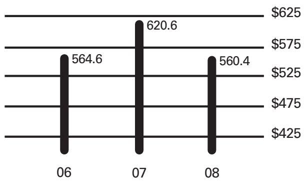
# ELECTRONICS FOR IMAGING, INC.
# 2009 PROXY STATEMENT AND
# 2008 ANNUAL REPORT

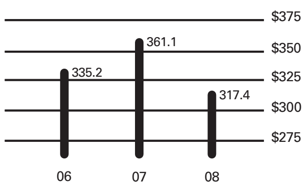
print to win.

# FINANCIAL HIGHLIGHTS

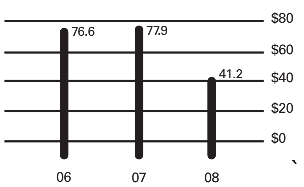
**REVENUE IN MILLIONS**



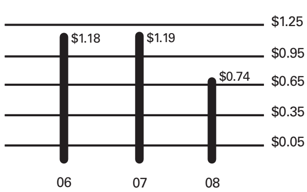

**GROSS MARGIN IN MILLIONS**




**NON-GAAP NET INCOME IN MILLIONS**




**NON-GAAP NET INCOME PER DILUTED SHARE**




## RECONCILIATION OF REPORTED GAAP INCOME TO NON-GAAP NET INCOME (UNAUDITED)

For the Years Ended December 31,

| (In millions except per share data) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net income (loss) | $(113.4) | $26.8 | $(0.2) |
| Amortization of identifiable intangible assets and in-process R&D | 32.0 | 33.5 | 44.0 |
| Restructuring and other | 11.0 | 1.5 | 1.0 |
| Gain on sale of product line | — | — | (7.0) |
| Bad Debt allowance adjustment | — | — | (3.8) |
| Stock-based compensation expense | 33.4 | 24.5 | 23.7 |
| Acquisition costs | — | 1.4 | 1.0 |
| Option review costs | 1.8 | 19.5 | 4.0 |
| Legal reserve | (3.6) | — | — |
| Goodwill and asset impairment | 111.9 | — | — |
| Tax effect of non-GAAP net income | (31.9) | (29.3) | 13.9 |
| Non-GAAP net income | $41.2 | $77.9 | $76.6 |
| After-tax adjustment of convertible debt-related expense | 1.3 | 3.0 | 3.0 |
| Income for purposes of computing diluted non-GAAP net income per share | $42.5 | $80.9 | $79.6 |
| Non-GAAP net income per share | $0.74 | $1.19 | $1.18 |
| Shares for purposes of computing diluted non-GAAP net income per share | 57.2 | 68.1 | 67.6 |

**About our Non-GAAP Net Income and Adjustments**

To supplement our consolidated financial results prepared under generally accepted accounting principals, or GAAP, we use a non-GAAP measure of net income that is GAAP net income adjusted to exclude certain costs, expenses and gains. Our non-GAAP net income gives an indication of our baseline performance before gains, losses and other charges that are considered by management to be outside our core operating results. In addition, non-GAAP net income is among the primary indicators management uses as a basis for planning and forecasting future periods. These measures are not in accordance with or an alternative for GAAP and may be materially different from non-GAAP measures used by other companies. We compute non-GAAP net income by adjusting GAAP net income with the impact of amortization of acquisition-related intangibles, stock-based compensation and other non-recurring charges and gains. The presentation of this additional information should not be considered in isolation or as a substitute for net income prepared in accordance with GAAP.

**ELECTRONICS FOR IMAGING, INC.**
303 Velocity Way
Foster City, California 94404

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**
**To be held on June 19, 2009**

Proxy

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of **ELECTRONICS FOR IMAGING, INC.,** a Delaware corporation (the "Company"), will be held on Friday, June 19, 2009 at 9:00 a.m., Pacific Time, at the Company's corporate headquarters, 303 Velocity Way, Foster City, California 94404 for the following purposes:

1. To elect seven (7) directors to hold office until the next annual meeting or until their successors are duly elected and qualified.
2. To approve the amendment and restatement of our Amended 2000 Employee Stock Purchase Plan to provide for an increase in the number of shares authorized for issuance pursuant to such plan.
3. To approve the 2009 Equity Incentive Award Plan and the reservation of an aggregate of 5,000,000 shares of the Company's common stock for issuance pursuant to such plan.
4. To approve a one-time fair value stock option exchange program for employees other than our named executive officers.
5. To approve a one-time fair value stock option exchange program for our named executive officers, exchanging time-based stock options for performance-based awards.
6. To ratify the appointment of the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009.
7. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. The Board of Directors has approved the proposals described in the Proxy Statement and recommends that you vote "FOR" each proposal.

Only stockholders of record at the close of business on May 19, 2009 are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, you are urged to submit your proxy electronically, by telephone or by marking, signing, dating and returning the enclosed proxy for that purpose. Any stockholder attending the Annual Meeting may vote in person even if he or she has returned a proxy.

Sincerely,

/s/ BRYAN KO

**Bryan Ko**
**Secretary**

Foster City, California
May 20, 2009

**YOUR VOTE IS IMPORTANT.**
**IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING,**
**YOU ARE REQUESTED TO SUBMIT YOUR PROXY ELECTRONICALLY, OR BY TELEPHONE,**
**AS DESCRIBED UNDER "SUBMISSION OF PROXIES; INTERNET AND TELEPHONE VOTING"**
**IN THE ATTACHED PROXY STATEMENT, OR**
**COMPLETE, SIGN AND DATE THE ENCLOSED PROXY**
**AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE.**

# ELECTRONICS FOR IMAGING, INC.

# PROXY STATEMENT

# FOR THE ANNUAL MEETING OF STOCKHOLDERS

# JUNE 19, 2009

# INFORMATION CONCERNING SOLICITATION AND VOTING

## General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of **ELECTRONICS FOR IMAGING, INC.,** a Delaware corporation (the "Company"), for use at the Annual Meeting of Stockholders to be held on Friday, June 19, 2009 at 9:00 a.m., Pacific Time (the "Annual Meeting"), or at any adjournment or postponement thereof. The Annual Meeting will be held at the Company's corporate headquarters, 303 Velocity Way, Foster City, California 94404. The Company intends to mail this Proxy Statement and accompanying proxy card on or about May 26, 2009 to stockholders entitled to vote at the Annual Meeting.

At the Annual Meeting, the stockholders of the Company will be asked: (1) to elect seven (7) directors to hold office until the next annual meeting or until their successors are duly elected and qualified; (2) to approve the amendment and restatement of our Amended 2000 Employee Stock Purchase Plan to provide for an increase in the number of shares authorized for issuance pursuant to such plan; (3) to approve the 2009 Equity Incentive Award Plan and the reservation of an aggregate of 5,000,000 shares of the Company's common stock for issuance pursuant to such plan; (4) to approve a one-time fair value stock option exchange program for employees other than our named executive officers; (5) to approve a one-time fair value stock option exchange program for our named executive officers, exchanging time-based stock options for performance-based awards; (6) to ratify the appointment of the Company's independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009; and (7) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof. All proxies which are properly completed, signed and returned to the Company or properly submitted electronically or by telephone prior to the Annual Meeting will be voted.

## Voting Rights and Outstanding Shares

Only stockholders of record at the close of business on May 19, 2009 (the "Record Date") are entitled to receive notice of and to vote at the Annual Meeting. As of the Record Date, the Company had outstanding and entitled to vote 49,226,539 shares of common stock. A quorum is a majority of the voting power of the shares entitled to vote at the Annual Meeting. As there were 49,226,539 eligible votes as of the record date, we will need at least 24,613,270 votes present in person, by telephone or by proxy at the Annual Meeting for a quorum to exist. Each holder of record of common stock on such date will be entitled to one vote per each share on all matters to be voted upon by the stockholders and may not cumulate votes for the election of directors.

A plurality of the shares of common stock voting in person or by proxy is required to elect each of the nominees for director. A plurality means that the nominees receiving the largest number of votes cast will be elected. All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions, withheld votes and broker non-votes. Abstentions, withheld votes and broker non-votes (which occur when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular matter because such broker, bank or other nominee does not have discretionary authority to vote on that matter and has not received voting instructions from the beneficial owner) are counted as present for purposes of determining the presence of a quorum for the transaction of business at the Annual Meeting. Withheld votes and broker non-votes will have no effect on the outcome of the election of directors. All proposals other than the election of directors require the affirmative vote of a majority of shares entitled to vote present in person or by proxy at the Annual Meeting. Abstentions have the same effect as negative votes on these proposals, because they represent votes that are present but not cast. Broker non-votes are not counted for any purpose in determining whether a matter has been approved.

### Adjournment of Meeting

In the event that sufficient votes in favor of the proposals are not received by the date of the Annual Meeting, the persons named as proxies may propose one or more adjournments of the Annual Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of shares entitled to vote present in person or by proxy at the Annual Meeting.

### Submission of Proxies; Internet and Telephone Voting

If you hold shares as a registered stockholder in your own name, you should complete, sign and date the enclosed proxy card as promptly as possible and return it using the enclosed envelope. If your completed proxy card is received prior to or at the meeting, your shares will be voted in accordance with your voting instructions. If you sign and return your proxy card but do not give voting instructions, your shares will be voted FOR (1) the election of the Company's nominees as directors; (2) the amendment and restatement of our Amended 2000 Employee Stock Purchase Plan to provide for an increase in the number of shares authorized for issuance pursuant to such plan; (3) the approval of the 2009 Equity Incentive Award Plan and the reservation of an aggregate of 5,000,000 shares of the Company's common stock for issuance pursuant to such plan; (4) the approval of a one-time fair value stock option exchange program for employees other than the Company's named executive officers; (5) the approval of a one-time fair value stock option exchange program for the Company's named executive officers, exchanging time-based stock options for performance-based awards; (6) the ratification of the appointment of the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009; and (7) as the proxy holders deem advisable, in their discretion, on other matters that may properly come before the Annual Meeting. If you hold shares through a bank or brokerage firm, the bank or brokerage firm will provide you with separate voting instructions on a form you will receive from them. Many such firms make telephone or Internet voting available, but the specific processes available will depend on those firms' individual arrangements.

### Solicitation

The cost of preparing, assembling, printing and mailing the Proxy Statement, the Notice of Annual Meeting and the enclosed proxy, as well as the cost of soliciting proxies relating to the Company's proposals for the Annual Meeting, will be borne by the Company. The Company will request banks, brokers, dealers and voting trustees or other nominees to solicit their customers who are beneficial owners of shares listed of record in names of nominees and will reimburse such nominees for the reasonable out-of-pocket expenses of such solicitations. The original solicitation of proxies by mail may be supplemented by telephone, facsimile, telegram, email and personal solicitation by directors, officers and regular employees of the Company or, at the Company's request, a proxy solicitation firm. No additional compensation will be paid to directors, officers or other regular employees of the Company for such services, but a proxy solicitation firm will be paid its customary fee if it renders solicitation services.

### Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company at the Company's principal executive office, 303 Velocity Way, Foster City, California 94404, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

### Stockholder Proposals To Be Presented at Next Annual Meeting

The deadline for submitting a stockholder proposal for inclusion in the Company's proxy statement and form of proxy for the Company's annual meeting of stockholders to be held in 2010, pursuant to Rule 14a-8 of the Securities and Exchange Commission (the "SEC"), is currently expected to be December 30, 2009. The rules of the SEC also establish a deadline with respect to discretionary voting for submission of stockholder proposals that are not intended to be included in the Company's Proxy Statement (the "Discretionary Vote Deadline"). The Discretionary Vote Deadline for the 2010 Annual Meeting is currently expected to be March 14, 2010. These deadlines are subject to change if the date of the 2010 Annual Meeting is more than 30 calendar days from the date of the 2009 Annual Meeting. If a stockholder gives notice of such proposal after the Discretionary Vote Deadline, the Company's proxy holders will be allowed to use their discretionary voting authority to vote the shares they represent as the Board of Directors may recommend, which may include a vote against the stockholder proposal when and if the proposal is raised at the Company's 2010 Annual Meeting.



**Additional Copies**

The Company's Annual Report for the fiscal year ended December 31, 2008 will be mailed concurrently with the mailing of the Notice of Annual Meeting and Proxy Statement to all stockholders entitled to notice of and to vote at the Annual Meeting. Except to the extent expressly incorporated by reference into this Proxy Statement, the Annual Report does not constitute, and should not be considered, a part of this proxy solicitation material.

**If, for whatever reason, you need a copy of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2008, we will provide one to you free of charge upon your written request to Investor Relations at Electronics For Imaging, Inc., 303 Velocity Way, Foster City, California 94404.**

**IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 19, 2009: The Company's Proxy Statement dated May 20, 2009 and Annual Report for the fiscal year ended December 31, 2008 are available electronically at www.efi.com/irProxy.**

## PROPOSAL ONE

## ELECTION OF DIRECTORS

**Nominees**

There are seven (7) nominees for the seven (7) Board positions authorized effective as of the Annual Meeting of Stockholders. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the seven (7) nominees named below. Proxies cannot be voted for more directors than the seven (7) nominees named. In the event that any management nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for the nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors by the present Board of Directors, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible. Each person has been recommended for nomination by the Nominating and Governance Committee of the Board of Directors and has been nominated by the Board of Directors for election. Each person nominated for election has agreed to serve, and the Company is not aware of any nominee who will be unable or will decline to serve as a director. The term of office for each person elected as a director will continue until the next Annual Meeting of Stockholders or until his successor has been elected and qualified, or until such director's earlier death, resignation or removal.

On August 22, 2008, our Board of Directors amended our Board of Director Guidelines and Nominating and Governance Committee Charter to implement a majority voting policy for the election of directors in an uncontested election. Under these amendments, in the event that a nominee for director in an uncontested election receives more "withheld" votes for his or her election than "for" votes, the director must submit a resignation to the Board of Directors. The Nominating and Governance Committee of the Board of Directors will evaluate and make a recommendation to the Board of Directors with respect to the offered resignation. The Board of Directors will take action on the recommendation within 90 days following certification of the stockholder vote. No director who tenders a resignation may participate in the Nominating and Governance Committee's or the Board of Directors' consideration of the matter. The Company will publicly disclose the Board of Directors' decision including, as applicable, the reasons for rejecting a resignation.

A holder of approximately 1% of our outstanding shares has notified us of its intent to nominate two persons to be elected as directors at the Annual Meeting. To our knowledge, this stockholder has not yet begun soliciting proxies for use at the Annual Meeting to vote in favor of its slate of directors. You may receive proxy solicitation materials from this stockholder or other persons or entities affiliated with them, including an opposition proxy statement and proxy card. We do not endorse the election of any of this stockholder's nominees, or any other nominees for director other than the persons named in this proxy who have been recommended for nomination by the Nominating and Governance Committee of our Board of Directors and nominated by our Board of Directors for election.

The names of the nominees, each of whom is currently a director of the Company elected by the stockholders or appointed by the Board of Directors, and certain information about them as of March 31, 2009 are set forth below.

| Name of Nominee and Principal Occupation | Age | Director Since |
|---|---|---|
| Gill Cogan(1)<br>Founding Partner, Opus Capital Ventures LLC | 57 | 1992 |
| Guy Gecht<br>Chief Executive Officer of the Company | 43 | 2000 |
| Thomas Georgens(3)<br>President and Chief Operating Officer, NetApp, Inc. | 49 | 2008 |
| James S. Greene(2)(3)<br>Vice President, Cisco Systems, Inc. | 55 | 2000 |
| Richard A. Kashnow(2)(3)<br>Consultant, Self-Employed | 67 | 2008 |
| Dan Maydan(1)(2)<br>Member, Board of Trustees, Palo Alto Medical Foundation | 73 | 1996 |
| Fred Rosenzweig<br>President of the Company | 53 | 2000 |

(1) Member of the Compensation Committee.
(2) Member of the Nominating and Governance Committee.
(3) Member of the Audit Committee.

Mr. Cogan has served as interim Chairman of the Board of the Company since June 28, 2007. Mr. Cogan is a founding Partner of Opus Capital Ventures LLC, a venture capital firm established in 2005. Previously, he was the Managing Partner of Lightspeed Venture Partners, a venture capital firm, from 2000 to 2005. From 1991 until 2000, Mr. Cogan was Managing General Partner of Weiss, Peck & Greer Venture Partners, L.P., a venture capital firm. From 1986 to 1990, Mr. Cogan was a partner of Adler & Company, a venture capital group handling technology-related investments. From 1983 to 1985, he was Chairman and Chief Executive Officer of Formtek, Inc., an imaging and data management computer company, whose products were based upon technology developed at Carnegie-Mellon University. Mr. Cogan is currently a director of several privately held companies. Mr. Cogan holds an M.B.A. from the University of California at Los Angeles.

Mr. Gecht was appointed Chief Executive Officer of the Company on January 1, 2000. From July 1999 to January 2000, he served as President of the Company. From January 1999 to July 1999, he was Vice President and General Manager of Controllers Products of the Company. From October 1995 through January 1999, he served as Director of Software Engineering. Prior to joining the Company, Mr. Gecht was Director of Engineering at Interro Systems, Inc., a technology company, from 1993 to 1995. From 1991 to 1993, he served as Software Manager of ASP Computer Products, a networking company and from 1990 to 1991 he served as Manager of Networking Systems for Apple Israel, a technology company. From 1985 to 1990, he served as an officer in the Israeli Defense Forces, managing an engineering development team, and later was an acting manager of one of the IDF high-tech departments. Mr. Gecht currently serves as a member of the board of directors, audit committee and compensation committee of Check Point Software Technologies Ltd., a global information technology security company. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben Gurion University in Israel.

Mr. Georgens has served as a director of the Company since April 2008. Mr. Georgens is currently President and Chief Operating Officer of NetApp, Inc., a provider of data management solutions. From January 2007 to January 2008, Mr. Georgens was Executive Vice President, Product Operations and from October 2005 to January 2007, he was Executive Vice President and General Manager of Enterprise Storage Systems for NetApp. From 1996 to 2005, Mr. Georgens served LSI Logic and its subsidiaries, including Engenio, in various capacities, including as President, Chief Executive Officer, Vice President and General Manager, and Director. Prior to working with LSI Logic and its subsidiaries, Mr. Georgens spent 11 years at EMC Corporation in a variety of engineering and marketing positions. Mr. Georgens graduated from Rensselaer Polytechnic Institute with a B.S. and M.Eng degrees in computer and systems engineering, and also holds an M.B.A. from Babson College.

Mr. Greene is currently a Vice President of Cisco Systems, Inc., a communications and information technology company, where he is responsible for the Global Financial Services business. From January 2004 until February 2005, Mr. Greene was the President and General Manager for the Global Financial Services business of TeleTech Holdings, Inc., a customer management services company. From September 2001 until February 2004, Mr. Greene was a Senior Vice President with Cap Gemini Ernst & Young, a consulting services firm, where he served clients in the global financial services industries. Prior to that he was Chief Executive Officer and President of Abilizer Solutions Inc., a global Enterprise Information Portal software business. Prior to Abilizer, Mr. Greene was a Senior Partner with Accenture, a consulting firm. Mr. Greene joined Accenture in 1979 and left in 2000 as the Managing Partner of their Western Region. Mr. Greene received his B.A. in Economics from the University of California at Davis and his M.B.A. from Santa Clara University.

Mr. Kashnow has served as a director of the Company since April 2008. Since 2003, Mr. Kashnow has been self-employed as a consultant. From 1999 until 2003, Mr. Kashnow served as President of Tyco Ventures, the venture capital unit he established for Tyco International, Inc., a diversified manufacturing and services company. From 1995 to 1999, he served as Chairman, Chief Executive Officer, and President of Raychem Corporation, a global technology materials company. He started his career as a physicist at General Electric's Corporate Research and Development Center in 1970. During his seventeen years with GE, he progressed through a series of technical and general management assignments. Mr. Kashnow received a Ph.D. in physics from Tufts University in 1968 and a B.S. in physics from Worcester Polytechnic Institute in 1963. He served in the U.S. Army between 1968 and 1970 and completed his active duty tour as a Captain. He also serves on the board of Ariba, Inc., a public company providing on-demand spend management solutions. Until March 2008, he served as Chairman of ActivIdentity, a public software security company. Until September 2007, he also served as Chairman of Komag, Inc., a public data storage media company which was acquired at that time by Western Digital.

Dr. Maydan was President of Applied Materials Inc., a semiconductor manufacturing equipment company, from January 1994 to April 2003 and a member of that company's board of directors from June 1992 to October 2005. From March 1990 to January 1994, Dr. Maydan served as Applied Materials' Executive Vice President, with responsibility for all product lines and new product development. Before joining Applied Materials in September 1980, Dr. Maydan spent thirteen years managing new technology development at Bell Laboratories during which time he pioneered laser recording of data on thin-metal films and made significant advances in photolithography and vapor deposition technology for semiconductor manufacturing. In 1998, Dr. Maydan was elected to the National Academy of Engineering. He serves on the board of directors of Infinera Corporation, a digital optical communications company and the board of directors of a privately held company. Dr. Maydan is a member of the Board of Trustees of the Palo Alto Medical Foundation (P.A.M.F.). Dr. Maydan received his B.S. and M.S. degrees in electrical engineering from Technion, the Israel Institute of Technology, and his Ph.D. in Physics from Edinburgh University in Scotland.

Mr. Rosenzweig was appointed President of the Company as of January 1, 2000. From July 1999 to January 2004 he served as Chief Operating Officer of the Company. From August 1998 to July 1999, Mr. Rosenzweig served as Executive Vice President. From January 1995 to August 1998, Mr. Rosenzweig served as Vice President, Manufacturing and Support of the Company. From May 1993 to January 1995, Mr. Rosenzweig served as Director of Manufacturing of the Company. Prior to joining the Company, from July 1992 to May 1993, he was a plant general manager at Tandem Computers Corporation, a computer company. From October 1989 to July 1992, Mr. Rosenzweig served as a systems and peripheral test manager at Tandem Computers Corporation. Mr. Rosenzweig holds a B.S. in Metallurgical Engineering from The Pennsylvania State University and an M.B.A. from the University of California at Berkeley.

Subject to the majority voting policy in our Board of Directors Guidelines, directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote.

**The Company's Board of Directors recommends a vote "FOR" the election of all seven (7) nominees listed above. Proxies received by the Company will be voted "FOR" the election of all nominees listed above unless the stockholder specifies otherwise in the proxy.**



## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Meetings of Board of Directors and Committees

The Board of Directors of the Company held a total of twelve (12) meetings in 2008. The Board of Directors has established the following committees, among others, to assist the Board of Directors in discharging its duties: (i) an Audit Committee, (ii) a Compensation Committee and (iii) a Nominating and Governance Committee. Current copies of the charters for the Audit Committee, the Compensation Committee and the Nominating and Governance Committee as well as the Board of Director Guidelines can be found on the Company's website at www.efi.com. Each director attended 75% or more of the total number of meetings of the Board and of the committees thereof, if any, upon which such director served during 2008.

#### *Audit Committee*

The Audit Committee currently consists of Directors Georgens, Greene and Kashnow. The Audit Committee conducted ten (10) meetings in 2008. The Audit Committee approves the engagement of and the services to be performed by the Company's independent auditors and reviews the Company's accounting principles and its system of internal accounting controls. The Board has determined that all members of the Audit Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ rules and also meet the additional criteria for independence of Audit Committee members set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, our Board of Directors has determined that Mr. Kashnow is an "audit committee financial expert" as defined by the SEC.

The Audit Committee oversees the Company's Ethics Program, which presently includes, among other things, the Company's Code of Business Conduct and Ethics, the Company's Code of Ethics for the Management Team, the Company's Code of Ethics for the Accounting and Finance Team and the Company's Code of Ethics for the Sales Team (collectively, the "Codes"), an Internal Audit Committee responsible for receiving and investigating complaints, a 24-hour global toll-free hotline and an internal website whereby employees can anonymously submit complaints via email. The Company's Codes can be found on the Company's website at www.efi.com.

#### *Compensation Committee*

The Compensation Committee currently consists of Directors Cogan and Maydan. The Compensation Committee held nine (9) meetings in 2008. The Board has determined that all members of the Compensation Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ rules. The Compensation Committee reviews and approves the Company's executive compensation policy and administers the Company's stock plans. The Compensation Committee also reviews the Compensation Discussion and Analysis contained in our proxy statement and prepares and approves the Compensation Committee Report for inclusion in our proxy statement.

#### *Compensation Committee Interlocks and Insider Participation*

None of the members of our Compensation Committee has at any time been one of our executive officers or employees. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

***Nominating and Governance Committee***

The Nominating and Governance Committee currently consists of Directors Greene, Kashnow and Maydan. The Nominating and Governance Committee met twice in 2008. The Board has determined that all members of the Nominating and Governance Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ rules. The Nominating and Governance Committee develops and recommends governance principles, recommends director nominees to the Board of Directors and considers the resignation offers of any nominee for director, in accordance with its charter and the Company's Board of Director Guidelines.

## Consideration of Director Nominees

***Stockholder Nominees***

The policy of the Nominating and Governance Committee is to consider properly submitted stockholder nominations for candidates for membership on the Board as described below under "Identifying and Evaluating Nominees for Directors." In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under "Director Qualifications."

The Nominating and Governance Committee will consider suggestions of nominees from stockholders. Stockholders may recommend individuals for consideration by submitting the materials set forth below to the Company addressed to the Nominating and Governance Committee at the Company's headquarters address. To be timely, the written materials must be submitted within the time permitted for submission of a stockholder proposal for inclusion in the Company's proxy statement for the subject annual meeting.

The written materials must include: (1) all information relating to the individual recommended that is required to be disclosed pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (2) the name(s) and address(es) of the stockholders making the nomination and the amount of the Company's securities that is owned beneficially and of record by such stockholder(s); (3) appropriate biographical information (including a business address and a telephone number) and a statement as to the individual's qualifications, with a focus on the criteria described below; (4) a representation that the stockholder is a holder of stock of the Company entitled to vote on the date of submission of such written materials; and (5) any material interest of the stockholder in the nomination.

In accordance with the Company's majority voting policy, the Nominating and Governance Committee will also consider the resignation offer of any nominee for director who, in an uncontested election, receives a greater number of votes "withheld" from his or her election than votes "for" such election, and recommend to the Board the action it deems appropriate to be taken with respect to such offered resignation.

Any stockholder nominations proposed for consideration by the Nominating and Governance Committee should be addressed to:

Electronics For Imaging, Inc.
Attention: Nominating and Governance Committee
c/o Bryan Ko
303 Velocity Way
Foster City, CA 94404

*Director Qualifications*

The Nominating and Governance Committee has established the following minimum criteria for evaluating prospective Board candidates:

- Reputation for integrity, strong moral character and adherence to high ethical standards.
- Holds or has held a generally recognized position of leadership in the community and/or chosen field of endeavor, and has demonstrated high levels of accomplishment.
- Demonstrated business acumen and experience, and ability to exercise sound business judgment and common sense in matters that relate to the current and long-term objectives of the Company.
- Ability to read and understand basic financial statements and other financial information pertaining to the Company.
- Commitment to understand the Company and its business, industry and strategic objectives.
- Commitment and ability to regularly attend and participate in meetings of the Board of Directors, Board Committees and stockholders, number of other company boards on which the candidate serves and ability to generally fulfill all responsibilities as a director of the Company.
- Willingness to represent and act in the interests of all stockholders of the Company rather than the interests of a particular group.
- Good health and ability to serve.
- For prospective non-employee directors, independence under SEC and applicable stock exchange rules, and the absence of any conflict of interest (whether due to a business or personal relationship) or legal impediment to, or restriction on, the nominee serving as a director.
- Willingness to accept the nomination to serve as a director of the Company.

*Other Factors for Potential Consideration*

The Nominating and Governance Committee will also consider the following factors in connection with its evaluation of each prospective nominee:

- Whether the prospective nominee will foster a diversity of skills and experiences.
- Whether the nominee possesses the requisite education, training and experience to qualify as “financially literate” or as an “audit committee financial expert” under applicable SEC and NASDAQ rules.
- Composition of the Board of Directors and whether the prospective nominee will add to or complement the Board’s existing strengths.

*Identifying and Evaluating Nominees for Directors*

The Nominating and Governance Committee initiates the process by preparing a slate of potential candidates who, based on their biographical information and other information available to the Nominating and Governance Committee, appear to meet the criteria specified above and/or who have specific qualities, skills or experience being sought (based on input from the full Board).

- *Outside Advisors.* The Nominating and Governance Committee may engage a third-party search firm or other advisors to assist in identifying prospective nominees.
- *Nomination of Incumbent Directors.* The re-nomination of existing directors should not be viewed as automatic, but should be based on continuing qualification under the criteria set forth above.
    - For incumbent directors standing for re-election, the Nominating and Governance Committee will assess the incumbent director’s performance during his or her term, including the number of

meetings attended, level of participation and overall contribution to the Company, the number of other company boards on which the individual serves, composition of the Board at that time and any changed circumstances affecting the individual director which may bear on his or her ability to continue to serve on the Board.

- *Management Directors.* The number of officers or employees of the Company serving at any time on the Board should be limited such that, at all times, a majority of the directors is "independent" under applicable SEC and NASDAQ rules.

After reviewing appropriate biographical information and qualifications, first-time candidates will be interviewed by at least one member of the Nominating and Governance Committee and by the Chief Executive Officer. Upon completion of the above procedures, the Nominating and Governance Committee will determine the list of potential candidates to be recommended to the full Board for nomination at the annual meeting or appointment to the Board of Directors between annual meetings. The Board of Directors will select the slate of nominees only from candidates identified, screened and approved by the Nominating and Governance Committee.

## COMPENSATION OF DIRECTORS

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2008.

| Name(1) (a) | Fees earned or paid in cash ($) (b) | Stock awards ($)(2)(3) (c) | Option awards ($)(2)(3) (d) | Non-equity incentive plan compensation ($) (e) | Change in pension value and nonqualified deferred compensation earnings ($) (f) | All other compensation ($) (g) | Total ($) (h) |
|---|---|---|---|---|---|---|---|
| Gill Cogan | $102,750 | $82,223 | $ 69,660 | — | — | — | $254,633 |
| Thomas Georgens | 43,500 | — | 49,611 | — | — | — | 93,111 |
| James S. Greene | 115,500 | 82,223 | 162,308 | — | — | — | 360,031 |
| Richard A. Kashnow | 59,750 | — | 49,611 | — | — | — | 109,361 |
| Dan Maydan | 115,000 | 82,223 | 90,961 | — | — | — | 288,184 |
| Christopher Paisley | 33,000 | 30,693 | 0 | — | — | — | 63,693 |

(1) Guy Gecht, the Company's Chief Executive Officer, and Fred Rosenzweig, the Company's President, are not included in this table as they are employees of the Company and thus receive no compensation for their services as directors. The compensation received by Messrs. Gecht and Rosenzweig as employees of the Company is shown in the Summary Compensation Table for 2008 on page 63 of this Proxy Statement. Mr. Paisley did not stand for reelection to the Board of Directors at our 2008 Annual Meeting held on May 20, 2008 and is no longer a director of the Company. Thomas Georgens and Richard Kashnow were appointed to the Board in April 2008.

(2) At December 31, 2008, the aggregate number of stock awards outstanding for each independent director was as follows: Gill Cogan 9,000, including 3,000 restricted stock awards and 6,000 restricted stock units; Thomas Georgens 0; James S. Greene 9,000, including 3,000 restricted stock awards and 6,000 restricted stock units; Richard Kashnow 0; Dan Maydan 9,000, including 3,000 restricted stock awards and 6,000 restricted stock units; Christopher Paisley 0. At December 31, 2008, the aggregate number of option awards outstanding for each independent director was as follows: Gill Cogan 151,668, of which 121,043 were vested and 30,625 were unvested; Thomas Georgens 40,000, all unvested; James S. Greene 81,623, of which 25,534 were unvested and 56,089 were vested; Richard Kashnow 40,000, all unvested; Dan Maydan 25,000, all unvested; Christopher Paisley 0. During 2008, 15,000 shares of common stock subject to option awards granted to Mr. Cogan in 1998 expired.

In addition, the following option awards to non-employee directors were repriced in connection with the settlement of the derivative litigation.

*Repriced option awards*

| Name | Grant Date (corrected as required) | Number of Options Subject to Amendment | Original Exercise Price Per Share | Amended Exercise Price Per Share |
|---|---|---|---|---|
| Dan Maydan . . . . . . . . . . . . . . . . . . . . | 06/08/99 | 18,000 | $33.81 | $48.38 |
| | 11/25/03 | 2,934 | 26.59 | 26.85 |
| Gill Cogan . . . . . . . . . . . . . . . . . . . . . | 10/05/98 | 15,000 | 13.75 | 20.19 |
| | 06/08/99 | 18,000 | 33.81 | 48.38 |
| | 02/12/01 | 20,000 | 13.75 | 22.06 |
| | 11/25/03 | 22,000 | 26.59 | 26.85 |
| James S. Greene . . . . . . . . . . . . . . . . . | 11/25/03 | 22,000 | 26.59 | 26.85 |

In addition, the following option awards having Hull-White values as set forth in the table below were surrendered by non-employee directors in connection with the settlement of the derivative litigation.

*Surrendered option awards*

| Name | Grant Date (corrected as required) | Number of Surrendered Options | Hull-White Value | Total Value of Surrendered Options |
|---|---|---|---|---|
| Dan Maydan* . . . . . . . . . . . . . . . . . . . | 06/08/99 | 18,000 | $0.23 | $ 4,140.00 |
| | 03/15/06 | 25,000 | 3.04 | 76,000.00 |
| | 11/25/03 | 2,934 | 1.63 | 4,782.42 |
| | 07/22/05 | 25,000 | 3.41 | 85,250.00 |
| | | | Total | $170,172.42 |
| James S. Greene . . . . . . . . . . . . . . . . . | 03/15/06 | 22,512 | $3.04 | $ 68,436.48 |
| | 11/25/03 | 9,533 | 1.63 | 15,538.79 |
| | | | Total | $ 83,975.27 |

* Mr. Maydan also repaid to the Company an amount of $19,456.

(3) Amounts included in the "Stock Awards" and "Option Awards" columns represent the compensation cost, except disregarding estimated forfeitures, that was recognized by us in the year ended December 31, 2008 on all previously-granted awards and options in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-based Payments," or "SFAS 123R." See Note 12 of the consolidated financial statements in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

The compensation of the non-employee directors serving on the Board is determined by the Compensation Committee. Employee members of the Board currently receive cash and equity compensation in connection with their service to the Company and do not receive any additional compensation for service on the Board.

*Cash Compensation.* Non-employee members of the Board of Directors receive cash compensation in the form of the annual retainers and attendance fees per meeting of the Board of Directors and its committees as set forth below:

| | | |
|---|---|---|
| Annual Retainer for Each Non-Employee Director | $25,000 | |
| Audit Committee Chairperson Retainer | $10,000 | |
| Audit Committee Member Retainer | $ 5,000 | |
| Compensation Committee Chairperson Retainer | $ 5,000 | |
| Compensation Committee Member Retainer | $ 2,500 | |
| Nominating and Governance Chairperson Retainer | $ 5,000 | |
| Nominating and Governance Member Retainer | $ 2,500 | |
| Special Committee Member Compensation | $50,000 | |
| Board Meeting Attendance (in person) | $ 2,000 | |
| Board Meeting Attendance (by telephone) | $ 1,000 | |
| Audit Committee Meeting Attendance (in person) | $ 4,000 | (Chairperson) |
| | $ 2,000 | (other directors) |
| Audit Committee Meeting Attendance (by telephone) | $ 2,000 | (Chairperson) |
| | $ 1,000 | (other directors) |
| Compensation Committee Attendance | $ 2,000 | (Chairperson) |
| | $ 1,000 | (other directors) |
| Compensation Committee Attendance (by telephone) | $ 1,000 | (Chairperson) |
| | $ 500 | (other directors) |
| Nominating and Governance Committee Attendance | $ 2,000 | (Chairperson) |
| | $ 1,000 | (other directors) |
| Nominating and Governance Committee Attendance (by telephone) | $ 1,000 | (Chairperson) |
| | $ 500 | (other directors) |

The Company also reimburses each non-employee member of the Board of Directors for out-of-pocket expenses incurred in connection with attendance at meetings.

*Equity Compensation.* During 2008, each of Messrs. Cogan, Greene and Maydan was granted (i) an option to purchase 25,000 shares of common stock at an exercise price of $16.32 per share, vesting with respect to 25% of the shares on August 15, 2009, and thereafter with respect to an additional 2.5% of the shares each month, with full vesting in 42 months and (ii) 6,000 Restricted Stock Units ("RSUs"), vesting with respect to one-fourth of the shares on the first, second, third and fourth anniversaries of the date of grant. Each RSU represents a contingent right to receive one share of Company's common stock. Each of Messrs. Georgens and Kashnow, the newly elected directors of the Company, was granted an option to purchase 40,000 shares of common stock at an exercise price of $16.32 per share, vesting with respect to 25% of the shares on August 15, 2009, and thereafter with respect to an additional 2.5% of the shares each month, with full vesting in 42 months.

## CERTAIN RELATIONSHIPS, RELATED PARTY TRANSACTIONS AND DIRECTOR INDEPENDENCE

*Indemnification of Officers and Directors*

As permitted under Delaware law, pursuant to our bylaws, charter and indemnification agreements that we have entered into with our current and former executive officers, directors and general counsel, we are required, subject to certain limited qualifications, to indemnify our executive officers, directors and general counsel for certain events or occurrences while the executive officer, director or general counsel is, or was serving, at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the executive officer's, director's or general counsel's lifetime. Our indemnification obligations generally extend to the derivative shareholder suits and NASDAQ Global Select Market delisting proceedings of the Company. In this regard, we have received, and expect to receive, requests for indemnification by certain current and former executive officers and directors in connection with the review of our historical stock option granting practices and the related restatement, related government inquiries and derivative shareholder suits. The maximum potential amount of future payments we may be obligated to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and may enable us to recover a portion of any future amounts paid.

*Related Party Transactions*

The Audit Committee of our Board was responsible for reviewing and approving in advance any proposed related party transactions as defined under Item 404 of Regulation S-K during 2008.

The Company has previously entered into employment agreements with its named executive officers. These agreements are described below under "Employment Agreements."

There were no other related party transactions as defined under Item 404 of Regulation S-K during 2008.

*Director Independence*

The Board of Directors has determined that each of the non-employee directors is independent and that each director who serves on each of its committees is independent, as the term is defined by NASDAQ rules and the SEC.

## COMMUNICATION WITH THE BOARD

The Board of Directors has established a process to receive communications from stockholders. Stockholders who wish to communicate with any member (or all members) of the Board should send such communications via regular mail addressed to the Company's Corporate Secretary, at Electronics For Imaging, Inc., 303 Velocity Way, Foster City, California 94404. The Corporate Secretary will review each such communication and forward it to the appropriate Board member or members as he deems appropriate.

The Company encourages its directors to attend the annual meeting of stockholders. Three directors attended the Company's last annual meeting.

## PROPOSAL TWO

## APPROVAL OF THE AMENDMENT AND RESTATEMENT OF OUR AMENDED 2000 EMPLOYEE STOCK PURCHASE PLAN

The Company's stockholders are being asked to approve the amendment and restatement of the Electronics For Imaging, Inc. Amended 2000 Employee Stock Purchase Plan (the "ESPP") to provide for an increase in the number of shares authorized for issuance under the ESPP of 3,000,000 shares. The amendment and restatement of the ESPP does not include an automatic increase in the number of shares reserved for issuance under the ESPP, in contrast to the existing ESPP, which provides for an automatic increase on an annual basis.

The purpose of the share increase is to ensure that we will continue to have a sufficient reserve of common stock available under the ESPP to provide eligible employees of the Company and its participating affiliates with the opportunity to acquire the common stock of the Company through participation in a payroll-deduction based employee stock purchase program designed to operate in compliance with Section 423 of the Internal Revenue Code. Of the currently authorized 3,154,509 shares, approximately 310,000 shares remain available for issuance under the ESPP. If approved, the Company estimates that the approximate life of the amended and restated ESPP will be three years at current stock price levels.

The amendment and restatement of the ESPP was approved by the Board on April 21, 2009, subject to stockholder approval. If approved, the total number of shares of common stock authorized for issuance under the ESPP will be a fixed number and will no longer increase automatically on an annual basis.

The affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote is required for the approval of the amendment and restatement of the ESPP. Abstentions will be counted towards 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 towards a quorum, but are not counted for any purpose in determining whether a matter has been approved. Should such stockholder approval not be obtained, then the amendment and restatement of the ESPP will not be implemented, and any purchase rights granted on the basis of that increase will immediately terminate.

**The Company's Board of Directors unanimously recommends a vote "FOR" the amendment and restatement of the ESPP.**

### Description of the ESPP

The essential features of the ESPP are outlined below. The following summary is qualified in its entirety by the full text of the ESPP, which is attached as Appendix A to this Proxy Statement.

### Purpose

The purpose of the ESPP is to provide a means by which employees of the Company (and any parent or subsidiary of the Company designated by the Board to participate in the ESPP) may be given an opportunity to purchase common stock of the Company through payroll deductions, to assist the Company in retaining the services of its employees, to secure and retain the services of new employees, to provide incentives for such persons to exert maximum efforts for the success of the Company and to better align the interests of our employees with the interests of our stockholders. All of the Company's approximately 1,865 employees, which includes officers of the Company and employees of the Company's subsidiaries, are eligible to participate in the ESPP.

The rights to purchase common stock granted under the ESPP are intended to qualify as options issued under an "employee stock purchase plan" as that term is defined in Section 423(b) of the Internal Revenue Code of 1986, as amended (the "Code").

### Administration

The Board administers the ESPP and has the final power to construe and interpret both the ESPP and the rights granted under it. The Board has the power, subject to the provisions of the ESPP, to determine when and how rights to purchase common stock of the Company will be granted, the provisions of each offering of such rights (which need not be identical), and whether employees of any parent or subsidiary of the Company will be eligible to participate in the ESPP.

Under the terms of the ESPP, the Board has the power to delegate administration of the ESPP to a committee composed of not fewer than two (2) members of the Board. As used herein with respect to the ESPP, the "Board" refers to any committee the Board appoints, as well as to the Board itself.



### Stock Subject to the ESPP

The current number of shares of common stock reserved for issuance under the ESPP is 3,154,509 of which approximately 310,000 shares remain available for issuance. If this proposal is approved, this number of shares of common stock reserved for issuance would be increased by 3,000,000 shares. The ESPP currently provides that the number of available shares under the ESPP will automatically increase on the first trading day in January of each calendar year during the term of the ESPP, beginning with calendar year 2006 and continuing through calendar year 2012, by an amount equal to 0.75% of the total number of shares of common stock outstanding on the last trading day of December in the immediately preceding calendar year. If this proposal is approved, the number of shares reserved for issuance under the ESPP will no longer automatically increase.

### Offerings

The ESPP is implemented by periodic offerings of rights to all eligible employees from time to time, as determined by the Board. The maximum period of time for an offering is 27 months. The Board, when establishing an offering, will determine the specific terms for such offering within the criteria permitted by the ESPP, including the length of the offering and the date or dates on which purchases will occur during the offering.

### Eligibility

The Board has the discretion, from time to time, and within the parameters specified in the ESPP, to establish the eligibility requirements for employees to participate in any offering under the ESPP, including whether employees of any of the Company's subsidiaries are eligible and the length of time (if any) an employee must have been employed by the Company or a participating subsidiary in order to become eligible. However, the period of employment for eligibility may not exceed two (2) years. In addition, the Board may exclude employees who customarily work twenty (20) or fewer hours per week and five (5) or fewer months per year.

No employee is eligible to participate in the ESPP if, immediately after the grant of purchase rights, the employee would own, directly or indirectly, stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any parent or subsidiary of the Company (including any stock which such employee may purchase under all outstanding rights and options). In addition, no employee may accrue rights to purchase common stock under the ESPP at an annual rate that would exceed $25,000 worth of shares of common stock (determined at the fair market value of the shares at the time such rights are granted) under all employee stock purchase plans of the Company and its affiliates. Officers and affiliates are eligible to participate in the ESPP; however, the Board may provide that certain highly compensated employees may not be eligible to participate in the ESPP.

### Participation in the ESPP

Eligible employees will enroll in the ESPP by delivering to the Company, prior to the date selected by the Board as the offering date for the offering, an agreement authorizing payroll deductions from such employees' compensation during the offering. The Board for each offering shall define "compensation" that will be taken into account for such purpose (for example, as base salary only or as total compensation, including bonuses and commissions, etc.). The Board also shall designate the maximum amount of such compensation, not exceeding 10% thereof, that a participant may have withheld and contributed during the offering.

### Purchase Price

The purchase price per share at which shares of common stock are sold in an offering under the ESPP will be the lower of: (i) 85% of the fair market value of a share of common stock on the date the right to purchase such shares was granted (generally the first day of the offering), or (ii) 85% of the fair market value of a share of common stock on the applicable purchase date.

### Payment of Purchase Price; Payroll Deductions

The amount used to purchase shares is accumulated by payroll deductions over the course of an offering. Participants may increase, reduce or terminate their payroll deductions during an offering to the extent provided by the Board in the terms of the offering. The Board also may provide the extent to which eligible employees, including employees who were not yet eligible at the start of the offering, may commence participating in an offering after the offering already has begun.

All payroll deductions made for a participant will be credited to his or her account under the ESPP and deposited with the general funds of the Company. A participant may not make additional payments into such account, unless specifically provided for in the offering terms and only if the maximum permitted amount has not already been withheld.

### Purchase of Stock

On each purchase date under the ESPP, the balance of payroll deductions then held by the Company for the account of each participant will be applied to the purchase of shares of common stock for the participant. In connection with each offering under the ESPP, the Board may specify a maximum number of shares of common stock an employee may be granted the right to purchase on each purchase date or during an offering and a maximum aggregate number of shares of common stock that may be purchased by all participants. If the aggregate number of shares to be purchased upon exercise of rights granted in the offering would exceed the maximum aggregate number of shares of common stock available, then the Board will make a pro rata allocation of available shares in a uniform and equitable manner. Unless the employee's participation is discontinued (see "Withdrawal" below), his or her right to purchase shares is exercised automatically on each purchase date at the applicable price.

### Withdrawal

A participant may withdraw from a given offering under the ESPP by terminating his or her payroll deductions and by delivering to the Company a notice of such withdrawal. The terms of an offering established by the Board may limit withdrawals to specified periods prior to a purchase date.

Upon any withdrawal from an offering by the employee, we will distribute to the employee his or her accumulated payroll deductions without interest, less any accumulated deductions previously applied to the purchase of shares of common stock on the employee's behalf during such offering, and such employee's interest in the offering will be automatically terminated.

### Termination of Employment

Rights granted pursuant to any offering under the ESPP terminate immediately upon cessation of an employee's employment for any reason, and we will distribute to such employee all of his or her accumulated payroll deductions, without interest.

**Restrictions on Transfer**

Rights granted under the ESPP are not transferable and may be exercised only by the person to whom such rights are granted.

**Effective Date, Duration, Amendment and Termination**

The ESPP initially became effective on August 1, 2000. If approved by the stockholders, the amended and restated ESPP shall become effective as of April 21, 2009, the date of the Board approval.

The ESPP has no fixed expiration date although the Board may suspend or terminate the ESPP at any time. The Board may also amend the ESPP at any time. Any amendment of the ESPP must be approved by the Company's stockholders within twelve (12) months of its adoption by the Board if the amendment would require stockholder approval in order for the ESPP to comply with Section 423 of the Code or Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

Rights granted before amendment or termination of the ESPP may not be impaired by any amendment or termination of the ESPP without consent of the employee to whom such rights were granted, except as may be necessary to comply with any applicable law or Section 423 of the Code.

**Effect of Certain Corporate Events**

In the event of a dissolution, liquidation or specified type of merger of the Company, the surviving corporation either will assume the rights under the ESPP or substitute similar rights, or the purchase date under any ongoing offering will be accelerated such that the outstanding rights may be exercised immediately prior to, or concurrent with, any such event. Any such determination will be made by the Board.

**Stock Subject to ESPP**

In the event any change is made to the outstanding shares of common stock by reason of any recapitalization, reorganization, stock dividend, stock split, combination of shares, exchange of shares or other change in capital structure effected without the Company's receipt of consideration, appropriate adjustments will be made to the class and maximum number of securities subject to the ESPP and the class and number of shares and price per share of stock subject to each outstanding purchase right.

**Federal Income Tax Information**

The U.S. federal income tax consequences of the ESPP under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the ESPP. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or foreign tax consequences. Tax considerations may vary from locality to locality and depending on individual circumstances.

Rights granted under the ESPP are intended to qualify for favorable federal income tax treatment associated with rights granted under an employee stock purchase plan which qualifies under provisions of Section 423 of the Code.

