an independent director by virtue of his employment with Dot Hill.

Meetings of the Board of Directors and Board and Committee Member Attendance

Our Board of Directors met 14 times. Each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served, held during the period for which he or she was a director or committee member, respectively, except for W.R. Sauey who for personal medical reasons was unable to attend 75% or more of the meetings of the Board.

As required under applicable Nasdaq listing standards, in fiscal 2008, our independent directors met in regularly scheduled executive sessions at which only independent directors were present. All of the committees of our Board of Directors are comprised entirely of directors determined by the Board to be independent within the meaning of the applicable Nasdaq listing standards.

Information Regarding the Board of Directors and its Committees

Our Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The following is a description of each committee and its functions.

Audit Committee

The Audit Committee operates pursuant to a written charter that is available on our website at <http://www.dothill.com>. The Audit Committee met six times and acted by written consent one time during the fiscal year ended December 31, 2008. During fiscal 2008, the Audit Committee consisted of Ms. Alexy and Messrs. Christ, Markee, Mejia and Sherwood, with Mr. Sherwood serving as Chair and Mr. Mejia joining the Audit Committee in November 2008. The Audit Committee currently consists of Ms. Alexy and Messrs. Markee, Mejia and Sherwood, with Mr. Sherwood serving as Chair.

The functions of the Audit Committee include, among other things: overseeing our corporate accounting and financial reporting process, the quality and integrity of our financial statements and reports and the qualifications, independence and performance of the certified public accountants engaged as our independent auditors; providing oversight assistance with respect to ethical compliance programs as established by management and our Board of Directors; evaluating the performance and assessing the qualifications of our independent auditors; determining whether to retain or terminate our existing independent auditors or to appoint and engage new independent auditors; reviewing and approving the retention of our independent auditors to perform any proposed permissible non-audit and audit-related services; monitoring the rotation of partners of our independent auditors on our engagement team as required by law; reviewing and approving the financial statements to be included in our Annual Report on Form 10-K; discussing with our management and our independent auditors the results of our annual audit and the results of our quarterly financial statements; reviewing and approving related party transactions; and providing oversight of the internal audit and risk advisory function, which includes reviewing our annual assessment of risk, establishing an internal audit plan, and reviewing the results of our internal audits, process improvements and Sarbanes-Oxley testing. The charter of the Audit Committee grants the Audit Committee full access to all of our books, records, facilities and personnel, as well as authority to obtain, at our expense, advice and assistance from internal and external legal, accounting, tax or other advisors and consultants and other external resources that the Audit Committee considers necessary or appropriate in the performance of its duties.

The Board of Directors reviews the Nasdaq listing standards definition of independence for Audit Committee members on an annual basis and has determined that all members of the Company's Audit Committee are independent (meeting the requirements for independence currently set forth in Rule 4350(d)(2)(A)(i)-(iv) of the Nasdaq Marketplace Rules). The Board of Directors has also determined that each of Ms. Alexy and Messrs. Mejia and Sherwood qualifies as an audit committee financial expert, as defined in applicable Securities and Exchange Commission, or SEC, rules. The Board made a qualitative assessment of Ms. Alexy's and Messrs. Mejia's and Sherwood's level of knowledge and experience based on a number of factors, including their formal education and experience in financial investment firms, as a partner at Ernst & Young LLP and as a chief financial officer for public reporting companies, respectively.

As part of our effort to continually improve the company's risk management and internal processes and controls, the Audit Committee engaged KPMG Advisory Services, or KPMG, in 2008 to assist us with establishing an internal risk advisory function. The risk advisory group is tasked with a variety of projects for 2009, including Sarbanes-Oxley Section 404 assistance, business process assessments and other reviews touching on operational, financial and information technology aspects of our business. KPMG's appointment in 2008 was a proactive step that we took to create an internal risk advisory function, consolidate our Sarbanes-Oxley testing activities and enable us to better coordinate Sarbanes-Oxley testing with our external auditors.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The material in this report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing of Dot Hill under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The purpose of the Audit Committee is to assist the Board in its general oversight of our financial reporting, internal controls and audit functions. The Audit Committee charter describes in greater detail the full responsibilities of the Audit Committee. During 2008, the members of the Audit Committee were Ms. Alexy and Messrs. Christ, Markee, Mejia and Sherwood, with Mr. Mejia joining the Audit Committee in November 2008. The Board has determined that all members of the Audit Committee are independent (meeting the requirements for independence currently set forth in Rule 4350(d)(2)(A)(i)-(iv) of the Nasdaq Marketplace Rules).