A participant will be taxed on amounts withheld for the purchase of shares of common stock as if such amounts were actually received. Otherwise, no income will be taxable to a participant until the sale or disposition of the acquired shares, and the method of taxation will depend upon the holding period of the acquired shares.

If the stock is sold or otherwise disposed of for a gain more than two (2) years after the granting of the right to purchase the stock (typically, the beginning of the offering period) and more than one (1) year after the purchase date on which the stock is sold to the participant, then the lesser of (i) the excess of the fair market value of the stock at the time of such disposition over the purchase price or (ii) the excess of the fair market value of the stock as of the time the right was granted over the purchase price (determined as of the time the right was granted) will be treated as ordinary income. Any further gain or any loss will be taxed as a long-term capital gain or loss. Such capital gains currently are generally subject to lower tax rates than ordinary income.

If the stock is sold or otherwise disposed of before the expiration of either of the holding periods described above (a "disqualifying disposition"), then the excess of the fair market value of the stock on the purchase date over the purchase price will be treated as ordinary income at the time of such disposition. The balance of any gain will be treated as capital gain. Even if the stock is later disposed of for less than its fair market value on the purchase date, the same amount of ordinary income is recognized by the participant, and a capital loss is realized equal to the difference between the sales price and the fair market value of the stock on such purchase date. Any capital gain or loss will be short-term or long-term, depending on how long the stock has been held.

There are no federal income tax consequences to the Company by reason of the grant or exercise of rights under the ESPP. The Company is entitled to a deduction to the extent amounts are taxed as ordinary income to a participant in connection with a disqualifying disposition (subject to the requirement of reasonableness and the satisfaction of tax reporting obligations). The Company will not be entitled to any deductions if the holding periods above are satisfied.

**Securities Underlying Awards**

As of April 30, 2009 the closing price of our common stock as reported on the NASDAQ Global Select Market was $9.82 per share.

**New Plan Benefits**

The benefits that will be received by or allocated to eligible employees under the ESPP cannot be determined at this time because the amount of contributions set aside to purchase shares of our common stock under the ESPP (subject to the limitations discussed below) is entirely within the discretion of each participant.

Since the inception of the ESPP, shares of our common stock have been purchased under the ESPP as follows: Guy Gecht, Chief Executive Officer—13,889 shares; Fred Rosenzweig, President—0 shares; John Ritchie, Chief Financial Officer—13,912 shares; Non-Executive Director Group—0 shares; and Non-Executive Employee Group (including, for the purpose of this disclosure, a former named executive officer)—2,815,938 shares.

**Vote Required**

Adoption of the amendment and restatement of the ESPP requires approval by the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote. A "majority of votes cast" means that the number of votes "FOR" the approval of the amendment and restatement of the ESPP must exceed the number of votes "AGAINST" the approval of the amendment and restatement of the ESPP.

**The Board of Directors recommends a vote in favor of Proposal Two.**
**Proxies received by the Company will be voted "FOR" this proposal unless the stockholder specifies otherwise in the proxy.**

## PROPOSAL THREE

## APPROVAL OF OUR 2009 EQUITY INCENTIVE AWARD PLAN AND THE RESERVATION OF AN AGGREGATE OF 5,000,000 SHARES OF THE COMPANY'S COMMON STOCK FOR ISSUANCE PURSUANT TO SUCH PLAN

The Company's stockholders are being asked to approve the Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan (the "2009 Plan") and the reservation of an aggregate of 5,000,000 shares of the Company's common stock for issuance pursuant to the 2009 Plan. If the 2009 Plan is approved, then no additional grants will be made under the Company's 2007 Equity Incentive Award Plan (the "Prior Plan"). The 2009 Plan, if approved by our stockholders, will replace the Prior Plan and be used to help attract, retain and motivate employees, consultants and directors.



The affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote is required for the approval of the 2009 Plan. Abstentions will be counted towards 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 towards a quorum, but are not counted for any purpose in determining whether this proposal has been approved. Should stockholder approval of this proposal not be obtained, then the 2009 Plan will not be implemented.

**The Company's Board of Directors unanimously recommends a vote "FOR" the approval of the 2009 Plan.**

The following summarizes the terms of the 2009 Plan, and the summary is qualified in its entirety by reference to the full text of the 2009 Plan, which is attached as Appendix B to this Proxy Statement.

### General

The Board has adopted, subject to stockholder approval, the 2009 Plan for employees and consultants of the Company and its subsidiaries and members of the Board, or as applicable, members of the board of directors of a subsidiary (collectively, "Directors"). The 2009 Plan is intended to replace the Prior Plan, which as of April 30, 2009, had approximately 500,000 shares available for issuance. The 2009 Plan will become effective upon its approval by our stockholders pursuant to this Proposal Three. If the 2009 Plan becomes effective, then the Prior Plan will be terminated on the date the 2009 Plan becomes effective, *provided*, that any awards outstanding under the Prior Plan will remain outstanding pursuant to the terms of the Prior Plan.

The Board believes that the 2009 Plan will promote the success and enhance the value of the Company by continuing to link the personal interests of participants to those of the Company and its stockholders and by providing participants with an incentive for outstanding performance to generate superior returns to our stockholders. The Board further believes that the 2009 Plan will provide flexibility to the Company in its ability to motivate, attract and retain the services of employees, consultants and Directors upon whose judgment, interest and special effort the successful operation of the Company is largely dependent.

The 2009 Plan provides for the grant of stock options (both incentive stock options and nonqualified stock options), restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units and performance-based awards to eligible participants. A summary of the principal provisions of the 2009 Plan is set forth below.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") generally limits the deductibility of compensation paid to certain executive officers of a publicly-held corporation to $1.0 million in any taxable year of the corporation. Certain types of compensation, including "qualified performance-based compensation," are exempt from this deduction limitation. In order to qualify for the exemption for qualified performance-based compensation, Section 162(m) of the Code generally requires that:

- The compensation be paid solely upon account of the attainment of one or more pre-established objective performance goals;

- The performance goals must be established by a compensation committee comprised of two or more "outside directors;"
- The material terms of the performance goals must be disclosed to and approved by the stockholders; and
- The compensation committee of "outside directors" must certify that the performance goals have indeed been met prior to payment.

Section 162(m) contains a special rule for stock options and stock appreciation rights ("SARs") which provides that stock options and SARs will satisfy the qualified performance-based compensation exception if the awards are made by a qualifying compensation committee, the plan sets forth the maximum number of shares that can be granted to any person within a specified period and the compensation is based solely on an increase in the stock price after the grant date. The 2009 Plan has been designed to permit a committee, which may be the Board or a committee appointed by the Board (collectively, for the purposes of this Proposal Three, the "Committee"), to grant stock options, SARs and other awards which may qualify as qualified performance-based compensation under Section 162(m) of the Code.

**Administration**

The 2009 Plan will be administered by the Committee, except that with respect to awards granted to independent directors, the Board will administer the 2009 Plan. Unless otherwise determined by the Board, the Committee will consist solely of two or more Board members who are "outside directors" for purposes of Section 162(m) of the Code, Non-Employee Directors (as defined in Rule 16b-3(b)(3) of the Exchange Act) and "independent directors" under the NASDAQ rules. The Board or the Committee may delegate to a committee of one or more Board members or one or more Company officers the authority to grant or amend awards under the 2009 Plan to participants other than (i) senior Company executives who are subject to Section 16 of the Exchange Act, (ii) employees who are "covered employees" within the meaning of Section 162(m) of Code, and (iii) Company officers or Directors to whom the authority to grant or amend awards under the 2009 Plan has been delegated.

The Committee will have the exclusive authority to administer the 2009 Plan, including the power to (i) designate participants under the 2009 Plan, (ii) determine the types of awards granted to participants under the 2009 Plan, the number of such awards, and the number of shares of our common stock subject to such awards, (iii) determine and interpret the terms and conditions of any awards under the 2009 Plan, including the vesting schedule, exercise price, whether to settle, or accept the payment of any exercise price, in cash, common stock, other awards or other property, and whether an award may be cancelled, forfeited or surrendered, (iv) prescribe the form of each award agreement, and (v) adopt rules for the administration, interpretation and application of the 2009 Plan. The Committee will not have the authority to accelerate the vesting or waive the forfeiture of any performance-based awards.

**Eligibility**

Persons eligible to participate in the 2009 Plan include all employees (which includes officers of the Company), Directors and consultants of the Company and its subsidiaries, as determined by the Committee. As of April 30, 2009, approximately 1,865 employees, 7 Directors and approximately 39 consultants would be eligible to participate in the 2009 Plan.

**Limitation on Awards and Shares Available**

The aggregate number of shares of common stock that may be issued or transferred under the 2009 Plan is 5,000,000, *provided, however,* that the aggregate number of shares issued during the 2009 calendar year shall not exceed 2,500,000, excluding shares issued under the one-time fair value stock option exchange programs described in Proposals Four and Five. In addition, no more than 5,000,000 shares of our common stock may be issued upon the exercise of incentive stock options. On the effective date of the 2009 Plan, the Prior Plan will be terminated, *provided*, that any awards outstanding under the Prior Plan will remain outstanding pursuant to their terms.

The shares of common stock covered by the 2009 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market. If an award under the 2009 Plan is forfeited (including a reimbursement of an unvested award upon a participant's termination of employment at a price equal to the par value of the common stock subject to the award) or expired, any shares of common stock subject to the award may be used again for new grants under the 2009 Plan. The maximum number of shares of common stock subject to one or more awards granted to any one employee under the 2009 Plan shall be (i) 2,000,000 as to awards granted to an employee during the fiscal year of the Company in which the employee is initially employed by the Company or any subsidiary and (ii) 1,000,000 as to awards granted to an employee in any subsequent fiscal year.



**Awards**

The 2009 Plan provides for grants of stock options (both incentive stock options and nonqualified stock options), restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units and performance-based awards. No determination has been made as to the types or amounts of awards that will be granted to specific individuals pursuant to the 2009 Plan.

During the 2009 calendar year, the vesting conditions of awards to be granted to our officers and Directors shall be allocated equally between time-based conditions and performance-based conditions, with respect to which the performance-based conditions may be metrics of either stock price appreciation or return on equity based on annual non-GAAP results, as determined in the discretion of the Committee, provided that the allocation between the two performance-based metrics must, for each metric, exceed zero percent.

Upon the approval by the Committee, any officer or Director award granted during the 2009 calendar year utilizing the stock price appreciation metric will vest in four equal installments based upon the average price of our common stock for 20 consecutive trading days as quoted on the NASDAQ Global Select Market, as follows:

- 25% when the average price equals or exceeds 150% of our closing stock price on the grant date;
- 25% when the average price equals or exceeds 175% of our closing stock price on the grant date;
- 25% when the average price equals or exceeds 200% of our closing stock price on the grant date; and
- 25% when the average price equals or exceeds 225% of our closing stock price on the grant date.

Upon the approval by the Committee, any officer or Director award granted during the 2009 calendar year utilizing the return on equity metric will vest in five equal installments as follows:

- 20% when the Company's annual return on equity percentage, on a non-GAAP basis, is equal to or greater than two percentage points more than the percentage for the fiscal year 2008.
- 20% when the Company's annual return on equity percentage, on a non-GAAP basis, is equal to or greater than four percentage points more than the percentage for the fiscal year 2008.
- 20% when the Company's annual return on equity percentage, on a non-GAAP basis, is equal to or greater than six percentage points more than the percentage for the fiscal year 2008.
- 20% when the Company's annual return on equity percentage, on a non-GAAP basis, is equal to or greater than eight percentage points more than the percentage for the fiscal year 2008.
- 20% when the Company's annual return on equity percentage, on a non-GAAP basis, is equal to or greater than ten percentage points more than the percentage for the fiscal year 2008.

The Committee shall make the final determination of return on equity and return on equity percentage point improvements. The determination of return on equity shall be derived from the Company's audited financial statements for the applicable calendar year and the base year. For example, if the Company's 2008 return on equity is 8% and an award of 1,000 stock options was granted using the return on equity metric, and in 2009 the Company's return on equity percentage was 14%, then upon such determination, 600 shares underlying such stock options would vest immediately.

*Stock Options.* Stock options, including incentive stock options (as defined under Section 422 of the Code) and nonqualified stock options may be granted pursuant to the 2009 Plan. The exercise price of incentive stock options and nonqualified stock options granted pursuant to the 2009 Plan will not be less than 100% of the fair market value of the common stock on the date of grant, unless incentive stock options are granted to any individual who owns, as of the date of grant, stock possessing more than 10% of the total combined voting power of all classes of our stock (the "Ten Percent Owner"), whereupon the exercise price of such incentive stock options will not be less than 110% of the fair market value of the common stock on the date of grant. Incentive stock options and nonqualified stock options may be exercised as determined by the Committee, but in no event after (i) the fifth anniversary of the date of grant with respect to incentive stock options granted to a Ten Percent Owner, or (ii) the tenth anniversary of the date of grant with respect to incentive stock options granted to other employees and nonqualified stock options. Nonqualified stock options may be exercised as determined by the Committee. Upon the exercise of a stock option, the exercise price must be paid in full in cash, by tendering previously-acquired shares of common stock with a fair market value at the time of exercise equal to the aggregate exercise price of the option or the exercised portion thereof or by tendering other property acceptable to the Committee.

*Restricted Stock.* Restricted stock awards may be granted pursuant to the 2009 Plan. A restricted stock award is the grant of shares of common stock at a price determined by the Committee (including zero), that is subject to transfer restrictions and may be subject to substantial risk of forfeiture until specific conditions are met. Conditions may be based on continuing employment or achieving performance goals. During the period of restriction, participants holding shares of restricted stock may have full voting and dividend rights with respect to such shares. The restrictions will lapse in accordance with a schedule or other conditions determined by the Committee.

*Stock Appreciation Rights.* A SAR is the right to receive payment of an amount equal to (i) the excess of (A) the fair market value of a share of common stock on the date of exercise of the SAR over (B) the fair market value of a share of common stock on the date of grant of the SAR, multiplied by (ii) the aggregate number of shares of common stock subject to the SAR. Such payment will be in the form of cash, common stock or a combination of cash and common stock, as determined by the Committee, and SARs settled in common stock shall satisfy all of the restrictions imposed by the 2009 Plan upon stock option grants. Each SAR must be evidenced by a written award agreement with terms and conditions consistent with the 2009 Plan. The Committee shall determine the time or times at which a SAR may be exercised in whole or in part, provided that the term of any SAR shall not exceed ten years.

*Restricted stock units.* Restricted stock units may be granted pursuant to the 2009 Plan, typically without consideration from the participant. Restricted stock units may be subject to vesting conditions including continued employment or achievement of performance criteria established by the Committee. Like restricted stock, restricted stock units may not be sold or otherwise transferred or hypothecated until vesting conditions are removed or expire. Unlike restricted stock, the common stock underlying restricted stock units will not be issued until the restricted stock units have vested, and recipients of restricted stock units generally will have no voting or dividend rights prior to the time when vesting conditions are satisfied.

*Performance shares.* Awards of performance shares are denominated in a number of shares of common stock and may be linked to any one or more performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee.

*Performance stock units.* Awards of performance stock units are denominated in unit equivalent of shares of common stock and/or units of value, including dollar value of shares of common stock, and may be linked to any one or more performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee.

*Dividend equivalents.* Dividend equivalents are rights to receive the equivalent value (in cash or common stock) of dividends paid on common stock. Dividend equivalents represent the value of the dividends per share of common stock paid by the Company, calculated with reference to the number of shares that are subject to any award held by the participant. Dividend equivalents are converted to cash or additional shares of common stock by such formula and at such time subject to such limitations as may be determined by the Committee. Dividend equivalents granted with respect to options or SARs that are intended to be qualified performance-based compensation within the meaning of Section 162(m) of the Code are payable with respect to pre-exercise periods, regardless of whether such options or SARs are subsequently exercised.

*Stock payments.* Stock payments include payments in the form of common stock, options or other rights to purchase common stock made in lieu of all or any portion of the compensation that would otherwise be paid to the participant. The number of shares will be determined by the Committee and may be based upon performance criteria determined appropriate by the Committee, determined on the date such stock payment is made or on any date thereafter.

*Deferred stock.* Deferred stock may be awarded to participants and may be linked to any performance criteria determined to be appropriate by the Committee. Common stock underlying a deferred stock award will not be issued until the deferred stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee, and unless otherwise provided by the Committee, recipients of deferred stock generally will have no rights as a stockholder with respect to such deferred stock until the time the vesting conditions are satisfied and the stock underlying the deferred stock award has been issued.

*Performance-based awards.* The Committee may grant awards to employees who are or may be "covered employees," as defined in Section 162(m) of the Code, that are intended to be qualified performance-based compensation within the meaning of Section 162(m) of the Code in order to preserve the deductibility of these awards for federal income tax purposes. Participants are only entitled to receive payment for a performance-based award for any given performance period to the extent that pre-established performance goals set by the Committee for the period are satisfied. With regard to a particular performance period, the Committee will have the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. In determining the actual size of an individual performance-based award for a performance period, the Committee may reduce or eliminate (but not increase) the award. Generally, a participant will have to be employed by the Company or any qualifying subsidiaries on the date the performance-based award is paid to be eligible for a performance-based award for any period. Stock options and SARs granted under the 2009 Plan will generally satisfy the exception for qualified performance-based compensation since they will be made by a qualifying compensation committee, the plan sets forth the maximum number of shares of common stock which may be subject to awards granted to any one participant during any calendar year, and the per share exercise price of options and SARs must be at least equal to the fair market value of a share of common stock on the date of grant.

Pre-established performance goals for awards intended to be qualified performance-based compensation within the meaning of Section 162(m) of the Code must be based on one or more of the following performance criteria: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added, sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per share, price per share of common stock and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group.

*Full value award limitations.* Except as may be determined by the Committee in the event of a participant's death, disability or retirement, or in connection with a change in control event, "Full Value Awards" (that is, restricted stock awards, performance share awards, performance stock unit awards, stock payment awards, dividend equivalents awards, deferred stock awards or restricted stock unit awards) that vest solely based on the passage of time must vest over a period of not less than three years and performance awards must vest over a period of not less than one year (which shall include fully-vested awards granted in lieu of cash awards that have been earned based on a performance period of at least one year). These vesting limitations shall not apply to a limited basket consisting of up to 10% of the shares of common stock available for issuance (as described in more detail above) or to awards granted to newly hired employees.

*Transferability of awards.* Awards cannot be assigned, transferred or otherwise disposed of by a participant other than by will or the laws of descent and distribution or pursuant to beneficiary designation procedures approved from time to time by the Committee. The Committee may provide in any award agreement that an award may be transferred to certain persons or entities related to a participant in the 2009 Plan, including but not limited to members of the participant's family, charitable institutions or trusts or other entities whose beneficiaries or beneficial owners are members of the participant's family and/or charitable institutions, or to such other persons or entities as may be expressly permitted by the Committee. Such permitted assignees shall be bound by and subject to such terms and conditions as determined by the Committee.

**Adjustments to Awards**

If there is a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the shares of common stock (or other securities of the Company) or the stock price of common stock (or other securities) and causes a change in the per share value of the common stock underlying outstanding awards, then the Committee shall make equitable adjustments to the number and type of securities subject to each outstanding award under the 2009 Plan, and the exercise price or grant price of such outstanding award (if applicable). The Committee can make other equitable adjustments it determines are appropriate to reflect such an event with respect to the aggregate number and kind of shares that may be issued under the 2009 Plan.

If there is any other combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or other change affecting the shares of common stock or the stock price of the common stock (other than an event described in the preceding paragraph), the Committee may, in its discretion:

- equitably adjust the aggregate number and type of shares of common stock subject to the 2009 Plan, the terms and conditions of any outstanding awards (including any performance targets or criteria with respect thereto), and the grant or exercise price per share of outstanding awards;
- provide for the termination of any award in exchange for an amount of cash (if any) and/or other property equal to the amount that would have been attained upon the exercise of such award or realization of the participant's rights;
- provide for the replacement of any award with other rights or property selected by the Committee in its sole discretion;
- provide that any outstanding award cannot vest, be exercised or become payable after such event;
- provide that awards may be exercisable, payable or fully vested as to shares of common stock covered thereby;
- provide that any surviving corporation (or its parent or subsidiary) shall assume awards outstanding under the 2009 Plan or shall substitute similar awards for those outstanding under the 2009 Plan, with appropriate adjustment of the number and kind of shares and the prices of such awards; or
- make adjustments (i) in the number and type of shares of common stock (or other securities or property) subject to outstanding awards or in the number and type of shares of restricted stock or deferred stock or (ii) to the terms and conditions of (including the grant or exercise price) and the criteria included in, outstanding rights, options and awards or future rights, options and awards.

**Effect of a Change in Control**

In the event of a change in control of the Company, an award shall become fully exercisable and all forfeiture restrictions on such award shall lapse, unless any surviving or acquiring entity assumes the participant's outstanding award or substitutes an equivalent award.

**Amendment and Termination**

The Committee, subject to approval of the Board, may terminate, amend or modify the 2009 Plan at any time; *provided, however*, that stockholder approval will be obtained (i) for any amendment to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, (ii) to increase the number of shares of common stock available under the 2009 Plan, (iii) to permit options to be granted with a per share exercise price lower than fair market value on the date of grant, and (iv) to permit the Committee to extend the exercise period for an option beyond ten years from the date of grant. In addition, no option may be amended to reduce the per share exercise price of the shares subject to the option below the per share exercise price as of the date of grant and, except as described in the "Adjustments to Awards" section above or upon a change in control of the Company, no option may be granted in exchange for, or in connection with, the cancellation or surrender of an option having a higher per share exercise price.

In no event may an award be granted pursuant to the 2009 Plan on or after the tenth anniversary of the date the 2009 Plan was adopted by our Board.

**Federal Income Tax Consequences**

The U.S. federal income tax consequences of the 2009 Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 2009 Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or foreign tax consequences. Tax considerations may vary from locality to locality and depending on individual circumstances.

*Section 409A of the Code*. Certain types of awards under the 2009 Plan, including deferred stock and restricted stock units, may constitute, or provide for, a deferral of compensation subject to Section 409A of the Code. Unless certain requirements set forth in Section 409A are complied with, holders of such awards may be taxed earlier than would otherwise be the case (e.g., at the time of vesting instead of the time of payment) and may be subject to an additional 20% penalty tax (and, potentially, certain interest penalties). To the extent applicable, the 2009 Plan and awards granted under the plan will be structured and interpreted to comply with, or be exempt from, Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance that may be issued under Section 409A. To the extent determined necessary or appropriate by the Committee, the 2009 Plan and applicable award agreements may be amended without award holder consent to exempt the applicable awards from Section 409A of the Code or to comply with Section 409A.

*Non-Qualified Stock Options.* For federal income tax purposes, if participants are granted non-qualified stock options under the 2009 Plan, participants generally will not have taxable income on the grant of the option, nor will we be entitled to any deduction. Generally, on exercise of non-qualified stock options, participants will recognize ordinary income, and we will be entitled to a deduction, in an amount equal to the difference between the option exercise price and the fair market value of the common stock on the date of exercise. The basis that participants have in shares of common stock, for purposes of determining their gain or loss on subsequent disposition of such shares of common stock generally, will be the fair market value of the shares of common stock on the date the participants exercise their options. Any subsequent gain or loss will be generally taxable as capital gains or losses.

*Incentive Stock Options.* There is no taxable income to participants when participants are granted an incentive stock option or when that option is exercised. However, the amount by which the fair market value of the shares of common stock at the time of exercise exceeds the option price will be an “item of adjustment” for participants for purposes of the alternative minimum tax. Gain realized by participants on the sale of an incentive stock option is taxable at capital gains rates, and no tax deduction is available to the Company, unless participants dispose of the shares of common stock within (i) two years after the date of grant of the option or (ii) within one year of the date the shares of common stock were transferred to the participant. If the shares of common stock are sold or otherwise disposed of before the end of the one-year and two-year periods specified above, the difference between the option exercise price and the fair market value of the shares of common stock on the date of the option’s exercise (or the date of sale, if less) will be taxed at ordinary income rates, and we will be entitled to a deduction to the extent that participants must recognize ordinary income. If such a sale or disposition takes place in the year in which participants exercise their options, the income such participants recognize upon sale or disposition of the shares of common stock will not be considered income for alternative minimum tax purposes.

Incentive stock options exercised more than three months after a participant terminates employment, other than by reason of death or disability, will be taxed as a non-qualified stock option, and the participant will have been deemed to have received income on the exercise taxable at ordinary income rates. We will be entitled to a tax deduction equal to the ordinary income, if any, realized by the participant.

*Restricted Stock.* For federal income tax purposes, the grantee generally will not have taxable income on the grant of restricted stock, nor will we then be entitled to any deduction, unless the grantee makes a valid election under Section 83(b) of the Code. However, when restrictions on shares of restricted stock lapse, such that the shares are no longer subject to a substantial risk of forfeiture, the grantee generally will recognize ordinary income, and we will be entitled to a corresponding deduction, for an amount equal to the difference between the fair market value of the shares at the date such restrictions lapse over the purchase price for the restricted stock.

*Stock Appreciation Rights.* No taxable income is realized upon the receipt of a SAR, but upon exercise of the SAR, the fair market value of the shares of common stock received, determined on the date of exercise of the SAR, or the amount of cash received in lieu of shares, must be treated as compensation taxable as ordinary income to the grantee in the year of such exercise. We will be entitled to a deduction for compensation paid in the same amount which the grantee realized as ordinary income.

*Performance Shares.* The grantee generally will not realize taxable income at the time of the grant of the performance shares, and we will not be entitled to a deduction at that time. When the award is paid, whether in cash or common stock, the grantee will have ordinary income, and we will be entitled to a corresponding deduction.

*Performance Stock Units.* The grantee generally will not realize taxable income at the time of the grant of the performance stock units, and we will not be entitled to a deduction at that time. When the award is paid, whether in cash or common stock, the grantee will have ordinary income, and we will be entitled to a corresponding deduction.

*Dividend Equivalents.* The grantee generally will not realize taxable income at the time of the grant of the dividend equivalents, and we will not be entitled to a deduction at that time. When a dividend equivalent is paid, the grantee will recognize ordinary income, and we will be entitled to a corresponding deduction.

*Stock Payments.* If the grantee receives a stock payment in lieu of a cash payment that would otherwise have been made, he or she generally will be taxed as if the cash payment has been received, and we will have a deduction in the same amount.

*Deferred Stock.* The grantee generally will not have taxable income upon the issuance of the deferred stock and we will not then be entitled to a deduction. However, when deferred stock vests and is issued to the grantee, he or she will realize ordinary income and we will be entitled to a deduction in an amount equal to the difference between the fair market value of the shares at the date of issuance over the purchase price, if any, for the deferred stock. Deferred stock may be subject to Section 409A of the Code, and the failure of any award of deferred stock that is subject to Section 409A to comply with Section 409A may result in taxable income to the grantee upon the grant or vesting of the award. Furthermore, an additional 20% penalty tax may be imposed pursuant to Section 409A of the Code, and certain interest penalties may apply.



*Restricted Stock Units.* The grantee generally will not realize taxable income at the time of the grant of the restricted stock units, and we will not be entitled to a deduction at that time. When an award is paid, whether in cash or common stock, the grantee will have ordinary income, and we will be entitled to a corresponding deduction. Restricted stock units may be subject to Section 409A of the Code, and the failure of any restricted stock unit that is subject to Section 409A to comply with Section 409A may result in taxable income to the grantee upon vesting (rather than at such time as the award is paid). Furthermore, an additional 20% penalty tax may be imposed under Section 409A of the Code, and certain interest penalties may apply.

*Section 162(m) of the Code.* As described above, in general, under Section 162(m) of the Code, income tax deductions of publicly-held corporations may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises and non-qualified benefits) for certain executive officers exceeds $1.0 million (less the amount of any “excess parachute payments” as defined in Section 280G of the Code) in any taxable year of the corporation. However, under Section 162(m) of the Code, the deduction limit does not apply to certain “qualified performance-based compensation.”

In order to qualify for the exemption for qualified performance-based compensation, Section 162(m) of the Code generally requires that:

- The compensation be paid solely upon account of the attainment of one or more pre-established objective performance goals;
- The performance goals must be established by a compensation committee comprised of two or more “outside directors;”
- The material terms of the performance goals must be disclosed to and approved by the stockholders; and
- The compensation committee of “outside directors” must certify that the performance goals have indeed been met prior to payment.

Pursuant to a special rule under Section 162(m), stock options and stock appreciation rights will satisfy the “qualified performance-based compensation” exception if (i) the awards are made by a qualifying compensation committee, (ii) the plan sets the maximum number of shares that can be granted to any person within a specified period and (iii) the compensation is based solely on an increase in the stock price after the grant date. The 2009 Plan has been designed to permit the Committee to grant stock options and stock appreciation rights which will qualify as “qualified performance-based compensation.” In addition, performance-based awards are intended to qualify as “qualified performance-based compensation.”

**New Plan Benefits**

No awards will be granted pursuant to the 2009 Plan until it is approved by the Company’s stockholders. In addition, awards are subject to the discretion of the Committee. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2009 Plan or the benefits that would have been received by such participants if the 2009 Plan had been in effect in the year ended December 31, 2008. See the Grants of Plan-Based Awards Table for a listing of options and other awards granted to our named executive officers during year ending December 31, 2008 under the Prior Plan.

Adoption of the 2009 Plan requires approval by the affirmative vote of a majority of the shares present or represented by proxy at the meeting and entitled to vote. A “majority of votes cast” means that the number of votes “FOR” the approval of the 2009 Plan must exceed the number of votes “AGAINST” the approval of the 2009 Plan.

**The Board of Directors recommends a vote in favor of Proposal Three.**
**Proxies received by the Company will be voted “FOR” this proposal unless the stockholder specifies otherwise in the proxy.**

## PROPOSAL FOUR

## APPROVAL OF A ONE-TIME FAIR VALUE STOCK OPTION EXCHANGE PROGRAM FOR EMPLOYEES OTHER THAN OUR NAMED EXECUTIVE OFFICERS

The Company's stockholders are being asked to approve a one-time fair value stock option exchange program, or option exchange, that, if implemented, would permit our eligible employees and employees of our majority-owned subsidiaries to surrender certain outstanding stock options for cancellation in exchange for a lesser number of stock options or restricted stock units ("RSUs") to be granted under the 2009 Plan. Prior to the commencement of the option exchange, the Board of Directors or Compensation Committee will determine whether newly issued stock options or RSUs will be exchanged for the cancelled options. If stock options are issued in the exchange, the options will cover a lesser number of shares of our common stock and have an exercise price equal to the fair market value of our common stock on the date of the completion of the option exchange. If RSUs are issued in the option exchange, each RSU will represent an unfunded right to receive one share of our common stock on one or more specified future dates when the RSU vests.



The Board of Directors, upon recommendation by the Compensation Committee, authorized the option exchange on April 21, 2009, subject to stockholder approval. The Company will use exchange ratios in the option exchange that are intended to result in the aggregate fair value of the newly issued options or RSUs in the option exchange being equal to or less than the aggregate fair value of the stock options that are surrendered. Only those stock options that are "underwater" (*i.e.*, those options with a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences) will be eligible for the option exchange. In certain limited cases, instead of RSUs or stock options, a small cash payment will be issued in exchange for surrendered options. Our named executive officers and members of the Board will be excluded from participating in the option exchange described in this proposal. In addition, options granted within the six-month period immediately prior to the commencement of the option exchange and options with a remaining term of less than six months immediately following the completion of the option exchange will not be eligible for exchange.

We believe this option exchange, as designed, is in the best interests of our stockholders and our employees and positions us well for the future in these uncertain economic times. If approved by stockholders, we believe the option exchange would enable us to:

- Better align the interests of our employees with the interest of our stockholders;
- Motivate and engage our eligible employees to continue to build stockholder value;
- Reduce our overhang by reducing the number of outstanding stock options; and
- Recapture value from the compensation expense that we record with respect to certain eligible options.

In designing this option exchange, we have taken into account our stockholders' interests through a focus on the following exchange principles:

- Named executive officers will be excluded from participating in the option exchange described in this proposal. All other employees holding eligible grants of stock options will generally be eligible to participate. The non-employee members of the Board will be excluded from each of the option exchange programs described in this Proxy.
- Stock options that have a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences will be eligible to be exchanged for a smaller number of stock options or RSUs. However, stock options granted within the six-month period immediately prior to the commencement of the exchange and options that will expire within the six-month period immediately following the completion of the exchange will not be eligible.

- The exchange ratios will be determined so that the newly issued RSUs or options granted will have an aggregate fair value intended to be equal to or less than the aggregate fair value of the surrendered options.
- None of the new options or RSUs will be vested on the date of grant. The new options or RSUs will not vest for at least six months after the completion of the option exchange.
- The stock options surrendered in the exchange will be cancelled and will not be eligible to be reissued.

Stockholder approval of the option exchange is required under the NASDAQ listing rules and the terms of our equity incentive plans.

If our stockholders approve this proposal and Proposal Three of this Proxy Statement with respect to the 2009 Plan, and the Board, Compensation Committee or named executive officers determine to implement the option exchange, the option exchange would commence within 12 months of its approval by the Company's stockholders.

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy at the meeting and entitled to vote. A "majority of votes cast" means that the number of votes "FOR" the approval of this proposal must exceed the number of votes "AGAINST" the approval of this proposal.

**OVERVIEW**

Like many companies, we have experienced a significant decline in our stock price over the last year in light of the current global financial and economic crisis. This stock price decline has been caused by, among other things, the deteriorating global economy and spending environment and the difficulty for our customers to obtain financing. For example, during 2008 and 2009, our inkjet business was affected by a difficult credit environment and the global slowdown in advertising and marketing spending. While our diversified business model helps to cushion the impact of declines in any of our particular product lines, the current economic downturn has impacted all of our product lines and has affected our stock price considerably. Generally poor economic conditions have also caused an impairment of the value of some of our long-lived assets, which may have affected our stock price during the last 12 months. As a result, a considerable number of our employees hold stock options with exercise prices significantly above the recent market price of our common stock. The market for key employees remains competitive, notwithstanding the current economic turmoil, making retention of key employees a significant issue for our success.

While we believe the current economic situation presents us with an opportunity to gain market share for our industry-leading products and employees who hold significantly underwater options may not think that they will be likely to participate in any gains provided to stockholders from our efforts to deliver long-term value through such growth opportunities.

Additionally, in order to contain costs in this challenging economic environment, we have implemented salary reductions of 5% for most of our employees, if and as permitted by applicable laws, and 10% for senior management, excluding our named executive officers for whom we have implemented voluntary salary reductions of 10%-15%, as well as significant headcount reductions and the suspension of our 401(k) Plan matching contribution. These reductions in salary and headcount and the suspension of our 401(k) Plan matching contribution have negatively affected employee morale.

We believe that restoring morale and providing effective incentives to our employees is important to our success. Because of the continued challenging economic environment, our recent stock price decline, and the uncertain outcome of our current efforts to increase market share for our leading products, we believe our employees' significantly underwater stock options are no longer effective as incentives to motivate and retain our employees. We believe that employees perceive their significantly underwater options as having little or no value. This option exchange will accomplish our objective of increasing employee morale and providing effective incentives by replacing underwater options which we believe are perceived by employees as having little value with options or RSUs which would increase in proportion to any increases in our stock price. In addition, we believe that the cancellation of options in the exchange will benefit stockholders because although stock options are not likely to be exercised as long as our stock price is lower than the applicable exercise price, they will remain on our books with the potential to dilute stockholders' interests for up to the full term of the options, while delivering little or no retentive or incentive value.



The objective of our equity incentive programs has been, and continues to be, to link the personal interests of equity incentive plan participants to those of our stockholders. We believe that, if approved by our stockholders, the option exchange would be an important component in our efforts to:

- Better align the interests of our employees with the interests of our stockholders while motivating eligible employees to continue to build stockholder value and achieve future stock price growth by exchanging stock options having a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately prior to the date the option exchange commences for newly issued RSUs with modified vesting periods, which have a value that moves directly in line with our stock price, or for newly issued stock options with modified vesting periods. As of April 30, 2009, approximately 100% of stock options held by our eligible employees had a per share exercise price greater than $9.82, the per share closing price of our common stock as quoted on the NASDAQ Global Select Market on April 30, 2009. We believe that these stock options no longer align the interests of our employees with the interests of our stockholders. In addition, these stock options no longer represent effective incentives to motivate or help retain our employees. We believe that the option exchange would better align the interests of our employees with the interests of our stockholders and aid both motivation and retention of those employees participating in the option exchange.

- Reduce our total number of outstanding stock options, or overhang, since a smaller number of stock options or a smaller number of RSUs will be issued for the surrendered stock options. The number of stock options having a per share exercise price that is greater than the closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences that would be eligible for the option exchange is approximately 3.6 million. Because we will be exchanging a smaller number of RSUs or a smaller number of newly issued stock options for the options surrendered, our overhang and the potential dilution of stockholders' interests provided by these awards will decrease. We believe that after the option exchange, the overhang resulting from our equity awards, including the newly issued RSUs and options, would represent an appropriate balance between the objectives of our equity incentive plans and our stockholders' interest in minimizing overhang and potential dilution.

- Recapture value from the compensation expense that we record with respect to certain eligible options. We believe it is not an efficient use of our resources to recognize compensation expense on options that are not perceived by our employees as providing value. By exchanging options that have little or no retention or incentive value for newly issued options or RSUs that will provide both retention and incentive value while not creating any material additional compensation expense (other than expense that might result from fluctuations in our stock price after the exchange ratios have been set but before the exchange actually occurs), we will be making efficient use of our resources. If our stock price does not fluctuate between the establishment of the exchange ratios and the date the exchange actually occurs, then, as a result of the option exchange, we would expect to recognize a non-cash accounting charge of approximately $0.9 million over the vesting period of the new options or RSUs for eligible employees.

As of April 30, 2009 there would be approximately 3.6 million shares of our common stock subject to stock options that would be eligible for the option exchange, having a weighted average exercise price of $22.24 per share and a weighted average remaining life of 2.7 years, assuming that the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences is $9.82.

**If our stockholders do not approve the option exchange and the 2009 Plan under Proposal Three of this Proxy Statement, eligible options will remain outstanding in accordance with their existing terms. We will continue to recognize compensation expense for these eligible options, even though these options may have little or no retentive or incentive value.**

**Summary of Material Terms**

The option exchange, if approved by our stockholders, would provide for the following:

- The option exchange will be open to all eligible employees (except where we determine that it is impermissible to offer the option exchange under local regulations as described below) who are employed by us or one of our majority-owned subsidiaries as of the commencement of the option exchange and remain employed by us or one of our majority-owned subsidiaries through the completion date of the option exchange. While the Board or Compensation Committee will determine whether options or RSUs will be offered in the option exchange, eligible employees will be permitted to elect on a grant-by-grant basis which of their eligible options they wish to exchange for the newly issued options or RSUs.
- Our named executive officers will not be eligible to participate in the option exchange described in this proposal. The non-employee members of the Board will not be eligible to participate in any of the option exchange programs described in this Proxy.
- Stock options that have a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences will be eligible for exchange.
- Stock options granted within the six-month period immediately prior to the commencement date of the option exchange will not be eligible for exchange.
- Stock options which have a remaining term of less than six months immediately following the completion of the option exchange (based on their terms as of their original grant date) will not be eligible for exchange.
- The exchange ratios used in the option exchange will be intended to result in the aggregate fair value of the newly issued options or RSUs in the option exchange being equal to or less than the aggregate fair value of the stock options that are surrendered. The exchange ratios will be established shortly before the commencement of the option exchange and will depend on the then-current fair value of the eligible option (calculated using the Black-Scholes-Merton option pricing model or other generally accepted valuation model such as the Lattice Valuation model), the fair market value of our common stock and the original exercise price of the eligible option. The option exchange will not be a one-for-one exchange. Instead, participating employees will receive a smaller number of newly issued RSUs or a smaller number of options than the number of shares that are covered by the surrendered eligible options.
- None of the newly issued RSUs or options in exchange for eligible options will be vested on the date of grant. The newly issued RSUs or options will vest, subject to the participant's continued employment, in equal annual installments for newly issued RSUs and equal monthly installments for newly issued options, in each case, beginning on the six month anniversary of the completion of the option exchange. Additional information regarding the vesting of the newly issued RSUs and options are provided under the heading "Details of the Stock Option Exchange Vesting of Newly Issued RSUs and Options" below.

- In certain limited cases, instead of a small number of newly issued RSUs or options, a cash payment will be made in exchange for surrendered eligible options. In these limited cases, the cash provided will have a fair value intended to be equal to or less than approximately 100% of the fair value of the surrendered options. The Company expects that the aggregate amount of such cash payments will not exceed $100,000.
- The option exchange will commence, if at all, within 12 months of the date of stockholders approval. If the option exchange does not commence within 12 months of stockholders approval, we would consider any future option exchange or similar program to require new stockholder approval before it can be implemented.



**While the terms of the option exchange are expected to be materially similar to the terms described in this proposal, the Board, Compensation Committee and named executive officers may, in their sole discretion, change the terms of the option exchange to take into account a change in circumstances, as described below, and may determine not to implement the option exchange even if stockholder approval of the option exchange is obtained.**

**Reasons for the Option Exchange**

We believe that to be successful, our employees need to think like stockholders. Consistent with this philosophy, our equity program continues to be broad-based. This broad-based equity program provides us with a competitive advantage, particularly in our efforts to hire and retain top talent in technology-related fields.

Due to the significant decline of our stock price during the last year, many of our employees now hold stock options with exercise prices significantly higher than the current market price of our common stock. For example, the closing price of our common stock on the NASDAQ Global Select Market on April 30, 2009 was $9.82, whereas the weighted average exercise price of all outstanding options held by our employees was $21.41. As of April 30, 2009, approximately 98% of outstanding stock options held by our employees had a per share exercise price greater than $9.82 and 100% of stock options eligible for exchange had a per share price greater than $9.82. Although we continue to believe that equity awards are an important component of our employees' total incentive benefits and provide us with a competitive advantage, we also believe that many of our employees view their existing options as having little or no value due to the significant difference between the exercise prices and the current market price of our common stock. The market for key employees remains competitive notwithstanding the current economic turmoil. As a result, for many employees, we believe that these underwater options are ineffective at providing the incentives that the Board and Compensation Committee believe are necessary to motivate and retain our employees.

**Alternatives Considered**

When considering how best to continue to provide incentives to and reward our employees who hold options that are underwater, we considered the following alternatives:

- *Increase cash compensation.* To replace equity incentives, we considered whether we could substantially increase base and target bonus cash compensation. However, significant increases in cash compensation would substantially increase our cash compensation expenses and reduce our cash flow from operations, which could adversely affect our business and operating results. In addition, these increases would not reduce our overhang and would not align the interests of our employees with those of our stockholders. Further, in some non-U.S. jurisdictions, cash compensation is treated as a different type of benefit than equity awards and often has less favorable tax treatment than equity awards, so the long-term incentive and retention value would be diminished. Moreover, in order to contain costs in this challenging economic environment, we have implemented salary reductions of 5% for most of our employees if and as permitted by applicable laws, and 10% for senior management, excluding our named executive officers for whom we implemented voluntary salary reductions of 10%-15%, as well as significant headcount reductions and the suspension of our 401(k) Plan matching contribution.

- *Grant additional equity awards.* We also considered special grants of additional stock options at current market prices or RSUs. However, these additional grants would substantially increase our overhang and dilute the interests of our stockholders. In addition, the number of shares available for issuance under our Prior Plan is limited.
- *Exchange options for cash.* We also considered implementing a program to exchange underwater options for cash payments. However, an exchange program where options are generally exchanged for cash would substantially increase our compensation expenses and reduce our cash flow from operations, which could adversely affect our business and operating results. In addition, we do not believe that such a program would have significant long-term retention value. However, in certain limited cases where we have determined that offering new RSUs or options in exchange for surrendered options would provide minimal retentive value, would be overly burdensome to administer or would not provide a meaningful benefit to holders of eligible options, we will provide for a cash payment in exchange for their surrendered options.

**The Option Exchange**

After weighing each of these alternatives, subject to the exceptions described in this proposal, we have decided to provide eligible employees the opportunity to exchange options for newly issued RSUs or options, pending stockholder approval. We have determined that a program under which our employees generally could exchange stock options having a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences for a smaller number of RSUs or a smaller number of newly issued options was the most attractive alternative for a number of reasons, including the following:

- *The option exchange offers a reasonable, balanced and meaningful incentive for our eligible employees.* Participating employees would surrender eligible options having a per share exercise price greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences for a smaller number of newly issued options or RSUs. None of the newly issued options or RSUs will vest until at least six months after the completion of the option exchange. We believe that the lower number of newly issued options or RSUs issued represents a reasonable and balanced option exchange with the potential for a significant positive impact on employee retention, motivation and performance. Additionally, the value of the RSUs directly correlates with movements in the market price of our common stock, and options with positive movements in the market price of our common stock, over time, thereby aligning employee and stockholder interests.
- *The exchange ratios will be calculated to minimize accounting costs.* We will calculate the exchange ratios in a manner intended to result in the aggregate fair value, for accounting purposes, of the newly issued RSUs or options granted in the option exchange being equal to or less than the aggregate fair value of the stock options that are surrendered.
- *The option exchange will reduce our equity award overhang.* Not only do the options having a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences have little or no retention value, they cannot be removed from our equity award overhang until they are exercised, expire or the employee who holds them leaves our employment. The option exchange will reduce our overhang while eliminating the ineffective options that are currently outstanding. Because a lesser number of shares will be subject to options or RSUs issued in exchange for eligible options, the number of shares of stock subject to all outstanding equity awards will be reduced, thereby reducing our overhang. Based on the assumptions described below, if all eligible options are exchanged, options to purchase approximately 3.6 million shares would be surrendered and cancelled, while approximately 1.1 million shares would be subject to options issued in the option exchange, resulting in a net reduction in the equity award overhang by approximately 2.5 million

shares. If instead the Board or Compensation Committee chooses to issue RSUs in the option exchange, approximately 0.3 million RSUs would be issued, resulting in a net reduction to the equity award overhang by approximately 3.3 million shares. All eligible options that are not exchanged will remain outstanding and in effect in accordance with their existing terms.

- *Our named executive officers and non-employee members of the Board will not be eligible to participate in the option exchange described in this proposal.* Although our named executive officers also hold options that are underwater, these individuals are not eligible to participate in the option exchange described in this proposal because we believe that their compensation should remain at greater risk based on our stock price. Accordingly, we have concurrently proposed a separate exchange program for named executive officers, under which no newly issued option or RSU of a named executive officer would vest until such time as the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock as quoted on the NASDAQ Global Select Market on the date the option exchange for named executive officers is completed, as described more fully in Proposal Five. While our non-employee members of the Board also hold options that are underwater, they will not be eligible to participate in any of the option exchange programs described in this Proxy.



## DETAILS OF THE OPTION EXCHANGE

### Implementing the Option Exchange

We have not commenced the option exchange and will not do so unless our stockholders approve the option exchange and approve the 2009 Plan under Proposal Three of this Proxy Statement. Upon the recommendation of the Compensation Committee, the Board authorized the option exchange on April 21, 2009, subject to stockholder approval. If this proposal is approved, the offer to surrender eligible options in exchange for newly issued RSUs or options, as the Board or Compensation Committee may determine, would commence, if at all, within 12 months of the date of stockholders approval of this proposal.

If stockholders approve this proposal and Proposal Three and the Board, the Compensation Committee or named executive officers decide to commence the option exchange, eligible employees will be offered the opportunity to participate in the option exchange pursuant to a written offer that will be distributed to all eligible employees. Eligible employees will be given at least 20 business days in which to accept the offer of newly issued RSUs or options in exchange for the surrender of their eligible options. The surrendered options will be cancelled on the date the option exchange is completed. The newly issued RSUs or options will be issued under the 2009 Plan on the date of the option exchange is completed. In those limited cases where cash payments will be made in exchange for surrendered options, such payments also will be made on the date of the cancellation of the surrendered options. The shares of our common stock subject to surrendered options will not be available for future issuance under our equity incentive plans once the surrendered options are cancelled.

Prior to commencement of the option exchange, we will file the offer to exchange with the SEC as part of a tender offer statement on Schedule TO. Eligible employees, as well as stockholders and members of the public, will be able to review the offer to exchange and other related documents filed by us with the SEC free of charge on the SEC's website at www.sec.gov.

### Eligibility

If implemented, the option exchange will be open to all of our employees, worldwide, including any employees of our majority-owned subsidiaries, who hold options with a per share exercise price higher than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day that immediately precedes the date the option exchange commences, except where we determine that it is impermissible to offer the option exchange under local regulations. The option exchange described in this proposal will not be available to our named executive officers. As of April 30, 2009, we estimate that approximately 1,392 of our employees would be eligible to participate in the option exchange. The program also will not be available to any former employees. None of the non-employee members of the Board will be eligible to participate in any of the exchange programs described in this Proxy.

An employee who tenders his or her options for exchange must also have been continuously employed by us or one of our majority-owned subsidiaries, and be an eligible employee at the completion of the option exchange in order to receive the newly issued RSUs or options. If an option holder is no longer an employee with us or one of our majority-owned subsidiaries for any reason, including layoff, termination, voluntary resignation, death or disability, on the date that the option exchange is commenced, that option holder cannot participate in the option exchange. If an option holder is no longer an employee with us or one of our majority-owned subsidiaries for any reason on the date the option exchange is completed, even if he or she had elected to participate and had tendered his or her options for exchange, such employee's tender will automatically be deemed withdrawn and he or she will not participate in the option exchange. He or she will retain his or her outstanding options in accordance with their original terms and conditions, and he or she may exercise them during a limited period of time following termination of employment in accordance with their terms and to the extent that they are vested. A vote by an employee in favor of this proposal at the Annual Meeting does not constitute an election to participate in the option exchange.

Of the outstanding options held by eligible employees as of April 30, 2009, the maximum number of shares of common stock underlying options which could be surrendered for exchange is 3.6 million, and the maximum number of shares of common stock which would be subject to awards granted under the proposed option exchange, using estimated exchange ratios, would be 1.1 million in an option-for-option exchange or 0.3 million in an option-for-RSU exchange. The maximum amount of cash that would be paid under the proposed option exchange, using estimated exchange ratios, is expected not to exceed $100,000.

**Exchange Ratios**

Exchange ratios for the option exchange (that is, how many options an employee must surrender in order to receive one new RSU or option) will be determined shortly prior to the commencement of the option exchange using the Black-Scholes-Merton option pricing model or other generally accepted valuation model such as the Lattice Valuation model. The valuation model is utilized to adopt exchange ratios that result in the aggregate fair value of the newly issued options or RSUs provided being equal to or less than the aggregate fair value of the stock options that are surrendered, and to avoid the stockholder dilution that occurs when all options are exchanged on a one-for-one basis for RSUs or options. New RSU or option grants calculated according to the exchange ratios will be rounded down to the nearest whole share on a grant-by-grant basis. Fractional RSUs will not be issued, and new option grants will not be subject to fractional shares.

For example, if a surrendered option has a fair value of $100 on the date the option exchange commences, the closing price for a share of our common stock on such date was $10.00 and the grant date fair value of an option granted on such date was $2.50 per share, then 10 newly issued RSUs or options to purchase 40 shares of our common stock, each of which would have a fair value of $100, would be granted to the eligible employee if he or she elected to participate in the exchange.

**Election to Participate**

Participation in the option exchange will be voluntary. Under the option exchange, eligible employees may make an election to surrender eligible stock options that have a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences in exchange for newly issued RSUs or options in accordance with the actual exchange ratios, which will be determined at the time the option exchange commences.

### Vesting of Newly Issued RSUs and Options

Newly issued RSUs and options issued in the option exchange will be unvested on their date of grant regardless of whether the surrendered option, or any portion of the surrendered option, is vested. Instead, newly issued RSUs and options issued in exchange for surrendered options that would have vested on or prior to the six month anniversary of the completion of the option exchange (such six month anniversary, the "New Vesting Start Date"), will vest on the New Vesting Start Date. Newly issued options issued in exchange for surrendered options that would have been unvested as of the New Vesting Start Date will vest pursuant to the original vesting schedule of such unvested surrendered options. Newly issued RSUs issued in exchange for surrendered options that would have been unvested as of the New Vesting Start Date will vest pursuant to the original vesting schedule of such surrendered options, except that the RSUs will vest in annual installments on each anniversary of the New Vesting Start Date, with each annual installment consisting of that number of RSUs equal to the number of shares subject to the surrendered option that would have vested, as adjusted in accordance with the exchange ratios, in the twelve month period ending on such anniversary.

For example, if an eligible option were granted on July 1, 2007 and scheduled to vest with respect to 25% of the shares subject to the eligible option on the first anniversary of the date of grant, with the remainder vesting as to 2.5% of the shares over the subsequent 30 months, then the eligible option would have vested as to 55% of the shares as of July 1, 2009 and will continue to vest as to 2.5% of the shares each month thereafter such that it will be 70% vested on January 1, 2010 and fully vested on January 1, 2011. Assuming the option exchange is completed and the eligible option is exchanged for a new option on July 1, 2009, then the Company will issue a new option that will not begin vesting until the New Vesting Start Date, or January 1, 2010. On January 1, 2010, the replacement option will vest as to 70% of the shares subject to the surrendered options, as adjusted in accordance with the exchange ratios. Each month thereafter, an additional 2.5% of the shares subject to the surrendered option, as adjusted in accordance with the exchange ratios, will vest until the new option is fully vested on January 1, 2011.

Alternatively, if the surrendered option were exchanged for new RSUs on July 1, 2009, the hypothetical date of completion of the option exchange and date of issuance of the new RSUs, then the new RSUs would vest with respect to 70% of the RSUs that would have been subject to the original grant (after giving effect to the exchange ratios) on the New Vesting Start Date, or January 1, 2010. Thereafter, the remaining 30% of the RSUs that would have been subject to the original grant (after giving effect to the exchange ratios) would vest on January 1, 2011 (the first anniversary of the New Vesting Start Date).

Newly issued RSUs and options will only vest if the award holder remains an employee with us or one of our majority-owned subsidiaries. Any portion of the newly issued RSUs or options that is not vested at termination of employment will be forfeited. As described above, the newly issued RSUs and options will be completely unvested on the date of grant, regardless of whether the surrendered options were partially or completely vested.

### Term and Conditions of Newly Issued RSUs and Options

The terms and conditions of the newly issued RSUs and options will be governed by the terms and conditions of the 2009 Plan, and the RSU agreement or option agreement entered into thereunder. Each newly issued option granted will retain the expiration date of the surrendered option it replaces.

### Cash Payments

In certain limited cases where we have determined that offering newly issued RSUs or options would provide minimal retentive value, would be overly burdensome to implement or administer or would not provide a meaningful benefit to holders of eligible options, we will provide for a cash payment in exchange for surrendered options. The amount of the cash payment will be calculated similar to the exchange ratios described above and in a manner intended to provide those receiving cash payments with approximately 100% of the fair value of their surrendered options, less any taxes and social insurance contributions due on the payments. The cash payments will not be subject to any vesting schedule and will be made on the date the option exchange is completed. We expect the amount of these cash payments will not exceed $100,000, assuming all eligible options are exchanged.

**U.S. Federal Income Tax Consequences**

The U.S. federal income tax consequences of the option exchange under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the option exchange. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or foreign tax consequences. Tax considerations may vary from locality to locality and depending on individual circumstances.

The option exchange should be treated as a non-taxable exchange for U.S. federal income tax purposes, and we and our participating employees should recognize no income for U.S. federal income tax purposes upon the grant of newly issued options or the issuance of the new RSUs. Recipients of cash payments will recognize ordinary income for U.S. federal income tax purposes on the date the cash payments are made to them, and the payments will be subject to applicable tax withholdings. The tax consequences of the option exchange in foreign jurisdictions will depend on applicable foreign tax rules and regulations but will be fully disclosed to participants subject to the tax laws of foreign jurisdictions as part of the offer to exchange options.

**Accounting Impact**

The Company believes that the accounting benefit of the option exchange is that it will not result in the Company incurring significant additional compensation expenses. Based on this objective, the aggregate fair value of the newly issued RSUs or options to each employee in exchange for surrendered stock options, measured as of the date the option exchange is completed, which is the date such newly issued RSUs or options will be granted (and the amount of any cash payments made for eligible options) is intended to be equal to or less than the aggregate fair value of the surrendered options (other than compensation expense that might result from fluctuations in stock price after the exchange ratios have been set but before the exchange actually occurs). The unamortized compensation expense from the surrendered options and incremental compensation expense, if any, associated with the newly issued RSUs or options issued under the option exchange will be recognized over the service period of the newly issued RSUs or options. If any portion of the newly issued RSUs or options issued is forfeited due to termination of employment, the compensation cost for the forfeited portion of the newly issued RSUs or options will not be recognized. Assuming the price of our stock does not materially fluctuate between the establishment of the exchange ratios and the date the exchange actually occurs, then, as a result of the option exchange, we would expect to recognize a non-cash accounting charge of approximately $0.9 million over the vesting period of the newly issued RSUs or options. We will immediately recognize the remaining stock compensation expense associated with any cash payments made in exchange for surrendered options.

**Potential Modification to Terms to Comply with Governmental Requirements**

The terms of the option exchange will be described in a tender offer document that will be filed with the SEC. Although we do not anticipate that the SEC would require us to modify the terms materially, it is possible that we will need to alter the terms of the option exchange to comply with potential SEC comments. In addition, it is currently our intention to make the program available to our eligible employees, including eligible employees of our majority-owned subsidiaries who are located outside of the United States, where permitted by local law and where we determine it is permissible to do so. It is possible that we will make modifications to the terms offered to employees in countries outside the United States to comply with local requirements, or for tax or accounting reasons. The Compensation Committee will retain the discretion to make any such necessary or desirable changes to the terms of the option exchange for purposes of complying with comments from the SEC or optimizing the U.S. federal or foreign tax consequences.

### Benefits of the Option Exchange to Eligible Employees

Because the decision whether to participate in the option exchange is completely voluntary, we are not able to predict who will participate, how many options any particular group of employees will elect to exchange, or the number of newly issued RSUs or options that we may grant. As noted above, however, our named executive officers and members of the Board are not eligible to participate in the option exchange described in this proposal. The option exchange also will not be available to any former employees of us or our majority-owned subsidiaries.



### Effect on Stockholders

The option exchange was designed to provide renewed incentives and motivate the eligible employees to continue to create stockholder value and reduce the number of shares currently subject to outstanding options, thereby avoiding the dilution in ownership that normally results from supplemental grants of new stock options or other awards. We are unable to predict the precise impact of the option exchange on our stockholders because we cannot predict which or how many employees will elect to participate in the option exchange, and which or how many eligible options such employees will elect to exchange. Please see the "Details of the Option Exchange—Eligibility" section above for the approximate reduction in the number of shares underlying options outstanding assuming that 100% of eligible options are exchanged and new awards are issued in accordance with exchange ratios.

## VOTE REQUIRED

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy at the meeting and entitled to vote. A "majority of votes cast" means that the number of votes "FOR" the approval of this proposal must exceed the number of votes "AGAINST" the approval of this proposal.

**The Board of Directors recommends a vote in favor of Proposal Four.**
**Proxies received by the Company will be voted "FOR" this proposal unless the stockholder specifies otherwise in the proxy.**

## PROPOSAL FIVE

## APPROVAL OF A ONE-TIME FAIR VALUE STOCK OPTION EXCHANGE PROGRAM FOR OUR NAMED EXECUTIVE OFFICERS, EXCHANGING TIME-BASED STOCK OPTIONS FOR PERFORMANCE-BASED AWARDS

The Company's stockholders are being asked to approve a one-time fair value stock option exchange program for our named executive officers, or NEOs, exchanging time-based stock options for performance-based awards. If implemented, this one-time fair value stock option exchange program for NEOs, or NEO option exchange, would permit our NEOs to surrender certain outstanding time-based vesting stock options for cancellation in exchange for a lesser number of stock options or RSUs with performance-based vesting to be granted under the 2009 Plan. Prior to the commencement of the NEO option exchange, the Board of Directors or Compensation Committee will determine whether newly issued stock options or RSUs will be granted in exchange for the cancelled options. If stock options are issued in the exchange, the options will cover a lesser number of shares of our common stock and have an exercise price equal to the fair market value of our common stock on the date of the completion of the option exchange. If RSUs are issued in the option exchange, each RSU will represent an unfunded right to receive one share of our common stock on one or more specified future dates when the RSU vests. The newly issued options or RSUs for the NEO option exchange will not vest, however, unless the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed.

The Board of Directors, upon recommendation by our Compensation Committee, authorized the NEO option exchange on April 21, 2009, subject to stockholder approval. We will use exchange ratios in the NEO option exchange that are intended to result in the aggregate fair value of the newly issued options or RSUs issued to the NEOs being equal to or less than the aggregate fair value of the stock options that are surrendered. Only stock options with a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the NEO option exchange commences will be eligible for the NEO option exchange. Only our NEOs will participate in the NEO option exchange. In addition, options granted within the six-month period immediately prior to the commencement of the NEO option exchange and options with a remaining term of less than six months immediately following the completion of the NEO option exchange will not be eligible for exchange.

We believe the NEO option exchange, as designed, is in the best interests of our stockholders and our NEOs and positions us well for the future in these uncertain economic times. If approved by stockholders, we believe the NEO option exchange would enable us to:

- Better align the interests of our NEOs with the interests of our stockholders;
- Motivate and engage our NEOs to continue to build stockholder value;
- Reduce our overhang by reducing the number of outstanding stock options; and
- Recapture value from the compensation expense that we record with respect to certain eligible options.

In designing the NEO option exchange as a complement to the option exchange described in Proposal Four, we have taken into account our stockholders' interests through a focus on the following exchange principles:

- The newly issued options or RSUs issued to the NEOs under the NEO option exchange will not vest unless the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed.
- Stock options with a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately

preceding the date the NEO option exchange commences will be eligible to be exchanged for a grant of a smaller number of newly issued RSUs or options to purchase a smaller number of shares of common stock. However, stock options granted within the six-month period immediately prior to the commencement of the exchange and stock options that will expire within the six-month period immediately following the completion of the exchange will not be eligible.

- The exchange ratios will be determined so that the newly issued RSUs or options issued to the NEOs will have an aggregate fair value intended to be equal to or less than the aggregate fair value of the NEOs' surrendered options.
- The stock options surrendered in the exchange will be cancelled and will not be eligible to be reissued.



Stockholder approval of the NEO option exchange is required under the NASDAQ listing rules and the terms of our equity incentive plans.

If our stockholders approve this proposal and the 2009 Plan under Proposal Three of this Proxy Statement, and the Board or Compensation Committee determines to implement the NEO option exchange, the NEO option exchange would commence within 12 months of the date of the stockholders approval.

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy at the meeting and entitled to vote. A "majority of votes cast" means that the number of votes "FOR" the approval of this proposal must exceed the number of votes "AGAINST" the approval of this proposal.

**The Company's Board of Directors unanimously recommends a vote "FOR" the approval of the NEO option exchange.**

**OVERVIEW**

Like many companies, we have experienced a significant decline in our stock price over the last year in light of the current global financial and economic crisis. This stock price decline has been caused by, among other things, the deteriorating global economy and spending environment and the difficulty for our customers to obtain financing. For example, during 2008 and 2009, our inkjet business was affected by a difficult credit environment and the global slowdown in advertising and marketing spending. While our diversified business model helps to cushion the impact of declines in any of our particular product lines, the current economic downturn has impacted all of our product lines and has affected our stock price considerably. Generally poor economic conditions have also caused an impairment of the value of some of our long-lived assets, which may have affected our stock price during the last twelve months. As a result, our NEOs hold stock options with exercise prices significantly above the recent market price of our common stock. The market for talented executive officers remains competitive, notwithstanding the current economic turmoil.

Additionally, in order to contain costs in this challenging economic environment, we have implemented voluntary salary reductions of 10-15% for our NEOs that were approved and accepted by the Compensation Committee. The Board believes that these salary reductions combined with how significantly underwater some of the options held by our NEOs are, could reduce the incentives provided to our NEOs and increase the risk that our NEOs would seek other employment opportunities.

Maintaining high morale and effective incentives for all of our employees, but particularly our senior management, is important to the success of the Company. Because of the continued challenging economic environment and our recent stock price decline, we believe that the significantly underwater stock options held by our NEOs are no longer effective as incentives to motivate and retain them. This NEO option exchange will accomplish our objective of increasing the incentives provided to our NEOs and their morale by replacing our NEOs' underwater options with options that reflect the current trading range of our common stock. In addition, although these stock options are not likely to be exercised as long as our stock price is lower than the applicable exercise price, they will remain on our books with the potential to dilute stockholders' interests for up to the full term of the options, while delivering little or no retentive or incentive value, unless they are surrendered or cancelled. Because the newly issued RSUs or options granted to our NEOs will not vest unless the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed, our NEOs' compensation through this NEO option exchange will be closely aligned with the success of our company and will remain at significantly greater risk than compensation received by our employees who are not NEOs through the option exchange described in Proposal Four of this Proxy Statement.

The objective of our equity incentive programs has been, and continues to be, to link the personal interests of equity incentive plan participants to those of our stockholders. We believe that, if approved by our stockholders, the NEO option exchange would be an important component in our efforts to:

- Better align the interests of our NEOs with the interests of our stockholders while motivating our NEOs to continue to build stockholder value and achieve future stock price growth by exchanging stock options having a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the NEO option exchange commences for newly issued RSUs or stock options that will not vest without significant stock price appreciation. As of April 30, 2009, approximately 100% of stock options held by our NEOs have a per share exercise price equal to or greater than $9.82, the per share closing price of our common stock as quoted on the NASDAQ Global Select Market on April 30, 2009. We believe that these stock options no longer align the interests of our NEOs with the interests of our stockholders. In addition, these stock options no longer represent effective incentives to motivate or help retain our NEOs. We believe that the NEO option exchange would better align the interests of our NEOs with the interests of our stockholders and aid both motivation and retention of those NEOs participating in the NEO option exchange.
- Reduce our total number of outstanding stock options, or overhang, since a smaller number of RSUs or a smaller number of stock options will be issued for the surrendered stock options. The number of stock options that would be eligible for the NEO option exchange is approximately 1.1 million. Because we will be exchanging a smaller number of newly issued RSUs or a smaller number of new stock options for the options surrendered, our overhang and the potential dilution of stockholders' interests provided by these stock options will decrease. We believe that after the NEO option exchange, the overhang resulting from our equity awards, including the newly issued RSUs or options, would represent an appropriate balance between the objectives of our equity incentive plans and our stockholders' interest in minimizing overhang and potential dilution.
- Recapture value from the compensation expense that we record with respect to certain eligible options. We believe it is not an efficient use of our resources to recognize compensation expense on options that are not perceived by our NEOs as providing value. By exchanging options that have little or no retention or incentive value with options that will provide both retention and incentive value while not creating any material additional compensation expense (other than expense that might result from fluctuations in our stock price after the exchange ratios have been set but before the exchange actually occurs), we will be making efficient use of our resources.

As of April 30, 2009 there would be approximately 1.1 million shares of our common stock subject to stock options that would be eligible for the NEO option exchange, having a weighted average exercise price of $16.39 per share and a weighted average remaining life of 4.6 years, assuming that the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the option exchange commences is $9.82.

**If our stockholders do not approve the NEO option exchange and the 2009 Plan under Proposal Three of this Proxy Statement, eligible options will remain outstanding in accordance with their existing terms.**

**We will continue to recognize compensation expense for these eligible options, even though these options may have little or no retentive or incentive value.**

**Summary of Material Terms**

The NEO option exchange, if approved by our stockholders, would provide for the following:

- The NEO option exchange will be open to all employees who are NEOs as of the commencement of the NEO option exchange and remain employed by us through the completion date of the NEO option exchange. While the Board or Compensation Committee will determine whether options or RSUs will be offered in the NEO option exchange, NEOs will be permitted to elect which of their eligible options they wish to exchange for newly issued RSUs or options on a grant-by-grant basis.
- Our members of the Board who are not NEOs will not be eligible to participate in the NEO option exchange.
- Stock options that have a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the NEO option exchange commences will be eligible for exchange.
- Stock options granted within the six-month period immediately prior to the commencement date of the NEO option exchange will not be eligible for exchange.
- Stock options which have a remaining term of less than six months immediately following the completion of the NEO option exchange (based on their terms as of their original grant date) will not be eligible for exchange.
- The exchange ratios used in the NEO option exchange will be intended to result in the aggregate fair value of the newly issued options or RSUs granted to the NEOs being equal to or less than the aggregate fair value of the stock options that are surrendered. The exchange ratios will be established shortly before the commencement of the NEO option exchange and will depend on the then-current fair value of the eligible option (calculated using the Black-Scholes-Merton option pricing model or other generally accepted valuation model such as the Lattice Valuation model), the fair market value of our common stock and the original exercise price of the eligible option. The NEO option exchange will not be a one-for-one exchange. Instead, participating NEOs will receive a smaller number of newly issued options or a smaller number of RSUs than the number of shares that are covered by the surrendered eligible options.
- None of the newly issued RSUs or options granted in exchange for eligible options will be vested on the date of grant. The newly issued RSUs or options will not vest unless the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed. If the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed, then the newly issued RSUs or options will immediately vest in full.
- The NEO option exchange will commence, if at all, within 12 months of the date of stockholders approval. If the NEO option exchange does not commence within 12 months of stockholders approval, we would consider any future option exchange or similar program to require new stockholder approval before it can be implemented.

**While the terms of the NEO option exchange are expected to be materially similar to the terms described in this proposal, the Board or Compensation Committee may, in its sole discretion, change the terms of the NEO option exchange to take into account a change in circumstances, as described below, and may determine not to implement the NEO option exchange even if stockholder approval of the NEO option exchange is obtained.**

### Reasons for the NEO Option Exchange

Due to the significant decline of our stock price during the last year, our NEOs now hold stock options with exercise prices significantly higher than the current market price of our common stock. For example, the closing price of our common stock on the NASDAQ Global Select Market on April 30, 2009 was $9.82, whereas the weighted average exercise price of all outstanding options held by our NEOs was $16.39. As of April 30, 2009, approximately 100% of outstanding stock options held by our NEOs have per share exercise prices greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market on April 30, 2009. Although we continue to believe that equity awards are an important component of our NEOs' total incentive benefits and provide us with a competitive advantage, we also believe that our NEOs view their existing options as having little or no value due to the significant difference between the exercise prices and the current market price of our common stock. The market for executive officers remains competitive notwithstanding the current economic turmoil. As a result, for our NEOs, we believe that these underwater options are ineffective at providing the incentives that the Board and Compensation Committee believe are necessary to motivate and retain our NEOs.

### Alternatives Considered

When considering how best to continue to provide incentives to and reward our NEOs in light of the options that they hold that are underwater, we considered the following alternatives:

- *Increase cash compensation.* To replace equity incentives, we considered whether we could substantially increase base and target bonus cash compensation. However, significant increases in cash compensation would substantially increase our cash compensation expenses and reduce our cash flow from operations, which could adversely affect our business and operating results. In addition, these increases would not reduce our overhang and would not align the interests of our NEOs with those of our stockholders. Moreover, in order to contain costs in this challenging economic environment, we have implemented voluntary salary reductions of 10-15% for our NEOs that were approved and accepted by the Compensation Committee.
- *Grant additional equity awards.* We also considered special grants of additional stock options at current market prices or RSUs. However, these additional grants would substantially increase our overhang and dilute the interests of our stockholders. In addition, the number of shares available for issuance under our Prior Plan is limited.
- *Exchange options for cash.* We also considered implementing a program to exchange underwater options for cash payments. However, an exchange program where options are generally exchanged for cash would substantially increase our compensation expenses and reduce our cash flow from operations, which could adversely affect our business and operating results. In addition, we do not believe that such a program would have significant long-term retention value.

### The NEO Option Exchange

After weighing each of these alternatives, subject to the exceptions described in this proposal, we have decided to provide our NEOs the opportunity to exchange underwater options for newly issued RSUs or options. We have determined that a program under which our NEOs generally could exchange stock options having a per share exercise price greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the NEO option exchange commences for a smaller number of new RSUs or a smaller number of new options was the most attractive alternative for a number of reasons, including the following:

- *The NEO option exchange offers a reasonable, balanced and meaningful incentive for our NEOs.* Participating NEOs will surrender eligible options having a per share exercise price greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select

Market as of the trading day immediately preceding the date the NEO option exchange commences for newly issued options covering fewer shares with a per share exercise price equal to the closing price of our common stock on the date of the completion of the NEO option exchange and that will vest with respect to all of the shares subject to the options when and if the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed.

- *The vesting for new grants received by NEOs under this NEO option exchange will place their compensation at significantly greater risk than the newly issued awards received by employees who are not NEOs if the option exchange described in Proposal Four of this Proxy Statement is approved by our stockholders.* We believe that the compensation of NEOs should remain at significantly greater risk based on our stock price. Accordingly, each newly issued RSU or option granted under the NEO option exchange will not vest unless the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed.
- *The exchange ratio will be calculated to minimize accounting costs.* We will calculate the exchange ratios in a manner intended to result in an aggregate fair value, for accounting purposes, of the newly issued RSUs or options that will be equal to or less than the aggregate fair value of the eligible options that are exchanged, which we believe will have no significant adverse impact on our reported earnings.
- *The NEO option exchange will reduce our equity award overhang.* Not only do the options having a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the NEO option exchange commences have little or no retention value, they cannot be removed from our equity award overhang until they are exercised, expire or the NEO who holds them leaves our employment. The NEO option exchange will reduce our overhang while eliminating the ineffective options that are currently outstanding. Because a lesser number of new RSUs will be granted or a lesser number of shares will be subject to new options granted in exchange for eligible options, the number of shares of stock subject to all outstanding equity awards will be reduced, thereby reducing our overhang. Based on the assumptions described below, if all eligible options are exchanged, options to purchase approximately 1.1 million shares would be surrendered and cancelled, while approximately 0.7 million shares would be subject to options granted in the NEO option exchange, resulting in a net reduction in the equity award overhang by approximately 0.4 million shares. If instead the Board or Compensation Committee chooses to grant RSUs in the NEO option exchange, approximately 0.2 million RSUs would be granted, resulting in a net reduction to the equity award overhang by approximately 0.9 million shares. All eligible options that are not exchanged will remain outstanding and in effect in accordance with their existing terms.

## DETAILS OF THE NEO OPTION EXCHANGE

### Implementing the NEO Option Exchange

We have not commenced the NEO option exchange and will not do so unless our stockholders approve the NEO option exchange and the 2009 Plan under Proposal Three of this Proxy Statement. The Board authorized the NEO option exchange on April 21, 2009, subject to stockholder approval. If this proposal is approved, the offer to surrender eligible options in exchange for newly issued RSUs or options, as the Board or Compensation Committee may determine, would commence, if at all, within 12 months of the date of stockholders approval of this proposal.

If stockholders approve this proposal and Proposal Three and the Board or Compensation Committee decide to commence the NEO option exchange, NEOs will be offered the opportunity to participate in the NEO option exchange pursuant to a written offer that will be distributed to the NEOs. NEOs will be given at least 20 business days in which to accept the offer of newly issued RSUs or options in exchange for the surrender of their eligible options. The surrendered options will be cancelled on the date the NEO option exchange is completed. The newly issued RSUs or options will be granted under the 2009 Plan on the date the NEO option exchange is completed. The shares of our common stock subject to surrendered options will not be available for future issuance under our equity incentive plans once the surrendered options are cancelled.

Prior to commencement of the NEO option exchange, we will file the offer to exchange with the SEC as part of a tender offer statement on Schedule TO. NEOs, as well as stockholders and members of the public, will be able to review the offer to exchange and other related documents filed by us with the SEC free of charge on the SEC's website at www.sec.gov.

**Eligibility**

If implemented, the NEO option exchange will be open to all of our NEOs. Each of our NEOs hold options with per share exercise prices that are greater than the current trading range of our common stock. The NEO option exchange will not be available to employees who are not NEOs or non-employee members of the Board. NEOs must be employed by us at both the start and completion of the NEO option exchange in order to remain eligible for the exchange. If an NEO is no longer an employee with us for any reason, including layoff, termination, voluntary resignation, death or disability, on the date that the NEO option exchange is commenced, that NEO cannot participate in the NEO option exchange. If an NEO is no longer an employee with us for any reason on the date of the completion of the NEO option exchange, even if he had elected to participate and had tendered his options for exchange, such NEO's tender will automatically be deemed withdrawn and he will not participate in the NEO option exchange. He will retain his outstanding options in accordance with their original terms and conditions, and he may exercise them during a limited period of time following termination of employment in accordance with their terms and to the extent that they are vested. A vote by an NEO in favor of this proposal at the Annual Meeting does not constitute an election to participate in the NEO option exchange.

Of the outstanding options held by NEOs as of April 30, 2009, the maximum number of shares of common stock underlying options which could be surrendered for exchange is 1.1 million, and the maximum number of shares of common stock which would be subject to awards granted under the proposed NEO option exchange, using estimated exchange ratios, would be 0.7 million in an option-for-option exchange or 0.2 million in an option-for-RSU exchange.

**Exchange Ratios**

The exchange ratios for the NEO option exchange (that is, how many options an NEO must surrender in order to receive one newly issued RSU or option) will be determined using the Black-Scholes-Merton option pricing model or other generally accepted valuation model such as the Lattice Valuation model. The valuation model is utilized to adopt exchange ratios that result in the aggregate fair value of the newly issued RSUs or options issued being equal to or less than the aggregate fair value of the stock options that are surrendered, and to avoid the stockholder dilution that occurs when all options are exchanged on a one-for-one basis for newly issued RSUs or options. Newly issued RSU or option grants calculated according to the exchange ratios will be rounded down to the nearest whole share on a grant-by-grant basis. Fractional RSUs or options will not be issued.

For example, if a surrendered option has a fair value of $100 on the date the NEO option exchange commences, the closing price for a share of our common stock on such date was $10.00 and the grant date fair value of an option granted on such date was $2.50 per share, then 10 newly issued RSUs or options to purchase 40 shares of our common stock, each of which would have a fair value of $100, would be granted to the NEO if he elected to participate in the exchange.

### Election to Participate

Participation in the NEO option exchange will be voluntary. Under the NEO option exchange, NEOs may make an election to surrender eligible stock options that have a per share exercise price that is greater than the per share closing price of our common stock as quoted on the NASDAQ Global Select Market as of the trading day immediately preceding the date the NEO option exchange commences in exchange for newly issued RSUs or options in accordance with the actual exchange ratios, which will be determined at the time the NEO option exchange commences.



### Vesting of Newly Issued RSUs and Options

Newly issued RSUs or options granted in the NEO option exchange will not be vested on their date of grant regardless of whether the surrendered option was fully vested. Instead, the newly issued RSUs or options will vest fully if and when the average price of our common stock as quoted on the NASDAQ Global Select Market equals or exceeds for 20 consecutive trading days 225% of the closing price of our common stock on the date the NEO option exchange is completed.

For example, if, on the date the NEO option exchange is completed, the closing price of our common stock was $10.00, then none of the newly issued RSUs or options would vest unless and until our stock price reached $22.50 and averaged at or above that price for 20 consecutive trading days. On the date that the stock price reached $22.50 and averaged at or above that price for 20 consecutive trading days, all of the newly issued RSUs or options would vest.

### Term and Conditions of Newly Issued RSUs and Options

The terms and conditions of the newly issued RSUs or options will be governed by the terms and conditions of the 2009 Plan and the RSU agreement or option agreement entered into thereunder. Each newly issued option will retain the expiration date of the surrendered option it replaces.

### U.S. Federal Income Tax Consequences

The U.S. federal income tax consequences of the NEO option exchange under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the NEO option exchange. This summary is not intended to be exhaustive and, among other considerations, does not describe state, local, or foreign tax consequences. Tax considerations may vary from locality to locality and depending on individual circumstances.

The NEO option exchange should be treated as a non-taxable exchange for U.S. federal income tax purposes, and we and our participating NEOs should recognize no income for U.S. federal income tax purposes upon the grant of newly issued RSUs or options.

### Accounting Impact

The Company believes that the accounting benefit of the NEO option exchange is that it will not result in the Company incurring significant additional compensation expenses. Based on this objective, the aggregate fair value of the newly issued RSUs or options granted to each NEO in exchange for surrendered stock options, measured as of the date the NEO option exchange is completed, which is the date such newly issued RSUs or options will be granted is intended to be equal to or less than the aggregate fair value of the surrendered options (other than compensation expense that might result from fluctuations in stock price after the exchange ratios have been set but before the exchange actually occurs). The unamortized compensation expense from the surrendered options and incremental compensation expense, if any, associated with the newly issued RSUs or options issued under the NEO option exchange will be recognized over the service period of the newly issued RSUs or options.

If any portion of the newly issued RSUs or options granted is forfeited due to termination of employment, the compensation cost for the forfeited portion of the newly issued RSUs or options will not be recognized. Assuming the price of our stock does not materially fluctuate between the establishment of the exchange ratios and the date the exchange actually occurs, then, as a result of the NEO option exchange, we would expect to recognize a non-cash accounting charge of approximately $0.9 million over the vesting period of the newly issued RSUs or options.

**Potential Modification to Terms to Comply with Governmental Requirements**

The terms of the NEO option exchange will be described in a tender offer document that will be filed with the SEC. Although we do not anticipate that the SEC would require us to modify the terms materially, it is possible that we will need to alter the terms of the NEO option exchange to comply with potential SEC comments. The Compensation Committee will retain the discretion to make any such necessary or desirable changes to the terms of the NEO option exchange for purposes of complying with comments from the SEC.

**Benefits of the Option Exchange to NEOs**

Because the decision whether to participate in the NEO option exchange is completely voluntary, we are not able to predict who will participate, how many options the NEOs will elect to exchange, or the number of newly issued RSUs or options that we may grant. As noted above, however, our non-employee members of the Board and employees who are not NEOs are not eligible to participate in the NEO option exchange.

**Effect on Stockholders**

The NEO option exchange was designed to provide renewed incentives and motivate our NEOs to continue to create stockholder value and reduce the number of shares currently subject to outstanding options, thereby avoiding the dilution in ownership that normally results from supplemental grants of new stock options or other awards. We are unable to predict the precise impact of the NEO option exchange on our stockholders because we cannot predict which or how many NEOs will elect to participate in the NEO option exchange, and which or how many eligible options such NEOs will elect to exchange. Please see the "Details of NEO Option Exchange—Eligibility" section above for the approximate reduction in the number of shares underlying options outstanding assuming that 100% of eligible options are exchanged and the newly issued RSUs or options are issued in accordance with the exchange ratios.

## VOTE REQUIRED

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy at the meeting and entitled to vote. A "majority of votes cast" means that the number of votes "FOR" the approval of this proposal must exceed the number of votes "AGAINST" the approval of this proposal.

**The Board of Directors recommends a vote in favor of Proposal Five.**
**Proxies received by the Company will be voted "FOR" this proposal unless the stockholder specifies otherwise in the proxy.**

## PROPOSAL SIX

## RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP has served as the Company's independent registered public accounting firm since 1992 and has been appointed by the Audit Committee to continue as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.

Stockholder ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009 is not required by law, by the NASDAQ listing requirements or by the Company's certificate of incorporation or bylaws. However, the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to the Company's stockholders for ratification as a matter of good corporate governance and practice. If the stockholders fail to ratify the appointment, the Board of Directors will reconsider whether to retain that firm. Even if the selection is ratified, the Company may appoint a different independent registered public accounting firm during the year if the Audit Committee of the Board of Directors determines that such a change would be in the best interests of the Company and its stockholders.

During the fiscal years ended December 31, 2008 and 2007, PricewaterhouseCoopers LLP provided various audit, audit related and non-audit services to the Company as follows (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Audit fees(a) | $1,461 | $4,417 |
| Audit related fees(b) | 66 | 482 |
| Tax fees(c) | — | — |
| All other fees(d) | 33 | 2 |
| Total | $1,560 | $4,901 |

(a) Audit fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

(b) Audit related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." These services include accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

(c) Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international compliance and mergers and acquisitions.

(d) All other fees consist of services provided in connection with other services.

The Audit Committee is responsible for pre-approving audit and non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is necessary and permissible); in this regard, the Audit Committee has the sole authority to approve the employment of the independent auditors, all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent auditors.

The Audit Committee of the Board of Directors has considered whether provision of the services described in sections (b), (c) and (d) above is compatible with maintaining the independent auditors' independence and has determined that such services have not adversely affected PricewaterhouseCoopers LLP's independence. All of the services of each of (b), (c) and (d) were pre-approved by the Audit Committee.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting. The representatives will have an opportunity to make a statement and will be available to respond to appropriate questions.

The ratification of the selection of PricewaterhouseCoopers LLP requires the affirmative vote of the holders of a majority of shares of common stock present, or represented, and entitled to vote thereon, at the annual meeting.

**The Company's Board of Directors recommends a vote "FOR" the ratification of the appointment of the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009. Proxies received by the Company will be voted "FOR" this proposal unless the stockholder specifies otherwise in the proxy.**

## SECURITY OWNERSHIP

Except as otherwise indicated below, the following table sets forth certain information regarding beneficial ownership of common stock of the Company as of March 31, 2009 by: (1) each of our current directors; (2) each of the named executive officers listed in the Summary Compensation Table for 2008 on page 63 of this Proxy Statement (collectively, our "named executive officers"); (3) each person known to us to be the beneficial owner of more than 5% of the outstanding shares of our common stock based upon Schedules 13G or 13D filed with the SEC; and (4) all of our directors and executive officers as a group. As of March 31, 2009, there were 49,217,723 shares of our common stock outstanding.

Shares of common stock subject to options or other rights that are currently exercisable or exercisable within 60 days of March 31, 2009 are considered outstanding and beneficially owned by the person holding the options or other rights for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person except with respect to the percentage ownership of all directors and executive officers as a group. Unless otherwise indicated below, the address of each beneficial owner listed below is c/o Electronics For Imaging, Inc., 303 Velocity Way, Foster City, California 94404.

| | Common Stock | |
|---|---|---|
| Name of beneficial owner(1) | Number of shares | Percentage owned |
| Ameriprise Financial, Inc.(2)<br>145 Ameriprise Financial Center<br>Minneapolis, MN 55474 | 7,962,138 | 16.18% |
| Blum Capital Partners(3)<br>909 Montgomery Street<br>Suite 400<br>San Francisco, California 94133 | 5,008,213 | 10.18% |
| Barclays Global Investors, NA(4)<br>500 Howard Street<br>San Francisco, California 94105 | 2,851,406 | 5.79% |
| Third Avenue Management LLC(5)<br>622 Third Avenue<br>32nd Floor<br>New York, New York 10017 | 4,543,699 | 9.23% |
| Wellington Management Company, LLP(6)<br>75 State Street<br>Boston, Massachusetts 02109 | 1,603,962 | 3.26% |
| Guy Gecht(7) | 553,627 | 1.12% |
| Fred Rosenzweig(8) | 428,185 | * |
| Gill Cogan(9) | 146,168 | * |
| John Ritchie(10) | 112,849 | * |
| James S. Greene(11) | 68,386 | * |
| Dan Maydan(12) | 12,060 | * |
| Thomas Georgens(13) | 0 | — |
| Richard A. Kashnow(14) | 0 | — |
| All current executive officers and directors as a group (8 persons)(15) | 1,321,275 | 2.68% |

* Less than one percent.

(1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G and Forms 3 and 4 filed with the SEC as of March 31, 2009. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, each of



Proxy

the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 49,217,723 shares outstanding on March 31, 2009 adjusted as required by rules promulgated by the SEC.

(2) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 5, 2009 by Ameriprise Financial, Inc. ("AFI"), RiverSource Investments, LLC ("RvS") and Seligman Communications and Information Fund, Inc. ("C&I Fund"). The Schedule 13G indicates that each of AFI and RvS has shared voting power as to 396,508 shares and shared dispositive power as to 7,962,138 shares. C&I Fund has sole voting and dispositive powers as to 4,680,200 shares. RvS, in its capacity as investment adviser, may be deemed to beneficially own the shares of common stock reported by C&I Fund. AFI, as the parent company of RvS, may be deemed to beneficially own the shares reported by RvS. AFI, together with RvS and C&I Fund beneficially own 7,962,138 shares.

(3) Beneficial ownership information is based on information contained in Form 4 filed with the SEC on October 22, 2008 by Blum Capital Partners, L.P., Richard C. Blum & Associates, Inc., Blum Strategic GP III, L.L.C., Blum Strategic GP III, L.P., Blum Strategic GP IV, L.L.C. and Saddlepoint Partners GP, L.L.C. Together, the entities beneficially own 5,008,213 shares of common stock. The entities share voting and investment power as to all 5,008,213 shares of common stock.

(4) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 5, 2009 by Barclays Global Investors, NA. Barclays Global Investors, NA and its affiliate, Barclays Global Fund Advisors, together beneficially own 2,851,406 shares and together have sole voting power and dispositive power as to 2,647,644 and 2,851,406 shares, respectively.

(5) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 13, 2009 by Third Avenue Management LLC. Third Avenue Management LLC has sole voting power as to 4,341,724 shares of common stock and sole dispositive power as to 4,543,699 shares of common stock.

(6) Beneficial ownership information is based on information contained in Schedule 13G/A filed with the SEC on February 17, 2009 by Wellington Management Company, LLP ("WMC"). WMC, in its capacity as investment adviser, may be deemed to beneficially own 1,603,962 shares of common stock which are held of record by clients of WMC. WMC has shared voting power as to 1,158,962 shares of common stock and shared dispositive power as to 1,603,962 shares of common stock.

(7) Includes 336,589 shares of common stock issuable upon the exercise of options granted to Mr. Gecht under the 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(8) Includes 297,933 shares of common stock issuable upon exercise of options granted to Mr. Rosenzweig under the 1999, 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(9) Includes 124,168 shares of common stock issuable upon exercise of options granted to Mr. Cogan under the 1990, 1999 and 2004 equity incentive plans which are exercisable within 60 days of March 31, 2009 of which 18,000 will expire on May 20, 2009.

(10) Includes 71,197 shares of common stock issuable upon the exercise of options granted to Mr. Ritchie under the 1999, 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(11) Includes 78,668 shares of common stock issuable upon exercise of options granted to Mr. Greene under the 1999 and 2004 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(12) No options granted to Dr. Maydan under the 2007 equity incentive plan are exercisable within 60 days of March 31, 2009.

(13) No options granted to Mr. Georgens under the 2007 equity incentive plan are exercisable within 60 days of March 31, 2009.

(14) No options granted to Mr. Kashnow under the 2007 equity incentive plan are exercisable within 60 days of March 31, 2009.

(15) Includes an aggregate of 886,273 shares of common stock issuable upon the exercise of options granted to executive officers and directors collectively under the 1990, 1999, 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers, directors and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file reports of security ownership and changes in such ownership with the SEC. Officers, directors and greater than ten percent beneficial owners also are required by rules promulgated by the SEC to furnish the Company with copies of all Section 16(a) forms they file.

Based solely upon a review of the copies of such forms furnished to the Company, or written representations that no Form 5 filings were required, the Company believes that during the period from January 1, 2008 to December 31, 2008, all Section 16(a) filing requirements were timely met.

## EXECUTIVE OFFICERS

The following table lists certain information regarding the Company's executive officers as of March 31, 2009.

| Name | Age | Position |
|---|---|---|
| Guy Gecht | 43 | Chief Executive Officer |
| Fred Rosenzweig | 53 | President |
| John Ritchie | 43 | Chief Financial Officer |

Mr. Gecht was appointed Chief Executive Officer of the Company on January 1, 2000. From July 1999 to January 2000, he served as President of the Company. From January 1999 to July 1999, he was Vice President and General Manager of Controllers Products of the Company. From October 1995 through January 1999, he served as Director of Software Engineering. Prior to joining the Company, Mr. Gecht was Director of Engineering at Interro Systems, a technology company, from 1993 to 1995. From 1991 to 1993, he served as Software Manager of ASP Computer Products, a networking company and from 1990 to 1991 he served as Manager of Networking Systems for Apple Israel, a technology company. From 1985 to 1990, he served as an officer in the Israeli Defense Forces, managing an engineering development team, and later was an acting manager of one of the IDF high-tech departments. Mr. Gecht currently serves as a member of the board of directors, audit committee and compensation committee of Check Point Software Technologies Ltd., a global information technology security company. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben Gurion University in Israel.

Mr. Rosenzweig was appointed President of the Company as of January 1, 2000. From July 1999 to January 2004 he served as Chief Operating Officer of the Company. From August 1998 to July 1999, Mr. Rosenzweig served as Executive Vice President. From January 1995 to August 1998, Mr. Rosenzweig served as Vice President, Manufacturing and Support of the Company. From May 1993 to January 1995, Mr. Rosenzweig served as Director of Manufacturing of the Company. Prior to joining the Company, from July 1992 to May 1993, he was a plant general manager at Tandem Computers Corporation, a computer company. From October 1989 to July 1992, Mr. Rosenzweig served as a systems and peripheral test manager at Tandem Computers Corporation. Mr. Rosenzweig holds a B.S. in Metallurgical Engineering from The Pennsylvania State University and an M.B.A. from the University of California at Berkeley.

Mr. Ritchie was appointed Chief Financial Officer on April 1, 2006. From January 2001 to April 1, 2006, Mr. Ritchie served as the Company's Vice President of Finance. From March 1996 to January 2001, Mr. Ritchie served in a variety of capacities at Splash Technology Holdings, Inc., a server company, most recently as Chief Financial Officer. Prior to Splash, Mr. Ritchie held various accounting and finance positions at Western Waste Industries, Inc., a waste services company, Oce-Bruning, Inc., a printer and copier company, and Mariani Packing Company, an agricultural company. Mr. Ritchie holds a B.A. in Business Administration from San Jose State University.

## COMPENSATION DISCUSSION AND ANALYSIS

### Compensation Objectives and Philosophy

The Company's compensation objectives and philosophy provide the guiding principles for decisions made by the Compensation Committee of the Board of Directors (the "Committee") for compensation to be paid to the Company's named executive officers, which, during fiscal year 2008, included Guy Gecht, Chief Executive Officer; Fred Rosenzweig, President; and John Ritchie, Chief Financial Officer.

The Committee believes that compensation paid to executive officers should be closely aligned with the performance of the Company on both a short-term and long-term basis, and linked to specific, measurable results intended to create value for stockholders. In establishing compensation programs for the named executive officers for fiscal year 2008, the Committee considered the following principles and objectives:

- Attract and retain individuals of superior ability and managerial talent;
- Ensure compensation is closely aligned with the Company's corporate strategies, business and financial objectives and the long-term interests of the Company's stockholders;
- Create incentives to achieve key strategic and financial performance goals of the Company by linking executive incentive award opportunities to the achievement of these goals; and
- Ensure that the total compensation is fair, reasonable and competitive.



**The Compensation Committee of the Board of Directors**

The Committee, serving under a charter adopted by the Board of Directors, is composed entirely of outside directors who have never served as officers of the Company. Under the charter, the Committee has overall responsibility for approving and evaluating the executive officer compensation plans, policies and programs of the Company. This includes base salaries, incentive awards, stock option grants, employment agreements, severance arrangements, change in control provisions, as well as any other benefits or compensation arrangements for the named executive officers. In certain circumstances, the Committee may solicit input from the full Board of Directors before making final decisions relating to executive compensation. Messrs. Cogan and Maydan serve on the Committee as of the date of this Proxy Statement.

**Role of Management in Assisting Compensation Decisions**

Members of the executive management team of the Company, such as the named executive officers and the Vice President of Human Resources ("Executive Management"), may assist and support the Committee in determining compensation for the named executive officers. Members of Executive Management may provide recommendations and information to the Committee to consider, analyze and review in connection with any compensation proposal for the named executive officers. Members of Executive Management do not have any final decision-making authority in regards to named executive officer compensation. The Committee reviews any recommendations and information provided by Executive Management, and approves the final executive compensation package for the named executive officers. During fiscal year 2008, members of Executive Management provided the Committee with recommendations and proposals relating to each element of executive compensation described below. These recommendations and proposals were based on competitive factors, individual compensation histories, prior equity awards, and anticipated and projected operating results of the Company for fiscal year 2008.

**Use of Independent Third Party Consultants**

The Committee may use consultants to assist in the evaluation of compensation for the named executive officers. The Committee has the sole authority to retain and terminate any compensation consultant engaged to perform these services. The Committee also has authority to obtain advice and assistance from internal or external legal, accounting, or other advisers.

The Committee has retained Mercer (US) Inc. ("Mercer") to provide information, analyses, and advice regarding executive and director compensation, as described below. The Company also retains Mercer and its related entities to perform other services. Mercer was selected as the consultant to the Committee in 2007 after an interview process with several compensation consulting firms. The Committee evaluates Mercer on an annual basis and has found its performance to be satisfactory. In 2008, the Compensation Committee requested Mercer to advise it on a variety of compensation-related issues, including:

- Compensation strategy development
- Officer pay levels

- Officer Short-Term Incentive Pay
- Officer Long-Term Incentive Pay
- Peer group review and refinement
- Board Compensation
- The Committee agenda and annual calendar

In the course of conducting its activities, Mercer attended meetings of the Committee and presented its findings and recommendations for discussion. During the course of the year, Mercer met with management to obtain and validate data, and review materials.