Management is responsible for the financial statements and reporting process, including the system of internal controls. Our independent auditors are responsible for performing an audit of our financial statements and expressing an opinion as to their conformity with generally accepted accounting principles. The Audit Committee oversees and reviews these processes and has reviewed and discussed the financial statements with management and our independent auditors. The Audit Committee is not, however, employed by Dot Hill, nor does it provide any expert assurance or professional certification regarding our financial statements. The Audit Committee relies, without independent verification, on the accuracy and integrity of the information provided, and representations made, by management.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent accountants a formal written statement describing all relationships between the accountants and us that might bear on the accountants' independence consistent with applicable requirements of the Public Company Accounting Oversight Board, or PCAOB, regarding the independent accountants' communications with the audit committee concerning independence. The Audit Committee discussed with the independent accountants any relationships that may impact their objectivity and independence, including fees paid relating to the audit and any non-audit services performed, and satisfied itself as to that firm's independence.

The Audit Committee discussed and reviewed with the independent accountants all communications required by generally accepted accounting standards, including those described in Statement on Auditing Standards No. 114, "The Auditor's Communication with Those Charged with Governance," as adopted by the PCAOB in Rule 3200T. In addition, the Audit Committee, with and without management present, discussed and reviewed the scope, plan and results of the independent accountants' examination of the financial statements. Based upon the Audit Committee's discussion with management and the independent accountants and the Audit Committee's review of the representation of management and the report of the independent accountants to the Audit Committee, subject to the limitations on the role and responsibility of the Audit Committee referred to in the written charter of the Audit Committee, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the SEC. The Audit Committee also approved the selection, subject to stockholder ratification, of the independent accountants and the Board concurred in such authorization.

Audit Committee

Roderick M. Sherwood, III, *Chairman*

Kimberly E. Alexy

Joseph D. Markee

Richard Mejia, Jr.

Compensation Committee

The Compensation Committee operates pursuant to a written charter that is available on our website at <http://www.dothill.com>. The Compensation Committee met 10 times and acted by written consent one time during the fiscal year ended December 31, 2008. During fiscal 2008, the Compensation Committee consisted of Ms. Alexy and Messrs. Christ, Markee and Marmen, with Mr. Markee serving as Chair until Ms. Alexy's appointment as Chair in November 2008, and Mr. Marmen joining the Compensation Committee in November 2008. The Compensation Committee currently consists of Ms. Alexy and Messrs. Markee and Marmen with Ms. Alexy serving as Chair.

The functions of the Compensation Committee include, among other things: reviewing and approving our overall compensation strategy and policies; reviewing and approving corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management; reviewing and approving the compensation and other terms of employment of our executive officers; recommending the compensation of our non-employee directors; and administering our stock option and purchase plans, deferred compensation plans and other similar programs. The Compensation Committee also reviews and composes with management our Compensation Discussion and Analysis.

At minimum, the Compensation Committee meets once each quarter and with greater frequency as necessary. The agenda for each meeting is usually developed by the Chair of the Compensation Committee, in consultation with the Chief Executive Officer and the Chief Financial Officer. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in Compensation Committee meetings. The Chief Executive Officer and the Chief Financial Officer may not participate in or be present during any deliberations or determinations of the Compensation Committee regarding their compensation or individual performance objectives. The charter of the Compensation Committee grants the Compensation Committee full access to all of our books, records, facilities and personnel, as well as authority to obtain, at our expense, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