In addition to providing consulting advice to the Committee, Mercer has been engaged by the Company to perform a review of its employment practices under applicable state law and international compensation consulting. Mercer received approximately $417,000 from the Company in connection with the performance of these services during fiscal year 2008. In addition, Mercer is a subsidiary of Marsh & McLennan Companies, Inc. ("Marsh"), a diversified conglomerate of insurance, security and human resources consulting services. The Company uses the brokerage services of Marsh for the casualty insurance portion of the Company's risk management and insurance program. During fiscal year 2008, Marsh received approximately $168,000 for the brokerage services provided to the Company. The Committee has reviewed Mercer's employment practice review services as well as the Marsh brokerage services and has determined that these services do not constitute a conflict of interest or prevent Mercer from being objective in its work for the Committee. Other than providing the services described above and the work performed in its role as consultant to the Committee, Mercer provided no other services to either the Company or the Committee in fiscal year 2008.

**Benchmarking**

The Committee does not apply a formulaic approach to setting of individual elements of the named executive officers' compensation or their total compensation amounts. However, the Committee reviews, at least annually, market compensation levels to determine whether the total compensation opportunity for the Company's named executive officers is appropriate in light of the compensation arrangements at the Company's peers and makes adjustments when the Committee determines they are needed. For 2008, this assessment included evaluation of base salary, annual incentives and long-term incentives against a peer group of high-technology companies provided by Mercer, which is described below. The Committee also considers business performance as compared to its peers as part of its assessment of appropriate payout levels for performance. Because total compensation for the named executive officers is determined in part based on market compensation levels, differences in compensation among the chief executive officer and other named executive officers are due in part to differences of compensation among similarly situated executive officers in the market.

The basis for selection of companies in the peer group included the following:

- Status—Peer companies should be publicly traded on a U.S. stock exchange.
- Revenue—Peer companies should be similarly sized to EFI for appropriate compensation benchmarking.
- Industry—Peer companies should be within similar industry sectors that have similar business characteristics.
- Competitive Landscape—Peer companies should be competing with EFI for executive talent.

For 2008, the peer group included:

| | |
|---|---|
| Palm, Inc. | ADC Telecommunications Inc. |
| 3Com Corp. | Moduslink Global Solutions (formerly CMGI, Inc.) |
| Arris Group, Inc. | Komag Inc. |
| Zebra Technologies Corp. | Savvis Inc. |
| Hutchinson Technology Inc. | Avocent Corp. |
| QLogic Corp. | Emulex Corp. |
| Zoran Corp. | MRV Communications, Inc. |
| Ariba Inc. | Openwave Systems Inc. |



**Executive Compensation Elements**

For the fiscal year 2008, the principal elements or components of compensation for the named executive officers were: (1) base salary; (2) performance-based incentive compensation; and (3) long-term equity compensation.

During 2008, for each element of executive compensation, the Committee considered a number of factors, such as the executive's employment experience, performance of the executive during the period, performance of the Company during the period, achievement of Company performance targets set by the Board of Directors, demonstrated leadership, potential to enhance long-term stockholder value, information relating to marketplace competitiveness, current compensation levels, compensation history and prior equity awards. Since there are no static or fixed policies regarding the amount and allocation for each component or element of executive compensation, the determination and composition of total compensation is up to the discretion of the Committee and is decided on a year by year basis.

The measurement or assessment of performance of the individual named executive officer, and his demonstrated leadership and potential to enhance long-term stockholder value during 2008 was qualitative in nature, and was determined using the judgment and discretion of the Committee. During 2008, the measurement or assessment of the Company's performance and the achievement of Company performance targets were primarily quantitative with respect to the elements of incentive based compensation, and are addressed in greater detail below. The factors relating to current compensation levels, compensation history and prior equity awards for each of the executive officers were primarily used to assist in evaluating the appropriate levels of compensation for each element of compensation for the 2008 fiscal year and any potential increase or decrease from the prior year levels.

The disparity in the levels of compensation for each element of compensation between the named executive officers reflects consideration of the executive's roles and responsibilities, the executive's tenure with the Company as well as the other factors mentioned above. The Committee evaluates these factors in establishing compensation for each named executive officer, individually.

The Committee considers the value of the entire compensation package when establishing the appropriate levels of compensation for each element. As such, amounts paid under one element of compensation may affect the amounts paid under another element of compensation. For example, the Company may reserve a significant portion of executive compensation for performance-based incentive programs, while allocating a comparatively lesser amount for fixed compensation elements. As noted above, however, the Company does not apply a formulaic approach to the allocation of specific elements within the total compensation package available to the named executive officers. The Committee exercises its judgment and discretion when approving the amount and allocation of each element of the total compensation package.

***Base Salary***

The Company provides the named executive officers with a base salary, which is comprised of a fixed amount of annual cash compensation. Base salary is a principal and common component of compensation for all employees of the Company. In setting base salaries for the named executive officers, the Committee considers a number of factors, including the executive's prior salary history, current compensation levels, individual performance and marketplace competitiveness for executive officers.

The Committee considers changes to base salaries for the named executive officers on an annual basis. There are no formulaic increases, and for 2008, Mr. Ritchie did not receive an increase in base salary as the Committee determined that with the increase provided to Mr. Ritchie in 2007 his base salary remained competitive. The Committee approved increases in the base salaries effective April 1, 2008 for Mr. Gecht and Mr. Rosenzweig to $620,000 and $530,000, respectively. The adjustments reflected percentage increases of 8.8% and 3.9%, respectively and were approved following the Committee's consultation with Mercer and its assessment of each of Messrs. Gecht's and Rosenzweig's target total cash compensation for fiscal year 2008 relative to the Company's peer group and in light of the absence of any adjustments to Mr. Gecht's or Mr. Rosenzweig's base salaries in 2005, 2006 or 2007.

On April 3, 2009, the Committee approved and accepted the voluntary reduction of the annual base salaries of each of Messrs. Gecht, Rosenzweig and Ritchie by fifteen percent (15%) for Messrs. Gecht and Rosenzweig, to equal $527,000 and $450,500, respectively, and by ten percent (10%) for Mr. Ritchie, to equal $279,000. This reduction was volunteered by the named executive officers in support of the Company's cost reduction activities due to deteriorating global economic and industry conditions provided that such voluntarily reduced base annual salaries would not be used in the calculation of any other benefits set forth in each named executive officer's current employment agreement. The temporarily reduced base annual salaries of each of the named executive officers became effective as of April 16, 2009.

### *Performance-Based Incentive Compensation*

The Company believes that a significant portion of executive compensation should be directly related to the Company's overall financial performance, stock price performance and other relevant financial factors that affect stockholder value. Accordingly, the Company sets goals designed to link executive compensation to the Company's overall performance and reserves the largest potential compensation awards for performance-based and incentive-based programs, which include both cash and equity awards.

### *Executive Incentive Plan*

The executive incentive plan allows named executive officers to receive bonus compensation in the event certain specified corporate and individual performance measures are achieved. For fiscal year 2008, bonuses awarded under the executive bonus plan were weighted 80% based on Company performance and 20% based on individual performance. The total potential bonus for each of the named executive officers is calculated as a percentage of his base salary.

The Committee sets the percentage of base salary for each named executive officer's target bonus based on its review of total compensation and the bonus programs at the Company's peer group and its assessment of the past and expected future contributions of the named executive officers. The target bonus opportunity for the 2008 fiscal year for Mr. Gecht, Mr. Ritchie and Mr. Rosenzweig was 105%, 55% and 95% of annual base salary, respectively. In addition to correlating with similar positions at the Company's peer group, the differentiation in percentages between Mr. Gecht, Mr. Ritchie and Mr. Rosenzweig correlate with their level of responsibility within the Company.

The Company performance measures for determining bonuses for 2008 were equally weighted between the Company's total annual revenue and operating income and were approved by the Committee based on information provided by Executive Management. For fiscal year 2008, the Company's total annual revenue and operating income targets were $630,000,000 and $74,762,000, respectively. In determining the bonus compensation awarded to each executive officer, the executive incentive plan requires threshold performance of both 94% of the total annual revenue target and 79% of the operating income target. If the Company does not satisfy the thresholds, the named executive officers are not eligible to receive any bonus compensation with respect to Company performance. In the event threshold performance levels are exceeded, the named executive officers earn proportional awards linked to the Company's performance. The proportional awards for the cash portion of bonus compensation tied to Company performance were subject to formulaic accelerators and decelerators, so that overachievement and underachievement of the target levels have a multiplier affect. For example, if the applicable target levels are exceeded, the executive officers earn bonuses that exceed their target cash bonuses by a factor of the percentage exceeding the target levels, up to a maximum of 200%. On the other hand, if the applicable target levels are not met, the actual cash bonuses are reduced by a factor of the percentage difference between the target levels and the actual levels of total annual revenue and net income.



For fiscal year 2008, the Committee assessed the performance of the Company by comparing the actual total fiscal year revenue and operating income results to the pre-determined target levels for each objective. During the first quarter of 2009, the Committee determined that the total fiscal year revenue and net income targets established by the Board of Directors were achieved at 88.9% and 55.6% of the respective total annual revenue and operating income target amounts, such that the executive incentive plan payout with respect to Company performance was at 0%.

Twenty percent of the target bonus under the executive incentive plan was payable based on the individual performance of the named executive officers. For 2008, the Committee set individual performance objectives for each named executive officer in line with the named executive officer's roles and responsibilities for the Company. For Mr. Gecht, these objectives were subjective and related to the vision and strategy of the Company, the Company's innovation and product leadership and Mr. Gecht's leadership of the Company. Mr. Ritchie's individual objectives were also subjective and related to financial performance and management, personnel development and compliance efforts. Mr. Rosenzweig's individual objectives for 2008 related to product innovation, strategy execution, mentoring executives and evaluation of staffing. While the achievement of many of the individual performance objectives is subjective, each of the individual performance objectives were set by the Committee in a manner to require significant effort on the part of the named executive officers to achieve, and these objectives have not been set to be achieved with average performance. For fiscal year 2008, the Committee determined that no bonuses would currently be payable as a result of the Company's performance. The Committee also determined that given current economic conditions, it did not currently intend to pay bonuses to the named executive officers based on the attainment of individual performance goals. The Committee noted, however, that it retained discretion to pay bonuses or adjust salaries at any time in the future based on, without limitation, individual performance or improved financial performance of the Company.

Incentive amounts to be paid under the performance-based programs may be adjusted by the Committee to account for unusual events such as extraordinary transactions, asset dispositions and purchases, and mergers and acquisitions if, and to the extent, the Committee does not consider the effect of such events indicative of Company performance. Payments under the executive incentive plan are contingent upon continued employment and are at the discretion of the Committee. The Committee believes that the payment of bonuses under the executive incentive plan provides incentives necessary to retain the named executive officers and reward them for short-term Company performance.

***Long-Term Performance-Based Equity Incentive Program***

As indicated by its performance-based approach to compensation, the Company believes that equity ownership in the Company is important to closely align the interests of executive officers with those of Company stockholders and thereby promote incentives to achieve sustained, long-term revenue growth and profitability. To meet these objectives, the Company's named executive officers have received restricted stock that vests based upon achieving the Company performance criteria described above.

Restricted stock that has been granted under this component is subject to forfeiture restrictions which lapse if the Company meets pre-determined, threshold performance levels and specific performance target levels each tied to total annual revenue and operating income, as determined by the Board each year, as mentioned above. If the Company does not achieve the financial targets specified by the Board, then the restrictions on vesting will remain in place until the threshold financial targets or plans have been met. To the extent vesting has been deferred because the Company had not yet met the financial targets for such fiscal year, upon the achievement of such financial targets or if the named executive officers continue to provide services to the Company for three years after the final date the restricted stock awards would have vested had the targets been met, the shares will vest.

Individual restricted stock grants under this component were made to each of our named executive officers during 2005 and 2006 under the Company's 2004 Equity Incentive Plan. The forfeiture restrictions lapse over a three-and-a-half to four-year service vesting period in equal installments once the financial targets are met, and the restricted stock entitles the holder to receive dividends in an amount per restricted share, both vested and non-vested, equal to the dividends per share paid on the Company's common stock. The financial objectives required to be met for the 2005 restricted stock awards to fully vest were met by the Company on November 30, 2008. The Committee has also determined that the financial targets for the 2006 restricted stock awards were met so that 25% of the restricted common stock vested on each of March 15, 2007 and March 15, 2008, and the remaining portion is subject to forfeiture in the event service to the Company is not continued through the date of vesting. Performance objectives were not met in 2008 with respect to the 2006 restricted stock grants; accordingly, 25% of the restricted common stock did not vest on March 15, 2009.

Please see the Option Exercises and Stock Vested in 2008 Table on page 66 of this Proxy Statement for restricted stock awards held by the named executive officers that vested during 2008.

On August 29, 2008, in connection with the previously completed review of historical stock option granting practices by the special committee of the Company's Board of Directors and the settlement of related shareholder derivative litigation, each named executive officer entered into an Amendment of Stock Option Agreement and Stock Option Repayment Agreement with the Company. Under these agreements, Mr. Gecht, Mr. Rosenzweig and Mr. Ritchie forfeited options to purchase 282,248, 256,192 and 7,128 shares of Company common stock, respectively, having respective Hull-White values of $678,109, $593,684 and $17,392. In addition, each named executive officer amended outstanding options to reflect the measurement date determined by the special committee of the Board of Directors. Mr. Gecht and Mr. Rosenzweig also forfeited additional options to acquire 62,863 and 54,775 shares of Company common stock, respectively, as additional consideration for the settlement of the derivative litigation.

### *Discretionary Long-Term Equity Incentive Awards*

The Company's executive officers may receive an annual award of stock options, restricted stock and/or restricted stock units at the discretion of the Committee. Guidelines for the number of stock options, restricted stock and/or restricted stock unit awards granted to each executive officer are determined and approved by the Committee based upon several factors, including the individual's performance, the Company's performance and the value of the stock option at the time of grant. As a result, additional grants other than the annual award may be made in the event there are significant changes in the performance of the Company or the individual executive during the evaluation period. The Committee considers the same factors as described throughout this discussion when evaluating these long-term discretionary equity awards.

Restricted stock units granted to executive officers typically have a three-year annual vesting schedule, and stock options granted to executive officers typically have a three and a half year vesting schedule in order to provide an incentive for continued employment and generally expire seven years from the date of the grant. This term provides a reasonable time frame in which to align the executive officer with the price appreciation of the Company's stock, while managing the potential dilution to stockholders more effectively, as compared to a more typical ten-year option term. The Company sets the exercise price of options granted under the Company's stock plans equal to 100% of the fair market value of the underlying stock on the date of grant.

On February 15, 2008, the Committee approved awards of 116,677, 66,677 and 50,000 restricted stock units to Mr. Gecht, Mr. Rosenzweig and Mr. Ritchie, respectively, and options to purchase 350,000, 200,000 and 100,000 shares of the Company's common stock, respectively, each with a grant date of February 26, 2008. The restricted stock units vest annually over three years and the stock options vest with respect to 33% of the shares subject to the options on February 26, 2009 and then in equal monthly installments over the subsequent two and a half years. The Committee determined the size of these equity grants, as well as the differentiation in size of grant, after reviewing the roles and responsibilities of each named executive officer, each executive's total compensation, compensation information from the Company's peer group and recommendations from Executive Management.

On January 29, 2009, the Committee approved an award to Mr. Ritchie of 20,000 restricted stock units with a grant date of January 30, 2009. The restricted stock units vest in equal installments on each of the first two anniversaries of the date of grant. The Committee granted the restricted stock units to Mr. Ritchie in recognition of his efforts and performance in the completion of a material real estate transaction. The Committee determined the number of Mr. Ritchie's restricted stock unit based on its subjective evaluation of the benefit to the Company of the real estate transaction and Mr. Ritchie's efforts in completing the transaction.

***Severance Arrangements***

Each named executive officer has entered into a three (3) year employment agreement with the Company, subject to automatic one-year renewals if not terminated by either party, which provide for severance benefits under certain events, such as a termination without cause or the executive resigning for good reason. The employment agreements are designed to promote stability and continuity of senior management.

In addition, the Company recognizes that the possibility of a change of control may exist from time to time, and that this possibility, and the uncertainty and questions it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Accordingly, the Board has determined that appropriate steps should be taken to encourage the continued attention and dedication of members of the Company's management to their assigned duties without the distraction that may arise from the possibility of a change of control. As a result, the employment agreements include provisions relating to the payment of severance benefits under certain circumstances in the event of a change of control. Under the change of control provisions, in order for severance benefits to be triggered, an executive must be involuntarily terminated without cause or the executive must leave for good reason within 24 months after a change of control. The Committee approved the employment agreements during 2006, which contain the severance benefits described below. The Committee considered information provided by Executive Management in concert with data from Mercer and used its discretion when approving each element and amount of the potential severance benefits payable to the named executive officers.

Information regarding applicable payments under such agreements for the named executive officers is provided under the headings "Employment Agreements" and "Potential Payments upon Termination or Change of Control" on page 67 of this Proxy Statement.

***Other Elements of Compensation and Perquisites***

There are no other material elements of compensation that the named executive officers receive. The named executive officers may not defer any component of any annual incentive bonus earned at this time and do not participate in another deferred compensation plan. Likewise, the Company does not maintain any defined benefit pension plans for its employees. However, named executive officers are eligible to participate in the Company's 401(k) savings plan on the same terms and conditions as other Company employees. In addition, the named executive officers are eligible to participate in the Company's group health and welfare plans on the same terms and conditions as other Company employees.

The Company also provides the Chief Executive Officer and the President with an automobile allowance during the term of their employment with the Company, as the Company in its sole discretion may from time to time make available.

## Tax Considerations

### *Deductibility of Executive Compensation*

As part of its performance-based compensation program, the Company aims to compensate the named executive officers in a manner that is tax effective for the Company. In practice, some of the annual compensation delivered by the Company is tax-qualified under Section 162(m) of the Internal Revenue Code. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over $1 million paid for any fiscal year to each of the corporation's named executive officers, other than the chief financial officer, as of the end of the fiscal year. However, Section 162(m) exempts qualifying performance-based compensation from the deduction limit if certain requirements are met. Although the Committee considers the impact of Section 162(m) when developing and implementing executive compensation programs, the Committee believes that it is important and in the best interests of stockholders to preserve flexibility in designing compensation programs. Accordingly, the Committee has not adopted a policy that all compensation must qualify as deductible under Section 162(m). The Committee has from time to time approved, and may in the future approve, compensation arrangements for certain officers that are not fully deductible. Further, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, no assurance can be given, notwithstanding the Committee's efforts, that compensation intended to satisfy the requirements for deductibility under Section 162(m) does in fact do so.

## Compensation Recovery Policy

The Company does not have a policy to seek the reimbursement of cash bonus awards paid to an executive officer if such executive engages in misconduct that caused or partially caused a restatement of financial results. However, as previously disclosed, a Special Committee of the Board of Directors recommended certain remedial actions in connection with the Company's investigation of its historical stock option practices which included the repayment of certain amounts by certain current and former directors and executive officers of the Company.

## Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee has at any time been one of our executive officers or employees. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

# COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

Gill Cogan
Dan Maydan

## Compensation of Executive Officers

*Summary Compensation Table for 2008*

The following table includes information concerning the compensation for the fiscal years ended December 31, 2008, December 31, 2007 and December 31, 2006 of our executive officers (the "named executive officers").

| Name and principal position (a) | Year (b) | Salary (c)(1) | Bonus (d)(1)(4) | Stock awards (e)(2) | Option awards (f)(2)(3) | Non-equity incentive plan compensation (g)(1)(4) | Change in pension value and nonqualified deferred compensation earnings (h) | All other compensation (i)(1)(5) | Total (j) |
|---|---|---|---|---|---|---|---|---|---|
| Guy Gecht, Chief Executive Officer | 2008 | $607,500 | $ — | $1,481,993 | $1,366,071 | — | — | $ 8,300 | $3,463,864 |
| | 2007 | 570,000 | 478,800 | 889,943 | 668,863 | — | — | 21,914 | 2,629,520 |
| | 2006 | 570,000 | 256,979 | 1,291,485 | 1,247,393 | — | — | 8,131 | 3,373,988 |
| Fred Rosenzweig, President | 2008 | 525,000 | — | 949,580 | 845,214 | | | 9,400 | 2,329,194 |
| | 2007 | 510,000 | 385,560 | 686,850 | 516,983 | — | — | 9,300 | 2,108,693 |
| | 2006 | 510,000 | 206,936 | 983,746 | 984,327 | — | — | 8,138 | 2,693,147 |
| John Ritchie, Chief Financial Officer | 2008 | 310,000 | — | 528,084 | 305,321 | | | 4,600 | 1,148,005 |
| | 2007 | 310,000 | 143,220 | 197,319 | 28,052 | — | — | 17,223 | 695,814 |
| | 2006 | 258,750 | 62,126 | 277,935 | 76,787 | — | — | 4,400 | 679,998 |

(1) All cash compensation earned by each executive officer for fiscal years 2008, 2007 and 2006 is found in either the Salary, Bonus or All other compensation columns of this table. There were no deferred salaries or other compensation in 2008, 2007 or 2006.

(2) Amounts included in the "Stock Awards" and "Option Awards" columns represent the compensation cost, except disregarding estimated forfeitures, that was recognized by us in the year ended December 31, 2008, 2007 and 2006 on all previously granted awards and options in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-based Payments," or "SFAS 123R." See Note 12 of the consolidated financial statements in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

(3) In August 2008, certain options held by Messrs. Gecht, Rosenzweig and Ritchie were repriced in connection with the settlement of the derivative litigation, as set forth in the table below:

| Name | Grant Date (corrected as required) | Number of Options Subject to Amendment | Original Exercise Price Per Share | Amended Exercise Price Per Share |
|---|---|---|---|---|
| Guy Gecht | 06/08/99 | 110,000 | $33.81 | $48.38 |
| | 02/12/01 | 16,250 | 13.75 | 22.06 |
| | 09/05/03 | 61,250 | 19.45 | 23.89 |
| Fred Rosenzweig | 06/08/99 | 110,000 | 33.81 | 48.38 |
| | 02/12/01 | 7,000 | 13.75 | 22.06 |
| | 09/05/03 | 52,500 | 19.45 | 23.89 |
| John Ritchie | 08/21/03 | 20,500 | 19.45 | 19.98 |

In addition, Messrs. Gecht, Rosenzweig and Ritchie forfeited options to purchase 282,248, 256,192 and 7,128 shares of Company common stock, respectively, having a respective Hull-White value of $678,109, $593,684 and $17,392, as set forth in the table below.

| Name | Grant Date (corrected as required) | Number of Surrendered Options | Hull-White Value | Total Value of Surrendered Options |
|---|---|---|---|---|
| Guy Gecht . . . . . . . . . . . . . . . . | 06/08/99 | 55,228 | $0.23 | $ 12,702.44 |
| | 03/15/06 | 108,333 | 3.04 | 329,332.32 |
| | 09/05/03 | 61,250 | 1.92 | 117,600.00 |
| | 02/12/01 | 8,159 | 2.40 | 19,581.60 |
| | 04/25/02 | 30,250 | 4.04 | 122,210.00 |
| | 04/11/05 | 19,028 | 4.03 | 76,682.84 |
| | | | | $678,109.20 |
| Fred Rosenzweig . . . . . . . . . . . | 06/08/99 | 58,502 | $0.23 | $ 13,455.46 |
| | 03/15/06 | 83,333 | 3.04 | 253,332.32 |
| | 03/13/01 | 10,000 | 2.27 | 22,700.00 |
| | 09/05/03 | 52,500 | 1.92 | 100,800.00 |
| | 02/12/01 | 3,723 | 2.40 | 8,935.20 |
| | 04/25/02 | 31,467 | 4.04 | 127,126.68 |
| | 04/25/02 | 16,667 | 4.04 | 67,334.68 |
| | | | | $593,684.34 |
| John Ritchie . . . . . . . . . . . . . . . | 08/21/03 | 7,128 | $2.44 | $ 17,392.32 |

Messrs. Gecht and Rosenzweig also forfeited additional options to acquire 62,863 and 54,775 shares of Company common stock, respectively, as additional consideration for the settlement of the derivative litigation.

(4) As a result of Company and individual performance during fiscal year 2008 and current economic conditions, no bonuses were payable to the named executive officers under the executive incentive plan. Amounts listed for fiscal year 2007 represent cash bonuses accrued in 2007 under the executive incentive plan and paid in February 2008 under bonus targets of 100% of base salary for Mr. Gecht, 90% of base salary for Mr. Rosenzweig and 55% of base salary for Mr. Ritchie. Amounts listed for fiscal year 2006 represent cash bonuses accrued in 2006 under the executive incentive plan and paid in March 2007 under bonus targets of 100% of base salary for Mr. Gecht, 90% of base salary for Mr. Rosenzweig and 40% of base salary for Mr. Ritchie. Each executive received performance-based restricted common stock awards in lieu of portions of the cash component of their respective bonuses for the 2006 plan year. The compensation cost recognized by the Company for these awards are included in the Stock Awards column.

(5) For fiscal year 2008, includes auto allowances and 401(k) employer matching contributions, as indicated below. Includes $4,800 and $3,500 in auto allowance and 401(k) employer matching contributions, respectively, for Mr. Gecht. Includes $4,600 in 401(k) employer matching contributions for Mr. Ritchie. Includes $4,800 and $4,600 in auto allowance and 401(k) employer matching contributions, respectively, for Mr. Rosenzweig. For fiscal years 2007 and 2006, includes auto allowances, 401(k) employer matching contributions and employee stock plan matching bonuses.

*2008 Grants of Plan-Based Awards Table*

The following options, restricted stock awards, restricted stock units and non-equity incentive plan-based awards were granted during the fiscal year ended December 31, 2008 to each of our named executive officers.

| | | | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name (a) | Grant Type (b) | Grant Date (c) | Board of Directors or Compensation Committee Approval Date (d) | Target ($) (f) | Maximum ($) (g) | All Other Stock Awards: Number of Shares of Stock or Units (#) (h)(2) | All Other Option Awards: Number of Securities Underlying Options (#) (i) | Exercise or Base Price of Option Awards ($/Sh) (j) | Grant Date Fair Value of Stock and Option Awards ($) (k)(4) |
| Guy Gecht | Restricted Stock Units | 2/26/2008 | 2/15/2008 | | | 116,667 | | | $1,852,672 |
| | Stock Options(3) | 2/26/2008 | 2/15/2008 | | | | 350,000 | $15.88 | $1,952,956 |
| | Annual Target Bonus | | | $651,000 | $1,302,000 | | | | |
| | Repriced Stock Options(5) | 6/8/1999 | 8/28/2008 | | | | 110,000 | $48.38 | $ 0 |
| | Repriced Stock Options(5) | 2/12/2001 | 8/28/2008 | | | | 16,250 | $22.06 | $ 0 |
| | Repriced Stock Options(5) | 9/5/2003 | 8/28/2008 | | | | 61,250 | $23.89 | $ 0 |
| Fred Rosenzweig | Restricted Stock Units | 2/26/2008 | 2/15/2008 | | | 66,667 | | | $1,058,672 |
| | Stock Options(3) | 2/26/2008 | 2/15/2008 | | | | 200,000 | $15.88 | $1,115,541 |
| | Annual Target Bonus | | | $503,500 | $1,007,000 | | | | |
| | Repriced Stock Options(5) | 6/8/1999 | 8/28/2008 | | | | 110,000 | $48.38 | $ 0 |
| | Repriced Stock Options(5) | 2/12/2001 | 8/28/2008 | | | | 7,000 | $22.06 | $ 0 |
| | Repriced Stock Options(5) | 9/5/2003 | 8/28/2008 | | | | 52,500 | $23.89 | $ 0 |
| John Ritchie | Restricted Stock Units | 2/26/2008 | 2/15/2008 | | | 50,000 | | | $ 794,000 |
| | Stock Options(3) | 2/26/2008 | 2/15/2008 | | | | 100,000 | $15.88 | $ 557,771 |
| | Annual Target Bonus | | | $170,500 | $ 341,000 | | | | |
| | Repriced Stock Options(5) | 8/21/2003 | 8/28/2008 | | | | 20,500 | $19.98 | $ 0 |

(1) Amounts reported as "Target" and "Maximum" in the "Estimated Future Payouts Under Non-Equity Incentive Plan Awards" columns represent amounts payable under the Company's annual target bonus program. The maximum payable under the annual target bonus program is 200% of a participant's target bonus. No bonuses were payable for fiscal year 2008.

(2) Each restricted stock unit award vests with respect to one-third of the shares on the first, second, and third anniversaries of the date of grant.

(3) Each option vests with respect to 33% of the shares subject thereto on the first anniversary of the date of grant and thereafter with respect to an additional 2.23% of the shares each month, with full vesting in 42 months from the date of grant.

(4) Amounts included in the "Grant Date Fair Value of Stock or Option Awards" column represent the grant date fair value of the applicable award calculated in accordance with SFAS 123R or, with respect to repriced stock options, the incremental fair value of the applicable award as of the date of modification. See Note 12 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

(5) Each repriced stock option is fully vested. Each stock option was repriced in connection with the completion of the historical stock option granting practices by the special committee of the Company's board of directors, and the proposed settlement of related shareholder derivative litigation, each named executive officer entered into an Amendment of Stock Option Agreement and Stock Option Repayment Agreement with the Company as further described on pages 59-60 of this Proxy under the heading "Long-Term Performance-Based Equity Incentive Program". The original exercise price of each repriced stock option is set forth in the footnote 3 of the Summary Compensation Table on page 63 of this Proxy.

*Outstanding Equity Awards at 2008 Fiscal Year-End Table*

The following table includes certain information with respect to the value of all unexercised options previously awarded to the named executive officers at the fiscal year end December 31, 2008.

| | | Option Awards | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name (a) | Vesting Commencement Date (b) | Number of securities underlying unexercised options exercisable (#) (c) | Number of securities underlying unexercised options unexercisable (#) (d) | Option exercise price per share ($) (e) | Option expiration date (f) | Number of shares or units of stock that have not vested (#) (g) | Market value of shares or units of stock that have not vested (#) (h) | Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i) | Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (j) |
| Guy Gecht . . . . . . . . | 4/11/2005(1) | 197,639 | | $17.00 | 4/11/2012 | | | | |
| | 3/15/2006(2) | | | | | | | 36,110 | $345,212 |
| | 2/26/2008(3) | | 350,000 | 15.88 | 2/26/2015 | | | | |
| | 2/26/2008(4) | | | | | 116,667 | $1,115,337 | | |
| Fred Rosenzweig . . . | 4/25/2002(1) | 51,866 | | 17.50 | 4/24/2012 | | | | |
| | 4/11/2005(1) | 166,667 | | 17.00 | 4/25/2012 | | | | |
| | 3/15/2006(2) | | | | | | | 27,776 | 265,539 |
| | 2/26/2008(3) | | 200,000 | 15.88 | 2/26/2015 | | | | |
| | 2/26/2008(4) | | | | | 66,667 | 637,337 | | |
| John Ritchie . . . . . . | 8/21/2003(1) | 13,372 | | 19.98 | 8/21/2010 | | | | |
| | 4/18/2005(1) | 18,125 | | 16.42 | 4/18/2012 | | | | |
| | 3/15/2006(2) | | | | | | | 8,000 | 76,480 |
| | 2/26/2008(3) | | 100,000 | 15.88 | 2/26/2015 | | | | |
| | 2/26/2008(4) | | | | | 50,000 | 478,000 | | |

(1) Option vests with respect to 25% of the shares subject thereto on the vesting commencement date and then at a rate of 2.5% of the total number of shares subject to the option per month over the next thirty months.

(2) Restricted stock award vests at the rate of 25% on each anniversary of the vesting commencement date if specified performance targets are achieved.

(3) Option vests with respect to 33% of the shares subject thereto on the first anniversary of the date of grant and thereafter with respect to an additional 2.23% of the shares each month, with full vesting in 42 months from the date of grant.

(4) Restricted stock unit award vests with respect to one-third of the shares on the first, second and third anniversary of the date of grant.

*Option Exercises and Stock Vested in 2008 Table*

The following table includes certain information with respect to the options exercised and restricted stock awards vested by the named executive officers during the fiscal year ended December 31, 2008.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| Name (a) | Number of shares acquired on exercise (#) (b) | Value realized on exercise ($) (c) | Number of shares acquired on vesting (#) (d) | Value realized on vesting ($) (e) |
| Guy Gecht . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | | 39,722 | $519,597 |
| Fred Rosenzweig . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | | 30,555 | 399,684 |
| John Ritchie . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | | | 9,000 | 117,565 |

*Pension Benefits*

The Company does not provide Pension Benefits to its employees.

*Nonqualified Deferred Compensation*

The Company historically has not provided nonqualified deferred compensation to its employees.



**Employment Agreements**

We have entered into an employment agreement with each of our named executive officers. The employment agreements, each effective as of August 1, 2006, have an initial term of three years and will automatically renew for additional one year periods unless terminated by either party upon sixty days written notice prior to the expiration of the agreement. Each named executive officer's employment with the Company is at-will, and either party may terminate the employment relationship at any time for any reason, with or without cause and with or without notice.

Each employment agreement provides, among other things, that:

- the named executive officer shall be eligible for bonuses under the annual management bonus plan as approved by the Committee;
- the named executive officer is eligible to receive stock options under the Company's stock option program and additional equity awards based on the named executive officer's performance;
- in the event that prior to or within two years following a change in control, the Company terminates the named executive officer's employment without cause or the named executive officer voluntarily terminates his employment for good reason, the named executive officer is eligible for severance benefits consisting of salary continuation, a pro-rata bonus, employer subsidized health benefit continuation under COBRA and outplacement services;
- if the named executive officer becomes entitled to receive severance, the vesting of the named executive officer's unvested stock options and equity awards shall be either partially or fully accelerated and the post-termination exercise period for stock options shall be extended;
- if the named executive officer is required to pay tax penalties under Section 409A of the Internal Revenue Code in connection with his receipt of the severance benefits, the Company shall pay the named executive officer a gross up payment to hold the named executive officer harmless, on an after-tax basis, for any such penalties; and
- the named executive officer is subject to a non-solicitation covenant during his employment and for one year following termination of employment.

**Potential Payments upon Termination or Change of Control**

The section below describes the potential payments that may be made to our named executive officers upon termination or a change of control, pursuant to their employment agreements or otherwise.

The tables below estimate the quantitative benefits that would have accrued to each of our named executive officers employed by us on December 31, 2008. The estimate of quantitative benefits that would have accrued to each of our named executive officers employed by us on December 31, 2008 assumes certain events as of December 31, 2008, uses the closing sales price of our common stock on such date ($9.56), and assumes the named executive officers could have exercised stock options and sold such underlying shares. Receipt of these benefits is subject to the Company's receipt of an executed separation agreement and full release of all claims from the named executive officer. We cannot assure you that a termination or change of control would produce the same or similar results as those described below if such event were to occur on any other date or at any other price, or if any assumption is not correct in fact.

The table below provides information concerning potential payments to our named executive officers upon termination by us without cause or termination by the named executive officer for good reason, other than within the 24 month period commencing on a change in control.

| Name | Lump sum severance payment ($)(1) | Outplacement benefits ($)(2) | Continued health care coverage benefits ($)(3) | Value of accelerated vesting of stock options and awards ($)(4) | Total ($) |
|---|---|---|---|---|---|
| Guy Gecht | $1,891,000 | $35,000 | $24,103 | $379,217 | $2,329,319 |
| Fred Rosenzweig | 1,298,500 | 35,000 | 24,411 | 216,697 | 1,574,607 |
| John Ritchie | 635,500 | 35,000 | 24,411 | 162,520 | 857,431 |

(1) The amount shown is the lump sum severance payment that consists of 24 months of base salary for Mr. Gecht and 18 months for each of Messrs. Ritchie and Rosenzweig, plus an amount equal to the bonus that the named executive officer would have earned in 2008. If the named executive officer is terminated during the year, the bonus is prorated for the portion of the year that the named executive officer was with the Company.

(2) Messrs. Gecht, Ritchie and Rosenzweig are entitled to outplacement services up to a maximum of $35,000.

(3) Messrs. Gecht, Ritchie and Rosenzweig are entitled to premium reimbursement for health insurance coverage under Part 6 of Title I of ERISA (COBRA) for up to 18 months.

(4) Messrs. Gecht, Ritchie and Rosenzweig are entitled to the accelerated vesting of options and restricted stock awards with respect to that number of shares that would otherwise have vested during the six month period following the termination date. For options and awards that vest on an annual basis, credit is given as if the vesting accrued monthly. The value of the accelerated options and awards is calculated based on the Company's closing stock price at December 31, 2008 of $9.56 per share. The number of stock options and restricted stock awards/units subject to acceleration for each named executive officer upon termination without cause by us or upon termination by the named executive officer for good reason, are as follows:

| Name | Stock Options (#) | Restricted Stock awards/units (#) |
|---|---|---|
| Guy Gecht | 146,766 | 39,667 |
| Fred Rosenzweig | 83,866 | 22,667 |
| John Ritchie | 41,933 | 17,000 |

The table below provides information concerning potential payments to our named executive officers upon termination without cause by us, or upon termination for good reason by the named executive officers, within 24 months following a change of control.

| Name | Lump sum severance payment ($)(1) | Outplacement benefits ($)(2) | Continued health care coverage benefits ($)(3) | Value of accelerated vesting of stock options and awards ($)(4) | Total ($) |
|---|---|---|---|---|---|
| Guy Gecht | $2,511,000 | $35,000 | $24,103 | $1,460,548 | $4,030,651 |
| Fred Rosenzweig | 1,563,500 | 35,000 | 24,411 | 902,875 | 2,525,786 |
| John Ritchie | 790,500 | 35,000 | 24,411 | 554,480 | 1,404,391 |

(1) The amount shown is the lump sum severance payment that consists of 36 months of base salary for Mr. Gecht and 24 months for each of Messrs. Ritchie and Rosenzweig, plus an amount equal to the bonus that the named executive officer would have earned in 2008.

(2) Messrs. Gecht, Ritchie and Rosenzweig are entitled to outplacement services up to a maximum of $35,000.

(3) Messrs. Gecht, Ritchie and Rosenzweig are entitled to premium reimbursement for health insurance coverage under Part 6 of Title I of ERISA (COBRA) for up to 18 months.

(4) Messrs. Gecht, Ritchie and Rosenzweig are entitled to accelerate vesting on 100% of all unvested options, and restricted stock awards and units as of their termination date. The value of the accelerated options and awards is calculated based on the Company's closing stock price at December 31, 2008 of $9.56 per share. The number of stock options and restricted stock awards/units subject to acceleration for each named executive officer upon a change of control are as follows:

| Name | Stock Options (#) | Restricted Stock awards/units (#) |
|---|---|---|
| Guy Gecht | 350,000 | 152,777 |
| Fred Rosenzweig | 200,000 | 94,443 |
| John Ritchie | 100,000 | 58,000 |

If any of the severance payments set forth in the tables above constitutes a deferral of compensation subject to tax under Section 409A of the Internal Revenue Code, the Company will pay the named executive officer a gross-up payment such that after the payment of all taxes on the gross-up payment, the named executive officer retains an amount equal to the taxes imposed under Section 409A, including interest and penalties, imposed on the severance pay.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information as of December 31, 2008 concerning securities that are authorized under equity compensation plans.

| Plan Category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 7,927,271(1) | $21.67 | 903,760(2) |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 7,927,271 | 21.67 | 903,760 |

(1) Includes options outstanding as of December 31, 2008, representing 78,840 shares with an average exercise price of $156.39 per share, that were assumed in connection with business combinations.

(2) Includes 556,130 shares available under our 2007 Equity Incentive Award Plan and 337,630 shares available under our 2000 Employee Stock Purchase Plan.

## AUDIT COMMITTEE REPORT

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended December 31, 2008, included in the Company's Annual Report on Form 10-K, as amended, for that year.

The Audit Committee has reviewed and discussed these audited financial statements with management of the Company.

The Audit Committee has discussed with the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP, the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU Section 380) as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T, which includes, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 ("Independence Discussions with Audit Committees") as amended, and has discussed with PricewaterhouseCoopers LLP the independence of PricewaterhouseCoopers LLP from the Company.

Based on the review and discussions referred to above in this report, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2008 for filing with the SEC.

Submitted by the Audit Committee
of the Board of Directors:

Richard A. Kashnow
James S. Greene
Thomas Georgens

## FINANCIAL AND OTHER INFORMATION

We hereby incorporate by reference into this Proxy Statement Items 6, 7, 7A, 8 and 9 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the Commission on March 2, 2009, as amended by Amendment No. 1 to Form 10-K, filed with the Commission on April 30, 2009, and Items 1, 2 and 3 of Part I of our Quarterly Report on Form 10-Q for the quarterly period ended on March 31, 2009, filed with the Commission on May 11, 2009.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting. The representatives will have an opportunity to make a statement and will be available to respond to appropriate questions.

## NO INCORPORATION BY REFERENCE

In our filings with the SEC, information is sometimes "incorporated by reference." This means that we are referring you to information that has previously been filed with the SEC and the information should be considered as part of the particular filing. As provided under SEC regulations, the "Report of the Audit Committee" and the "Report of the Compensation Committee" contained in this Proxy Statement specifically are not incorporated by reference into any other filings with the SEC and shall not be deemed to be "Soliciting Material." In addition, this Proxy Statement includes several website addresses. These website addresses are intended to provide inactive, textual references only. The information on these websites is not part of this Proxy Statement.

## OTHER MATTERS

The Company knows of no other matters to be submitted at the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form of proxy to vote the shares they represent as the Board of Directors may recommend.

By Order of the Board of Directors

/s/ BRYAN KO

**Bryan Ko**
**Secretary**

Dated: May 20, 2009

**APPENDIX A**

**ELECTRONICS FOR IMAGING, INC.**
**AMENDED AND RESTATED**
**2000 EMPLOYEE STOCK PURCHASE PLAN**
**Original Effective Date: August 1, 2000**
**Amended and Restated: April 21, 2009**

1. PURPOSE.

(a) The purpose of this Amended and Restated 2000 Employee Stock Purchase Plan (the "Plan") is to provide a means by which employees of Electronics For Imaging, Inc., a Delaware corporation (the "Company"), and its Affiliates, as defined in subparagraph 1(b), which are designated as provided in subparagraph 2(b), may be given an opportunity to purchase stock of the Company. This Plan amends and restates in its entirety the 2000 Employee Stock Purchase Plan, as amended.

(b) The word "Affiliate" as used in the Plan means any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended (the "Code").

(c) The Company, by means of the Plan, seeks to retain the services of its employees, to secure and retain the services of new employees, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

(d) The Company intends that the rights to purchase stock of the Company granted under the Plan be considered options issued under an "employee stock purchase plan" as that term is defined in Section 423(b) of the Code.

2. ADMINISTRATION.

(a) The Plan shall be administered by the Board of Directors (the "Board") of the Company unless and until the Board delegates administration to a committee as provided in subparagraph 2(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine when and how rights to purchase stock of the Company shall be granted and the provisions of each offering of such rights (which need not be identical).

(ii) To designate from time to time which Affiliates of the Company shall be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and rights granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To amend the Plan as provided in paragraph 13.

(v) Generally, to exercise such powers and to perform such acts as the Board or the Committee deems necessary or expedient to promote the best interests of the Company and its Affiliates and to carry out the intent that the Plan be treated as an "employee stock purchase plan" within the meaning of Section 423 of the Code.

(c) The Board may delegate administration of the Plan to a committee composed of not fewer than two (2) members of the Board (the "Committee"). If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

3. SHARES SUBJECT TO THE PLAN.

(a) Subject to the provisions of paragraph 12 relating to adjustments upon changes in stock, the aggregate number of shares of the Company's common stock (the "Common Stock") reserved for issuance under the Plan shall be six million one hundred fifty-four thousand five hundred nine (6,154,509).

(b) The stock subject to the Plan may be unissued, or reacquired, shares of Common Stock, bought on the market or otherwise.

4. GRANT OF RIGHTS; OFFERING.

(a) The Board or the Committee may from time to time grant or provide for the grant of rights to purchase Common Stock of the Company under the Plan to eligible employees (an "Offering") on a date or dates (the "Offering Date(s)") selected by the Board or the Committee. Each Offering shall be in such form and shall contain such terms and conditions as the Board or the Committee shall deem appropriate, which shall comply with the requirements of Section 423(b)(5) of the Code that all employees granted rights to purchase stock under the Plan shall have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering shall be effective, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in paragraphs 5 through 8, inclusive.

(b) If an employee has more than one right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (1) each agreement or notice delivered by that employee will be deemed to apply to all of his or her rights under the Plan, and (2) a right with a lower exercise price (or an earlier-granted right, if two rights have identical exercise prices), will be exercised to the fullest possible extent before a right with a higher exercise price (or a later-granted right, if two rights have identical exercise prices) will be exercised.

5. ELIGIBILITY.

(a) Rights may be granted only to employees of the Company or, as the Board or the Committee may designate as provided in subparagraph 2(b), to employees of any Affiliate of the Company. Except as provided in subparagraph 5(b), an employee of the Company or any Affiliate shall not be eligible to be granted rights under the Plan unless, on the Offering Date, such employee has been in the employ of the Company or any Affiliate for such continuous period preceding such grant as the Board or the Committee may require, but in no event shall the required period of continuous employment be greater than two (2) years. In addition, unless otherwise determined by the Board or the Committee and set forth in the terms of the applicable Offering, no employee of the Company or any Affiliate shall be eligible to be granted rights under the Plan unless, on the Offering Date, such employee's customary employment with the Company or such Affiliate is for more than twenty (20) hours per week and more than five (5) months per calendar year.

(b) The Board or the Committee may provide that each person who, during the course of an Offering, first becomes an eligible employee of the Company or designated Affiliate will, on a date or dates specified in the

Offering which coincides with the day on which such person becomes an eligible employee or occurs thereafter, receive a right under that Offering, which right shall thereafter be deemed to be a part of that Offering. Such right shall have the same characteristics as any rights originally granted under that Offering, as described herein, except that:

(i) the date on which such right is granted shall be the "Offering Date" of such right for all purposes, including determination of the exercise price of such right;

(ii) the period of the Offering with respect to such right shall begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board or the Committee may provide that if such person first becomes an eligible employee within a specified period of time before the end of the Offering, he or she will not receive any right under that Offering.



(c) No employee shall be eligible for the grant of any rights under the Plan if, immediately after any such rights are granted, such employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Affiliate. For purposes of this subparagraph 5(c), the rules of Section 424(d) of the Code shall apply in determining the stock ownership of any employee, and stock which such employee may purchase under all outstanding rights and options shall be treated as stock owned by such employee.

(d) An eligible employee may be granted rights under the Plan only if such rights, together with any other rights granted under "employee stock purchase plans" of the Company and any Affiliates, as specified by Section 423(b)(8) of the Code, do not permit such employee's rights to purchase stock of the Company or any Affiliate to accrue at a rate which exceeds twenty-five thousand dollars ($25,000) of fair market value of such stock (determined at the time such rights are granted) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any designated Affiliate shall be eligible to participate in Offerings under the Plan, provided, however, that the Board or the Committee may provide in an Offering that certain employees who are highly compensated employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

6. RIGHTS; PURCHASE PRICE.

(a) On each Offering Date, each eligible employee, pursuant to an Offering made under the Plan, shall be granted the right to purchase up to the number of shares of Common Stock of the Company purchasable with a percentage designated by the Board or the Committee not exceeding ten percent (10%) of such employee's Earnings (as defined by the Board for each Offering) during the period which begins on the Offering Date (or such later date as the Board or the Committee determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering. The Board or the Committee shall establish one or more dates during an Offering (each of which is hereinafter referred to as a "Purchase Date") on which rights granted under the Plan shall be exercised and purchases of Common Stock carried out in accordance with such Offering.

(b) In connection with each Offering made under the Plan, the Board or the Committee may specify a maximum number of shares that may be purchased by any employee as well as a maximum aggregate number of shares that may be purchased by all eligible employees pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Board or the Committee may specify a maximum aggregate number of shares which may be purchased by all eligible employees on any given Purchase Date under the Offering. If the aggregate purchase of shares upon exercise of rights granted under the Offering would exceed any such maximum aggregate number, the Board or the Committee shall make a pro rata allocation of the shares available in as nearly a uniform manner as shall be practicable and as it shall deem to be equitable.

(c) The purchase price of stock acquired pursuant to rights granted under the Plan shall be not less than the lesser of:

(i) an amount equal to eighty-five percent (85%) of the fair market value of the stock on the Offering Date; or

(ii) an amount equal to eighty-five percent (85%) of the fair market value of the stock on the Purchase Date.

7. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) An eligible employee may become a participant in the Plan pursuant to an Offering by delivering a participation agreement to the Company within the time specified in the Offering, in such form as the Company provides. Each such agreement shall authorize payroll deductions of up to the maximum percentage specified by the Board or the Committee of such employee's Earnings (as defined by the Board for each Offering) during the Offering. The payroll deductions made for each participant shall be credited to an account for such participant under the Plan and shall be deposited with the general funds of the Company. A participant may reduce (including to zero) or increase such payroll deductions, and an eligible employee may begin such payroll deductions, after the beginning of any Offering only as provided for in the Offering. A participant may make additional payments into his or her account only if specifically provided for in the Offering and only if the participant has not had the maximum amount withheld during the Offering.