The Compensation Committee engaged Consult RJ, an independent compensation consultant, to conduct a comprehensive executive compensation market review for the purpose of establishing executive compensation packages for the fiscal year 2008. In addition, the Compensation Committee worked with Consult RJ and utilized data from the Radford High Tech Total Compensation Executive Survey (including proxy data for publicly-traded competitors in the software, computer and peripheral industries) to determine base salary, annual bonus targets and long term incentive plans for both existing management and key hires. As part of its engagement, Consult RJ was requested by the Compensation Committee to develop a comparative group of companies for fiscal 2008 based on the data discussed above and to perform analyses of competitive performance and compensation levels for that group with respect to fiscal 2008. Consult RJ also aided the Compensation Committee in its discussion and analyses of various alternatives for our fiscal 2008 target bonuses, including mixes of time-based stock options and performance-based stock options, restricted stock and cash. Consult RJ, with management's input, ultimately developed recommendations for fiscal 2008 that were presented to the Compensation Committee for its consideration. The Compensation Committee utilized those recommendations in the development of the fiscal 2008 executive compensation plan. Management also engaged the services of Remedy Compensation Consulting with respect to performance-based restricted stock elements related to executive compensation in fiscal 2008 and 2009.

We have adopted a stock option grant policy pursuant to which the Compensation Committee approves all stock option grants to employees and officers to purchase shares of Dot Hill's common stock. Pursuant to the

policy, the Compensation Committee generally will meet once a quarter prior to general public release of Dot Hill's annual or quarterly revenues and earnings for such period to approve recommended stock option grants. The effective date for the approved stock options will be the third business day after the general public release of Dot Hill's annual or quarterly revenues and earnings, as applicable, following the applicable Compensation Committee meeting. The Compensation Committee may vary this procedure if it determines that applicable circumstances, such as public disclosure requirements or other factors, justify doing so. The exercise price for the stock option grants will be set at the fair market value of our common stock on the effective date of grant. Under our current equity incentive plan, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the Nasdaq Stock Market on the last market trading day prior to such date. Under the 2009 Plan, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the Nasdaq Stock Market on such date, or if such date is not a trading day, the last market trading day prior to such date. All stock option grants to directors under our 2000 Non-Employee Directors' Stock Option Plan, or the Directors' Plan, are made automatically in accordance with the terms of the Directors' Plan. In addition, the Compensation Committee approves all restricted stock awards to employees, officers and directors, which are generally approved at times consistent with our stock option grant policy, provided, however, that restricted stock awards are generally effective on the date of approval by the Compensation Committee.

Historically, the Compensation Committee has made adjustments to annual compensation, determined bonus and equity awards and established new performance objectives at one or more meetings held during the fourth fiscal quarter of the prior year and the first quarter of the year. However, the Compensation Committee also considers matters related to individual compensation, such as compensation for new executive hires and promotions, as well as high-level strategic issues, such as the efficacy of our compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. Generally, the Compensation Committee's process comprises two related elements: the determination of compensation levels and the establishment of performance objectives for the current year. For executives other than the Chief Executive Officer, the Compensation Committee solicits and considers evaluations and recommendations submitted to the Compensation Committee by the Chief Executive Officer. In the case of the Chief Executive Officer, the evaluation of his performance is conducted by the Compensation Committee, which determines any adjustments to his compensation as well as awards to be granted. For all executives and directors, as part of its deliberations, the Compensation Committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, spreadsheets that set forth the total compensation that may become payable to executives in various hypothetical scenarios, executive and director stock ownership information, company stock performance data, analyses of historical executive compensation levels and current company-wide compensation levels, and recommendations of the Compensation Committee's compensation consultant, including analyses of executive compensation paid at other companies identified by the consultant and in conjunction with the Compensation Committee.

The specific determinations of the Compensation Committee with respect to executive compensation are described in greater detail in the Compensation Discussion and Analysis section of this proxy statement.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2008 the Compensation Committee consisted of Ms. Alexy and Messrs. Christ, Markee and Marmen, with Mr. Markee serving as chair until Ms. Alexy's appointment as chair in November 2008, and Mr. Marmen joining the Compensation Committee in November 2008. No member of the Compensation Committee has ever been an officer or employee of ours. None of our executive officers currently serves, or has served during the last completed fiscal year, on the Compensation Committee or board of directors of any other entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

COMPENSATION COMMITTEE REPORT

The material in this report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing of Dot Hill under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based on this review and discussion, the Compensation Committee has recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated into our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Compensation Committee

Kimberly E. Alexy, *Chairman*

Joseph D. Markee

Thomas H. Marmen

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee operates pursuant to a written charter that is available on our website at <http://www.dothill.com>. The Nominating and Corporate Governance Committee met six times during the fiscal year ended December 31, 2008. During fiscal 2008, the Nominating and Corporate Governance Committee consisted of Ms. Alexy and Messrs. Christ, Markee and Mejia, with Mr. Christ serving as Chair and Mr. Mejia joining the Nominating and Corporate Governance Committee in November 2008. The Nominating and Corporate Governance currently consists of Ms. Alexy and Messrs. Christ, Mejia and Sherwood, with Mr. Christ serving as Chair.

The functions of the Nominating and Corporate Governance Committee include, among other things: overseeing all aspects of our corporate governance functions on behalf of the Board, including procedures for compliance with significant applicable legal, ethical and regulatory requirements that affect corporate governance; making recommendations to the Board regarding corporate governance issues; identifying, reviewing and evaluating candidates to serve as our directors, including candidates submitted by our stockholders; serving as a focal point for communication between such candidates, non-committee directors and our management; recommending candidates to the Board; assessing the performance of our Chief Executive Officer, subject to the Compensation Committee's authority with respect to compensation matters; reviewing and overseeing our management succession planning; and making such other recommendations to the Board regarding affairs relating to our directors as may be needed.

The Nominating and Corporate Governance Committee believes that candidates for director should have certain qualifications, including being able to read and understand basic financial statements and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to our affairs, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of our stockholders. However, the Nominating and Corporate Governance Committee retains the right to modify these qualifications from time to time.

Candidates for director nominees are reviewed in the context of the current composition of our Board of Directors, our operating requirements and the long-term interests of our stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers diversity, relevant business

experience, skills and such other factors as it deems appropriate given the current needs of the Board of Directors and Dot Hill, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance and any other relevant considerations. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee must be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our Board of Directors. The Nominating and Corporate Governance Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote. To date, the Nominating and Corporate Governance Committee has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates.

At this time, the Nominating and Corporate Governance Committee has not adopted a policy to consider director candidates recommended by stockholders, in part because to date, the Nominating and Corporate Governance Committee has not received a director nominee from any stockholder, including any stockholder or stockholders holding more than five percent of our voting stock. The Nominating and Corporate Governance Committee believes that it is in the best position to identify, review, evaluate and select qualified candidates for Board membership, based on the comprehensive criteria for Board membership approved by the Board.

Additional Ad Hoc Committees

From time to time, our Board of Directors may establish additional ad hoc committees to address specific areas as the need arises. For example, the following three additional ad hoc committees are currently in place:

Special Litigation Committee to investigate purported class action complaints filed against us in late January and early February 2006 that allege violations of federal securities laws.

Operations Committee to review Dot Hill's operations and report on such matters to the Board.

Investment Committee to identify and present to the Board potential investment opportunities for Dot Hill.

Stockholder Communications With The Board Of Directors

Persons interested in communicating their questions, concerns or issues to our Board of Directors or our independent directors may address correspondence to the Board of Directors, a particular director or to the independent directors generally, in care of Dot Hill Systems Corp. at 2200 Faraday Avenue, Suite 100, Carlsbad, California 92008. If no particular director is named, letters will be forwarded, depending on the subject matter, to the Chairman of the Board or the Chair of the Audit, Compensation, or Nominating and Corporate Governance Committee.

CODE OF BUSINESS CONDUCT AND ETHICS

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at <http://www.dothill.com>. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website, as well as via any other means then required by Nasdaq listing standards or applicable law.

PROPOSAL 2

APPROVAL OF THE DOT HILL SYSTEMS CORP. 2009 EQUITY INCENTIVE PLAN

Our 2009 Equity Incentive Plan, or the 2009 Plan, was adopted by the Board on April 27, 2009, subject to stockholder approval. The 2009 Plan is the successor to and continuation of our 2000 Amended and Restated Equity Incentive Plan, or the 2000 Plan, and our 1995 Incentive Program, as amended and restated, or together, the Prior Plans. All outstanding stock awards granted under the Prior Plans will continue to be subject to the terms and conditions as set forth in the agreements evidencing such stock awards and the terms of the Prior Plans, provided, however, that any shares subject to outstanding stock awards granted under the Prior Plans that expire or terminate for any reason prior to the exercise or settlement, shall become available for issuance pursuant to awards granted under the 2009 Plan. Any shares remaining available for issuance pursuant to the exercise of options or settlement of stock awards under the Prior Plans as of the effective date of the 2009 Plan shall become available for issuance pursuant to stock awards granted under the 2009 Plan.