(b) At any time during an Offering, a participant may terminate his or her payroll deductions under the Plan and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company provides. Such withdrawal may be elected at any time prior to the end of the Offering except as provided by the Board or the Committee in the Offering. Upon such withdrawal from the Offering by a participant, the Company shall distribute to such participant all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire stock for the participant) under the Offering, without interest, and such participant's right to acquire Common Stock under that Offering shall be automatically terminated. A participant's withdrawal from an Offering will have no effect upon such participant's eligibility to participate in any other Offerings under the Plan but such participant will be required to deliver a new participation agreement in order to participate in subsequent Offerings under the Plan.

(c) Rights granted pursuant to any Offering under the Plan shall terminate immediately upon cessation of a participant's employment with the Company and any designated Affiliate, for any reason, and the Company shall distribute to such terminated employee all of his or her accumulated payroll deductions (reduced to the extent, if any, such deductions have been used to acquire stock for the terminated employee), under the Offering, without interest.

(d) Rights granted under the Plan shall not be transferable by a participant other than by will or the laws of descent and distribution, or by a beneficiary designation as provided in paragraph 14, and during a participant's lifetime, shall be exercisable only by such participant.

8. EXERCISE.

(a) On each Purchase Date specified in the relevant Offering, each participant's accumulated payroll deductions and any other additional payments specifically provided for in the Offering (without any increase for interest) will be applied to the purchase of whole shares of stock of the Company, up to the maximum number of shares permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. Unless otherwise provided for in the applicable Offering, no fractional shares shall be issued upon the exercise of rights granted under the Plan. The amount, if any, of accumulated payroll deductions remaining in each participant's account after the purchase of shares which is less than the amount required to purchase one share of stock on the final Purchase Date of an Offering shall be held in each such participant's account for the purchase of shares under the next Offering under the Plan, unless such participant withdraws from such next Offering, as provided in subparagraph 7(b), or is no longer eligible to be granted rights under the Plan, as provided in paragraph 5, in which case such amount shall be distributed to the participant after such final Purchase Date, without interest. The amount, if any, of accumulated payroll deductions remaining in any participant's account after the purchase of shares which is equal to the amount required to purchase whole shares of Common Stock on the final Purchase Date of an Offering shall be distributed in full to the participant after such Purchase Date, without interest.

(b) No rights granted under the Plan may be exercised to any extent unless the shares to be issued upon such exercise under the Plan (including rights granted thereunder) are covered by an effective registration statement pursuant to the Securities Act of 1933, as amended (the "Securities Act") and the Plan is in material compliance with all applicable state, foreign and other securities and other laws applicable to the Plan. If on a Purchase Date in any Offering hereunder the Plan is not so registered or in such compliance, no rights granted under the Plan or any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the Plan is subject to such an effective registration statement and such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date. If on the Purchase Date of any Offering hereunder, as delayed to the maximum extent permissible, the Plan is not registered and in such compliance, no rights granted under the Plan or any Offering shall be exercised then all payroll deductions accumulated during the Offering (reduced to the extent, if any, such deductions have been used to acquire stock) shall be distributed to the participants, without interest.

9. COVENANTS OF THE COMPANY.

(a) During the terms of the rights granted under the Plan, the Company shall at all times make reasonable efforts to keep available the number of shares of stock required to satisfy such rights, provided that this section shall not require the Company to take any action that would result in adverse tax, accounting or financial consequences to the Company.

(b) The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the rights granted under the Plan. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such rights unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of stock to participants pursuant to rights granted under the Plan shall constitute general funds of the Company.

11. RIGHTS AS A STOCKHOLDER.

A participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to rights granted under the Plan unless and until the participant's shares acquired upon exercise of rights hereunder are recorded in the books of the Company (or its transfer agent).

12. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) If any change is made in the stock subject to the Plan, or subject to any rights granted under the Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan and outstanding rights will be appropriately adjusted in the class(es) and maximum number of shares subject to the Plan and the class(es) and number of shares and price per share of stock subject to outstanding rights. Such adjustments shall be made by the Board or the Committee, the determination of which shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a "transaction not involving the receipt of consideration by the Company.")

(b) In the event of: (1) a dissolution or liquidation of the Company; (2) a merger or consolidation in which the Company is not the surviving corporation; or (3) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then, as determined by the Board in its sole discretion, (i) any surviving or acquiring corporation may assume outstanding rights or substitute similar rights for those under the Plan, (ii) such rights may continue in full force and effect, or (iii) participants' accumulated payroll deductions may be used to purchase Common Stock immediately prior to the transaction described above and the participants' rights under the ongoing Offering terminated.

13. AMENDMENT OF THE PLAN.

(a) The Board or the Committee at any time, and from time to time, may amend the Plan. However, except as provided in paragraph 12 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company within twelve (12) months before or after the adoption of the amendment if such amendment requires stockholder approval in order for the Plan to obtain employee stock purchase plan treatment under Section 423 of the Code or to comply with the requirements of Rule 16b-3 promulgated under the Exchange Act.

(b) The Board or the Committee may amend the Plan in any respect the Board or the Committee deems necessary or advisable to provide eligible employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to employee stock purchase plans and/or to bring the Plan and/or rights granted under it into compliance therewith.

(c) Rights and obligations under any rights granted before amendment of the Plan shall not be altered or impaired by any amendment of the Plan, except with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulations, or except as necessary to ensure that the Plan and/or rights granted under the Plan comply with the requirements of Section 423 of the Code.

14. DESIGNATION OF BENEFICIARY.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering but prior to delivery to the participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death during an Offering.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice in the form prescribed by the Company. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board or the Committee in its discretion, may suspend or terminate the Plan at any time. No rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any rights granted while the Plan is in effect shall not be altered or impaired by suspension or termination of the Plan, except as expressly provided in the Plan or with the consent of the person to whom such rights were granted, or except as necessary to comply with any laws or governmental regulation, or except as necessary to ensure that the Plan and/or rights granted under the Plan comply with the requirements of Section 423 of the Code.

16. EFFECTIVE DATE OF PLAN.

The Plan initially became effective on August 1, 2000 (the "Effective Date"). The Plan, as amended and restated herein, shall become effective as of April 21, 2009, but no rights granted under the amended portions of the Plan shall be exercised unless and until the amendment and restatement of the Plan has been approved by the stockholders of the Company within twelve (12) months before or after the date the amendment and restatement of the Plan is adopted by the Board.

# ELECTRONICS FOR IMAGING, INC.
# 2009 EQUITY INCENTIVE AWARD PLAN

## ARTICLE 1.

## PURPOSE

The purpose of the Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan (the "Plan") is to promote the success and enhance the value of Electronics For Imaging, Inc. (the "Company") by linking the personal interests of the members of the Board, Employees, and Consultants to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

## ARTICLE 2.

## DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "Award" means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Share award, a Performance Stock Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock award, a Restricted Stock Unit award, or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.2 "Award Agreement" means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Change in Control" means and includes each of the following:

(a) A transaction or series of transactions (other than an offering of Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or

(b) During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 2.4 or Section 2.4(b)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(c) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(i) Which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "Successor Entity")) directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(ii) After which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; *provided, however,* that no person or group shall be treated for purposes of this Section 2.4(c)(i) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(d) The Company's stockholders approve a liquidation or dissolution of the Company.

The Committee shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

2.5 "Code" means the Internal Revenue Code of 1986, as amended.

2.6 "Committee" means the committee of the Board described in Article 12.

2.7 "Consultant" means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to the Company or any Subsidiary; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities; and (c) the consultant or adviser is a natural person.

2.8 "Covered Employee" means an Employee who is, or could be, a "covered employee" within the meaning of Section 162(m) of the Code.

2.9 "Deferred Stock" means a right to receive a specified number of shares of Stock during specified time periods pursuant to Section 8.4.

2.10 "Director" means a member of the Board, or as applicable, a member of the board of directors of a Subsidiary.

2.11 "Disability" means that the Participant qualifies to receive long-term disability payments under the Company's long-term disability insurance program, as it may be amended from time to time.

2.12 "Dividend Equivalents" means a right granted to a Participant pursuant to Section 8.2 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.13 "Effective Date" shall have the meaning set forth in Section ARTICLE 13.

2.14 "Eligible Individual" means any person who is an Employee, a Consultant or an Independent Director, as determined by the Committee.

2.15 "Employee" means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Subsidiary.

2.16 "Equity Restructuring" shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the shares of Stock (or other securities of the Company) or the share price of Stock (or other securities) and causes a change in the per share value of the Stock underlying outstanding Awards.



2.17 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.18 "Fair Market Value" means, as of any given date, (a) if Stock is traded on any established stock exchange, the closing price of a share of Stock as reported in the Wall Street Journal (or such other source as the Company may deem reliable for such purposes) for such date, or if no sale occurred on such date, the first trading date immediately prior to such date during which a sale occurred; or (b) if Stock is not traded on an exchange but is quoted on a national market or other quotation system, the last sales price on such date, or if no sales occurred on such date, then on the date immediately prior to such date on which sales prices are reported; or (c) if Stock is not publicly traded, the fair market value established by the Committee acting in good faith (understanding that if an Option or Stock Appreciation Right is intended by the Committee to be exempt from Section 409A of the Code, the fair market value shall be established using a method that complies with Section 409A of the Code and the Department of Treasury regulations and other guidance promulgated thereunder).

2.19 "Full Value Award" means any Award other than an Option or other Award for which the Participant pays the intrinsic value (whether directly or by forgoing a right to receive a payment from the Company).

2.20 "Incentive Stock Option" means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.21 "Independent Director" means a Director who is not an Employee.

2.22 "Non-Employee Director" means a Director who qualifies as a "Non-Employee Director" as defined in Rule 16b-3(b)(3) under the Exchange Act, or any successor rule.

2.23 "Non-Qualified Stock Option" means an Option that is not intended to be an Incentive Stock Option.

2.24 "Option" means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.25 "Participant" means any Eligible Individual who, as a member of the Board, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.26 "Performance-Based Award" means an Award granted to selected Covered Employees pursuant to Article 6 or 8, but which is subject to the terms and conditions set forth in Article 9. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

2.27 "Performance Criteria" means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: net earnings (either before or after interest, taxes, depreciation and amortization), economic value-added, sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders' equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per share, price per share of Stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.28 "Performance Goals" means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (a) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (b) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

2.29 "Performance Period" means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

2.30 "Performance Share" means a right granted to a Participant pursuant to Section ARTICLE 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.31 "Performance Stock Unit" means a right granted to a Participant pursuant to Section 8.1, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.32 "Plan" means this Electronics For Imaging, Inc. 2009 Equity Incentive Award Plan, as it may be amended from time to time.

2.33 "Qualified Performance-Based Compensation" means any compensation that is intended to qualify as "qualified performance-based compensation" as described in Section 162(m)(4)(C) of the Code.

2.34 "Restricted Stock" means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.35 "Restricted Stock Unit" means an Award granted pursuant to Section 8.5.

2.36 "Securities Act" shall mean the Securities Act of 1933, as amended.

2.37 "Stock" means the common stock of the Company and such other securities of the Company that may be substituted for Stock pursuant to Article 11.

2.38 "Stock Appreciation Right" or "SAR" means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.39 “Stock Payment” means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Section 8.3(b).

2.40 “Subsidiary” means any “subsidiary corporation” as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.



## ARTICLE 3.

## SHARES SUBJECT TO THE PLAN

3.1 Number of Shares.

(a) Subject to Article 11 and Section 3.1(b), the aggregate number of shares of Stock which may be issued or transferred pursuant to Awards under the Plan is five million (5,000,000). No more than five million (5,000,000) shares of Stock may be issued upon the exercise of Incentive Stock Options.

(b) To the extent that an Award terminates, expires, or lapses for any reason, any shares of Stock subject to the Award shall again be available for the grant of an Award pursuant to the Plan. Additionally, any shares of Stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by applicable law or any exchange rule, shares of Stock issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against shares of Stock available for grant pursuant to this Plan. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan. Notwithstanding the provisions of this Section 3.1(a), no shares of Common Stock may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

3.2 Stock Distributed. Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

3.3 Limitation on Number of Shares Subject to Awards. Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Employee shall be (i) two million (2,000,000) as to Awards granted to an Employee during the fiscal year of the Company in which the Employee is initially employed by the Company or any Subsidiary and (ii) one million (1,000,000) as to Awards granted to an Employee during any subsequent fiscal year of the Company.

## ARTICLE 4.

## ELIGIBILITY AND PARTICIPATION

4.1 Eligibility. Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

4.2 Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Eligible Individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Foreign Participants. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have Eligible Individuals, the Committee, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which Eligible Individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to Eligible Individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable (any such subplans and/or modifications shall be attached to this Plan as appendices); *provided, however*, that no such subplans and/or modifications shall increase the share limitations contained in Sections 3.1 and 3.2 of the Plan; and (v) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act, the Code, any securities law or governing statute or any other applicable law.

## ARTICLE 5.

## STOCK OPTIONS

5.1 General. The Committee is authorized to grant Options to Eligible Individuals on the following terms and conditions:

(a) Exercise Price. The exercise price per share of Stock subject to an Option shall be determined by the Committee and set forth in the Award Agreement; *provided*, that, subject to Section 5.2(c), the exercise price for any Option shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant.

(b) Time and Conditions of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part; *provided* that the term of any Option granted under the Plan shall not exceed ten years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) Payment. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation: (i) cash, (ii) shares of Stock held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, or (iii) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale). The Committee shall also determine the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option, or continue any extension of credit with respect to the exercise price of an Option with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

(d) Evidence of Grant. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

5.2 Incentive Stock Options. Incentive Stock Options shall be granted only to Employees and the terms of any Incentive Stock Options granted pursuant to the Plan, in addition to the requirements of Section ARTICLE 5, must comply with the provisions of this Section 5.1(d).

(a) Expiration. Subject to Section 5.2(b), an Incentive Stock Option shall expire and may not be exercised to any extent by anyone after the first to occur of the following events:

(i) Ten years from the date it is granted, unless an earlier time is set in the Award Agreement;

(ii) Three months after the Participant's termination of employment as an Employee; and

(iii) One year after the date of the Participant's termination of employment or service on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.

(b) Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed $100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(c) Ten Percent Owners. An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(d) Notice of Disposition. The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such shares of Stock to the Participant.

(e) Right to Exercise. During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

(f) Failure to Meet Requirements. Any Option (or portion thereof) purported to be an Incentive Stock Option, which, for any reason, fails to meet the requirements of Section 422 of the Code shall be considered a Non-Qualified Stock Option.

## ARTICLE 6.

## RESTRICTED STOCK AWARDS

6.1 Grant of Restricted Stock. The Committee is authorized to make Awards of Restricted Stock to any Eligible Individual selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by an Award Agreement.

6.2 Issuance and Restrictions. Subject to Section 10.6, Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.3 Forfeiture. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; *provided, however*, that, except as otherwise provided by Section 10.6, the Committee may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

6.4 Certificates for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

## ARTICLE 7.

## STOCK APPRECIATION RIGHTS

7.1 Grant of Stock Appreciation Rights.

(a) A Stock Appreciation Right may be granted to any Eligible Individual selected by the Committee. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

(b) A Stock Appreciation Right shall entitle the Participant (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount equal to the product of (i) the excess of (A) the Fair Market Value of the Stock on the date the Stock Appreciation Right is exercised over (B) the Fair Market Value of the Stock on the date the Stock Appreciation Right was granted and (ii) the number of shares of Stock with respect to which the Stock Appreciation Right is exercised, subject to any limitations the Committee may impose.

7.2 Payment and Limitations on Exercise.

(a) Subject to Sections 7.2(a) payment of the amounts determined under Sections 7.1(a) above shall be in cash, in Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee in the Award Agreement.

(b) To the extent any payment under Section 7.1(a) is effected in Stock, it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options

## ARTICLE 8.

## OTHER TYPES OF AWARDS

8.1 Performance Share Awards. Any Eligible Individual selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.2 Performance Stock Units. Any Eligible Individual selected by the Committee may be granted one or more Performance Stock Unit awards which shall be denominated in unit equivalent of shares of Stock and/or units of value including dollar value of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. In making such determinations, the Committee shall consider (among such other factors as it deems relevant in light of the specific type of award) the contributions, responsibilities and other compensation of the particular Participant.

8.3 Dividend Equivalents.

(a) Any Eligible Individual selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee.

(b) Dividend Equivalents granted with respect to Options or SARs that are intended to be Qualified Performance-Based Compensation shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

8.4 Stock Payments. Any Eligible Individual selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5 Deferred Stock. Any Eligible Individual selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee subject to Section 10.6. Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the Stock underlying the Deferred Stock Award has been issued.

8.6 Restricted Stock Units. The Committee is authorized to make Awards of Restricted Stock Units to any Eligible Individual selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate subject to Section 10.6. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to Section 10.5(a), transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited.

8.7 Term. Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock or Restricted Stock Units shall be set by the Committee in its discretion.

8.8 Exercise or Purchase Price. The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Stock Units, Deferred Stock, Stock Payments or Restricted Stock

Units; *provided, however*, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.

8.9 Exercise upon Termination of Employment or Service. An Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Deferred Stock, Stock Payments and Restricted Stock Units shall only be exercisable or payable while the Participant is an Employee, Consultant or Director, as applicable; *provided, however*, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock or Restricted Stock Units may be exercised or paid subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant's retirement, death or disability, or otherwise; *provided, however*, that any such provision with respect to Performance Shares or Performance Stock Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation.

8.10 Form of Payment. Payments with respect to any Awards granted under this Article 8 shall be made in cash, in Stock or a combination of both, as determined by the Committee.

8.11 Award Agreement. All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by an Award Agreement.

## ARTICLE 9.

## PERFORMANCE-BASED AWARDS

9.1 Purpose. The purpose of this Article 9 is to provide the Committee the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however*, that the Committee may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 Applicability. This Article 9 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 Procedures with Respect to Performance-Based Awards. To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 6 or 8 which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 Payment of Performance-Based Awards. Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Subsidiary on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved. In determining the amount earned under a Performance-Based Award, the Committee may reduce or eliminate the amount of the Performance-Based Award earned for the Performance Period, if in its sole and absolute discretion, such reduction or elimination is appropriate.



9.5 Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

## ARTICLE 10.

## PROVISIONS APPLICABLE TO AWARDS

10.1 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

10.2 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

10.3 Limits on Transfer. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution or pursuant to beneficiary designation procedures approved from time to time by the Committee (or the Board in the case of Awards granted to Independent Directors). The Committee by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Stock Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's termination of employment or service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

10.4 Beneficiaries. Notwithstanding Section 10.2, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

10.5 Stock Certificates; Book Entry Procedures.

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

(b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any applicable law, rule or regulation, the Company shall not deliver to any Participant certificates evidencing shares of Stock issued in connection with any Award and instead such shares of Stock shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

10.6 Full Value Award Vesting Limitations. Notwithstanding any other provision of this Plan to the contrary, Full Value Awards made to Employees or Consultants shall become vested over a period of not less than three years (or, in the case of vesting based upon the attainment of Performance Goals or other performance-based objectives, over a period of not less than one year) following the date the Award is made; provided, however, that, notwithstanding the foregoing, Full Value Awards that result in the issuance of an aggregate of up to 10% of the shares of Stock available pursuant to Section 3.1(a) may be granted to any one or more Participants without respect to such minimum vesting provisions.

10.7 Paperless Administration. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

## ARTICLE 11.

## CHANGES IN CAPITAL STRUCTURE

11.1 Adjustments.

(a) In the event of any combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of Stock or the share price of the Stock other than an Equity Restructuring, the Committee shall make such equitable adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (a) the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.2); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section ARTICLE 11 or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations or accounting principles, the Committee, in its sole and absolute discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 11.1(c)(ii) the Committee determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of shares of Common Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock or Deferred Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 11.1 and 11.1(a):

(i) The number and type of securities subject to each outstanding Award and the exercise price or grant price thereof, if applicable, will be equitably adjusted. The adjustments provided under this Section 11.1(c)(i) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company.

(ii) The Committee shall make such equitable adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3).

11.2 Acceleration Upon a Change in Control. Notwithstanding Section ARTICLE 11, and except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company and a Participant, if a Change in Control occurs and a Participant's Awards are not converted, assumed, or replaced by a successor entity, then at least ten days prior to the Change in Control such Awards shall become fully exercisable and all forfeiture restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change in Control, the Committee may cause any and all Awards outstanding hereunder to terminate at a specific time in the future, including but not limited to the date of such Change in Control, and shall give each Participant the right to exercise such Awards during a period of time as the Committee, in its sole and absolute discretion, shall determine. In the event that the terms of any agreement between the Company or any Company subsidiary or affiliate and a Participant contains provisions that conflict with and are more restrictive than the provisions of this Section 11.1(c)(ii), this Section 11.1(c)(ii) shall prevail and control and the more restrictive terms of such agreement (and only such terms) shall be of no force or effect.

11.3 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Committee under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

## ARTICLE 12.

## ADMINISTRATION

12.1 Committee. Unless and until the Board delegates administration of the Plan to a Committee as set forth below, the Plan shall be administered by the full Board, and for such purposes the term "Committee" as used in this Plan shall be deemed to refer to the Board. The Board, at its discretion or as otherwise necessary to comply with the requirements of Section 162(m) of the Code, Rule 16b-3 promulgated under the Exchange Act or to the extent required by any other applicable rule or regulation, may delegate administration of the Plan to a Committee consisting of two or more members of the Board. Unless otherwise determined by the Board, the Committee shall consist solely of two or more members of the Board each of whom is an "outside director," within the meaning of Section 162(m) of the Code, a Non-Employee Director and an "independent director" under the rules of the NASDAQ Global Select Market (or other principal securities market on which shares of Stock are traded); provided that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section ARTICLE 12 or otherwise provided in any charter of the Committee. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Independent Directors and for purposes of such Awards the term "Committee" as used in this Plan shall be deemed to refer to the Board and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 12.4. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. Except as may otherwise be provided in any charter of the Committee, appointment of Committee members shall be effective upon acceptance of appointment; Committee members may resign at any time by delivering written notice to the Board; and vacancies in the Committee may only be filled by the Board.

Proxy

12.2 Action by the Committee. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

12.3 Authority of Committee. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

(a) Designate Participants to receive Awards;

(b) Determine the type or types of Awards to be granted to each Participant;

(c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any reload provision, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Committee in its sole discretion determines; *provided, however*, that the Committee shall not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards;

(e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and

(j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Committee deems necessary or advisable to administer the Plan.

12.4 Decisions Binding. The Committee's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

12.5 Delegation of Authority. To the extent permitted by applicable law, the Board may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards to Participants other than (a) Employees who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Board specifies at the time of such delegation, and the Board may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.4 shall serve in such capacity at the pleasure of the Board.

## ARTICLE 13.

## EFFECTIVE AND EXPIRATION DATE

13.1 Effective Date. The Plan is effective as of the date the Plan is approved by the Company's stockholders (the "Effective Date"). The Plan will be deemed to be approved by the stockholders if it is approved either:

(a) By a majority of the votes cast at a duly held stockholders meeting at which a quorum representing a representing a majority of outstanding voting stock is, either in person or by proxy, present and voting on the plan; or

(b) By a method and in a degree that would be treated as adequate under Delaware law in the case of an action requiring stockholder approval.

13.2 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after the tenth anniversary of the Effective Date, except that no Incentive Stock Options may be granted under the Plan after the earlier of the tenth anniversary of (a) the date the Plan is approved by the Board or (b) the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

## ARTICLE 14.

## AMENDMENT, MODIFICATION, AND TERMINATION

14.1 Amendment, Modification, and Termination. Subject to Section 15.13, with the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; *provided, however*, that (a) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) stockholder approval shall be required for any amendment to the Plan that (i) increases the number of shares available under the Plan (other than any adjustment as provided by Article 11), (ii) permits the Committee to grant Options with an exercise price that is below Fair Market Value on the date of grant, or (iii) permits the Committee to extend the exercise period for an Option beyond ten years from the date of grant. Notwithstanding any provision in this Plan to the contrary, absent approval of the stockholders of the Company, no Option may be amended to reduce the per share exercise price of the shares subject to such Option below the per share exercise price as of the date the Option is granted and, except as permitted by Article 11, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per share exercise price.

14.2 Awards Previously Granted. Except with respect to amendments made pursuant to Section 15.13, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

## ARTICLE 15.

## GENERAL PROVISIONS



15.1 No Rights to Awards. No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

15.2 No Stockholders Rights. Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to shares of Stock covered by any Award until the Participant becomes the record owner of such shares of Stock.

15.3 Withholding. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Committee may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award within six months (or such other period as may be determined by the Committee) after such shares of Stock were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

15.4 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Subsidiary.

15.5 Unfunded Status of Awards. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

15.6 Indemnification. To the extent allowable pursuant to applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

15.7 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

15.8 Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries. Unless otherwise determined by the Committee, the expenses of exercising an Award or purchasing or trading the underlying shares of Stock of an Award and any similar expenses shall be borne solely by the Participant.

15.9 Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

15.10 Fractional Shares. No fractional shares of Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

15.11 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

15.12 Government and Other Regulations. The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act, as amended, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

15.13 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

15.14 Section 409A. To the extent that the Committee determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Committee determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Committee may adopt such amendments to the Plan and the applicable Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate to (a) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (b) comply with the requirements of Section 409A of the

Code and related Department of Treasury guidance and thereby avoid the application of any penalty taxes under such Section.

* * * * *

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of Electronics For Imaging, Inc. on , 2009.

* * * * *

I hereby certify that the foregoing Plan was approved by the stockholders of Electronics For Imaging, Inc. on , 2009.

Executed on this day of , 2009.

______________________________

Corporate Secretary

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington D.C. 20549**

# FORM 10-K

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 000-18805

# ELECTRONICS FOR IMAGING, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **94-3086355** |
| (State or other Jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**303 Velocity Way, Foster City, CA 94404**
(Address of principal executive offices) (Zip Code)

**(650) 357-3500**
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Exchange on which Registered |
|---|---|
| Common Stock, $.01 Par Value | The NASDAQ Stock Market LLC |

**Securities registered pursuant to Section 12(g) of the Act:** **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold on June 30, 2008 was $501,165,265.** The number of shares outstanding of the registrant's common stock, $.01 par value per share, as of February 20, 2009 was 51,813,888.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

** Based upon the last trade price of the Common Stock reported on the NASDAQ Global Select Market on June 30, 2008, the last business day of the registrant's second quarter of the 2008 fiscal year. Excludes approximately 18,179,704 shares of common stock held by directors, executive officers and holders known to the registrant to hold 10% or more of the registrant's outstanding Common Stock in that such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

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# PART I

This Annual Report on Form 10-K includes certain registered trademarks, trademarks, and trade names of Electronics For Imaging, Inc., its subsidiaries (collectively, "EFI" or the "Company") and others. Digital StoreFront, DocStream, Electronics For Imaging, Fiery, Inkware, Jetrion, and VUTEk are registered trademarks of the Company. EFI, the Fiery Prints logo, Hagen, Logic, Monarch, Pace, PrintSmith, and Rastek, are trademarks of the Company. All other terms and product names may be trademarks or registered trademarks of their respective owners, and are hereby acknowledged.

Certain of the information contained in this Annual Report on Form 10-K, including without limitation, statements made under this Part I, Item 1 "Business" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" which are not historical facts, may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act") and is subject to risks and uncertainties and actual results or events may differ materially. When used herein, the words "anticipate," "believe," "estimate," "expect," "intend," "will," "may," "should," "plan," "potential," "seek," "continue" and similar expressions as they relate to the Company or its management are intended to identify such statements as "forward-looking statements." Such statements reflect the current views of the Company and its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Important factors that could cause the Company's actual results to differ materially from those included in the forward-looking statements made herein include, without limitation, those factors discussed in Item 1 "Business," in Item 1A "Risk Factors" and elsewhere in this Annual Report on Form 10-K and in the Company's other filings with the Securities and Exchange Commission ("SEC"), including the Company's most recent Quarterly Report on Form 10-Q and current reports on Form 8-K, and any amendments thereto. The Company assumes no obligation to revise or update these forward-looking statements to reflect actual results, events or changes in factors or assumptions affecting such forward-looking statements.



## Item 1: Business

### Filings

We file annual reports, quarterly reports, proxy statements and other documents with the SEC under the Exchange Act. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers, including EFI, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov.

We also make available free of charge through our Internet website (http://www.efi.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

### General

EFI was incorporated in Delaware in 1988 and commenced operations in 1989. In 1992, we made our initial public offering of common stock. Our common stock is traded on the NASDAQ Global Select Market under the symbol EFII. Our corporate offices are located at 303 Velocity Way, Foster City, California 94404.

We are the world leader in color digital print controllers, super-wide format printers and inks and print management solutions. Our award-winning solutions, integrated from creation to print, deliver increased performance, cost savings and productivity. Our robust product portfolio includes Fiery digital color print servers, VUTEk super-wide digital inkjet printers, UV and solvent inks, Jetrion industrial inkjet printing systems, Rastek wide-format digital inkjet printers, print production workflow and management information software, and corporate printing solutions. Our integrated solutions and award-winning technologies are designed to automate print and business processes, streamline workflow, provide profitable value-added services and produce accurate digital output.

## Products and Services

*Controllers*

Headlined by EFI's flagship Fiery brand, our controller technologies transform digital copiers and printers into networked printing devices. Once networked, EFI-powered printers and copiers can be shared across workgroups, departments, the enterprise and the Internet to quickly and economically produce high-quality color and black & white documents. Our color digital print controllers provide solutions for a broad range of the printing market—from entry-level desktop printers to production-level digital copiers. Our color digital print controller line of products is sold to original equipment manufacturers ("OEMs") for sale to customers, and consists of: (i) stand-alone print controllers which are connected to digital copiers and other peripheral devices and (ii) embedded and design-licensed solutions which are used in digital copiers, desktop laser printers and multifunctional devices.

Our main controller platforms, primary OEMs and user environments are as follows:

| Platform | Primary OEM | User environment |
|---|---|---|
| Fiery external print servers | Canon, Fuji Xerox, IKON, Konica Minolta, OKI Data, Ricoh, Sharp, Toshiba, Xerox | Print for Pay, Corporate Reprographic Departments, Graphic Arts, Advertising Agencies, Transactional Printers, Commercial Printers |
| Fiery embedded servers (boards and chipsets) | Canon, Fuji Xerox, IKON, Konica Minolta, OKI Data, Ricoh, Sharp, Toshiba, Xerox | Office Environments |
| Splash | Xerox | Graphic Arts, Advertising Agencies |
| MicroPress | Canon, Danka, IKON, Konica Minolta, Ricoh | Corporate Reprographic Departments, Commercial Printers |

*Inkjet Products—Vutek, Jetrion, and Rastek ("Inkjet")*

Vutek. Our industry-leading VUTEk super-wide format digital inkjet printers and inks are used by billboard graphics printers, commercial photo labs, large sign shops, graphic screen printers and digital graphics providers to print billboards, building wraps, banners, art exhibits, point of purchase signage and other large displays. VUTEk printers are divided into two categories, printers using solvent inks and printers using ultra violet ("UV") curable inks. In 2007, we introduced a new addition to our QS series of high-speed, high-resolution super-wide printers. This new printer can accommodate high-volume and flexible substrates.

Some of our more popular printers and features are as follows:

| Printer Type | Models | Capabilities | Applications |
|---|---|---|---|
| Solvent | UltraVU Series VUTEk 3360 | Printing widths of 1.5 to 5.0 meters; 4, 6, and 8 colors; Flexible substrates | Banners, Billboards, Signage, Building Wraps, and Flags |
| UV | PressVu Series QS Series | Printing widths up to 2.0 to 3.2 meters; 4, 6, and 7 colors; Flexible and rigid substrates; UV curable inks | Point of purchase and exhibition signage, Backlit displays, and Photo-quality graphics |
| Jetrion | 4000 Series | Print resolutions up to 1000dpi; 4 or 6 colors; Precise color-color registration | Primary and secondary label applications, Industrial label or flexible packaging markets |
| Rastek | H700 UV Hybrid Flatbed | Speeds up to 24 square meters per hour and up to 1,200dpi; Handles media of thicknesses up to 5 centimeters | Indoor and outdoor graphics with photographic image quality |

Jetrion. Our Jetrion products specialize in digital printing and provide a wide array of industrial inkjet systems, custom high-performance integration solutions, and specialty inks to the converting, packaging and direct mail industries. In 2008, we launched our Jetrion 4000 Full Color Digital Label printer focused on short run, on-demand, color label printing. We also manufacture the inks used in our inkjet printers. Each of our inks is customized for each of our printers to provide optimum performance on that printer. In addition, we manufacture and sell private label inks to third-party inkjet printer manufacturers. Our inks provide a renewable revenue stream generated from sales to our existing customer base as well as sales to third parties.

Rastek. To further expand our current market segment and Inkjet line of products, we acquired Raster Printers, Inc. ("Raster") on December 2, 2008, which was re-branded as Rastek post-acquisition. Rastek develops, manufacturers, and markets Hybrid and Flatbed UV wide format graphics printers in the mid-range market sector.



*Advanced Professional Print Software ("APPS")*

To provide our customers with print solutions, we have developed technology that enhances printing workflow and makes printing operations more powerful, productive and easier to manage from one centralized user interface. Most of our software solutions have been developed with the express goal of automating print processes and streamlining workflow via open, integrated and interoperable EFI products, services and solutions.

Our enterprise resource planning and collaborative supply chain software print management solutions are designed to enable printers and print buyers to improve productivity and customer service while reducing costs. Procurement applications for print buyers and print producers facilitate web-based collaboration across the print supply chain. Customers recognize that print management information systems, or PMIS, are essential to improving their business practices and profitability and we are continuing to focus on making our PMIS solutions the global industry standard. To further strengthen our APPS business, we acquired Pace Systems Group, Inc. ("Pace") on July 28, 2008. Pace is a print management software company which provides practical PMIS and e-commerce solutions that make printing and graphic art companies more efficient and profitable. This product is scalable and caters to many types of commercial print shops.

Our software offerings currently include:

| Product Name | Description | User |
|---|---|---|
| Proofing software: ColorProof XF and Fiery XF | Digital color proofing and Inkjet production print solutions offering fast, flexible workflow, power, and expandability | Digital, commercial and hybrid printers, prepress providers, publishers, creative agencies and photographers, and super wide & wide format print providers |
| Print management information systems: EFI Monarch (previously Hagen), EFI Logic, EFI PSI, EFI PrintSmith, Prograph and PrintFlow | Collect, organize, and present critical information to improve process control and profit potential | Commercial, publishing, digital, in-plant, print for pay, large format and specialty printers |
| Web-based order entry and order management systems: Digital StoreFront and PrinterSite | Web interface to manage print transactions between customer and printer | Commercial, publishing, digital, in-plant, print for pay, large format and specialty printers |
| Web-based print management system: EFI Pace | Software modules for: estimating, scheduling, print production, accounting, and e-commerce | Commercial, publishing |

**Growth and Expansion Strategies**

Our overall objective is to continue to introduce new generations of digital print controllers as well as expand and improve our offerings in inkjet, professional printing software applications, and in other new product lines related to digital printing, workflow and print management. With respect to our current products, our primary goal is to offer best of breed solutions that are interoperable and conform to open standards, which will allow customers to configure the most efficient solution for their business. Our strategy to accomplish these goals consists of four key elements: proliferate and expand product lines; develop and expand relationships with key industry participants; establish enterprise coherence and leverage industry standardization; and leverage technology and industry expertise to expand the scope of products, channels and markets. Each of these items is discussed below.

*Proliferate and Expand Product Lines*

We intend to continue to develop new digital print controllers that are "scalable," meaning products that continue to meet the changing needs of the user as their business grows. Our products offer a broad range of features and functionality when connected to, or integrated with, digital color and black-and-white copiers, as well as desktop color laser printers.

We intend to continue our development of platform enhancements that advance the performance and usability of our software applications in order to provide cohesive, integrated solutions for our customers.

In 2007, we introduced the next generation of our Fiery hardware along with a number of new enhanced workflow and production management applications. These new products are designed to provide customers with optimal print engine performance, more efficient workflow, more accurate color and greater control over and visibility into their businesses. In 2008, we expanded our application software on our Fiery products to include Fiery Central, a new, modular production workflow solution designed to further optimize engine performance and ensure total color quality control in the color printing workflow for graphic arts professionals.

Our expansion of product lines includes those from our Jetrion business unit, a leading innovator of inkjet printers, inks and custom printing systems for the label and packaging industries. In 2008, we launched our Jetrion 4000 digital label printing system. This new printer produces full color, variable image labels up to 5.5 inches wide across a broad array of substrates.

In 2007, we introduced a new VUTEk super-wide UV curing printer. The new 3.2 meter QS3200r provides the production speed, quality and extended flexible media capabilities necessary to better enable our customers to meet and profit from the growing needs of their customers. The QS3200r caters to sign shops, screen printers, and print providers looking to complement or replace existing solvent or UV output. In 2008, we continued to widen EFI's offering in the market with the introduction of the new Vutek DS8300 inkjet printer at the 2008 DRUPA trade show in Germany, and is expected to be launched in 2009. We also continue to explore acquisition possibilities as a way to expand our product lineup and customer base. Although there can be no assurance that acquisitions will be successful, acquisitions have allowed us to broaden our product lines.

*Develop and Expand Relationships with Key Industry Participants*

Our customer relationships are one of our most important assets. We have established relationships with leading printer and copier industry companies, including Canon, Fuji Xerox, Konica Minolta, OKI Data, Ricoh, Sharp, Toshiba and Xerox, which we collectively refer to as our OEM customers.

Our relationships with our OEM customers are based upon business relationships we have established over time. However, our agreements with such OEM customers generally do not require them to make any future purchases from us, and our OEM customers are generally free to purchase products from our competitors or build their own and cease purchasing our products at any time, for any reason or no reason.

Our Inkjet products and our Advanced Professional Print Software are sold both direct and via distribution arrangements to all sizes of print providers.

Additionally, we have established relationships with many leading distribution companies in the office, graphic arts and commercial print industries such as IKON, Fujifilm Graphic Systems, Pitman, Nazdar and 3M. We seek to establish new relationships in pursuit of the goal of offering our controller line of products as well as our software technology for optimizing the management and creation of documents in a variety of print environments.

We also have established relationships with many of the leading print providers globally, such as R.R. Donnelley, Fedex Kinkos, Quebecor, and Staples. These direct sales relationships, along with dealer arrangements, are important for our understanding of the end markets for our products and serve as a source of future product development ideas. In many cases our products are customized for the needs of large customers yet maintain the common intuitive interfaces that EFI is known for around the world.

*Establish Enterprise Coherence and Leverage Industry Standardization*

In our development of new products and platforms, we seek to establish coherence across our entire product line by designing products that provide a consistent "look and feel" to the end-user. We believe cross-product coherence can create higher productivity levels as a result of shortened learning curves. Additionally, we believe the integrated coherence that end-users can achieve using EFI products for all of their digital printing and imaging needs leads to a lower total cost of ownership. We also advocate open architecture utilizing industry-established standards to provide inter-operability across a range of digital printing devices and software applications, ultimately providing end-users more choice and flexibility in their selection of products. For example in 2007, we introduced integration between our web-based Digital StoreFront application, our Monarch OA *(formerly Hagen)* print MIS application, and our Fiery XF Production Color RIP including integration to either our Fiery or our VUTEk product line, leveraging the industry standard Job Definition Format ("JDF"). In 2008, we introduced a similar integration between Pace and our APPS products.

*Leverage Technology and Industry Expertise to Expand the Scope of Products, Channels and Markets*

We have assembled, organically and through acquisitions, an experienced team of technical support and sales and marketing personnel with backgrounds in color reproduction, digital pre-press, image processing, management information systems, networking and software and hardware engineering as well as market knowledge of enterprise printing, graphic arts and commercial printing. By applying our expertise in these areas, we expect to continue to expand the scope and sophistication of our products and gain access to new markets and channels of distribution.

**Significant Relationships**

We have established and continue to build and expand relationships with our OEMs and distributors of digital printing technology in order to benefit from their products, distribution channels and marketing resources. Our customers include domestic and international manufacturers, distributors and sellers of color and black-and-white digital copiers, wide-format printers and desktop color printers. We work closely with our OEM customers with the aim of developing solutions that incorporate leading technology, and that work optimally in conjunction with such companies' products. The top revenue-generating OEMs or distributors, in alphabetical order, that we sold products to in 2008 were Canon, Fuji Xerox, IKON Office Solutions, Konica Minolta, OKI Data, Ricoh, Toshiba, and Xerox. Together, sales to Canon and Xerox accounted for approximately 29% of our 2008 revenue, with sales to each of these two customers accounting for more than 10% of our revenue. Because sales of our printer and copier-related products constitute a significant portion of our controller revenues and there are a limited number of OEMs producing copiers and printers in sufficient volume to be attractive customers for us, we expect that we will continue to depend on a relatively small number of OEM customers for a significant portion of our revenues in future periods. Accordingly, if we lose or experience reduced sales to an important OEM, we will have difficulty replacing the revenue traditionally generated from such OEM with sales to new or existing OEMs and our revenues may decline.

We customarily enter into development and distribution agreements with our OEM customers. These agreements can be terminated under a range of circumstances and often upon relatively short notice. The circumstances under which an agreement can be terminated vary from agreement to agreement and there can be no assurance that our OEM customers will continue to purchase products from us in the future, despite such agreements. Furthermore, our agreements with our OEM customers generally do not commit such customers to make future purchases from us and they could decline to purchase products from us in the future and could purchase products from our competitors, or build the products themselves. We recognize the importance of, and work hard to maintain, our relationships with our customers. However, our relationships with our customers are affected by a number of factors including, among others: competition from other suppliers, competition from internal development efforts by the OEMs themselves and changes in general economic, competitive or market conditions such as changes in demand for our or the OEM's products, or fluctuations in currency exchange rates. There can be no assurance that we will continue to maintain or build the relationships we have developed to date. See Item 1A—*We face competition from other suppliers as well as our own OEM customers and if we are not able to compete successfully our business may be harmed.*

We have a continuing relationship pursuant to a license agreement with Adobe Systems, Inc. ("Adobe") and license PostScript® software from Adobe for use in many of our controller solutions. This relationship is important because each of our controller solutions requires page description language software such as that provided by Adobe in order to operate. Adobe's PostScript® software is widely used to manage the geometry, shape and typography of hard copy documents and Adobe is a leader in providing page description software. Although to date we have successfully obtained licenses to use Adobe's PostScript® software when required, Adobe is not required to, and we cannot be certain that Adobe will, grant future licenses to Adobe PostScript® software on reasonable terms, in a timely manner, or at all. In addition, in order to obtain licenses from Adobe, Adobe requires that we obtain from them quality assurance approvals for our products that use Adobe software. If Adobe does not grant us such licenses or approvals, if the Adobe licenses are terminated, or if our relationship with Adobe is otherwise materially impaired, we would likely be unable to sell products that incorporate Adobe PostScript® software. If that occurred, we would have to license, acquire, develop or reestablish our own competing software as a viable alternative for Adobe Postscript® and our financial condition and results of operations could be significantly harmed for a period of time.

Our inkjet printers are constructed with inkjet print heads which are manufactured by a limited number of suppliers. If we were to experience difficulty obtaining print heads, our production of inkjet printers would be limited and our revenues would be harmed. We manufacture inks for use in our printers and rely upon a limited number of suppliers for certain pigments used in our inks. Our ink sales would decline significantly if we were unable to obtain the pigments as needed. See Item 1A—*We depend upon a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or the delays or shortages of supply of these components could adversely affect our business.*

**Human Resources**

As of December 31, 2008, we employed 2,021 full time employees. Approximately 515 were in sales and marketing, 242 were in general and administrative, 370 were in manufacturing and 894 were in research and development. Of the total number of employees, we had approximately 1,453 employees located in the Americas (primarily the United States) and 568 employees located in offices outside of the Americas.

**Distribution and Marketing**

Our primary distribution method for our controller line of products is to sell them to our OEMs. Our OEMs in turn sell these products to OEM-affiliated and independent distributors/dealers/resellers and end-users for use with the OEM's copiers or printers as part of an integrated printing system. See Item 1A—*We rely on sales to a relatively small number of OEM customers and the loss of any of these OEM customers could substantially decrease our revenues.*

Our print management information systems are primarily sold directly to the end-user by our own sales force. To distribute our VUTEk printers and ink, we utilize a direct sales force in North America and Europe and principally distributors for the rest of our global distribution. Any interruption of the distribution methods could negatively impact us in the future.

Our primary distribution method for our MicroPress controllers, our EFI proofing systems and our EFI workflow software products is to utilize a mix of distributors and our own sales force. We sell directly to our authorized distributors, dealers, and resellers who in turn sell the solutions to end-users either in a stand alone form or bundled with other solutions they offer. Primary customers with whom we have established distribution agreements include Enovation, Fujifilm Graphic Systems, Pitman and other sales companies. There can be no assurance that we will continue to successfully distribute our products through these channels.

We promote all of our products through public relations, direct mail, advertising, promotional material, trade shows and ongoing customer communication programs. The majority of the sales leads for inkjet printer sales are generated from tradeshows and any interruption in our tradeshow participation could materially impact our revenue and profitability.

**Research and Development**

Research and development costs for 2008 were $140.4 million. As of December 31, 2008, 894 of our 2,021 full-time employees were involved in research and development. We believe that development of new products and enhancement of existing products are essential to our continued success, and management intends to continue to devote substantial resources to research and new product development. We expect to make significant expenditures to support our research and development programs for the foreseeable future.

We are developing products to support additional color and black-and-white printing devices including desktop printers, high-end color copiers, digital black-and-white copiers and multifunctional devices. We are also developing new software applications designed to maximize workflow efficiencies and to meet the needs of the graphic arts and commercial print professional, including proofing solutions and print management information systems solutions. We also expect to continue to develop new platforms of inkjet print technologies in order to meet the needs of existing and future markets. We have research and development sites in nine U.S. locations, as well as in Israel, India, Japan and Europe. See “Growth and Expansion Strategies—Proliferate and Expand Product Lines” above. Substantial additional expense is required to complete and bring to market each of the products currently being developed by us.

### Manufacturing

We utilize sub-contractors to manufacture our controller line of products. These sub-contractors work closely with us to promote low costs and high quality in the manufacture of our products. Sub-contractors purchase components needed for our products from third parties. We are completely dependent on the ability of our sub-contractors to produce products sold by us and although we supervise our sub-contractors, there can be no assurance that such sub-contractors will perform efficiently or effectively. In 2008, a significant amount of our controller line of products was manufactured at a single sub-contractor, Celestica Inc. We are transferring to a new sub-conductor in 2009: Bell Microproducts. Should Celestica or Bell Microproducts experience any inability or unwillingness to manufacture or deliver product from this location, our business, financial condition and operations could be harmed. Since we do not maintain long-term agreements with our sub-contractors, any of our sub-contractors could enter into agreements with our competitors that might restrict or prohibit such sub-contractors from manufacturing our products or could otherwise lead to an inability of such sub-contractor from filling our orders in a timely manner. See Item 1A—*We are dependent on a limited number of subcontractors, with whom we do not have long-term contracts, to manufacture and deliver products to our customers and the loss of any of these subcontractors could adversely affect our business.*

Our VUTEk printers and ink are manufactured at our Meredith, New Hampshire facility. Meredith is not located in a major metropolitan area, and we have encountered difficulties in hiring and retaining adequate skilled labor and management. Most of the components used in the manufacturing of the printers and the inks are available from multiple suppliers, except for the inkjet print heads and the pigments for our inks. Although typically in low volumes, many key components are sourced from single vendors. If we were unable to obtain the print heads currently used, we would be required to redesign our printers to use different print heads. If we were to change pigments, we would be required to reformulate and test the inks. In two of our locations, we use hazardous materials to formulate solvent-based inks. The storage, use and disposal of those materials must meet the requirements of various environmental regulations. See Item 1A—*If we are not able to hire and retain skilled employees, we may not be able to develop products or meet demand for our products in a timely fashion;* and *We depend upon a limited group of suppliers for key components in our product. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or the delays or shortages of supply of these components could adversely affect our business.*

A significant number of the components necessary for the manufacture of our controller line of products are obtained from a sole supplier or a limited group of suppliers. These include processors from Intel and other related semiconductor components. We depend largely on the following sole and limited source suppliers for our components and manufacturing services:

| Supplier | Components |
|---|---|
| Intel | Central processing units, or CPUs; chip sets |
| Toshiba | Application-specific integrated circuits (“ASIC”) |
| Altera | ASIC |
| LSI Logic | ASIC |
| Texas Instruments | Digital signal processors, (“DSP”) |
| Celestica | Contract manufacturing |
| Bell Microproducts | Contract manufacturing |
| Seiko | Inkjet print heads |
| Fuji | Inkjet print heads |
| Imaging Technology International Corp | Contract manufacturing |
| Xaar | Inkjet print heads |
| Tundra | Chip sets |

We do not maintain long-term agreements with any of our suppliers of components and primarily conduct our business with such suppliers solely on a purchase order basis. If any of our sole or limited source suppliers were unwilling or unable to supply us with the components for which we rely on them, we may be unable to continue manufacturing our products utilizing such components.

The absence of agreements with most of our suppliers also subjects us to fluctuations in pricing, a factor we believe is partially offset by the fact that our suppliers benefit from selling as many components to us as possible. Many of our components are similar to those used in personal computers, and the demand and price fluctuations of personal computer components could affect our component costs. Because the purchase of key components involves long lead times, in the event of unanticipated volatility in demand for our products, we may be unable to manufacture certain products in a quantity sufficient to meet end user demand, or we may hold excess quantities of inventory. We maintain an inventory of components for which we are dependent upon sole or limited source suppliers and of components with prices that fluctuate significantly. We cannot ensure that at any given time we will have sufficient inventory to enable us to meet demand for our products, which would harm our financial results. As a result of our acquisition of the Inkjet businesses, our inventory has increased; however, our total inventory still represents less than 7.5% of our total assets as of December 31, 2008. See Item 1A—*We depend upon a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or the delays or shortages of supply of these components could adversely affect our business.*

**Competition**

Competition in our markets is intense and involves rapidly changing technologies and frequent new product introductions. To maintain and improve our competitive position, we must continue to develop and introduce on a timely and cost-effective basis new products and features that keep pace with the evolving needs of our customers. The principal competitive factors affecting the markets for our controller solutions include, among others, customer service and support, product reputation, quality, performance, price and product features such as functionality, scalability, ability to interface with OEM products and ease of use. We believe we have generally been able to compete effectively in the past against product offerings of our competitors on the basis of such factors. However, there can be no assurance that we will continue to be able to compete effectively in the future based on these or any other competitive factors.

Our primary competitors for third-party stand-alone color controllers are our OEM customers. Our OEM customers are also the principal competitors for the embedded and design-licensed solutions. Our market position vis-à-vis internally-developed controllers is small; however, we are the largest third party controller vendor. We believe that our advantages include our continuously advancing technology, time-to-market, brand recognition, end-user loyalty, sizable installed base, number of products supported, price driven by lower developmental costs and market knowledge. We intend to continue to develop new digital print controllers with capabilities that continue to meet the changing needs of our OEM customers' product development roadmaps. A significant disadvantage is our lack of control of the distribution channels and direct connections with our end-users. We do, however, provide a variety of features as well as a unique "look and feel" to our OEMs' products to differentiate our customers' products from those of their competitors.

The VUTEk line of super-wide inkjet printers competes with printers produced by Durst, Gandinnovation, Hewlett-Packard and Inca throughout most of the world. There are Chinese and Korean printer manufacturers in the marketplace, but their products are typically sold in their domestic markets and are not perceived as alternatives in most other markets. Although we recommend that our inks be used in the VUTEk printers, users can purchase solvent-based inks from other ink manufacturers. The third-party inks are typically priced at a lower price than our proprietary inks. However, these third-party inks may not provide the same quality. In addition, the use of third-party inks with our printer products may void the ink delivery system warranty on the printer. We believe that our broad product line and leading technology provide a competitive advantage.

Our APPS category, which includes our workflow, proofing, print management information systems and web-based order entry and order management systems, faces competition from software application vendors that specifically target the printing industry. These vendors are typically small, privately-owned companies. We also face competition from larger vendors that currently offer or are seeking to develop printer-focused enterprise resource planning products. We believe the principal competitive factor affecting our markets is the market rates for new printing technology.

There can be no assurance that we will be able to continue to advance our technology and products or to compete effectively against other companies' product offerings and any failure to do so could have a material adverse effect upon our business, operating results and financial condition.

**Sale of Land and Building**

On January 29, 2009, we sold a portion of our Foster City campus to Gilead Sciences, Inc. ("Gilead") for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The property sold included approximately thirty acres of land, which is entitled for development, the office building at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property. We retain ownership of the remaining approximately five acres of land and remain obligated under the synthetic lease with respect to the office building at 303 Velocity Way, Foster City, California, at which the Company's headquarters is located. As more fully disclosed in Note 8—Commitments and Contingencies, both buildings were subject to synthetic lease agreements as of December 31, 2008.

As a result of the sale to Gilead, the carrying value of assets held for sale of $55.4 million as of December 31, 2008 included land, building, other improvements, and restricted cash related to the 301 Velocity Way facility, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010.

**Goodwill and Long-Lived Asset Impairment**

We perform our annual impairment analysis of goodwill in the third quarter of each year according to the provisions of SFAS 142, Goodwill and Other Intangible Assets ("SFAS 142"). The provision requires that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment testing to determine the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance with SFAS142 as stated above. The goodwill valuation analysis was performed based on our respective reporting units—Controller, Inkjet, and Advanced Professional Print Software. Our reporting units are consistent with our product categories identified in Note 15—Information Concerning Business Segments and Major Customers of Notes to the Consolidated Financial Statements. Our product categories meet the definition of a reporting unit one level below an operating segment in accordance with SFAS 142 as each product category constitutes a business for which discrete financial information is available and reviewed by segment management.

We determined the fair value of the Inkjet reporting unit based on a weighting of the market and income approaches. The fair value of the Controller and APPS reporting units was determined based on the market approach. Under the market approach, we estimated the fair value based on market multiples of revenues or earnings. Under the income approach, we measured fair value of the reporting units based on a projected cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our current business model. Based on our valuation results, we had determined that the fair values of our reporting units continued to exceed their carrying values. Therefore, management determined that no goodwill impairment charge was required as of September 30, 2008.

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the life of the asset may need to be revised. Factors we consider important which could trigger an impairment review include the following:

- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- our market capitalization relative to net book value; and
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business.

When we determine that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure the potential impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Our annual review of goodwill performed in the third quarter of 2008 indicated that there was no impairment of goodwill. We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance with SFAS142 as stated above.

During the fourth quarter of 2008, our market capitalization declined significantly as a result of declining worldwide economic conditions caused by the tightening of global credit markets. Based on a combination of factors including the recent economic environment, the resulting erosion in our market capitalization, and the lowering of our 2009 revenue outlook subsequent to the third quarter of 2008, we performed an interim impairment analysis during the fourth quarter of 2008.

Based on the internal market-based valuation that we performed, the fair value of the Controller and APPS product categories significantly exceeded their carrying value as of December 31, 2008. Consequently, it was not considered necessary to obtain a third party valuation of these reporting units. A third party interim valuation was obtained with respect to the Inkjet product category, which was equally weighted between the income and market approach.

Based on the outcome of the interim impairment analysis, we concluded that an impairment had occurred relating to the Inkjet product category resulting in a non-cash impairment charge of $111.9 million during the fourth quarter of 2008 related to both goodwill and other long-lived assets. There were no impairments of goodwill, intangible assets, or other long-lived assets in 2007 and 2006.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, we made the following assumptions:

- the current economic downturn will continue through fiscal year 2010,
- the economic downturn is partially mitigated by new product introductions in 2010,
- followed by a recovery period between 2011 and 2013, and
- long-term industry growth past 2013.

Our discounted cash flow projections for the Inkjet reporting unit were based on five-year financial forecasts. The five-year forecasts were based on annual financial forecasts developed internally by management for use in managing our business and through discussions with the independent valuation firm engaged by us. The significant assumptions of these five-year forecasts included annual revenue growth rates ranging from (11.0%) to 12% for the Inkjet reporting unit. The future cash flows were discounted to present value using a mid-year convention and a discount rate of 16%. Terminal values were calculated using the Gordon growth methodology with a long-term growth rate of 4.5%. The sum of the fair values of the Controllers, APPS, and Inkjet reporting units was reconciled to our current market capitalization (based on our stock price) plus an estimated control premium. The significant assumptions used in determining fair values of the reporting units using comparable company market values include the determination of appropriate market comparables, the estimated multiples of revenue, EBIT, and EBITDA that a willing buyer is likely to pay, and the estimated control premium a willing buyer is likely to pay.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross margin rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the third quarter of 2009 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

### Intellectual Property Rights

We rely on a combination of patent, copyright, trademark and trade secret laws, non-disclosure agreements and other contractual provisions to establish, maintain and protect our intellectual property rights. Although we believe that our intellectual property rights are important to our business, no single patent, copyright, trademark, or trade secret is solely responsible for the development and manufacturing of our products.

We are currently pursuing patent applications in the United States and in foreign jurisdictions to protect various inventions. Over time, we have accumulated a portfolio of issued patents in the U.S. and worldwide. We also own or have rights to the copyrights to the software code in our products, as well as rights to the trademarks under which our products are marketed. We have also registered certain trademarks in the United States and in foreign jurisdictions, and will continue to evaluate the registration of additional trademarks as appropriate.

In addition, certain of our products include intellectual property that we license from our partners. We also have granted and may continue to grant licenses under our intellectual property, when and as we may deem appropriate.

For a discussion of risks relating to our intellectual property, see Item 1A—*We may be unable to adequately protect our proprietary information and may incur expenses to defend our proprietary information.*

### Financial Information about Foreign and Domestic Operations and Export Sales

See Note 15—Information Concerning Business Segments and Major Customers of the Notes to Consolidated Financial Statements. See also Item 1A—*We face risks from our international operations* and *We face risks from currency fluctuations.*

## Item 1A: Risk Factors

### We rely on sales to a relatively small number of OEM customers and the loss of any of these OEM customers could substantially decrease our revenues.

A significant portion of our revenues are and have been generated by sales of our printer and copier related products to a relatively small number of OEMs. For example, Canon and Xerox each contributed over 10% of our revenues for the year ended December 31, 2008 and together accounted for approximately 29% of those revenues during the same period. During the fiscal year ended December 31, 2007, Canon and Xerox each contributed over 10% of our revenues for the year ended December 31, 2007 and together accounted for approximately 31% of those revenues for the year. Because sales of our printer and copier-related products constitute a significant portion of our revenues and there is a limited number of OEMs producing copiers and printers in sufficient volume to be attractive customers for us, we expect that we will continue to depend on a relatively small number of OEM customers for a significant portion of our controller revenues in future periods.

In addition, our OEM customers have developed, and may continue to develop, their own controller products, which may compete directly with our products, which may adversely affect our revenues. Accordingly, if we lose or experience reduced sales to an important OEM customer, we will have difficulty replacing the revenue previously generated from such customers with sales to new or existing OEM customers and our controller revenue will likely decline significantly.

**The market for our super-wide-format printers is very competitive.**

The printing equipment industry is extremely competitive. Our VUTEk products compete against several companies that market digital printing systems based on electrostatic, drop-on-demand and continuous drop-on-demand inkjet, airbrush and other technologies and printers utilizing solvent and UV curable ink. Two large competitors, NUR and Scitex Vision, were acquired by Hewlett Packard (“HP”) and another large competitor, Inca, was acquired by Dai Nippon Screen (“Screen”). Both HP and Screen have greater resources to develop new products and technologies and market those products, as well as acquire or develop critical components at lower costs, which would provide a competitive advantage. They could also exert downward pressure on product pricing to gain market share.

We have also witnessed the recent growth of local Chinese and Korean markets where local competitors are developing, manufacturing and selling inexpensive printers, mainly to the local Chinese and Korean markets. These Chinese and Korean manufacturers have also begun penetrating the international market and have partnered with other super-wide format printer manufacturers. Our ability to compete depends on factors both within and outside of our control, including the price, performance and acceptance of our current printers and any products we develop in the future.

We also face competition from existing conventional wide format and super-wide format printing methods, including screen printing and offset printing. Our competitors could develop new products, with existing or new technology, that could be more competitive in our market than our printers. We cannot assure you that we can compete effectively with any such products.

**We face strong competition in the market for printing supplies such as ink.**

We compete with independent manufacturers in the ink market. We cannot guarantee that we will be able to remain the exclusive or even principal ink supplier for our printers. The loss of ink sales to our installed base of printers could adversely impact our revenues and gross margins.

We could also experience an overall reduction in price within the ink markets, which would also adversely affect our gross margins. Solvent inks are relatively easy to replicate and additional manufacturers could increase pricing competition or divert customers away from us.

**We do not typically have long term purchase contracts with our OEM customers and our OEM customers have in the past and could at any time in the future, reduce or cease purchasing products from us, harming our operating results and business.**

With the exception of certain minimum purchase obligations, we typically do not have long-term volume purchase contracts with our OEM customers, including Canon, Xerox and Konica Minolta, and they are not obligated to purchase products from us. Accordingly, our customers could at any time reduce their purchases from us or cease purchasing our products altogether. In the past, some of our OEM customers have elected to develop products on their own, rather than rely, solely or partially, on our products and we expect that customers will continue to make such elections in the future.

In addition, because our OEM customers incorporate our products into products they manufacture and sell, any decline in demand for copiers or laser printers and any other negative developments affecting our major customers or the computer industry in general, including reduced demand for the products sold by our OEM customers, would likely harm our results of operations. For example, certain customers have in the past experienced serious financial difficulties which led to a decline in sales of our products to these customers. If any significant customers should face such difficulties in the future, our operating results could be harmed through, among other things, decreased sales volumes and write-offs of accounts receivables and inventory related to products we have manufactured for these customers' products.

In addition, a significant portion of our operating expenses are fixed in advance based on projected sales levels and margins, sales forecasts from our OEM customers and product development programs. A substantial portion of our backlog is scheduled for delivery within 90 days or less and our customers may cancel orders and change volume levels or delivery times for product they have ordered from us without penalty. Accordingly, if sales to our OEM customers are below expectations in any given quarter, the adverse impact of the shortfall in revenues on operating results may be, and has been in the past, increased by our inability to adjust spending in the short term to compensate for this shortfall.

**We rely on our OEM customers to develop and sell products incorporating our controller technologies and if they fail to successfully develop and sell these products, or curtail or cease the use of our technologies in their products, our business will be harmed.**

We rely upon our OEM customers to develop new products, applications and product enhancements utilizing our controller technologies in a timely and cost-effective manner. Our continued success in the controller industry depends upon the ability of these OEM customers to utilize our technologies while meeting changing end-user customer needs and responding to emerging industry standards and other technological changes. However, we cannot provide assurance that our OEM customers will effectively meet these challenges. These OEM customers are generally not obligated to purchase products from us and we cannot provide assurance that they will continue to carry our products. For example, our OEM customers have incorporated into their products the technologies of other companies or internally developed technologies in addition to, or instead of, our technologies and will likely continue to do so in the future. If our OEM customers do not effectively and successfully market products containing our technologies, our revenue will likely be materially and adversely affected.

Our OEM customers work closely with us to develop products that are specific to each OEM customer's copiers and printers. Many of the products and technologies we are developing require that we coordinate development, quality testing, marketing and other tasks with our OEM customers. We cannot control our OEM customers' development efforts or the timing of these efforts and coordinating with our OEM customers may cause delays in our own product development efforts that are outside of our control. If our OEM customers delay the release of their products, our revenue and results of operations may be adversely affected. In addition, our revenue and results of operations may be adversely affected if we cannot meet our OEM customers' product needs for their specific copiers and printers, as well as successfully manage the additional engineering and support effort and other risks associated with such a wide range of products.

**Ongoing economic uncertainty has had and may continue to have a negative effect on our business.**

The revenue and profitability of our business depends significantly on the overall demand for information technology products that enable printing of digital data, which in turn depends on a variety of macro- and micro-economic conditions. In addition, our revenue growth and profitability in our Inkjet business depends on demand and spending for advertising and marketing products and programs, which also depends on a variety of macro- and micro-economic conditions.

Uncertainty about current global economic conditions poses a risk as our customers may delay purchases of our products in response to tighter credit, negative financial news and/or declines in income or asset values. The current financial turmoil affecting the banking system and financial markets and the possibility that financial institutions may consolidate or go out of business have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There could be a number of follow-on effects from the credit crisis on our business, including insolvency of key suppliers resulting in product delays; inability of customers and distributors to obtain credit to finance purchases of our products and/or customer and distributor insolvencies; and other financial institutions negatively impacting the Company's treasury operations. Our financial performance could also vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments or cash equivalents; impairment charges on our assets; related to equity and other investments and; interest rates. The current volatility in the financial markets and overall economic uncertainty increases the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them.

Uncertainty about current global economic conditions together with delays or reductions in information technology spending could cause a decline in demand for our products and services and consequently harm our business, operating results, financial condition, prospects and continue to increase the volatility of our stock price.

**Our operating results may fluctuate based upon many factors, which could adversely affect our stock price.**

Stock prices of high technology companies such as ours tend to be volatile as a result of various factors, including variations in operating results and, consequently, fluctuations in our operating results could adversely affect our stock price. Factors that have caused our operating results and stock price to fluctuate in the past and that may cause future fluctuations include:

- varying demand for our products, due to seasonality, OEM customer product development and marketing efforts, OEM customer financial and operational condition, OEM inventory management practices and general economic conditions;
- shifts in customer demand to lower cost products;
- success and timing of new product introductions by us and our OEM customers and the performance of our products generally;
- success and timing of new inkjet product introductions;
- volatility in foreign exchange rates, changes in interest rates and or financing credit to consumers of digital copiers and printers;
- price reductions by us and our competitors, which may be exacerbated by competitive pressures caused by economic conditions generally;
- substitution of third-party inks for our own ink products by users of our super-wide format inkjet printers;
- delay, cancellation or rescheduling of orders or projects;
- delays or shortages of supply of our key components, including without limitation inkjet print heads, and inability of our suppliers to meet our requirements;
- availability of key components and licenses, including possible delays in deliveries from suppliers, the performance of third-party manufacturers and the status of our relationships with our key suppliers;
- potential excess or shortage of employees and location of research and development centers;
- changes in our product mix such as shifts from higher revenue or gross margin products to lower revenue or gross margin products such as our inkjet products;
- costs associated with complying with any applicable governmental regulations;
- cost associated with possible SEC and regulatory actions regarding our historical stock option granting practices and remedial measures with respect to our historical stock option granting practices;
- acquisitions and integration of new businesses;

- costs related to our entry into new markets, such as commercial printing and office equipment service automation;
- general economic conditions, such as the current economic uncertainty;
- commencement of litigation or adverse results in pending litigation; and
- other risks described herein.

**We face competition from other suppliers as well as our own OEM customers and if we are not able to compete successfully our business may be harmed.**

The digital printing marketplace is highly competitive and is characterized by rapid technological changes. We compete against a number of other suppliers of imaging products and technologies, including our OEM customers themselves. Although we attempt to develop and support innovative products that end-users demand, products or technologies developed by competing suppliers, including our own OEM customers, could render our products or technologies obsolete or noncompetitive.

While many of our OEM customers incorporate our technologies into their end products on an exclusive basis, we do not have any formal agreements that prevent these OEM customers from offering alternative products that do not incorporate our technologies. If, as has occurred in the past, an OEM customer offers products incorporating technology from alternative suppliers instead of, or in addition to, products incorporating our technologies, our market share could decrease, which would likely reduce our revenue and adversely affect our financial results.

In addition, many OEMs in the printer and copier industry, including most of our OEM customers, internally develop and sell products that compete directly with our current products. These OEMs have significant investments in their existing solutions and have substantial resources that may enable them to develop or improve, more quickly than us, technologies similar to ours that are compatible with their own products. Our OEM customers have in the past marketed, and likely will continue in the future to market, their own internal technologies and solutions in addition to ours, even when their technologies and solutions are less advanced, have lower performance or cost more than our products. Given the significant financial, marketing and other resources of our larger OEM customers and other significant OEMs in the imaging industry who are not our customers, we may not be able to successfully compete against these OEMs selling similar products that they develop internally. If we cannot compete successfully against the OEMs' internally developed products, we will lose sales and market share in those areas where the OEMs choose to compete and our business will be harmed.

**Price reductions for all of our products may affect our revenues in the future.**

We have made and may in the future make price reductions for our products in order to drive demand and remain competitive. Depending upon the price-elasticity of demand for our products, the pricing and quality of competitive products and other economic and competitive conditions, such price reductions may have an adverse impact on our revenues and profits. If we are not able to compensate for lower gross margins that may result from price reductions with an increased volume of sales, our results of operations could be adversely affected.

**Entry into new markets or distribution channels could result in higher operating expenses that may not be offset by increased revenue.**

We continue to explore opportunities to develop or acquire product lines different from our current controllers, such as print management software, document scanning solutions and inkjet printers. We expect to continue to invest funds to develop new distribution and marketing channels for these and additional new products and services, which will increase our operating expenses.

We do not know if we will be successful in developing these channels or whether the market will accept any of our new products or services or if we will generate sufficient revenues from these activities to offset the additional operating expenses we incur. In addition, even if we are able to introduce new products or services, if customers do not accept these new products or services or if we are not able to price such products or services competitively, our operating results will likely suffer.

**We license software used in most of our products from Adobe Systems Incorporated and the loss of this license would prevent us from shipping these products.**

Many of our current products include software that we must license from Adobe. Specifically, we are required to obtain separate licenses from Adobe for the right to use Adobe PostScript® software in each type of copier or printer used with a Fiery Controller. Although to date we have successfully obtained licenses to use Adobe's PostScript® software when required, Adobe is not required to, and we cannot be certain that Adobe will, grant future licenses to Adobe PostScript® software on reasonable terms, in a timely manner, or at all. In addition, in order to obtain licenses from Adobe, Adobe requires that we obtain from them quality assurance approvals for our products that use Adobe software. Although to date we have successfully obtained such quality assurances from Adobe, we cannot be certain Adobe will grant us such approvals in the future. If Adobe does not grant us such licenses or approvals, if the Adobe licenses are terminated, or if our relationship with Adobe is otherwise materially impaired, we would likely be unable to sell products that incorporate Adobe PostScript® software and our financial condition and results of operations would be significantly harmed.

**We depend upon a limited group of suppliers for key components in our products. The loss of any of these suppliers, the inability of any of these suppliers to meet our requirements, or the delays or shortages of supply of these components could adversely affect our business.**

Certain components necessary for the manufacture of our products are obtained from a sole supplier or a limited group of suppliers. These include processors from Intel and other related semiconductor components and inkjet print heads for our super-wide format printers. We do not maintain long-term agreements with any of our component suppliers and conduct our business with such suppliers solely on a purchase order basis. If we are unable to continue to procure these sole-sourced components from our current suppliers in the required quantities, we will have to qualify other sources, if possible, or design our products so that they no longer require these components.

In addition, these suppliers may be concentrated within similar industries or geographic locations, which could potentially exacerbate these risks. We cannot provide assurance that other sources of these components exist or will be willing to supply us on reasonable terms or at all, or that we will be able to design around these components. Therefore any unavailability, delays or shortages of supply of these components or any inability of our suppliers to meet our requirements could harm our business. Because the purchase of certain key components involves long lead times, in the event of unanticipated volatility in demand for our products, we have been in the past and may in the future be unable to manufacture certain products in a quantity sufficient to meet demand. Further, as has occurred in the past, in the event that anticipated demand does not materialize, we may hold excess quantities of inventory that could become obsolete. In order to meet projected demand, we maintain an inventory of components for which we are dependent upon sole or limited source suppliers and components with prices that fluctuate significantly. As a result, we are subject to a risk of inventory obsolescence, which could adversely affect our operating results and financial condition.

Additionally, the market prices and availability of certain components, particularly memory and Intel-designed components, which collectively represent a substantial portion of the total manufactured cost of our products, have fluctuated significantly in the past. Such fluctuations in the future could have a material adverse effect on our operating results and financial condition including a reduction in gross margins.

**We are dependent on a limited number of subcontractors, with whom we do not have long-term contracts, to manufacture and deliver products to our customers and the loss of any of these subcontractors could adversely affect our business.**

We subcontract with other companies to manufacture our products and we do not have long-term agreements with these subcontractors. We rely on the ability of our subcontractors to produce products to be sold to our customers and while we closely monitor our subcontractors' performance we cannot assure you that such subcontractors will continue to manufacture our products in a timely and effective manner. In the past a weakened economy led to the dissolution, bankruptcy or consolidation of some of the subcontractors who are able to manufacture our products, decreasing the available number of subcontractors. If the available number of subcontractors were to again decrease, it is possible that we would not be able to secure appropriate subcontractors to fulfill our demand in a timely manner or at all, particularly if demand for our products increases.

The existence of fewer subcontractors may also reduce our negotiating leverage potentially resulting in higher product costs. Difficulties experienced by our subcontractors, including financial problems and the inability to make or ship our products or fix quality assurance problems, could harm our business, operating results and financial condition. If we decide to change subcontractors, we could experience delays in finding, qualifying and commencing business with new subcontractors which would result in both delay in delivery of our products and also potentially the cancellation of orders for our products.

In 2008, a high concentration of our Fiery controllers is manufactured at a single subcontractor location, Celestica in Toronto, Ontario, Canada. We are transferring to a new sub-contractor in 2009: Bell Microproducts. Should Celestica or Bell Microproducts experience any inability to, or refuse to, manufacture or deliver product from this location our business, financial condition and operations could be harmed. Since we do not maintain long-term agreements with our subcontractors, any of our subcontractors could enter into agreements with our competitors that might restrict or prohibit such subcontractors from manufacturing our products or could otherwise lead to an inability of such subcontractors from filling our orders in a timely manner. In such event, we may not be able to find suitable replacement subcontractors and our business, financial condition and operations would likely be harmed.

**We may face increased risk of inventory obsolescence related to our super-wide format inkjet printers and ink.**

We procure raw materials and build our super-wide printers and ink products based on our sales forecasts. If we do not accurately forecast demand for our products we may end up with excess inventory, or we may lose sales because we do not have the correct products available for sale. If we have excess printers or other products we may have to lower prices to stimulate demand. We may also run the risk that our inventory of raw materials may become obsolete. Our ink products have a defined shelf life. If we do not sell the ink before the end of its shelf life it will no longer be sellable and will have to be expensed.

**If we are not able to hire and retain skilled employees, we may not be able to develop products or meet demand for our products in a timely fashion.**

We depend upon skilled employees, such as software and hardware engineers, quality assurance engineers and other technical professionals with specialized skills. We are headquartered in the Silicon Valley and additionally have research and development offices in India. Competition in both locations has historically been intense amongst companies hiring engineering and technical professionals. In times of professional labor imbalances, it has in the past and is likely in the future to be difficult for us to locate and hire qualified engineers and technical professionals and for us to retain these people. There are many technology companies located near our corporate offices in the Silicon Valley and our operations in India that may try to hire our employees. The movement of our stock price may also impact our ability to hire and retain employees. If we do not offer competitive compensation, we may not be able to recruit or retain employees, which may have an adverse effect on our ability to develop products in a timely fashion, which could harm our business, financial condition and operating results.

We offer a broad-based equity compensation plan based on granting options and restricted stock from stockholder-approved plans in order to be competitive in the labor market. If we cannot offer equity awards when necessary to enable us to offer compensation competitive with those offered by other companies seeking the same employees, it may be difficult for us to hire and retain skilled employees.

**Our acquisitions in the Inkjet and APPS product categories increased the chance that we will experience additional bad debt expense.**

Our OEM customers are typically large profitable customers who present little credit risk to us. Our APPS and Inkjet businesses sell primarily via a direct sales force to a broader base of customers, many of whom are smaller and potentially less credit worthy. In addition, as we continue to increase our revenues from our Inkjet customers, many of whom are located overseas in many countries, it may be hard to enforce our legal rights should collection issues arise.

**Because of our acquisitions we now sell our products to distributors and directly to the end-user. If we are unable to effectively manage a direct sales force, sales and revenues could decline.**

We have traditionally sold our products to our OEM partners, who in turn sold the product to the end-user. Our marketing focused on manufacturers and distributors of the manufacturers' equipment, not on the end-user of the product. We now sell our professional printing applications and our inkjet printers and ink to distributors and directly to the end-user. If we are unable to effectively manage a direct sales force and develop a marketing program that can reach the end-users, we are likely to see a decline in revenues from those products.

**Acquisitions may result in unanticipated accounting charges or otherwise adversely affect our results of operations and result in difficulties in assimilating and integrating the operations, personnel, technologies, products and information systems of acquired companies or businesses.**

We seek to develop new technologies and products from both internal and external sources. As part of this effort, we have in the past made, and will likely continue to make, acquisitions of other companies or other companies' assets.

Acquisitions involve numerous risks, such as:

- if we issue equity securities in connection with an acquisition, the issuance may be dilutive to our existing stockholders; alternatively, acquisitions made entirely or partially for cash (such as our acquisition of VUTEk) will reduce our cash reserves;
- difficulties in integration of operations, employees, technologies, or products and the related diversion of management time and effort to accomplish successful integration;
- risks of entering markets in which we have little or no prior experience, or entering markets where competitors have stronger market positions;
- possible write-downs of impaired assets;
- potential loss of key employees of the acquired company;
- possible expense overruns;
- an adverse reaction by customers, suppliers or partners of the acquired company or EFI;
- the risk of changes in ratings by stock analysts;
- potential litigation surrounding transactions or the prior actions of the acquired company, such as the VUTEk patent lawsuit or any administrative proceedings;
- the inability to protect or secure technology rights; and
- increases in operating costs;

Mergers and acquisitions of companies are inherently risky and we cannot provide assurance that our previous or future acquisitions will be successful or will not harm our business, operating results, financial condition, or stock price.

**We may ultimately not receive amounts held in escrow related to disposition of assets.**

On January 29, 2009, we sold a portion of our Foster City campus to Gilead Sciences, Inc. for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. While the escrow holdback is expected to be released by January 2010, no assurance can be given that we will ultimately receive amounts held in escrow.

**We face risks relating to the impairment of our goodwill and long-lived assets.**

We complete a review of the carrying value of our assets annually and, based on a combination of factors, we may be required to perform an interim analysis. During the fourth quarter of 2008, the Company's market capitalization declined significantly as a result of declining worldwide economic conditions caused by the tightening of global credit markets. Based on a combination of factors including the recent economic environment, the resulting erosion in our market capitalization, and the degradation of our revenue forecast subsequent to the third quarter of 2008, we performed an interim impairment analysis during the fourth quarter of 2008. Based on the outcome of the interim impairment analysis, we concluded that an impairment had occurred relating to the Inkjet product category resulting in a non-cash impairment charge of $111.9 million during the quarter related to both goodwill and other long-lived assets.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross margin rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the third quarter of 2009 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

While impairment does not impact reported cash flows, it does result in a non-cash charge in the Consolidated Statements of Operations and thus no assurance can be given that any future impairments would not affect our financial performance and valuation of assets and, as a result, harm our business, operating results, financial condition, or stock price.

**We face risks from currency fluctuations.**

Approximately $262.5 million and $293.4 million of our revenue from the sale of products for the years ended December 31, 2008 and 2007, respectively, came from sales outside the Americas, primarily to Europe and Japan. We expect that sales outside the Americas will continue to represent a significant portion of our total revenue. The majority of our revenues are invoiced in U.S. dollars.

Given the significance of our non-U.S. sales to our total product revenue, we face a continuing risk from the fluctuation of the U.S. dollar versus foreign currencies. When we invoice our customers in their respective local currencies, our cash flows and earnings are exposed to fluctuations in interest rates and foreign currency exchange rates between the currency of the invoice and the U.S. dollar.

In addition, we have a substantial number of international employees which creates material operating costs denominated in foreign currencies. We have attempted to limit or hedge these exposures through operational strategies where we have considered it appropriate in the past, although no hedging activities occurred in 2008. Our efforts to reduce the risk from our international operations and from fluctuations in foreign currencies or interest rates may not be successful, which could harm our financial condition and operating results.

**We face risks from our international operations.**

We are subject to certain risks because of our international operations. Changes to and compliance with a variety of foreign laws and regulations that may increase our cost of doing business and our inability or failure to obtain required approvals could harm our international and domestic sales. Trade legislation in either the United States or other countries, such as a change in the current tariff structures, export compliance laws or other trade policies, could adversely affect our ability to sell or to manufacture in international markets. Some of our sales to international customers are made under export licenses that must be obtained from the United States Department of Commerce (“DOC”) and certain transactions require prior approval of the DOC. Changes in governmental regulation and our inability or failure to obtain required approvals, permits or registrations could harm our international and domestic sales and adversely affect our revenues, business and operations. Any violations could result in fines and penalties, including prohibiting us from exporting our products to one or more countries, and could materially and adversely affect our business.

Moreover, local laws and customs in many countries differ significantly from those in the United States. We incur additional legal compliance costs associated with our international operations and could become subject to legal penalties in foreign countries if we do not comply with local laws and regulations, which may be substantially different from those in the United States. In many foreign countries, particularly in those with developing economies, it may be common to engage in business practices that are prohibited by United States regulations applicable to us such as the Foreign Corrupt Practices Act. Although we implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices which violate such United States laws may be customary, will not take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business.

Other risks include natural disasters and political or economic conditions in a specific country or region. In addition, many countries in which we derive revenues do not currently have comprehensive and highly developed legal systems, particularly with respect to the protection of intellectual property rights, which, among other things, can result in the prevalence of infringing products and counterfeit goods in certain countries, which could harm our business and reputation.



**We may be unable to adequately protect our proprietary information and may incur expenses to defend our proprietary information.**

We rely on a combination of copyright, patent, trademark and trade secret protection, nondisclosure agreements and licensing and cross-licensing arrangements to establish, maintain and protect our intellectual property rights, all of which afford only limited protection. We have patents and pending patent applications in the United States and in various foreign countries. There can be no assurance that patents will issue from our pending applications or from any future applications, or that, if issued, any claims allowed will be sufficiently broad to protect our technology. Any failure to adequately protect our proprietary information could harm our financial condition and operating results. We cannot be certain that any patents that have been or may in the future be issued to us, or which we license from third parties, or any other of our proprietary rights will not be challenged, invalidated or circumvented. In addition, we cannot be certain that any rights granted to us under any patents, licenses or other proprietary rights will provide adequate protection of our proprietary information.

In addition, as different areas of our business change or mature, from time to time we evaluate our patent portfolio and make decisions either to pursue or not to pursue specific patents and patent applications related to such areas. Choosing not to pursue certain of our patents, patentable applications and failing to file applications for potentially patentable inventions, may harm our business by, among other things, enabling our competitors to more effectively compete with us, reducing the potential claims we can bring against third parties for patent infringement and limiting our potential defenses to intellectual property claims brought by third parties.

Litigation has been and may continue to be necessary to defend and enforce our proprietary rights. Such litigation, whether or not concluded successfully for us, could involve significant expense and the diversion of our attention and other resources, which could harm our financial condition and operating results.

**We face risks from third party claims of infringement and potential litigation.**

Third parties have claimed in the past and may claim in the future that our products infringe, or may infringe, their proprietary rights. Such claims have in the past resulted in lengthy and expensive litigation and could do so in the future. Such claims and any related litigation, whether or not we are successful in the litigation, could result in substantial costs and diversion of our resources, which could harm our financial condition and operating results. Although we may seek licenses from third parties covering intellectual property that we are allegedly infringing, we cannot assure you that any such licenses could be obtained on acceptable terms, if at all.

**We may be subject to environmental related liabilities due to our use of hazardous materials and solvents.**

We conduct our business operations that involve the use of certain hazardous materials at two separate locations. At these facilities, we mix ink used in some of our printers with solvents and other hazardous materials. Those materials are subject to various governmental regulations relating to their transfer, handling, packaging, use and disposal. We store the ink at warehouses worldwide, including Europe and the United States, and shipping companies ship it at our direction. We face potential responsibility for problems such as spills that may arise when we ship the ink to customers. While we customarily obtain insurance coverage typical for this kind of risk, such insurance may not be sufficient in amount. If we fail to comply with these laws or an accident involving our ink waste or solvents occurs, or if our insurance coverage is not sufficient, then our business and financial results could be harmed.

**Future sales of our hardware products in European Union ("EU") member countries could be limited due to the enactment of the EU Restriction of Hazardous Substances in Electrical and Electronic Equipment ("ROHS").**

Since July 1, 2006 forward, new electrical and electronic equipment sold in the EU must not contain lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls ("PBBs") or polybrominated diphenyl ethers ("PBDEs"). These must be replaced by other non- or less than-toxic substances. Manufacturers must comply with significant, and potentially costly, compliance requirements in order to meet the ROHS deadline. Some of our products may not have been converted before the deadline. As a result, we may not be allowed to sell those products in the EU until the products are made fully compliant, which could harm our business and financial results. We could also incur additional costs and liabilities in connection with non-compliant product recalls, regulatory fines and exclusion of non-compliant products from certain markets.

**Our products may contain defects which are not discovered until after shipping.**

Our products consist of hardware and software developed by ourselves and others. Our products may contain undetected errors and we have in the past discovered software and hardware errors in certain of our products after their introduction, resulting in warranty expense and other expenses incurred in connection with rectifying such errors. Errors could be found in new versions of our products after commencement of commercial shipment and any such errors could result in a loss or delay in market acceptance of such products and thus harm our reputation and revenues. In addition, errors in our products (including errors in licensed third party software) detected prior to new product releases could result in delays in the introduction of new products and our incurring additional expense, which could harm our operating results. We generally provide a twelve month warranty for certain products, which may cover both parts and labor. In the future, we may incur substantial warranty claim expenses on our products which may exceed our estimated warranty reserves, which could harm our business, financial condition and operating results.

**Actual or perceived security vulnerabilities in our products could adversely affect our revenues.**

Maintaining the security of our software and hardware products is an issue of critical importance to our customers and for us. There are individuals and groups who develop and deploy viruses, worms and other malicious software programs that could attack our products. Although we take preventative measures to protect our products, and we have a response team that is notified of high-risk malicious events, these procedures may not be sufficient to mitigate damage to our products. Actual or perceived security vulnerabilities in our products could lead some customers to seek to return products, to reduce or delay future purchases or to purchase competitive products. Customers may also increase their expenditures on protecting their computer systems from attack, which could delay or reduce purchases of our products. Any of these actions or responses by customers could adversely affect our revenues.

**System failures or system unavailability could harm our business.**

We rely on our network infrastructure, internal technology systems and our internal and external websites for our development, marketing, operational, support and sales activities. Our hardware and software systems related to such activities are subject to damage from malicious code released into the public Internet through recently discovered vulnerabilities in popular software programs. These systems are also subject to acts of vandalism and to potential disruption by actions or inactions of third parties. Any event that causes failures or interruption in our hardware or software systems could harm our business, financial condition and operating results.

**The location and concentration of our facilities subjects us to the risk of earthquakes, floods or other natural disasters and public health risks.**

Our corporate headquarters, including most of our research and development facilities, are located in the San Francisco Bay Area, an area known for seismic activity. This area has also experienced flooding in the past. In addition, many of the components necessary to supply our products are purchased from suppliers based in areas including the San Francisco Bay Area, Taiwan and Japan and are therefore subject to risk from natural disasters. A significant natural disaster, such as an earthquake, flood or typhoon, could harm our business, financial condition and operating results.

Our employees, suppliers and customers are located worldwide. We face the risk that our employees, suppliers, or customers, either through travel or contact with other individuals, could become exposed to contagious diseases endemic to particular regions of the world. In addition, governments in those regions have from time-to-time imposed quarantines and taken other actions in response to contagious diseases that could affect our operations. If a significant number of employees, suppliers, or customers were unable to fulfill their obligations, due to contagious diseases, actions taken in response to contagious diseases, or other reasons, our business, financial condition and operating results could be harmed.

**We are subject to numerous federal and state employment laws and may face claims in the future under such laws.**

We are subject to numerous federal and state employment laws, and from time to time we face claims by our employees and former employees under such laws. Although there are no pending or threatened claims under wage and hour laws against us, we cannot assure you that claims under such laws or other employment-related laws will not be attempted in the future against us, nor can we predict the likely impact of any such claims on us, or that, if asserted, we would be able to successfully resolve any such claims without incurring significant expenses.

**We may be subject to the risk of loss due to fire because the materials we use in the manufacturing process of our inks are flammable.**

We use flammable materials in the manufacturing processes of our inks and may therefore be subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. We own certain facilities that manufacture our inks, which increases our exposure to such risk in case these facilities are destroyed. We maintain insurance policies to reduce losses caused by fire, including business interruption insurance. If one or more of these facilities is damaged or otherwise ceases operations as a result of a fire, it would reduce manufacturing capacity and, consequently, may reduce revenues and adversely affect our business.

**The value of our investment portfolio is subject to interest rate volatility.**

We have an investment portfolio of mainly fixed income securities classified as available-for-sale securities. As a result, our investment portfolio is subject to volatility if market interest rates fluctuate and counterparty risk. We attempt to limit this exposure to interest rate risk by investing in securities with maturities of less than three years; however, we may be unable to successfully limit our risk to interest rate fluctuations and this may cause volatility in our investment portfolio value.

**Our stock price has been volatile historically and may continue to be volatile.**

The market price for our common stock has been and may continue to be volatile. During the twelve-month period ended December 31, 2008, the price of our common stock as reported on The NASDAQ Global Select Market ranged from a low of $7.56 to a high of $22.44. We expect our stock price to be subject to fluctuations as a result of a variety of factors, including factors beyond our control. These factors include:

- actual or anticipated variations in our quarterly or annual operating results;
- ability to complete share repurchase programs;
- our failure to meet analyst expectations;
- announcements of technological innovations or new products or services by us or our competitors;
- announcements relating to strategic relationships, acquisitions or investments;
- announcements by our customers regarding their businesses or the products in which our products are included;
- changes in financial estimates or other statements by securities analysts;
- changes in general economic conditions;
- terrorist attacks and the effects of military engagements or natural disasters;
- changes in the rating of our securities;
- changes in the economic performance and/or market valuations of other software and high-technology companies; and
- commencement of litigation or adverse results in pending litigation.

Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts from time-to-time and the trading prices of our securities could decline as a result. In addition, the stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many high-technology companies, including the economic uncertainty over the past several months. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies. Any negative change in the public's perception of high-technology companies could depress our stock price regardless of our operating results.

On February 5, 2009, our Board of Directors approved a $100 million share repurchase program, including a $30 million accelerated share repurchase ("ASR") by utilizing a portion of the proceeds from the recent sale of land and building to Gilead. On February 18, 2009, we entered into an agreement with UBS AG, London branch ("UBS") to repurchase $30 million of our common stock under the ASR program. We expect to complete the repurchases under the ASR program in the second or third quarter of 2009, with the final completion date subject to the discretion of UBS.

**Our stock repurchase program could affect our stock price and add volatility.**

Any repurchases pursuant to our stock repurchase program, including our accelerated share repurchase program, could affect our stock price and add volatility. There can be no assurance that the repurchases will be made at the best possible price. Potential risks and uncertainties also include, but are not necessarily limited to, our ability to complete the share repurchases within the originally expected timing, the amount and timing of future share repurchases and the original funds used for such repurchases. The existence of a stock repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock.

Additionally, we are permitted to and could discontinue our stock repurchase program at any time and any such discontinuation could cause the market price of our stock to decline.

**Under regulations required by the Sarbanes-Oxley Act of 2002, our internal controls over financial reporting may become ineffective, and this could have a negative impact on our stock price.**

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we establish and maintain an adequate internal control structure and procedures for financial reporting and assess on an ongoing basis the design and operating effectiveness of our internal control structure and procedures for financial reporting. Although no known material weaknesses are believed to exist at this time, it is possible that material weaknesses could be identified. If we are unable to remediate the weaknesses, our management would be required to conclude that our internal controls over financial reporting were not effective. In addition to their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors, omissions, or fraud.

**The matters relating to the shareholder derivative litigation concerning our historical stock option granting practices could require us to continue incurring additional expenses for accounting, legal and other professional services, diverted our management's attention from our business and had and may continue to have a material adverse effect on our financial performance.**

The matters relating to our historical stock option practices and shareholder derivative litigation required us to expend significant management time and incur significant accounting, legal and other expenses.

During the fiscal year of 2008, the Securities and Exchange Commission (the "SEC") notified us that it had terminated the informal inquiry into the Company's historical stock option practices and that no enforcement action had been recommended and the Delaware Chancery Court approved the proposed settlement of related shareholder derivative litigation. The settlement provided for the adoption of certain remedial measures, including the cancellation and repricing of certain stock options, certain payments to be made to the Company and the adoption of a number of changes to our corporate governance and procedures. Although we have substantially implemented the proposed remedial measures and the SEC investigation and related shareholder derivative litigation are now closed, there can be no guarantee that we will not incur additional expenses in the future, related to our historical stock option granting practices, the settlement and the remedial measures.

**A reduction in our net income as reported on our financial statements could increase the likelihood of identifying a material weakness in our internal controls over financial reporting.**

The threshold for determining whether or not we have a material weakness in our internal controls over financial reporting and procedures as defined by the Sarbanes-Oxley Act is, in part, based on our generally accepted accounting principles, or GAAP, net income. Lowered GAAP net income, with an associated lowered materiality threshold, may increase our risk that internal control weaknesses may result in a material misstatement in the financial statements. For example, continued acquisitions, and the associated amortization of intangibles, will increase our amortization expenses and in the future may lower our GAAP earnings which would result in a lower materiality threshold for internal control testing.

**Our synthetic lease arrangements may adversely affect our cash flow.**

As of December 31, 2008, we were a party to two synthetic leases (the "301 Lease" and the "303 Lease", together "Leases") covering our Foster City facilities located at 301 and 303 Velocity Way, Foster City, California. These leases provided a cost effective means of providing adequate office space for our corporate offices. Both Leases were scheduled to expire in July 2014. The leases included an option to purchase the facilities during or at the end of the term of the leases for the amount expended by the lessor to purchase the facilities. We have exercised our purchase option in January 2009 with respect to the 301 Lease. On January 29, 2009, we completed the sale of land and building to Gilead for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010. The property sold included approximately thirty acres of land and the office building located on the land at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property.

We have guaranteed to the lessor a residual value associated with the buildings equal to 82% of their funding of the respective Leases. Under the financial covenants, we must maintain a minimum net worth and a minimum tangible net worth as of the end of each quarter. There is an additional covenant regarding mergers. We were in compliance with all such financial and merger related covenants as of December 31, 2008. We are liable to the lessor for the financed amount of the buildings if we default on our covenants. Since we exercised our purchase option with respect to the 301 Lease, our exposure under our remaining synthetic lease arrangements is $56.9 million as of January 29, 2009.

Our remaining synthetic lease arrangement with respect to the 303 Lease could have significant negative consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions, as we are required to maintain compliance with financial covenants regardless of external conditions;
- limit our ability to obtain additional financing due to covenants and the existing leverage;
- require the dedication of funds to comply with the financial covenants, thereby reducing the availability of cash flow and/or ability to obtain financing to fund our growth strategy, working capital, capital expenditures, and other general corporate purposes; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry by restricting the funds available for use in addressing such changes; and place us at a competitive disadvantage relative to our competitors.

## Item 1B: Unresolved Staff Comments

None.

## Item 2: Properties

As of December 31, 2008 we owned or leased a total of approximately 1.0 million square feet of space worldwide. The following table sets forth the location, size and use of our principal facilities (square footage in thousands):

| Location | Square footage (thousands) | Leased or owned | Principal uses |
|---|---|---|---|
| Foster City, California (303 Velocity Way) | 295 | Leased** | Corporate offices, design and engineering, product testing, customer service |
| Foster City, California (301 Velocity Way) | 163 | Leased* | Corporate offices sold in January 2009 |
| Meredith, New Hampshire | 160 | Owned | Manufacturing (VUTEk printers and ink), design and engineering, sales, customer service |
| Ypsilanti, Michigan | 70 | Leased | Manufacturing (ink), design and engineering, sales, customer service |
| Bangalore, India | 69 | Leased | Design and engineering, sales, administrative services |

| Location | Square footage | Leased or owned | Principal uses |
|---|---|---|---|
| | (thousands) | | |
| Norcross, Georgia | 52 | Leased | Design and engineering |
| Minneapolis, Minnesota | 44 | Owned | Design and engineering, customer service, software engineering |
| Scottsdale, Arizona | 29 | Leased | Administrative services, customer service |
| Ratingen, Germany | 27 | Leased | Software engineering, sales, customer service |
| Pittsburgh, Pennsylvania | 26 | Leased | Software engineering, sales |
| Lebanon, New Hampshire | 18 | Leased | Software engineering |
| Brussels, Belgium | 17 | Leased | Sales, customer service |
| Schiphol-Rijk, The Netherlands | 17 | Leased | European corporate offices, sales, support services |
| Parsippany, New Jersey | 12 | Leased | Design and engineering |
| Tokyo, Japan | 6 | Leased | Sales, design and engineering |

* At December 31, 2008, approximately 83,596 square feet were sub-leased. On January 29, 2009, we sold the 163,000 square feet building and approximately 30 acres of land to Gilead. Please see Note 13—Sale of Land and Building in the Notes to Consolidated Financial Statements for further disclosure.