This Proposal 2 seeks an increase in the number of shares that may be issued under the 2009 Plan beyond those reserved for issuance under the Prior Plans by 4,500,000 shares and no additional shares will be made available for issuance under the 2009 Plan without stockholder approval. At April 27, 2009, stock awards (net of cancelled or expired awards) covering an aggregate of 7,710,153 shares were outstanding under the Prior Plans and 310,382 shares remained available for future grant under the Prior Plans.

The approval of the 2009 Plan will allow us to continue to grant stock options and other awards at levels determined appropriate by our Board. The 2009 Plan will also provide us with flexibility in designing equity incentives in an environment where a number of companies have moved from traditional option grants to other stock-based awards, including stock appreciation rights, restricted stock awards, restricted stock unit awards and performance stock awards. Further, the 2009 Plan will allow us to implement our annual incentive programs under a plan that qualifies under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. Accordingly, the 2009 Plan will allow us to utilize a broad array of equity incentives and performance cash incentives in order to secure and retain the services of our employees, consultants and directors, and to provide long term incentives that align the interests of our employees, consultants and directors with the interests of our stockholders.

In this Proposal 2, stockholders are requested to approve the 2009 Plan. The affirmative vote of the holders of a majority of the outstanding shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to approve the adoption of the 2009 Plan. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted toward a quorum and will have the same effect as negative votes.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE 2009 PLAN.

Description of the 2009 Equity Incentive Plan

The material features of the 2009 Plan are outlined below. This summary is qualified in its entirety by reference to the complete text of the 2009 Plan. Stockholders are urged to read the actual text of the 2009 Plan in its entirety, which is appended to this proxy statement as Appendix A.

Background

The terms of the 2009 Plan provide for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-related awards and performance awards that may be settled in cash, stock or other property.

Shares Available for Awards

If this Proposal 2 is approved, the total number of shares of our common stock reserved for issuance under the 2009 Plan will consist of:

the number of shares remaining available for future grant under the Prior Plans as of June 15, 2009; plus

the number of shares that are subject to stock awards outstanding under the Prior Plans as of June 15, 2009 that subsequently terminate prior to exercise and would otherwise be returned to the share reserves under the Prior Plans; plus

4,500,000 shares.

We call this aggregate number the Share Reserve. The 2009 Plan will not include an evergreen provision and therefore no additional shares will be made available for issuance under the 2009 Plan without stockholder approval. The number of shares available for issuance under the 2009 Plan is reduced by (i) one share for each share of common stock issued pursuant to an option or stock appreciation right with a strike price of at least 100% of the fair market value of the underlying common stock on the date of grant, and (ii) 1.2 shares for each share of common stock issued pursuant to restricted stock, restricted stock units, performance stock awards or other non-option stock awards granted under the 2009 Plan. The Share Reserve does not limit the number of equity awards made under the 2009 Plan so long as the number of shares of common stock issued under equity awards made under the 2009 Plan does not exceed the Share Reserve.

As of April 15, 2009, there were 310,382 shares of common stock (plus any shares that might in the future be returned to the 2000 Plan as a result of cancellation or expiration of options) available for future grant under the Prior Plans. In addition, as of such date, options covering an aggregate of 6,856,425 shares were outstanding and awards other than options and stock appreciation rights covering an aggregate of 1,433,728 shares were outstanding. The weighted average exercise price of all options outstanding as of April 15, 2009 was approximately \$4.32 and the weighted average remaining term of such options was approximately 6.45 years. A total of 48,380,369 shares of our common stock were outstanding as of April 27, 2009. As of April 15, 2009, 48% of all outstanding options had exercise prices greater than the highest closing price of our common stock as quoted on Nasdaq for the 52 preceding weeks.

If we issue common stock pursuant to a stock award and the common stock is later forfeited, then the forfeited shares will become available for issuance under the 2009 Plan. To the extent that the forfeited shares had counted as 1.2 shares against the number of shares available under the 2009 Plan or any returning shares granted under the Prior Plans pursuant to an award other than on option or stock appreciation right, then the number of shares of common stock available for issuance under the 2009 Plan will increase by the 1.2 shares. Any shares we reacquire pursuant to our withholding obligations or as consideration for the exercise of an option, however, do not become available for issuance under the 2009 Plan. In addition, if the exercise price of any award is satisfied by the tender of shares of common stock to us (whether by actual delivery or attestation), the tendered shares do not become available for issuance under the 2009 Plan.