** At our option, we could purchase the facilities during or at the end of the leases for the amount expended by the lessor to purchase the facilities. Please see Note 8—Commitment and Contingencies of the Notes to Consolidated Financial Statements.

We believe that our facilities, in general, are adequate for our present needs. We do not expect that, if the need arises, we would experience difficulties in obtaining additional space at fair market rates.

## Item 3: Legal Proceedings

### Legal Proceedings

We may be involved, from time to time, in a variety of claims, lawsuits, investigations and proceedings relating to contractual disputes, securities law, intellectual property, employment matters and other claims or litigation matters relating to various claims that arise in the normal course of our business. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our specific litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Because of the uncertainties related to both the amount and ranges of possible loss on the pending litigation matters, we are unable to predict with certainty the precise liability that could finally result from a range of possible unfavorable outcomes. However, taking all of the above factors into account, we reserve an amount that we could reasonably expect to pay for the cases discussed. However, our estimates could be wrong, and we could pay more or less than our current accrual. Litigation can be costly, diverting management's attention and could, upon resolution, have a material adverse effect on our business, results of operations, financial condition and cash flow.

As of December 31, 2008, the end of the annual period covered by this report, we are subject to the various claims, lawsuits, investigations or proceedings discussed below, as well as certain other legal proceedings that have arisen in the ordinary course of business. We also settled certain matters during the fourth quarter of 2008.

**Leggett & Platt, Inc. and L&P Property Management Company:**

On November 6, 2007, EFI filed a complaint against Leggett & Platt, Inc. and its patent holding subsidiary, L&P Property Management Company in the U.S. District Court for the Eastern District of Missouri for declaratory and injunctive relief challenging the validity and enforceability of a patent issued to L&P. The challenged patent is a continuation of a patent that L&P previously asserted against EFI in a prior court action. The court ultimately invalidated the patent in the prior court action on multiple grounds. EFI firmly believes that the court should summarily invalidate the continuation patent for similar reasons. Further, EFI believes that L&P's failure to adequately disclose the previous lawsuit proceedings to the U.S. Patent and Trademark Office amounts to inequitable conduct that should render the new patent unenforceable. Thus, EFI has filed a motion for summary judgment on these issues. L&P filed counterclaims against EFI, including claims for alleged infringement of the continuation patent. While EFI believes that its products do not infringe, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this litigation.

**Durst Fototechnik Technology GmbH v. Electronics for Imaging, GmbH et al.:**

On February 23, 2007, Durst brought a patent infringement action against Electronics for Imaging, GmbH ("EFI GmbH") in the Mannheim District Court in Germany. On May 10, 2007, EFI GmbH filed its Statement of Defenses. These defenses include lack of jurisdiction, non-infringement, invalidity and unenforceability based on Durst's improper actions before the German patent office. The Company filed its Statement of Defense on August 29, 2007. EFI's defenses include those for EFI GmbH, as well as an additional defense for prior use based on EFI's own European patent rights. The Mannheim court conducted a trial on November 30, 2007. At the conclusion of the trial, the court ordered the parties to provide further briefing regarding issues raised by EFI regarding the validity of Durst's patent. On February 15, 2008, the Court decided to appoint an expert to assist it on questions related to the validity of the Durst utility model right. EFI will continue to defend itself vigorously. While EFI believes that its products do not infringe any valid claim of Durst's patent, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this litigation.

**Acacia | Screentone Patent Litigation:**

On August 8, 2007, Screentone Systems Corporation, a subsidiary of Acacia Technologies Group, initiated litigation against several defendants, including Konica Minolta Printing Solutions, Canon USA, and Ricoh Americas, for infringement of a patent related to apparatus and methods of digital halftoning in the U.S. District Court for the Eastern District of Texas. Konica Minolta, Canon and Ricoh are EFI customers. EFI has contractual obligations to indemnify its customers to varying degrees and subject to various circumstances. At least one defendant has written requesting indemnification for any EFI products that allegedly infringe these patents.

In order to protect its products and its customers, on November 13, 2007 EFI filed a declaratory judgment action ("DJ") in the U.S. District Court for the Central District of California seeking to invalidate the patent asserted in the Texas action, as well as an additional patent Acacia identified in previous correspondence. At about the same time, other defendants from the Texas actions filed DJ actions in Washington and Delaware. A federal multidistrict litigation panel consolidated all cases with EFI's case in the U.S. District Court for the Central District of California, where the consolidated cases are now proceeding. The claims challenging the patent first asserted in the Texas action remain pending, and the consolidated case is currently set for trial on August 30, 2010.

While EFI does not believe that its products infringed any valid claim of Acacia and Screentone's patents, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this litigation.

**Bureau of Industry and Security Export Investigation:**

In January 2005, prior to EFI's acquisition of VUTEk, the U.S. Commerce Department's Bureau of Industry and Security ("BIS") initiated an investigation of VUTEk relating to VUTEk's alleged failure to comply with U.S. export regulations in connection with several export sales to Syria in 2004. EFI self-initiated an internal compliance review of historical export practices for both VUTEk and EFI. Potential violations uncovered during our compliance review were voluntarily disclosed to BIS in November 2006 (for VUTEk) and December 2006 (for EFI). Additionally, we provided BIS with detailed reports of our compliance review findings and supplemental information in March 2007 (for VUTEk) and May 2007 (for EFI). The areas of possible non-compliance found in the internal review relate to: (1) deemed exports of controlled encryption source code and/or technology to foreign nationals of Syria and Iran, (2) exports of printers and other products with encryption functionality before completion of encryption reviews by BIS and (3) statistical reporting errors on some export declarations. The Office of Export Enforcement at BIS HQ referred the VUTEk matter to an attorney in the Office of Chief Counsel for Industry and Security for final determination. In December 2008, these matters were resolved with administrative penalties of $32,000.

**Purported Derivative Shareholder Complaints:**

Beginning on August 16, 2006, several purported derivative shareholder complaints were filed in the Superior Court of the State of California for the County of San Mateo, the United States District Court for the Northern District of California, and Delaware Chancery Court. The complaints generally alleged that certain of the Company's current and former officers and/or directors breached their fiduciary duties by improperly backdating stock option grants to various officers and directors in violation of the Company's stock option plans, as well as in improperly accounting for the allegedly backdated options in violation of Generally Accepted Accounting Principles. The actions in the Northern District of California also alleged that the individual defendants violated the Securities Exchange Act of 1934. The Delaware actions also purported to be brought on behalf of a class consisting of all others similarly situated and alleged a class claim for breach of the fiduciary duty of disclosure. The actions filed in San Mateo County were dismissed without prejudice. The actions in the Northern District of California were stayed in deference to the litigation pending in Delaware.

On September 4, 2008, the Delaware Chancery Court approved the previously disclosed proposed settlement of related shareholder derivative litigation concerning the Company's historical option granting practices. On October 6, 2008, the time to file a notice of appeal from the Chancery Court's order approving the settlement elapsed, and no notice of appeal was filed.

Pursuant to the settlement, the Company received $5.0 million in insurance proceeds and paid approximately $3.1 million in plaintiffs' legal fees and costs in October 2008. The settlement also provided for the adoption of certain remedial measures, including the cancellation and repricing of certain stock options, certain payments to be made to the Company and the adoption of a number of changes to EFI's corporate governance and procedures.

**Tesseron Patent Litigation:**

On September 26, 2007, Tesseron, Ltd. initiated litigation against Konica Minolta Business Solutions USA, Konica Minolta Business Technologies and Konica Minolta Holdings for infringement of eight patents related to variable printing technology in the United States District Court for the Northern District of Ohio, Eastern Division. Konica Minolta is an EFI customer and the complaint references EFI Fiery variable data enabled printer controllers. EFI has contractual obligations to indemnify its customers to varying degrees and subject to various circumstances. Konica Minolta has written requesting indemnification for any EFI products that allegedly infringe these patents. On December 6, 2007, Tesseron filed an amended complaint in the Ohio action wherein it added EFI and Ricoh as defendants, but dropped 6 of the 8 original patents in suit.

On October 30, 2007, EFI filed a complaint against Tesseron in the United States District Court for the Northern District of California, which subsequently transferred the action to the United States District Court for the Northern District of Ohio. EFI's complaint sought a declaratory judgment that Tesseron's patents are invalid and/or not infringed. EFI also sought to prevent Tesseron and its attorneys from threatening EFI or its OEM customers with infringement of those patents, or bringing a lawsuit claiming infringement with regard to such products. After transfer of EFI's action to Ohio, EFI negotiated for a covenant not to sue on 6 of the 8 patents that Tesseron had originally threatened against EFI and its customers.

On September 30, 2008, EFI reached a settlement with Tesseron and, on October 17, 2008, the Ohio District Court dismissed EFI's and Tesseron's claims, defenses, and counterclaims against one another. The terms of the settlement between the parties are confidential and the amount has been paid to Tesseron in full.

## Item 4: Submission of Matters to a Vote of Security Holders

None.

# PART II

## Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has traded on the NASDAQ National Market (now The NASDAQ Global Select Market) under the symbol EFII since October 2, 1992. The table below lists the high and low sales price during each quarter the stock was traded in 2008 and 2007.

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| High | 22.44 | 16.85 | 17.16 | 13.96 | 27.01 | 30.20 | 30.11 | 27.86 |
| Low | 12.35 | 14.00 | 13.10 | 7.56 | 22.11 | 23.44 | 23.52 | 20.56 |

As of February 20, 2009 there were 290 stockholders of record. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to provide the actual number of stockholders represented by these record holders.

We did not declare or pay cash dividends on our capital stock in either fiscal year 2008 or 2007. We currently anticipate that we will retain all available funds for the operation of our business and will not pay any cash dividends in the foreseeable future.

### Equity Compensation Plan Information

Information regarding our equity compensation plans may be found in Item 12 of this Annual Report on Form 10-K and is incorporation herein by reference.

### Repurchases of Equity Securities

Purchases of equity securities during the twelve months ended December 31, 2008 were (in thousands except for per share amounts):

| Fiscal month | Total number of shares purchased[2] | Average price paid per share | Total number of shares purchased as part of publicly announced plans | Approximate dollar value of shares that may yet be purchased under the plans[1] |
|---|---|---|---|---|
| January 2008 | 901 | $13.75 | 901 | $85,412 |
| February 2008 | 1,096 | $15.13 | 1090 | $68,922 |
| March 2008 | 1 | $14.00 | 0 | $ — |
| April 2008 | 6 | $14.42 | 0 | $ — |
| May 2008 | 838 | $15.94 | 837 | $55,580 |
| June 2008 | 0 | $ — | 0 | $55,580 |
| July 2008 | 110 | $14.01 | 109 | $54,049 |
| August 2008 | 729 | $15.39 | 729 | $42,829 |
| September 2008 | 4 | $13.88 | 0 | $42,829 |
| October 2008 | 418 | $ 9.26 | 418 | $38,950 |
| November 2008 | 617 | $ 9.35 | 614 | $33,208 |
| December 2008 | 33 | $ 9.76 | 0 | $33,208 |
| Total | 4,753 | $13.72 | 4,698 | |

(1) In November 2007, our Board of Directors authorized $100.0 million to be used for the repurchase of outstanding common stock. For the twelve months ended December 31, 2008, we repurchased a total of

4.7 million shares for an aggregate purchase price of $64.6 million under these publicly announced plans. In February 2009, the $33.2 million remaining for repurchase under the 2007 board authorization was canceled by the Board of Directors and replaced with a new authorization to purchase an additional $100.0 million of outstanding common stock. Our buyback program is limited by SEC regulations and compliance with the Company's insider trading policy.

(2) Includes approximately 55 thousand shares purchased from employees to satisfy tax withholding obligations that arise on the vesting of shares of restricted stock awards and stock units in addition to the 4.7 million shares repurchased pursuant to our stock repurchase program.

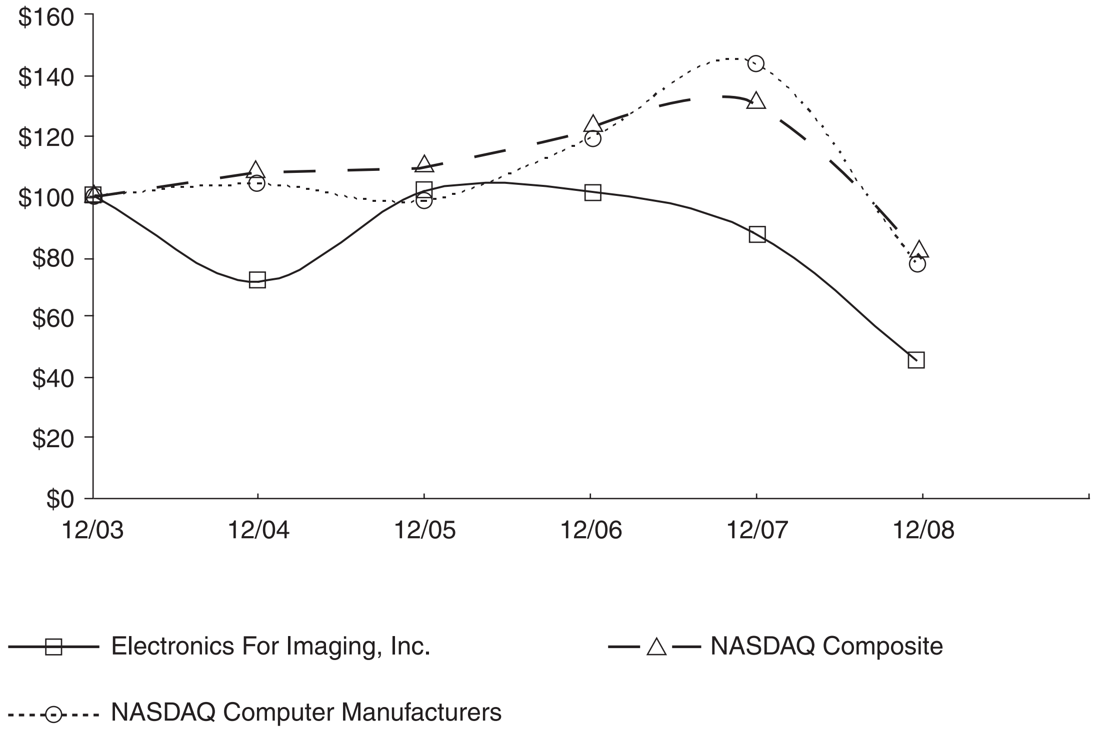
**Comparison of Cumulative Total Return among Electronics For Imaging, Inc., Nasdaq Composite and Nasdaq Computer Manufacturers Index**

*The stock price performance graph below includes information required by the SEC and shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report into any filing under the Securities Act of 1933 as amended or under the Securities Exchange Act of 1934 as amended (the "Exchange Act"), except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such Acts or subject to the liabilities of Section 18 of the Exchange Act.*

The following graph demonstrates a comparison of cumulative total returns based upon an initial investment of $100 in the Company's Common Stock as compared with the NASDAQ Composite and the NASDAQ Computers and Manufacturers Index. The stock price performance shown on the graph below is not indicative of future price performance and only reflects the Company's relative stock price for the five-year period ending on December 31, 2008. All values assume reinvestment of dividends and are calculated at December 31 of each year.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among Electronics For Imaging, Inc., The NASDAQ Composite Index
And The NASDAQ Computer Manufacturers Index




* $100 invested on 12/31/03 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

## Item 6: Selected Financial Data

The following table summarizes selected consolidated financial data as of and for the five years ended December 31, 2008. This information should be read in conjunction with Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes thereto. For a more detailed description, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| (in thousands, except per share amounts) | 2008 | 2007 | 2006 | 2005 | 2004 |
| **Operations**[1] | | | | | |
| Revenue | $ 560,380 | $ 620,586 | $ 564,611 | $ 467,117 | $ 394,604 |
| Gross profit | 317,417 | 361,147 | 335,170 | 288,452 | 256,113 |
| Income (loss) from operations[2][3] | (145,015) | (2,231) | 15,561 | (13,948) | 11,112 |
| Net income (loss)[2][3] | $(113,444) | $ 26,843 | $ (183) | $ (5,180) | $ 35,565 |
| **Earnings per share** | | | | | |
| Net income (loss) per basic common share | $ (2.16) | $ 0.47 | $ (0.00) | $ (0.10) | $ 0.66 |
| Net income (loss) per diluted common share | $ (2.16) | $ 0.44 | $ (0.00) | $ (0.10) | $ 0.60 |
| Shares used in basic per-share calculation | 52,553 | 56,679 | 56,559 | 54,425 | 53,898 |
| Shares used in diluted per-share calculation | 52,553 | 68,102 | 56,559 | 54,425 | 63,979 |
| **Financial Position** | | | | | |
| Cash, cash equivalents and short-term investments | $ 189,351 | $ 499,852 | $ 510,171 | $ 469,616 | $ 659,559 |
| Working capital | 293,830 | 270,677 | 261,774 | 459,077 | 617,076 |
| Total assets | 751,948 | 1,157,739 | 1,144,651 | 1,088,438 | 1,025,323 |
| Convertible senior debentures | — | 240,000 | 240,000 | 240,000 | 240,000 |
| Stockholders' equity | 601,218 | 743,996 | 751,578 | 710,739 | 674,026 |

(1) These results include acquired company results of operations beginning on the date of acquisition. See Note 2—Acquisitions of our Notes to Consolidated Financial Statements for a summary of recent acquisitions.

(2) Includes stock-based compensation expense under Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)") of $33.4 million, $24.5 million, and $23.7 million for the years ended December 31, 2008, 2007, and 2006, respectively. Because we implemented SFAS 123(R) as of January 1, 2006, prior periods do not reflect stock-based compensation expense related to this new accounting standard. See Note 12 of Notes to consolidated financial statements.

(3) Includes goodwill and long-lived asset impairment charges of $111.9 million for the year ended December 31, 2008. Includes restructuring and other charges of $11.0 million, $1.5 million, and $1.0 million for the years ended December 31 2008, 2007, and 2006. Includes acquired in-process research and development costs of $2.7 million $0 million, $8.5 million, $45.3 million and $1.0 million for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 respectively. See Note 2—Acquisitions of Notes to consolidated financial statements. Also includes real-estate related charges of $14.4 million for the year ended December 31, 2004 and restructuring charges of $2.7 million for the year ended December 31, 2005.

## Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes thereto included in this Annual Report on Form 10-K.*

*All assumptions, anticipations, expectations and forecasts contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. Forward-looking statements include, among others, those statements including the words "expects," "anticipates," "intends," "believes" and similar language. Our actual results could differ materially from those discussed here. For a discussion of the factors that could impact our results, readers are referred to Item 1A "Risk Factors" in Part I of this Annual Report and to our other reports filed with the Securities and Exchange Commission. We do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.*

### Overview

Key financial results for 2008 were as follows:

- Our consolidated revenues decreased by approximately 10%, or $60.2 million, from $620.6 million in 2007 to $560.4 million for the year ended December 31, 2008. This was due primarily to the Controllers product revenues, which contributed $52.7 million of the decrease in 2008.
- Gross margins decreased to 57% in 2008 versus 58% in 2007 due to a greater percentage of Inkjet products sales which have lower gross margins than our APPS and Controller products.
- Operating expenses as a percent of revenues increased from 59% in 2007 to 82% in 2008 primarily due to impairment charges recorded on goodwill and certain long lived assets as a result of the impairment analysis conducted during the fourth quarter, in-process research & development write-off charges related to our acquisition of Pace and Rastek, and increased restructuring and other costs as a result of headcount reductions and facility closures during the year. Had these costs not be included in operating expenses, our total operating expenses for 2008 would have been 60% of revenues, which approximates prior year total operating expenses as a percentage of revenues.
- Interest and other income decreased from 4% of revenue in 2007 to 2% of revenue in 2008 driven by lower interest income on our investments on lower investment balances and interest rates. We sold a substantial portion of our investment portfolio during the first five months of 2008 in order to generate cash for the redemption of our 1.50% convertible senior debentures, which occurred on June 2, 2008.
- In 2008, we recorded a benefit from income taxes of $19.6 million on pretax loss of $133.1 million and, in 2007, we recorded a benefit from income taxes of $4.6 million on pretax income of $22.2 million. The change from 2008 to 2007 primarily related to a pre-tax loss of $133.1 million incurred in 2008.

## Results of Operations

The following table sets forth items in our consolidated statements of operations as a percentage of total revenue for 2008, 2007 and 2006. These operating results are not necessarily indicative of results for any future period.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Revenue | 100% | 100% | 100% |
| Gross Profit | 57% | 58% | 59% |
| Operating expenses: | | | |
| Research and development | 25% | 23% | 23% |
| Sales and marketing | 21% | 19% | 18% |
| General and administrative | 8% | 11% | 8% |
| Restructuring and other | 2% | — % | — % |
| Amortization of identified intangibles | 5% | 6% | 6% |
| In-process research and development | 1% | — % | 2% |
| Goodwill and asset impairment | 20% | — % | — % |
| Total operating expenses | 82% | 59% | 57% |
| Income (loss) from operations | (25)% | (1)% | 2% |
| Interest and other income, net | 2% | 4% | 5% |
| Income (loss) before income taxes | (23)% | 3% | 7% |
| Benefit from (provision for) income taxes | 4% | 1% | (7)% |
| Net income (loss) | (19)% | 4% | — % |

*Revenue*

We currently classify our revenue into three categories. The first category, "Controllers," includes products and technology which connect digital copiers with computer networks, and is made up of stand-alone controllers and embedded desktop controllers, bundled solutions and design-licensed solutions primarily for the office market and commercial printing. This category includes our Fiery series (external print servers and embedded servers), Splash and MicroPress, color and black and white server products, software options for Fiery products and parts. It also includes server-related revenue comprised of scanning solutions. The second category, "Inkjet Products," consists of sales of the super-wide and wide format inkjet printers, industrial inkjet printers, inks, and parts and services revenue from the VUTEk, Jetrion, and Rastek businesses. The third category, "Advanced Professional Print Software," or APPS, consists of software technology focused on printing workflow, print management information systems (PMIS), proofing and e-commerce and job tracking tools. APPS also consists of revenue from the Pace business in PMIS and e-commerce solutions.

Our revenues by product category for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands):

| | Years ended December 31, | | | | | | % change | |
|---|---|---|---|---|---|---|---|---|
| Revenue | 2008 | | 2007(1) | | 2006(1) | | 2008 over 2007 | 2007 over 2006 |
| Controllers | $278,738 | 50% | $331,474 | 53% | $328,443 | 58% | (16)% | 1% |
| Inkjet Products | 219,959 | 39% | 229,253 | 37% | 180,203 | 32% | (4)% | 27% |
| Advanced Professional Printing Software | 61,683 | 11% | 59,859 | 10% | 55,965 | 10% | 3% | 7% |
| Total revenue | $560,380 | 100% | $620,586 | 100% | $564,611 | 100% | (10)% | 10% |

(1) Revenues in Controllers and APPS categories for the twelve months ended December 31, 2006 and December 31, 2007 have been revised to reflect the reclassification of Controller-related software revenue from the APPS category to the Controllers category. Total revenue from the twelve months ended December 31, 2006 and December 31, 2007 have not changed.

Overview

Revenue was $560.4 million in 2008, compared to $620.6 million in 2007 and $564.6 million in 2006 resulting in a 10% decrease in 2008 versus 2007 and a 10% increase in 2007 versus 2006. The $60.2 million decrease in 2008 compared to 2007 was primarily due to a $52.7 million decrease in Controllers revenues and a $9.3 million decrease in Inkjet product revenues, offset by a slight increase of $1.8 million in APPS revenues.

***Controllers Revenues***

In our Controllers category, revenue declined by $52.7 million or 16% in 2008 versus 2007, which was primarily driven by reduced demand from our OEM customers throughout the world due to a slowing global economy. The tightening of global credit markets also contributed to the decline as it has become relatively more difficult for some of our customers to obtain financing.

***Inkjet Products Revenues***

Inkjet product revenues were $220.0 million in 2008 as compared to $229.3 million in 2007. The year-over-year decline of $9.3 million or 4% was primarily due to substantially lower printer volume in the fourth quarter of 2008, as year-over-year revenues in the fourth quarter of 2008 versus 2007 decreased by $21.5 million or 31% in total. It has become relatively more difficult for customers to obtain financing to purchase our products due to the tightening of global credit markets. In addition, the softening of the retail sector and the related demand for signs, billboards and point of purchase displays has impacted our customers' businesses and their demand for ink, which resulted in a lower demand for our ink products in the fourth quarter of 2008.

Inkjet product revenues were $180.2 million in 2006 as compared to $229.3 million in 2007. The increase is due to the continued sales of VUTEk's QS series of UV printers, driven by demand in Europe, Middle East and Africa ("EMEA") and the Americas.

***Advanced Professional Print Software Revenues***

Revenue in the Advanced Professional Print Software category increased by $1.8 million or 3% in 2008 over 2007, primarily due to the strong sales of our PMIS products and partially due to the acquisition of Pace during the third quarter of 2008 which strengthened our PMIS products. The APPS category increased 7% in 2007 over 2006 primarily due to the strength of our suite of products. This category includes our management systems software, including Hagen, Pace, PSI, Logic, PrintSmith and PrintFlow; our web-based order entry and order management software, including Digital StoreFront PrinterSite Suite; and our proofing software, including ColorProof XF and resale of products from third party suppliers such as XmPie software and Manhattan Associates software among others. The software applications in this category generate higher margins, favorably impacting our margins. In 2008, we re-organized our PMIS product lines after the acquisition of Pace in order to better leverage our investment in this segment and concentrate our resources on fewer products. As a result, we are no longer selling PSI and Logic to new customers and have reduced our investment in the development of these products. We currently sell PrintSmith to small print-for-pay and small commercial print shops, Pace to medium and large commercial printers, wide format and digital printers, and Monarch to large commercial printers, publication printers, and digital printers.

Revenues by geographic area for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands):

| | For the years ended December 31, | | | | | | % change | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2006 | | 2008 over 2007 | 2007 over 2006 |
| Americas | $297,896 | 53% | $327,232 | 53% | $303,931 | 54% | (9)% | 8% |
| EMEA | 194,474 | 35% | 216,308 | 35% | 175,037 | 31% | (10)% | 24% |
| Japan | 52,048 | 9% | 58,015 | 9% | 63,248 | 11% | (10)% | (8)% |
| Other international locations | 15,962 | 3% | 19,031 | 3% | 22,395 | 4% | (16)% | (15)% |
| Total revenue | $560,380 | 100% | $620,586 | 100% | $564,611 | 100% | (10)% | 10% |

Revenue declined in 2008 across all regions primarily driven by our Controllers products. In the individual regions, Controllers product revenues in 2008 represented 46%, 43%, 98%, and 41% of revenue in the Americas, EMEA, Japan and other international locations, respectively.

In 2008, revenues in the Americas, EMEA, and Japan regions represented 35%, 53% and 9% of revenues, respectively, with no change from 2007.

Revenue growth in 2007 across all regions was primarily driven by our Inkjet products.

Shipments to some of our U.S. OEM customers are made to centralized purchasing and manufacturing locations, which in turn ship to other locations, making it more difficult to obtain accurate geographical shipment data. Accordingly, we believe that export sales of our products into each region may differ from what is reported. We expect that sales outside of the United States will continue to represent a significant portion of our total revenue.

A substantial portion of our revenue over the years has been attributable to sales of products through our OEM customers and independent distributor channels. For the year ended December 31, 2008, two customers—Canon and Xerox—each provided more than 10% of our revenue individually and approximately 29% of revenue in the aggregate. For the year ended December 31, 2007, two customers—Canon and Xerox—each provided more than 10% of our revenue individually and approximately 31% of revenue in the aggregate. For the year ended December 31, 2006, Canon and Xerox each provided more than 10% of our revenue individually and approximately 34% of revenue in the aggregate. We have shown decreasing dependency on the OEM business although in 2008, 49% of our revenues were from non-OEM sources. In 2007 and 2006, 51% and 52% respectively of our business was from non-OEM sources. We do not expect a decrease in OEM revenue in 2009 as a percentage of total revenue, but over time we do expect the OEM percentage to decline.

The decreasing reliance on major OEM partners is attributable to the increasing percentage of revenue derived from the Inkjet Products business and APPS business where most of the revenue is generated from sales to distributors and direct customers. No assurance can be given that our relationships with distributors and direct customers will continue or that we will be successful in maintaining or increasing the number of our OEM customers or the size of our existing OEM relationships. Several of our OEM customers have reduced their purchases from us at various times in the past and any customer could do so in the future as there are no contractual obligations by most of our OEMs to purchase our products at all, or in significant amounts. Such reductions have occurred in the past and could in the future have a significant negative impact on our consolidated financial position and results of operations. We expect that if we increase our revenues from our Inkjet Products and our professional printing applications, the percentage of our revenue that comes from individual OEMs will continue to decrease further.

We intend to continue to develop new products and technologies for each of our product lines including new generations of controllers and Controller products and other new product lines and to distribute those new products to or through current and new OEM customers, distribution partners, and end-users in 2009 and beyond. No assurance can be given that the introduction or market acceptance of current or future products will be successful.

To the extent that sales of our products do not grow over time in absolute terms, or if we are not able to meet demand for higher unit volumes, it could have a material adverse effect on our operating results. There can be no assurance that any products that we introduce in the future will successfully compete, be accepted by the market, or otherwise effectively replace the volume of revenue and/or income from our older products. Market acceptance of our software products, products acquired through acquisitions and other products cannot be assured.

We also believe that in addition to the factors described above, price reductions for all of our products may affect revenues in the future. We have previously reduced and in the future will likely reduce prices for our products. Depending upon the price-elasticity of demand for our products, the pricing and quality of competitive products, and other economic and competitive conditions, such price reductions have had and may in the future have an adverse impact on our revenues and profits.

*Stock-based Compensation*

Stock-based compensation expenses were $33.4 million, $24.5 million, and $23.7 million respectively for the years ended December 31, 2008, 2007, and 2006. The year-over-year increase of $8.9 million or 36% from 2007 to 2008 was primarily due to the absence of equity award issuances for the first 10 months of 2007 as a result of the stock options investigation conducted at that time. See Note 12 of our Notes to Consolidated Financial Statements for more discussion of Stock-based compensation.

*Gross Margins*

Our gross margins were 57%, 58%, and 59% for 2008, 2007 and 2006, respectively. The decrease in gross margins in 2008 and 2007 was primarily due to the greater mix of Inkjet sales. Our inkjet printers have a lower gross margin than our Controllers and APPS product lines. Product mix is a significant driver in our gross margins and we cannot predict the impact that product mix will have on future gross margin results. Our inkjet product line is growing as a percentage of revenue which decreases gross margin percentage. For 2008 inkjet revenues were 39% of total revenue as compared to 37% and 32% of total revenues in 2007 and 2006, respectively.

Gross margins on our inkjet products are lower than gross margins on our Controllers business. Our ink sales represent a continuing revenue stream to existing customers that will increase if our inkjet customers' production increases. Ink margins are typically higher than overall inkjet margins.

If our product mix changes significantly, our gross margins will fluctuate. In addition, gross margins can be impacted by a variety of other factors. These factors include the market prices that can be achieved on our current and future products, the availability and pricing of key components (including DRAM, Processors, and print heads), third party manufacturing costs, product, channel and geographic mix, the success of our product transitions and new products, competition and general economic conditions in the United States and abroad. Consequently, gross margins may fluctuate from period to period. In addition to the factors affecting revenue described above, if we reduce prices, gross margins for our products could be lower.

Our print controllers are manufactured by third-party manufacturers who purchase most of the necessary components. If our third-party manufacturers cannot obtain the necessary components at favorable prices, we could experience an increase in our product costs. We purchase certain parts directly, including processors, memory, certain ASICs and software licensed from various sources, including PostScript® interpreter software, which we license from Adobe.

*Operating Expenses*

Operating expenses increased by 27% in 2008 over 2007 and increased by 14% in 2007 over 2006. Operating expenses as a percentage of revenue totaled 82%, 59%, and 57% for 2008, 2007, and 2006, respectively. The increase in operating expenses as a percentage of revenue in 2008 versus 2007 primarily resulted from impairment charges incurred on goodwill and long-lived assets during the fourth quarter of 2008, in-process research and development write-off costs related to the acquisition of Pace and Rastek, and an increase in restructuring and other costs, The increase in operating expenses as a percentage of revenue in 2007 versus 2006 primarily resulted from increases in personnel related costs.

Research and Development

Research and development expenses consist primarily of costs associated with personnel, consulting and prototype parts. Research and development expenses were $140.4 million or 25% of revenue in 2008 compared to $140.5 million or 23% of revenue in 2007 and $127.9 million or 23% of revenue in 2006. The slight decrease of $0.1 million in 2008 was primarily due to a $5.3 million decrease in personnel-related costs, a $1.0 million decrease in consulting expenses, and a $2.7 million decrease in prototypes and non-recurring engineering expenses offset by a $3.9 million increase in stock-based compensation expense, a $0.9 million increase in depreciation of fixed assets, and a $3.5 million increase in allocation of overhead expenses due to a change in allocation methodology in certain overhead expenses. The increase of $12.6 million in 2007 versus 2006 was primarily due to a $9.7 million increase in employee costs related to increased headcount as a result of our investments in our research and development organizations, a $2.0 million increase in consulting fees, a $1.2 million increase in prototype expenses and a $.7 million increase in stock-based compensation expense and other equity plan related costs.

Research and development headcount was 894 and 914 as of December 31, 2008 and 2007, respectively.

We believe that the development of new products and the enhancement of existing products are essential to our success and we intend to continue to devote substantial resources to research and new product development efforts. Accordingly, we expect that our research and development expenses may increase in absolute terms and also as a percentage of revenue in future periods.



Sales and Marketing

Sales and marketing include personnel expenses, costs of trade shows, marketing programs and promotional materials, sales commissions, travel and entertainment expenses, depreciation, and costs associated with sales offices in the United States, Europe, Asia, and other locations around the world. Sales and marketing expenses for 2008 were $119.4 million or 21% of revenue compared to $120.4 million or 19% of revenue in 2007 and $99.2 million or 18% of revenue in 2006.

The $1.0 million decrease in expenses in 2008 versus 2007 was primarily related to a $3.2 million decrease in marketing and travel-related expenses and a $0.5 million decrease in consulting expenses offset by a $2.1 million increase in stock-based compensation expense, and a $0.8 million increase in allocation of overhead expenses due to a change in allocation methodology in certain overhead expenses. The $21.3 million increase in expenses in 2007 versus 2006 was primarily related to a $10.8 million increase in personnel costs related to increased headcount and related sales commissions attributable to the increase in Inkjet sales, a $3.4 million increase in overhead expenses related to the Inkjet expansion in the EMEA region, a $3.2 million increase in travel-related expenses, and a $1.4 million increase in Inkjet promotional expenses.

Sales and marketing headcount was 515 and 519 as of December 31, 2008 and 2007, respectively.

Over time, our sales and marketing expenses may increase in absolute terms as we continue to actively promote our products, introduce new products and services, and continue to build our sales and marketing organization, particularly in Europe and Asia Pacific. Sales and marketing expenses may also increase as we continue to grow our software solutions, Inkjet products, and other new product lines, which require greater sales and marketing support from us. We expect that if the U.S. dollar remains volatile against the Euro or other currencies, sales and marketing expenses reported in U.S. dollars could fluctuate.

General and Administrative

General and administrative expenses consist primarily of costs associated with administrative personnel, legal and accounting expense and stock option investigation costs. General and administrative expenses were $47.7 million or 8% of revenue in 2008 compared to $67.5 million or 11% of revenue in 2007 and $47.6 million or 8% of revenue in 2006. The $19.8 million decrease in 2008 versus 2007 consists primarily of a decrease of $18.3 million in legal and accounting expenses related to the stock option investigation completed in 2007 and U.S. Internal Revenue Code Section 409A tax payments made to the U.S. government on behalf of employees, a decrease of acquisition costs of $1.5 million, and a decrease of $5.0 million in allocation of overhead expenses as a result of a change in allocation methodology on certain overhead expenses offset by a $3.8 million increase in legal expenses, and a $2.3 million increase in stock-based compensation expense.

The $19.9 million increase in 2007 versus 2006 consists primarily of $9.2 million in legal and accounting expenses related to the stock option investigation, a $3.9 million increase in personnel costs as a result of headcount growth to support the growth in the VUTEk business, a $3.8 million increase in bad debt expense due to the prior year reversal of the VUTEk acquisition allowance for doubtful accounts, $1.5 million in costs related to an acquisition that was not consummated in the first quarter of 2007, and a $1.3 million increase in personnel costs related to the tax settlement pursuant to Section 409A of the U.S. Internal Revenue Code.

Restructuring and Other

Restructuring and other costs totaled $11.0 million or 2% of revenue in 2008. We announced and implemented restructuring plans during 2008 that included organizational changes within targeted research and development, sales and marketing, and general and administration functions to better align spending levels with expected revenues. These charges primarily include cash severance costs, benefits continuation costs, outplacement costs, and facility closure costs related to five sites.

Amortization of Identified Intangibles

Amortization of identified intangibles was $29.4 million or 5% of revenue in 2008 versus $33.5 million or 6% of revenue in 2007 and $35.5 million or 6% of revenue in 2006. The decrease of $4.1 million in 2008 versus 2007 is due to several intangible assets becoming fully amortized in 2008, offset partially by the increased amortization from Pace and Rastek intangible assets beginning in 2008. The decrease of $2.0 million in 2007 versus 2006 is due to several intangible assets becoming fully amortized in 2007.

In-Process Research and Development

In 2008, we incurred in-process research and development expenses of $2.7 million as a result of our acquisitions of Pace and Rastek during the third and fourth quarters, respectively. No in-process research and development expenses were incurred in 2007. In 2006, we incurred in-process research and development expenses of $8.5 million as a result of our acquisition of Jetrion.

*Interest and Other Income, Net*

Interest and other income

Interest and other income was $13.5 million in 2008 compared with $29.5 million in 2007 and $24.0 million in 2006. The decrease of $16.0 million from 2007 to 2008 was driven by lower interest income on our investments as a result of lower investment balances and interest rates as we sold a substantial portion of our investment portfolio during the first five months of 2008 in order to generate cash for the redemption of our 1.50%

convertible senior debentures, which occurred on June 2, 2008. Interest and other income was $29.5 million in 2007 compared with $24.0 million in 2006, an increase of $5.5 million. The increase was attributable to higher interest rates and higher average cash, cash equivalents and investment balances. We had net realized gains on our marketable securities of $3.9 million in 2008, and net realized losses of $0.3 million and $0.2 million in 2007, and 2006, respectively.

Interest expense

Interest expense consists of interest and debt amortization costs related to our 1.50% convertible senior debentures. Interest expense for the year ended December 31, 2008 was $1.5 million compared to $5.0 million for each of the years ended December 31, 2007 and 2006, respectively. The decrease of $3.5 million from 2007 to 2008 was driven by the redemption of the outstanding balance of our 1.50% convertible senior debentures on June 2, 2008, which totaled $240.0 million.

Gain on Sale of Product Line

During the second quarter of 2006, we sold our inventory and net assets related to our Mobile Workforce Automation line of products.

Goodwill and Long-Lived Asset Impairment

We perform our annual impairment analysis of goodwill in the third quarter of each year according to the provisions of SFAS 142, Goodwill and Other Intangible Assets ("SFAS 142"). The provision requires that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment testing to determine the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance with SFAS142 as stated above. The goodwill valuation analysis was performed based on our respective reporting units—Controller, Inkjet, and Advanced Professional Print Software. Our reporting units are consistent with our product categories identified in Note 15 of Notes to the Consolidated Financial Statements. Our product categories meet the definition of a reporting unit one level below an operating segment in accordance with SFAS 142 as each product category constitute a business for which discrete financial information is available and reviewed by segment management.

We determined the fair value of the Inkjet reporting unit based on a weighting of market and income approaches. The fair value of the Controller and APPS reporting units was determined based on the market approach. Under the market approach, we estimated the fair value based on market multiples of revenues or earnings. Under the income approach, we measured fair value of the reporting units based on a projected cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our current business model. Based on our valuation results, we had determined that the fair values of our reporting units continued to exceed their carrying values. Therefore, management determined that no goodwill impairment charge was required as of September 30, 2008.

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the life of the asset may need to be revised. Factors we consider important which could trigger an impairment review include the following:

- significant negative industry or economic trends;

- significant decline in our stock price for a sustained period;
- our market capitalization relative to net book value; and
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business.

When we determine that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure the potential impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Our annual review of goodwill performed in the third quarter of 2008 indicated that there was no impairment of goodwill. We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance with SFAS142 as stated above.

During the fourth quarter of 2008, our market capitalization declined significantly as a result of declining worldwide economic conditions caused by the tightening of global credit markets. Based on a combination of factors including the recent economic environment, the resulting erosion in our market capitalization, and the lowering of our 2009 revenue outlook subsequent to the third quarter of 2008, we performed an interim impairment analysis during the fourth quarter of 2008.

Based on the internal market-based valuation that we performed, the fair value of the Controller and APPS product categories significantly exceeded their carrying value as of December 31, 2008. Consequently, it was not considered necessary to obtain a third party valuation of these reporting units. A third party interim valuation was obtained with respect to the Inkjet product category, which was equally weighted between the income and market approach.

Based on the outcome of the interim impairment analysis, we concluded that an impairment had occurred relating to the Inkjet product category resulting in a non-cash goodwill impairment charge of $104 million during the fourth quarter of 2008. There were no impairments of goodwill, intangible assets, or other long-lived assets in 2007 and 2006.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, we made the following assumptions:

- the current economic downturn will continue through fiscal year 2010,
- the economic downturn is partially mitigated by new product introductions in 2010,
- followed by a recovery period between 2011 and 2013, and
- long-term industry growth past 2013.

Our discounted cash flow projections for the Inkjet reporting unit were based on five-year financial forecasts. The five-year forecasts were based on annual financial forecasts developed internally by management for use in managing our business and through discussions with the independent valuation firm engaged by us. The significant assumptions of these five-year forecasts included annual revenue growth rates ranging from -11.0% to 12% for the Inkjet reporting unit. The future cash flows were discounted to present value using a mid-year convention and a discount rate of 16%. Terminal values were calculated using the Gordon growth methodology with a long-term growth rate of 4.5%. The sum of the fair values of the Controllers, APPS, and Inkjet reporting units was reconciled to our current market capitalization (based on our stock price) plus an estimated control premium. The significant assumptions used in determining fair values of the reporting units using comparable company market values include the determination of appropriate market comparables, the estimated multiples of revenue, EBIT, and EBITDA that a willing buyer is likely to pay, and the estimated control premium a willing buyer is likely to pay.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross margin rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the third quarter of 2009 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

If we were to increase the revenue growth factor by 1%, the impairment amount would be decreased by approximately $2.5 million. If we were to decrease the revenue growth factor by 1%, the impairment amount would be increased by approximately $2.4 million. If we were to decrease the discount rate by 1%, the impairment amount would be decreased by approximately $13.8 million. If we were to increase the discount rate by 1%, the impairment amount would be increased by approximately $8.8 million. We believe that the assumptions and rates used in our impairment test under SFAS142 are reasonable. However, they are judgmental, and variations in any of the assumptions or rates could result in materially different calculations of impairment amounts.

*Long-Lived Assets*

Other investments, included within Long-Lived Assets, consist of equity and debt investments in privately-held companies that develop products, markets and services that are strategic to us. Investments in which we exercise significant influence over operating and financial policies, but do not have a majority voting interest, are accounted for using the equity method of accounting.

The process of assessing whether a particular equity investment's fair value is less than its carrying cost requires a significant amount of judgment due to the lack of a mature and stable public market for these securities. In making this judgment, we carefully consider the investee's most recent financial results, cash position, recent cash flow data, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management or ownership changes, and competition. This process is based primarily on information that we request and receive from these privately-held companies and is performed on a quarterly basis. Although we evaluate all of our privately-held equity investments for impairment based on this criteria, each investment's fair value is only estimated when events or changes in circumstances have occurred that may have a significant effect on its fair value (because the fair value of each investment is not readily determinable). Where these factors indicate that the equity investment's fair value is less than its carrying cost, and where we consider such diminution in value to be other than temporary, we record an impairment charge to reduce such equity investment to its estimated net realizable value.

During the fourth quarter of 2008, EFI assessed each remaining investment's R&D technology pipeline and market conditions for the next several years in the industry and determined that it is no longer probable that they will generate enough positive future cash flows to recover the full carrying amount of the investment. As such, we recognized an impairment charge of $7.9 million.

*Income Taxes*

In 2008, we recorded a tax benefit of $19.6 million on a pre-tax operating loss of $133.1 million, compared to a tax benefit of $4.6 million recorded in 2007 on pre-tax operating income of $22.2 million and a tax provision of $41.7 million recorded in 2006 on pre-tax operating income of $41.5 million. In each of these years, we benefited from research and development credits. Our taxes also decreased due to both lower taxes on foreign income in 2008 and 2007 and the extra-territorial income exclusion in 2006. Our taxes increased due to both non-deductible stock compensation charges in each of these years, and non-deductible goodwill impairment charges in 2008. As a result of discrete tax adjustments, our taxes in 2008 increased $0.7 million due to interest accrued on prior year tax contingency reserves and $2.5 million related to SFAS 123(R) ("Share-Based Payment") tax shortfalls. Discrete tax adjustments also reduced our 2008 taxes by $0.5 million due to a reassessment of our taxes resulting from our filing of our 2007 federal and state income tax returns, $2.5 million due to the completion of our 2002-2004 IRS audits, $2.2 million due to one-time severance costs and $0.3 million due to a reduction in tax reserves, established in prior years on income from foreign operations. As a result of discrete tax adjustments, our taxes in 2007 increased $0.3 million due to interest accrued on prior year tax contingency reserves and $0.9 million due to our reassessment of taxes resulting from our filing of our 2006 federal and state income tax returns. Discrete tax adjustments also reduced our 2007 taxes by $1.6 million due to a reassessment of our federal tax contingency reserves, $1.1 million due to a one-time bonus payment to employees related to the temporary suspension of our ESPP program, $0.4 million related to U.S. Internal Revenue Section 409A payments made on employees' behalf, and $0.5 million valuation allowance release related to compensation deductions that are no longer anticipated to be limited by U.S. Internal Revenue Code Section 162(m). As a result of discrete tax adjustments, our taxes in 2006 were reduced by $0.9 million as a result of the expiration of the statute of limitations for state income tax purposes and $0.4 million due to a reassessment of tax contingency reserves related to the filing of foreign income tax returns, and were increased by $34.9 million due to the migration of the non-North American VUTEk and chipset product lines to our European headquarters and $2.9 million related to sales of the MWA assets.

Effective January 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by requiring a tax position be recognized only when it is more likely than not that the tax position, based on its technical merits, will be sustained upon ultimate settlement with the applicable tax authority. The tax benefit to be recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the applicable tax authority that has full knowledge of all relevant information. The cumulative effect of adopting FIN 48 has been recorded as an increase of $4.8 million to retained earnings, and a decrease of $1.1 million and $5.9 million in goodwill and taxes payable respectively.

In the third quarter of 2008, we finalized a closing agreement with the Internal Revenue Service (IRS) to complete their examination of the 2002 through 2004 tax years. As a result of the IRS audit settlement, we also reduced our unrecognized tax benefits by $6.6 million, of which $2.5 million was recorded as a discrete tax benefit. In conjunction with the IRS audit settlement, we also reduced deferred tax assets and equity by $4.1 million and $2.0 million respectively and expect to pay approximately $2.0 million to federal and state tax authorities as a result of the closure of the audit. These adjustments are primarily related to intercompany cost allocations and the research and development credits.

**Critical Accounting Policies**

The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to bad debts, inventories, intangible assets, income taxes, warranty obligations, purchase commitments, revenue recognition and contingencies on an ongoing basis. The estimates are based upon historical and current experience, the impact of the current economic environment, and on various other assumptions that are believed to be reasonable under the circumstances at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following are our critical accounting policies and estimates:

- revenue recognition;
- estimating allowance for doubtful accounts, inventory reserves and litigation accruals;
- accounting for stock-based compensation;
- accounting for income taxes;
- valuation analyses for intangible assets and goodwill;

- business combinations; and
- the determination of functional currencies for the purposes of consolidating our international operations.

**Revenue recognition.** We derive our revenue primarily from product revenue, which includes hardware (controllers, design-licensed solutions, and inkjet printers and ink), software and royalties. We also receive services and support revenue from software license maintenance agreements, customer support and training and consulting. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences could result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

We recognize revenue in accordance with the provisions of SEC Staff Accounting Bulletin 104 "Revenue Recognition" ("SAB104") and, when applicable, Emerging Issues Task Force 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"), for the sale of controllers, printers, and ink. As such, revenue is generally recognized when persuasive evidence of an arrangement exists, the product has been delivered or services have been rendered, the fee is fixed or determinable and collection of the resulting receivable is reasonably assured.