Eligibility

All of our approximately 266 employees and our directors and consultants are eligible to participate in the 2009 Plan and may receive all types of awards other than incentive stock options. Incentive stock options may be granted under the 2009 Plan only to our employees and employees of our affiliates.

Administration

The 2009 Plan is administered by our Board of Directors, which may in turn delegate authority to administer the plan to a committee. Our Board of Directors has delegated administration of the 2009 Plan to our

Compensation Committee but may retain the authority to concurrently administer the 2009 Plan with the Compensation Committee and may, at any time, revest in itself some or all of the powers previously delegated to the Compensation Committee. Subject to the terms of the 2009 Plan, our Compensation Committee may determine the recipients, numbers and types of stock awards to be granted, and terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth below, our Compensation Committee also determines the fair market value applicable to a stock award and the exercise price of options granted under the 2009 Plan.

In the discretion of the Board, the Compensation Committee may consist solely of two or more non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or solely of two or more outside directors within the meaning of Section 162(m) of the Code. Our Compensation Committee has the authority to delegate its administrative powers under the 2009 Plan to a subcommittee consisting of members of the Compensation Committee. As used in this Proposal 2, except as explicitly stated otherwise, with respect to the 2009 Plan, the Board refers to any committee the Board appoints or, if applicable, any subcommittee, as well as to the Board itself.

Repricing

Under the 2009 Plan, the Board does not have the authority to reprice any outstanding equity awards by reducing the exercise price of the stock award or cancelling any outstanding stock awards in exchange for cash or other stock awards under the 2009 Plan without obtaining the approval of our stockholders within 12 months prior to the repricing event.

Options

Options may be granted under the 2009 Plan pursuant to stock option agreements. The 2009 Plan permits the grant of options that qualify as incentive stock options, or ISOs, and nonstatutory stock options, or NSOs. Individual stock option agreements may be more restrictive as to any or all of the permissible terms described in this section.

The exercise price of NSOs may not be less than 100% of the fair market value of the common stock subject to the option on the date of grant. The exercise price of ISOs may not be less than 100% of the fair market value of the common stock subject to the option on the date of grant and, in some cases (see Limitations below), may not be less than 110% of such fair market value.

In general, the term of stock options granted under the 2009 Plan may not exceed seven years. Unless the terms of an optionholder's stock option agreement provide for earlier or later termination, if an optionholder's service relationship with us, or any affiliate of ours, ceases due to (i) disability, the optionholder may exercise any vested options for up to 12 months after the date the service relationship ends or (ii) death, the optionholder, or his or her beneficiary, may exercise any vested options for up to 18 months after the date the service relationship ends. Except as explicitly provided otherwise in an optionholder's award agreement, if an optionholder's service relationship with us, or any affiliate of ours, is terminated for cause, all options terminate upon the date on which the event giving rise to the termination occurred, and the optionholder is prohibited from exercising any option from the time of such termination. If an optionholder's service relationship with us, or any affiliate of ours, ceases for any reason other than for cause or upon disability or death, the optionholder may exercise any vested options for up to three months after the date the service relationship ends, unless the terms of the stock option agreement provide for a longer or shorter period to exercise the option. In no event may an option be exercised after its expiration date. Under the 2009 Plan, the option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws or if the sale of stock received upon exercise of an option would violate our insider trading policy. In no event, however, may any option be exercised beyond the expiration of its term.

Acceptable forms of consideration for the purchase of our common stock issued under the 2009 Plan will be determined by our Board and may include cash, check, bank draft or money order made payable to us, common stock previously owned by the optionholder, payment through a broker assisted exercise or, for NSOs only, a net exercise feature, or other legal consideration approved by our Board.

Options granted under the 2009 Plan may become exercisable in cumulative increments, or vest, as determined by our Board at the rate specified in the option agreement. Shares subject to currently outstanding options under the Prior Plans typically vest over a four-year period, 25% after one year and in equal monthly installments during the followi