We use either a purchase order or signed contract as evidence of an arrangement. Sales through some of our OEMs are evidenced by a master agreement governing the relationship together with purchase orders on a transaction-by-transaction basis. Our arrangements do not generally include acceptance clauses. Delivery for hardware generally is complete when title and risk of loss is transferred at point of shipment from manufacturing facilities. In some instances, we also sell products and services in which the terms included in sales arrangements result in different timing for revenue recognition. We assess whether the fee is fixed or determinable based on the terms of the contract or purchase order. We assess collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We may not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

We license our software primarily under perpetual licenses. Revenue from software consists of software licensing, post-contract customer support and professional consulting. We apply the provisions of Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"), and if applicable, SAB 104 and EITF 00-21 to all transactions involving the sale of software products and hardware transactions where the software is not incidental.

When several elements, including software licenses, post-contract customer support and professional services, are sold to a customer through a single contract, the revenue from such multiple-element arrangements are allocated to each element using the residual method in accordance with SOP 98-9. Revenue is allocated to the support elements and professional service elements of an agreement using vendor specific objective evidence of fair value ("VSOE") and to the software license portion of the agreements using the residual method. We have established VSOE of the fair value of our professional services based on the rates charged to our customers in stand alone orders. We have also established VSOE of fair value for post-contract customer support based on substantive renewal rates. Accordingly, software license fees are recognized under the residual method for arrangements in which the software is licensed with maintenance and/or professional services, and where the maintenance and professional services are not essential to the functionality of the delivered software. Revenue allocated to software licenses is recognized when the following four basic criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is probable. Revenue allocated to post-contract support is recognized ratably over the term of the support contract assuming the four basic criteria are met. We also have subscription arrangements where the customer pays a fixed fee and receives services over a period of time. We recognize revenue from the subscriptions ratably over the service period. Any upfront setup fees associated with our subscription arrangements are recognized ratably, generally over one year.

**Allowances for doubtful accounts, inventory reserves, warranty reserves, and litigation accruals**. To determine the need for an allowance for doubtful accounts, management must make estimates of the collectability of our accounts receivables. To do so, management analyzes accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was $97.3 million, net of allowance for doubtful accounts and sales returns of $8.5 million, as of December 31, 2008.

Similarly, management must make estimates of potential future inventory obsolescence and purchase commitments to measure the need for inventory reserves. Management analyzes current economic trends, changes in customer demand and the acceptance of our products when evaluating the adequacy of such allowances. Significant management judgments and estimates must be made and used in connection with establishing the allowances and reserves in any accounting period. Material differences may result in changes in the amount and timing of our income for any period if management made different judgments or utilized different estimates. Our inventory balance was $48.8 million, net of inventory reserves of $9.8 million, as of December 31, 2008.

Management must make estimates of potential inventory return rates and replacement or repair costs to measure the need for warranty reserves. Significant management judgments and estimates must be made and used in connection with establishing warranty reserves in any accounting period. Material differences may result in changes in the amount and timing of our income for any period if management made different judgments or utilized different estimates. Warranty reserves were $6.8 million as of December 31, 2008.

We accrue for estimated legal expenses, including potential regulatory fines when the likelihood of the incurrence of the related costs is probable and management has the ability to estimate such costs. Until both of these conditions are met, the related legal expenses are recorded as incurred. The material assumptions we use to estimate the amount of legal expenses include:

- communication between our external attorneys and us on the expected duration of the lawsuit and the estimated expenses during that time;
- our strategy regarding the lawsuit;
- the deductible amounts under the insurance policies; and
- past experiences with similar lawsuits.

The outcome of any particular lawsuit cannot be predicted, and if the outcome is different than expected, our income could be materially impacted, either positively or negatively.

We have from time to time set up allowances or accruals for uncertainties related to revenues and for potential unfavorable outcomes from disputes with customers or vendors. Management bases its estimates for the allowances or accruals on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances.

**Accounting for stock-based compensation.** We account for stock-based compensation in accordance with SFAS 123(R), “Share-Based Payment.” We must use our judgment in determining and applying the assumptions needed for the valuation of stock options, issuances under our Employee Stock Purchase Plan, and stock awards. We also are required to apply a forfeiture rate to reflect what we believe will be our final expense related to stock-based compensation. The amounts to be recorded as stock-based compensation expense expected in the future are subject to change if our assumptions for the variables used in determining the fair value of the instruments and the forfeiture rates are revised. In adopting SFAS 123(R), we elected to adopt the simplified method to establish our beginning balance for the additional paid-in capital pool related to the tax effects of employee stock-based compensation. Tax shortfalls resulting from the tax effects of employee stock-based compensation in 2008 absorbed the remaining balance of the additional paid-in capital pool.

**Accounting for income taxes.** In preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. We estimate our actual current tax expense and the temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. If we believe that recovery of these deferred assets is not likely, we must establish a valuation allowance. To the extent we either establish or increase a valuation allowance in a period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We have maintained a valuation allowance of $4.0 million as of December 31, 2008 for foreign tax credits resulting from the 2003 acquisition of Best and compensation deductions potentially limited by U.S. Internal Revenue Code 162(m). If actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance that could materially impact our financial position and results of operations.

Net deferred tax assets as of December 31, 2008 were $60.8 million.

Significant management judgment is also required in evaluating our uncertain tax positions. Our gross unrecognized benefits total $33.8 million as of December 31, 2008. Our evaluation of uncertain tax positions is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. If the actual settlements differ from these estimates or we adjust these estimates in future periods, we may need to recognize a tax benefit or an additional tax charge that could materially impact our financial position and results of operations.

**Valuation analyses of intangible assets and goodwill.** We review goodwill annually in the third quarter of each year and whenever events or changes in circumstances indicate the carrying value may not be recoverable. The provisions of SFAS 142 "Goodwill and Other Intangible Assets" ("SFAS 142") require that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with our product categories identified in Note 15—Information Concerning Business Segments and Major Customers of Notes to Consolidated Financial Statements. We determine the fair value of our reporting units based on an appropriate weighting of market and income approaches. Under the market approach, we estimate the fair value based on market multiples of revenues or earnings of comparable companies. Under the income approach, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment testing order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value then we record an impairment loss equal to the difference.

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the life of the asset may need to be revised. Factors we consider important which could trigger an impairment review include the following:

- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- our market capitalization relative to net book value; and
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business.

When we determine that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Our annual review of goodwill performed in the third quarter of 2008 indicated that there was no impairment of goodwill. We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance of SFAS142 as stated above. Valuation analysis of goodwill was performed on our respective reporting units—Controller, Inkjet, and Advanced Professional Print Software using an equal weighing between the market and income approach for the Inkjet reporting unit and using the market approach for the Controller and APPS reporting units. Our reporting units are consistent with our product categories identified in Note 15—Information Concerning Business Segments and Major Customers of Notes to the Consolidated Financial Statements. Based on our valuation results, we had determined that the fair values of our reporting units continued to exceed their carrying values. Therefore, management determined that no goodwill impairment charge was required as of September 30, 2008.

During the fourth quarter of 2008, our market capitalization declined significantly as a result of declining worldwide economic conditions caused by the tightening of global credit markets. Based on a combination of factors including the recent economic environment, resulting erosion in our market capitalization, and the lowering of our 2009 revenue outlook subsequent to the third quarter of 2008, we performed an interim impairment analysis during the fourth quarter of 2008.

Based on the internal market-based valuation that we performed, the fair value of the Controller and APPS product categories significantly exceeded their carrying value as of December 31, 2008. Consequently, it was not considered necessary to obtain a third party valuation of these reporting units. A third party interim valuation was obtained with respect to the Inkjet product category, which was equally weighted between the income and market approach.

Based on the outcome of the interim impairment analysis, we concluded that an impairment had occurred resulting in a non-cash impairment charge of $111.9 million during fourth the quarter of 2008 related to both goodwill and other long-lived assets. There were no impairments of goodwill, intangible assets or other long-lived assets in 2007 and 2006.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, we made the following assumptions:

- the current economic downturn will continue through fiscal year 2010,
- the economic downturn is partially mitigated by new product introductions in 2010,
- followed by a recovery period between 2011 and 2013, and
- long-term industry growth past 2013.

Our discounted cash flow projections for the Inkjet reporting unit were based on five-year financial forecasts. The five-year forecasts were based on annual financial forecasts developed internally by management for use in managing our business and through discussions with the independent valuation firm engaged by us. The significant assumptions of these five-year forecasts included annual revenue growth rates ranging from (11.0%) to 12% for the Inkjet reporting unit. The future cash flows were discounted to present value using a mid-year convention and a discount rate of 16%. Terminal values were calculated using the Gordon growth methodology with a long-term growth rate of 4.5%. The sum of the fair values of the Controllers, APPS, and Inkjet reporting units was reconciled to our current market capitalization (based on our stock price) plus an estimated control premium. The significant assumptions used in determining fair values of the reporting units using comparable company market values include the determination of appropriate market comparables, the estimated multiples of revenue, EBIT, and EBITDA that a willing buyer is likely to pay, and the estimated control premium a willing buyer is likely to pay.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross margin rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the third quarter of 2009 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

**Business combinations** We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development based on their estimated fair values. Such a valuation requires management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows; acquired developed technologies and patents; expected costs to develop the in-process research and development into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and discount rates. These estimates are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or other actual results.

Other estimates associated with the accounting for acquisitions include severance costs and the costs of vacating duplicate facilities. These costs are based upon estimates made by management and are subject to refinement. We estimate the future costs to operate and eventually vacate duplicate facilities. Estimated costs may change as additional information becomes available regarding the assets acquired and liabilities assumed and as management continues its assessment of the pre-merger operations.

On July 28, 2008, we acquired Pace Systems Group, Inc. ("Pace") for approximately $20.0 million in cash plus an additional future cash earn out amount, which is contingent upon achieving certain performance targets. We acquired Pace to further strengthen our Advanced Professional Print Software reporting unit. On December 2, 2008, we acquired Raster Printers, Inc. ("Rastek"), a mid-market, wide format graphics printer developer and manufacturer, to further expand our Inkjet line of products. The Pace and Rastek acquisitions are discussed more fully in Note 2—Acquisitions of Notes to the Consolidated Financial Statements.

We apply the provisions of SFAS 141, Business Combinations, when accounting for our acquisitions. We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development based on their estimated fair values. All acquisitions are included in our financial statements from the date of acquisition.

Our financial projections may ultimately prove to be inaccurate and unanticipated events and circumstances may occur. Therefore, no assurance can be given that the underlying assumptions used to forecast revenues and costs to develop such projects will transpire as projected.

**Determining functional currencies for the purpose of consolidating our international operations.** We have a number of foreign subsidiaries which together account for approximately 46% of our net revenues, approximately 10% of our total assets and approximately 32% of our total liabilities as of December 31, 2008. We typically quote and bill our international customers in United States dollars.

Based on our assessment of the factors discussed below, we consider the United States dollar to be the functional currency for each of our international subsidiaries except for our Japanese subsidiary, Electronics for Imaging Japan YK, for which we consider the Japanese Yen to be the subsidiary's functional currency and our German subsidiary, Electronics for Imaging GmbH, for which we consider the Euro to be the subsidiary's functional currency.

In preparing our consolidated financial statements, we are required to translate the financial statements of the foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into United States dollars. This process results in exchange gains and losses which, when the transactions are not denominated in the functional currency, are included within the statement of operations or, if the transactions are denominated in the functional currency, are included as a separate component of stockholders' equity under the caption "Accumulated other comprehensive income."

**Recent Accounting Pronouncements**

See Note 1 of our Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

**Liquidity and Capital Resources**

| (in thousands) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Cash and cash equivalents | $ 132,152 | $165,636 | $166,996 |
| Short-term investments | 57,199 | 334,216 | 343,175 |
| Total cash, cash equivalents and short-term investments | $ 189,351 | $499,852 | $510,171 |
| Net cash provided by operating activities | $ 27,819 | $ 69,625 | $ 66,962 |
| Net cash used for investing activities | 236,689 | (6,561) | (94,231) |
| Net cash (used for) provided by financing activities | (297,903) | (64,347) | 12,381 |

*Overview*

Cash and cash equivalents and short term investments decreased $310.5 million to $189.4 million as of December 31, 2008 from $499.9 million as of December 31, 2007. The decrease is primarily due to the redemption on June 2, 2008 of our 1.50% convertible senior debentures of $240.0 million, repurchases of our common stock and net settlement of restricted stock units of $65.2 million, and costs associated with purchases of Pace and Raster of $25.3 million offset by cash generated by operations of $27.8 million.

Operating Activities

Net cash provided by operating activities in 2008, 2007 and 2006 of $27.8 million, $69.6 million, and $67.0 million, respectively, was primarily the result of net income (loss) adjusted for non-cash items such as depreciation and amortization, acquired in-process research and development, deferred income taxes, stock-based compensation, other non-cash charges and credits, and changes in various assets and liabilities such as accounts payable, accounts receivable, inventories, and other current assets.

Our historical and primary source of operating cash flow is the collection of accounts receivable from our customers and the timing of payments to our vendors and service providers. One measure of the effectiveness of our collection efforts is average days sales outstanding ("DSO") for accounts receivable. DSOs were 66 days, 62 days, and 58 days at December 31, 2008, 2007 and 2006 respectively. We calculate accounts receivable DSO by dividing the net accounts receivable balance at the end of the quarter by the amount of revenue recognized for the quarter multiplied by the total days in the quarter. The increase in DSOs is due to the linearity of revenues in the second half of 2008. Our DSOs related to direct sales are traditionally higher than those related to OEM customers. We expect DSOs to vary from period to period because of changes in quarterly mix of business between our direct and OEM customers, and the effectiveness of our collection efforts. As the percentage of our APPS and Inkjet related revenue increases, we expect DSOs may trend higher.

Our operating cash flows are impacted by the timing of payments to our vendors for accounts payable and by our accrual of liabilities. In 2008, the change in accounts payable, accrued liabilities and income taxes payable decreased our cash flows by approximately $4.4 million compared to a increase in cash flows in 2007 of $1.6 million. Our working capital, defined as current assets minus current liabilities, was $293.8 million and $270.7 million at December 31, 2008 and 2007, respectively.

We expect to meet our obligations as they become due through available cash and internally generated funds. We expect to generate positive working capital through our operations. However, we cannot predict whether current trends and conditions will continue, or the effect on our business from the competitive environment in which we operate. We believe the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

Investing Activities

A summary of our investing activities at December 31, 2008, 2007 and 2006 follows. The detail of these line items can be seen in our consolidated statement of cash flows.

***Investing Activities***

| (in thousands) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Purchases of short-term investments | $(170,732) | $(314,452) | $(323,115) |
| Proceeds from sales and maturities of short-term investments | 461,929 | 326,395 | 271,058 |
| Reclassification of funds from cash to short-term investments | (14,836) | | |
| Purchases, net of proceeds from sales, of property and equipment | (11,607) | (13,292) | (9,318) |
| Proceeds from sale of product line | — | — | 10,000 |
| Businesses acquired, net of cash received | (25,283) | — | (41,427) |
| Purchases of other investments | (2,782) | (5,212) | (1,429) |
| Net cash used for investing activities | $ 236,689 | $ (6,561) | $ (94,231) |

***Acquisitions***

Below is a summary of our acquisitions for the last three fiscal years:

*Raster Printers, Inc. ("Rastek"):* On December 2, 2008, we acquired the remaining interest of Rastek for approximately $5.3 million in cash, including direct acquisition costs plus an additional future earn out amount, which is contingent upon achieving certain performance targets. The maximum additional earn-out is $1.7 million. Headquartered in San Jose, California, Rastek sells UV wide format printers primarily to mid-range customers in the display graphics market.

*Pace Systems Group, Inc ("Pace"):* On July 28, 2008, we purchased Pace for approximately $20.0 million in cash, including direct acquisition costs, plus an additional cash earn-out amount, which is contingent upon achieving certain performance targets. Pace is a print management software company that provides print MIS and e-commerce software solutions.

*Jetrion LLC ("Jetrion"):* On October 31, 2006, we purchased Jetrion for approximately $41.4 million in cash. Jetrion sells industrial inkjet printers and inks to label printing companies.

We may buy or invest in companies, products and technologies within the print industry. Our available cash and equity may be used to acquire or invest in companies or products, possibly resulting in significant acquisition-related charges to earnings and dilution to our stockholders.

### *Inventories*

Our inventories are procured primarily in support of the Inkjet and Controller product categories. Our inventories increased from $39.9 million in 2007 to $48.9 million in 2008. This increase consisted primarily of finished goods driven by the Rastek acquisition, 2008 new product introductions and inventories required for new product introductions in future periods.

### *Property and Equipment*

Our net property and equipment purchases totaled $11.6 million, $13.3 million, and $9.3 million in 2008, 2007, and 2006, respectively. Our property and equipment additions have been funded by cash from operations.

We anticipate that we will continue to purchase property and equipment necessary in the normal course of our business. The amount and timing of these purchases and the related cash outflows in future periods is difficult to predict and is dependent on a number of factors including our hiring of employees, the rate of change in computer hardware/software used in our business, our business outlook, and decisions to invest or expand business sites.

On January 29, 2009, we completed the sale of land and building to Gilead for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010. The property sold included approximately thirty acres of land and the office building located on the land at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property.

### *Investments*

During 2008, we received net proceeds from the sale and maturities of our marketable securities of $291.2 million, of which $240.0 million was used to repay the 1.50% convertible senior debenture holders. During 2007, we received net proceeds from the sale and maturities of our marketable securities of $11.9 million. We made net purchases of marketable securities in 2006 of $52.1 million. We have classified our investment portfolio as "available for sale," and our investments are made with a policy of capital preservation and liquidity as the primary objectives. We generally hold investments in corporate bonds and U. S. government agency securities to maturity; however, we may sell an investment at any time if the quality rating of the investment declines, the yield on the investment is no longer attractive or we are in need of cash. Because we invest primarily in investment securities that are highly liquid with a ready market, we believe that the purchase, maturity or sale of our investments has no material impact on our overall liquidity.

### *Restricted Investments*

We have restricted investments classified in connection with the synthetic lease for our Foster City office. We are required to maintain cash in LIBOR-based interest-bearing accounts which fully collateralize our synthetic leases. We had $88.6 million in collateral accounted for as restricted investments at December 31, 2008 and 2007. At December 31, 2008, $56.9 million of the $88.6 million was accounted for as a non-current asset as restricted investments. The remaining $31.7 million was accounted for as a current asset under Assets Held For Sale related to the sale of a portion of our Foster City offices and accompanying real estate to Gilead. For further information on these transactions, see the discussion at "Off-Balance Sheet Financing" herein and Note 13—Sale of Land and Building of the Notes to Consolidated Financial Statements as of December 31, 2008.

### Financing Activities

Historically, our recurring cash flows provided by financing activities have been from the receipt of cash from the issuance of common stock from the exercise of stock options and employee stock purchase plans. We received cash proceeds from these plans in the amount of $7.3 million, $4.8 million, and $42.3 million in 2008, 2007 and 2006, respectively. While we may continue to receive proceeds from these plans in future periods, the timing and amount of such proceeds are difficult to predict and are contingent on a number of factors including the price of our common stock, the number of employees participating in the plans and general market conditions. We anticipate that cash provided from exercise of stock options may decline over time as we shift to issuance of restricted stock awards and units rather than stock option awards.

The primary use of funds for financing activities in 2008, 2007, and 2006 was the use of $65.2 million, $70.3 million, and $33.9 million, respectively, of cash to repurchase outstanding shares of our common stock. See Item 5—Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities for further discussion of our programs to repurchase our common stock.

The synthetic lease agreements for our corporate headquarters existing at December 31, 2008 provided for residual value guarantees. Under FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," the fair value of a residual value guarantee in lease agreements entered into after December 31, 2002, must be recognized as a liability on our consolidated balance sheet. We have determined that the guarantees have no material value as of December 31, 2008 and therefore have not recorded any liability.

On June 2, 2008, we exercised our option to redeem and paid in cash the outstanding balance of our 1.50% convertible senior debentures, which totaled $240 million. The redemption price for the securities was 100% of the principal amount, plus accrued and unpaid interest and additional interest amounts to but not including the redemption date. Accrued and unpaid interest expense up to June 1, 2008 for the fiscal year ended December 31, 2008 totaled $0.6 million.

***Other Commitments***

Our inventory for our controller line of products consists primarily of raw and finished goods, memory subsystems, processors and ASICs which are sold to third-party contract manufacturers responsible for manufacturing our products. Our inventory for our inkjet line of products consists of raw and finished goods, printheads, frames and other components. Should we decide to purchase components and do our own manufacturing of controllers, or should it become necessary for us to purchase and sell components other than the processors, ASICs or memory subsystems for our contract manufacturers, inventory balances and potentially property and equipment would increase significantly, thereby reducing our available cash resources. Further, the inventory we carry could become obsolete, thereby negatively impacting our financial condition and results of operations. We are also reliant on several sole-source suppliers for certain key components and could experience a further significant negative impact on our financial condition and results of operations if such supply were reduced or not available.

We may be required to compensate our sub-contract manufacturers for components purchased for orders subsequently cancelled by us. We periodically review the potential liability and the adequacy of the related allowance. Our financial condition and results of operations could be negatively impacted if we were required to compensate the sub-contract manufacturers in amounts in excess of the related allowance.

***Legal Proceedings***

In addition to the matters discussed under Item 3, Legal Proceedings, we are involved from time to time in litigation relating to claims arising in the normal course of our business.

### *Contractual Obligations*

The following table summarizes our significant contractual obligations at December 31, 2008 and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at December 31, 2008.

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| (in thousands) | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating lease obligations[1] | $33,035 | $ 8,155 | $11,858 | $9,800 | $3,222 |
| Purchase obligations[2] | 5,668 | 5,668 | | | |
| Total[2] | $38,703 | $13,823 | $11,858 | $9,800 | $3,222 |

(1) Lease obligations related to the principal corporate facilities are estimated and are based on current market interest rates (LIBOR). See Off-Balance Sheet Financing.

(2) Total does not include contractual obligations recorded on the balance sheet as current liabilities, or certain purchase orders as discussed below.

In January, 2009, we sold the 163,000 square foot building and approximately 30 acres of land in our Foster City, California campus to Gilead. As a result, total operating lease obligations for 2009 and beyond will decrease by approximately $5.8 million. Purchase obligations in the table above include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude purchase orders for the purchase of raw materials and other goods and services that are cancelable without penalty. Our purchase orders are based on our current manufacturing needs and are generally fulfilled by our vendors within short time horizons. We also enter into contracts for outsourced services; however the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing of payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations.

The above table does not reflect unrecognized tax benefits of $33.8 million, the timing of which is uncertain. See Note 11—Income Taxes of Notes to the Consolidated Financial Statements for additional discussion on unrecognized tax benefits.

### *Off-Balance Sheet Financing*

Synthetic Lease Arrangements

As of December 31, 2008 we were a party to two synthetic leases (the “301 Lease” and the “303 Lease”, together “Leases”) covering our Foster City facilities located at 301 and 303 Velocity Way, Foster City, California. These leases provided a cost effective means of providing adequate office space for our corporate offices. Both Leases expire in July 2014. The leases included an option to purchase the facilities during or at the end of the term of the Leases for the amount expended by the lessor to purchase the facilities. The funds pledged under the Leases ($56.9 million for the 303 Lease and $31.7 million for the 301 Lease at December 31, 2008 for a total of $88.6 million) are in LIBOR-based interest bearing accounts and are restricted as to withdrawal at all times. We have exercised our purchase option in the first quarter of 2009 with respect to the 301 Lease in connection with the sale of the land and building to Gilead. Accordingly, the $31.7 million of pledged funds have been re-classified as Assets Held for Sale under current assets in the Consolidated Balance Sheet as of December 31, 2008.

On January 29, 2009, we completed the sale of land and building to Gilead for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010. The property sold included approximately thirty acres of land and the office building located on the land at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property.

We have guaranteed to the lessor a residual value associated with the buildings equal to 82% of their funding of the respective Leases. Under the financial covenants, we must maintain a minimum net worth and a minimum tangible net worth as of the end of each quarter. There is an additional covenant regarding mergers. We were in compliance with all such financial and merger related covenants as of December 31, 2008. We have assessed our exposure in relation to the first loss guarantees under the Leases and have determined that there is no deficiency to the guaranteed value at December 31, 2008. If there is a decline in value, we will record a loss associated with the residual value guarantee. In conjunction with the Leases, we have entered into separate ground leases with the lessor for approximately 30 years. As of December 31, 2008, we were treated as the owner of these buildings for federal income tax purposes. Since we exercised our purchase option with respect to the 301 Lease, our maximum exposure under our remaining synthetic lease arrangement is $56.9 million as of January 29, 2009.

Effective July 1, 2003, we applied the accounting and disclosure rules set forth in Interpretation No. 46, "Consolidation of Variable Interest Entities", as revised ("FIN 46R") for variable interest entities ("VIEs"). We have evaluated our synthetic lease agreements to determine if the arrangements qualify as variable interest entities under FIN 46R. We have determined that the synthetic lease agreements do qualify as VIEs; however, because we are not the primary beneficiary under FIN 46R we are not required to consolidate the VIEs in our financial statements.

## Item 7A: Quantitative and Qualitative Disclosures about Market Risk

### Market Risk

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market rates and prices, general credit, foreign currency exchange rate fluctuation, liquidity, and interest rate risks, which may be exacerbated by the tightening of global credit markets and increase in economic uncertainty that have affected various sectors of the financial markets and caused credit and liquidity issues. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We may enter into financial instrument contracts to manage and reduce the impact of changes in foreign currency exchange rates. The counterparties to such contracts are major financial institutions.



### Interest Rate Risk

Marketable Securities

We maintain an investment portfolio of short-term investments of various holdings, types and maturities. These short-term investments are generally classified as available–for-sale and consequently, are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss). At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of our investment portfolio. Conversely, declines in interest rates could have a material impact on interest earnings for our portfolio. We do not currently hedge these interest rate exposures.

The following table presents the hypothetical change in fair values in the financial instruments held by us at December 31, 2008 that are sensitive to changes in interest rates. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 100 basis points over a twelve-month time horizon.

This table estimates the fair value of the portfolio at a twelve-month time horizon (in thousands):

| Valuation of securities given an interest rate decrease of 100 basis points | No change in interest rates | Valuation of securities given an interest rate increase of 100 basis points |
|---|---|---|
| $95,065 | $94,603 | $94,141 |

**Derivatives**

We do not use any derivatives for trading or speculative purposes.

**Financial Risk Management**

The following discussion about our risk management activities includes “forward-looking statements” that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

As a global concern, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our primary exposures are related to non-U.S. dollar-denominated sales in Japan and Europe and operating expenses in Europe, India and Japan. At the present time, we do not hedge against these currency exposures, but as these exposures grow we may consider hedging against currency movements.

We maintain investment portfolio holdings of various issuers, types and maturities, typically U.S. Treasury and Agencies securities, corporate debt instruments, and asset-backed instruments. These short-term investments are classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income (loss). These securities are not leveraged and are held for purposes other than trading.

## Item 8: Financial Statements and Supplementary Data

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Electronics For Imaging, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Electronics For Imaging, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 11 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertainty in income taxes in 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 2, 2009

# Electronics For Imaging, Inc.
## Consolidated Balance Sheets

| (in thousands) | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 132,152 | $ 165,636 |
| Short-term investments, available for sale | 57,199 | 334,216 |
| Accounts receivable, net of allowances of $8.5 million and $8.2 million, respectively | 97,286 | 101,955 |
| Inventories | 48,785 | 39,949 |
| Assets held for sale (Note 13) | 55,367 | — |
| Other current assets | 20,013 | 15,844 |
| Total current assets | 410,802 | 657,600 |
| Property and equipment, net | 35,225 | 57,604 |
| Restricted investments | 56,850 | 88,580 |
| Goodwill | 122,581 | 211,780 |
| Intangible assets, net | 72,992 | 86,554 |
| Deferred tax assets | 51,013 | 47,004 |
| Other assets | 2,485 | 8,617 |
| Total assets | $ 751,948 | $1,157,739 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 44,634 | $ 42,262 |
| Convertible debt | — | 240,000 |
| Accrued and other liabilities | 44,958 | 72,400 |
| Deferred revenue | 25,428 | 24,365 |
| Income taxes payable | 1,952 | 7,896 |
| Total current liabilities | 116,972 | 386,923 |
| Non-current income taxes payable | 33,758 | 26,820 |
| Total liabilities | 150,730 | 413,743 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; 5,000 shares authorized; none issued and outstanding | — | — |
| Common stock, $0.01 par value; 150,000 shares authorized; 70,738 and 69,633 shares issued, respectively | 708 | 696 |
| Additional paid-in capital | 644,482 | 606,702 |
| Treasury stock, at cost, 19,381 and 14,629 shares, respectively | (384,129) | (318,899) |
| Accumulated other comprehensive income | 1,676 | 3,572 |
| Retained earnings | 338,481 | 451,925 |
| Total stockholders' equity | 601,218 | 743,996 |
| Total liabilities and stockholders' equity | $ 751,948 | $1,157,739 |

*See accompanying notes to consolidated financial statements.*

# Electronics For Imaging, Inc.
## Consolidated Statements of Operations

| (in thousands, except per share amounts) | For the years ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| Revenue | $ 560,380 | $620,586 | $564,611 |
| Cost of revenue[1] | 242,963 | 259,439 | 229,441 |
| Gross Profit | 317,417 | 361,147 | 335,170 |
| Operating expenses: | | | |
| Research and development[1] | 140,437 | 140,470 | 127,857 |
| Sales and marketing[1] | 119,400 | 120,444 | 99,180 |
| General and administrative[1] | 47,685 | 67,461 | 47,576 |
| Amortization of identified intangibles | 29,367 | 33,502 | 35,514 |
| In-process research & development | 2,680 | — | 8,500 |
| Restructuring and other (Note 14) | 11,005 | 1,501 | 982 |
| Goodwill and asset impairment (Note 4) | 111,858 | — | — |
| Total operating expenses | 462,432 | 363,378 | 319,609 |
| Income (loss) from operations | (145,015) | (2,231) | 15,561 |
| Interest and other income, net: | | | |
| Interest and other income (expense), net | 13,476 | 29,452 | 24,002 |
| Gain on sale of product line, net | — | — | 6,995 |
| Interest expense | (1,537) | (5,012) | (5,027) |
| Total interest and other income, net | 11,939 | 24,440 | 25,970 |
| Income (loss) before income taxes | (133,076) | 22,209 | 41,531 |
| Benefit from (provision for) income taxes | 19,632 | 4,634 | (41,714) |
| Net income (loss) | $(113,444) | $ 26,843 | $ (183) |
| Net income (loss) per basic common share | $ (2.16) | $ 0.47 | $ (0.00) |
| Net income (loss) per diluted common share | $ (2.16) | $ 0.44 | $ (0.00) |
| Shares used in basic per-share calculation | 52,553 | 56,679 | 56,559 |
| Shares used in diluted per-share calculation | 52,553 | 68,102 | 56,559 |

(1) Includes stock-based compensation expense as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Cost of revenue | $ 2,471 | $ 1,909 | $ 1,725 |
| Research and development | 12,923 | 9,018 | 8,346 |
| Sales and marketing | 6,059 | 3,968 | 3,248 |
| General and administrative | 11,974 | 9,635 | 10,427 |

*See accompanying notes to consolidated financial statements.*

# Electronics For Imaging, Inc.
## Consolidated Statements of Stockholders' Equity

| (in thousands) | Common stock Shares | Common stock Amount | Additional paid-in capital | Deferred compensation | Treasury stock Shares | Treasury stock Amount | Other comprehensive income (loss) | Retained earnings | Total stockholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balances as of December 31, 2005** | **66,213** | **$662** | **$511,951** | **$(5,550)** | **(9,964)** | **$(214,722)** | **$(2,069)** | **$ 420,467** | **$ 710,739** |
| Net loss | | | | | | | | (183) | |
| Other comprehensive income, net of tax: | | | | | | | | | |
| Currency translation adjustment | | | | | | | 1,199 | | |
| Market valuation on short-term investments | | | | | | | 2,107 | | |
| Comprehensive income | | | | | | | 3,306 | (183) | 3,123 |
| Exercise of common stock options | 2,006 | 20 | 36,111 | | | | | | 36,131 |
| Elimination of deferred stock-based compensation in connection with the adoption of SFAS 123(R) | | | (5,550) | 5,550 | | | | | — |
| Restricted stock grants | 470 | 5 | (5) | | | | | | — |
| Stock-based compensation | | | 23,746 | | | | | | 23,746 |
| Stock repurchase | | | | | (1,526) | (33,909) | | | (33,909) |
| Stock issued pursuant to ESPP | 415 | 4 | 6,122 | | | | | | 6,126 |
| Tax benefit related to stock plans | — | — | 5,622 | | | | | | 5,622 |
| **Balances as of December 31, 2006** | **69,104** | **$691** | **$577,997** | **$ —** | **(11,490)** | **$(248,631)** | **$ 1,237** | **$ 420,284** | **$ 751,578** |
| Net income | | | | | | | | 26,843 | |
| Other comprehensive income, net of tax: | | | | | | | | | |
| Currency translation adjustment | | | | | | | 666 | | |
| Market valuation on short-term investments | | | | | | | 1,669 | | |
| Comprehensive income | | | | | | | 2,335 | 26,843 | 29,178 |
| Exercise of common stock options | 318 | 3 | 4,838 | | | | | | 4,841 |
| Restricted stock grants | 211 | 2 | (2) | | | | | | — |
| Stock-based compensation | | | 24,326 | | | | | | 24,326 |
| Stock repurchase | | | | | (3,139) | (70,268) | | | (70,268) |
| Tax expense related to stock plans | | | (457) | | | | | | (457) |
| Adjustment in connection with adoption of FIN 48 | | | | | | | | 4,798 | 4,798 |
| **Balances as of December 31, 2007** | **69,633** | **$696** | **$606,702** | **$ —** | **(14,629)** | **$(318,899)** | **$ 3,572** | **$ 451,925** | **$ 743,996** |
| Net loss | | | | | | | | (113,444) | |
| Other comprehensive income, net of tax: | | | | | | | | | |
| Currency translation adjustment | | | | | | | (295) | | |
| Market valuation on short-term investments | | | | | | | (1,601) | | |
| Comprehensive income | | | | | | | (1,896) | (113,444) | (115,340) |
| Exercise of common stock options | 162 | 2 | 3,403 | | | | | | 3,405 |
| Restricted stock grants | 461 | 5 | (5) | | | | | | — |
| Stock-based compensation | | | 33,671 | | | | | | 33,671 |
| Stock repurchase | | | | | (4,752) | (65,230) | | | (65,230) |
| Stock issued pursuant to ESPP | 482 | 5 | 5,864 | | | | | | 5,869 |
| Tax expense related to stock plans | | | (5,153) | | | | | | (5,153) |
| **Balances as of December 31, 2008** | **70,738** | **$708** | **$644,482** | **$ —** | **(19,381)** | **$(384,129)** | **$ 1,676** | **$ 338,481** | **$ 601,218** |

*See accompanying notes to consolidated financial statements.*

# Electronics For Imaging, Inc.
## Consolidated Statements of Cash Flows

| (in thousands) | For the years ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income (loss) | $(113,444) | $ 26,843 | $ (183) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 41,437 | 44,484 | 45,085 |
| Acquired in-process research & development | 2,680 | — | 8,500 |
| Deferred taxes | (33,988) | (17,437) | 22,666 |
| Provision for allowance for bad debts and sales-related allowances | 5,420 | 6,168 | 5,997 |
| Tax (expense) benefit from employee stock plans | (3,170) | (457) | 5,622 |
| Excess tax benefit from stock-based compensation | (36) | (1,080) | (4,033) |
| Gain on sale of product line | — | — | (6,995) |
| Provision for inventory obsolescence | 2,478 | 677 | 1,563 |
| Stock-based compensation | 33,427 | 24,530 | 23,746 |
| Goodwill and asset impairment | 111,858 | — | — |
| Other non-cash charges and credits | (5,258) | 219 | 91 |
| Changes in operating assets and liabilities, net of effect of acquired companies: | | | |
| Accounts receivable | 5,008 | (8,864) | (32,093) |
| Inventories | (12,722) | (5,582) | (8,460) |
| Other current assets | (1,435) | (1,510) | (6,350) |
| Accounts payable and accrued liabilities | (13,965) | (12,482) | 7,928 |
| Income taxes payable/receivable | 9,529 | 14,116 | 3,878 |
| Net cash provided by operating activities | 27,819 | 69,625 | 66,962 |
| **Cash flows from investing activities:** | | | |
| Purchases of short-term investments | (170,732) | (314,452) | (323,115) |
| Proceeds from sales and maturities of short-term investments | 461,929 | 326,395 | 271,058 |
| Reclassification of funds from cash to short-term investments | (14,836) | | |
| Purchases, net of proceeds from sales, of property and equipment | (11,607) | (13,292) | (9,318) |
| Proceeds from sale of product line | — | — | 10,000 |
| Businesses acquired, net of cash received | (25,283) | — | (41,427) |
| Purchases of other investments | (2,782) | (5,212) | (1,429) |
| Net cash provided by (used for) investing activities | 236,689 | (6,561) | (94,231) |
| **Cash flows from financing activities:** | | | |
| Repayment of convertible debentures | (240,000) | — | — |
| Proceeds from issuance of common stock | 7,291 | 4,841 | 42,257 |
| Purchases of treasury stock and net settlement of restricted stock | (65,230) | (70,268) | (33,909) |
| Excess tax benefit from stock-based compensation | 36 | 1,080 | 4,033 |
| Net cash (used for) provided by financing activities | (297,903) | (64,347) | 12,381 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (89) | (77) | (155) |
| Decrease in cash and cash equivalents | (33,484) | (1,360) | (15,043) |
| Cash and cash equivalents at beginning of year | 165,636 | 166,996 | 182,039 |
| **Cash and cash equivalents at end of year** | $ 132,152 | $ 165,636 | $ 166,996 |

*See accompanying notes to consolidated financial statements.*

## Note 1: The Company and Its Significant Accounting Policies

### The Company

We are the world leader in color digital print controllers, super-wide format printers and inks and print management solutions. Our award-winning solutions, integrated from creation to print, deliver increased performance, cost savings and productivity. Our robust product portfolio includes Fiery digital color print servers, VUTEk super-wide digital inkjet printers, UV and solvent inks, Jetrion industrial inkjet printing systems, print production workflow and management information software, and corporate printing solutions. Our integrated solutions and award-winning technologies are designed to automate print and business processes, streamline workflow, provide profitable value-added services and produce accurate digital output.

### Significant Accounting Policies

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of EFI and our subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of the consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates, including those related to bad debts, inventories, goodwill and intangible assets, income taxes, warranty obligations, purchase commitments, revenue recognition and contingencies on an on-going basis. The estimates are based upon historical experience and on various other assumptions that are believed to be reasonable under the circumstances at the time of the estimate, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

*Cash, Cash Equivalents and Short-term Investments*

We invest our excess cash in deposits with major banks; money market securities; and municipal, U.S. government and corporate debt securities. By policy, we invest primarily in high-grade marketable securities. We are exposed to credit risk in the event of default by the financial institutions or issuers of these investments to the extent of amounts recorded on the consolidated balance sheet.

We consider all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Typically, the cost of these investments has approximated fair value. Marketable investments with a maturity greater than 3 months are classified as available-for-sale short-term investments. Available-for-sale securities are stated at fair market value with unrealized gains and losses reported as a separate component of stockholders' equity, adjusted for deferred income taxes. Realized gains and losses on sales of investments are recognized upon sale of the investments using the specific identification method.

*Allowance for Doubtful Accounts and Sales-related Allowances*

We analyze accounts receivable and historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of our allowance for doubtful accounts. In addition, we specifically reserve for any accounts receivable for which there are identified collection issues. Balances are charged off when we deem it probable the receivable will not be recovered. We also make provisions for sales rebates and revenue adjustments based upon analysis of current sales programs and revenues.

*Concentration of Risk*

We are exposed to credit risk in the event of default by any of our customers to the extent of amounts recorded in the consolidated balance sheet. We perform ongoing evaluations of the collectability of the accounts receivable balances for our customers and maintain allowances for estimated credit losses; actual losses have not historically been significant, but have risen over the past several years as our customer base has grown through acquisitions.

Our controller products, which constitute approximately 50% of our revenues, are primarily sold to a limited number of OEMs. We expect that we will continue to depend on a relatively small number of OEM customers for a significant portion of our revenues, although the significance of that revenue is expected to decline in future periods as our revenues increase from Inkjet products.

We are reliant on certain sole source suppliers for key components of our products. We conduct our business with our component suppliers solely on a purchase order basis. Any disruption in the supply of the key components would result in us being unable to manufacture our products.

Many of our current controllers include software that we license from Adobe Systems, Inc. (“Adobe”). In order to obtain licenses from Adobe, Adobe requires that we obtain from them quality assurance approvals for our products that use Adobe software. Although to date we have successfully obtained such quality assurances from Adobe, we cannot be certain Adobe will grant us such approvals in the future. If Adobe does not grant us such licenses or approvals, if the Adobe licenses are terminated, or if our relationship with Adobe is otherwise materially impaired, we would likely be unable to produce products that incorporate Adobe PostScript® software.

We subcontract with other companies to manufacture our controllers. We rely on the ability of our sub-contractors to produce the products sold to our customers. A high concentration of our products is manufactured at one sub-contractor location. If the sub-contractor was to lose production capabilities at this facility, we would experience delays in delivering product to our customers. We do not maintain long-term agreements with our sub-contractors which could lead to an inability of such sub-contractor to fill our orders.

*Inventories*

Inventories are stated at standard cost, which approximates the lower of actual cost using a first-in, first-out method, or market. We periodically review our inventories for potential slow-moving or obsolete items and write down specific items to net realizable value as appropriate. Work-in-process inventories consist of our product at various levels of assembly and include materials, labor and manufacturing overhead. Finished goods inventory represents completed products awaiting shipment.

*Property and Equipment*

Property and equipment is recorded at cost. Depreciation on assets is computed using the straight-line method over the estimated useful lives of the assets. The estimated life for desktop and laptop computers is 18 to 24 months. Furniture has an estimated life of 5 to 7 years, software is amortized over 3 to 5 years and buildings have an estimated life of 40 years. All other assets are typically considered to have a 3 to 5 year life. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the lease term, if shorter. Land improvements, such as parking lots and sidewalks, are amortized using the straight-line method over the estimated useful lives of the improvements.

When assets are disposed, we remove the asset and accumulated depreciation from our records and recognize the related gain or loss in results of operations. The cost and related accumulated depreciation applicable to property and equipment sold or no longer in service are eliminated from the accounts and any gain or loss is included in other income and expense.

Depreciation expense was $11.4 million, $9.5 million and $8.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Repairs and maintenance expenditures which are not considered improvements and do not extend the useful life of property and equipment are expensed as incurred.

*Internal Use Software*

We follow the guidance in Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Software development costs, including costs incurred to purchase third party software, are capitalized beginning when we have determined that certain factors are present, including among others, that technology exists to achieve the performance requirements. The accumulation of software costs to be capitalized ceases when the software is substantially developed and is ready for its intended use. It is amortized over an estimated useful life of three years using the straight-line method.

*Restricted Investments*

As of December 31, 2008, we were a party to two synthetic leases (the "301 Lease" and the "303 Lease", together "Leases") covering our Foster City facilities located at 301 and 303 Velocity Way, Foster City, California. The Leases included an option to purchase the facilities during or at the end of the term of the Leases for the amount expended by the lessor to purchase the facilities ($56.9 million for the 303 Lease and $31.7 million for the 301 Lease). The funds pledged under the Leases ($56.9 million for the 303 Lease and $31.7 million for the 301 Lease at December 31, 2007 for a total of $88.6 million) are in LIBOR-based interest bearing accounts and are restricted as to withdrawal at all times. We exercised our purchase option in the first quarter of 2009 with respect to the 301 Lease, in connection with the sale of the land and building to Gilead. Accordingly, the $31.7 million of pledged funds have been re-classified as Assets Held for Sale under current assets in the Consolidated Balance Sheet as of December 31, 2008.



*Goodwill*

We review goodwill annually in the third quarter of each year and whenever events or changes in circumstances indicate the carrying value may not be recoverable. SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") prohibits the amortization of goodwill and requires that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with our product categories identified in Note 15 of Notes to Consolidated Financial Statements. We determine the fair value of our reporting units based on a weighting of market and income approaches. Under the market approach, we estimate the fair value based on market multiples of revenues or earnings of comparable companies. Under the income approach, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment testing to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value then we record an impairment loss equal to the difference. There was no impairment of goodwill in 2007 and 2006.

Based on a combination of factors including the current economic environment, the resulting erosion in our market capitalization, and the lowering of our 2009 revenue outlook subsequent to the end of the third quarter, we concluded that there were sufficient indicators to require the Company to perform an interim impairment analysis in the fourth quarter of 2008. Based on the outcome of our interim impairment analysis, we concluded that an impairment had occurred; resulting in a non-cash impairment charge of $104 million during the fourth quarter of 2008. Please see Note 4—Goodwill and Long-Lived Asset Impairment of the Notes to Consolidated Financial Statements.

*Long-lived Assets, including Intangible Assets*

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. We evaluate potential impairment with respect to long-lived assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Intangible assets are evaluated for impairment based on their estimated future undiscounted cash flows. Based on this analysis, no impairment of intangible assets, excluding goodwill, was recognized in 2008, 2007, or 2006.

Intangible assets acquired to date are being amortized on a straight-line basis over periods ranging from 1 to 30 years. No changes have been made to the useful lives of amortizable identifiable intangible assets in 2008, 2007 or 2006. Intangible amortization expense was $29.4 million, $33.5 million and $35.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Other investments consist of equity and debt investments in privately-held companies that develop products, markets and services that are strategic to us. Investments in which we exercise significant influence over operating and financial policies, but do not have a majority voting interest are accounted for using the equity method of accounting. Our investments accounted for using the equity method of accounting totaled $0.3 million and $4.7 million as of December 31, 2008 and 2007, respectively. Our consolidated results of operations include, as a component of other income, our share of the net income or loss of the equity method investments. Our share of the results of investees' results of operations is not significant for any period presented.

On December 2, 2008, we acquired the remaining interest of Raster. As a result, Raster is consolidated in our financial statements as of December 2, 2008, and is no longer included in Other investments.

The process of assessing whether a particular equity investment's fair value is less than its carrying cost requires a significant amount of judgment due to the lack of a mature and stable public market for these securities. In making this judgment, we carefully consider the investee's most recent financial results, cash position, recent cash flow data, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management or ownership changes, and competition. This process is based primarily on information that we request and receive from these privately-held companies, and is performed on a quarterly basis. Although we evaluate all of our privately-held equity investments for impairment based on the criteria established above, each investment's fair value is only estimated when events or changes in circumstances have occurred that may have a significant effect on its fair value (because the fair value of each investment is not readily determinable). Where these factors indicate that the equity investment's fair value is less than its carrying cost, and where we consider such diminution in value to be other than temporary, we record an impairment charge to reduce such equity investment to its estimated net realizable value.

During the fourth quarter of 2008, EFI assessed each remaining investment's R&D technology pipeline and market conditions for the next several years in the industry and determined that it is no longer probable that they will generate enough positive future cash flows to recover the full carrying amount of the investment. Please refer to the preceding paragraph for a full discussion of the factors considered. As such, we recognized an impairment charge of $7.9 million.

Please refer to Note 4—Goodwill and Long-Lived Asset Impairment of the Notes to Consolidated Financial Statements.

*Fair Value of Financial Instruments*

The carrying amounts of our financial instruments, including cash, cash equivalents, accounts receivable, restricted investments, accounts payable, and accrued liabilities, approximate their respective fair market values due to the short maturities of these financial instruments. The fair value of our available-for-sale securities is disclosed in Note 5—Short-term Investments. On June 2, 2008, we redeemed the outstanding balance of our 1.50% convertible senior debentures, which totaled $240.0 million.

*Warranty*

Our products are generally accompanied by a 12-month warranty, which covers both parts and labor. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("SFAS 5"), an accrual is made when it is estimable and probable based upon historical experience. A provision for estimated future warranty work is recorded in cost of goods sold upon recognition of revenue and the resulting accrual is reviewed regularly and periodically adjusted to reflect changes in warranty work estimates.

*Research and Development*

We expense costs associated with the research and development of new software products as incurred until technological feasibility is established. Research and development costs include salaries and benefits of researchers, supplies and other expenses incurred with research and development efforts. To date we have not capitalized research and development costs associated with software development as products and enhancements have generally reached technological feasibility and have been released for sale at substantially the same time.

*Revenue Recognition*

We derive our revenue primarily from product revenue, which includes hardware (controllers, design-licensed solutions, and inkjet printers), ink, software and royalties. We also receive services and support revenue from software license maintenance agreements, customer support and training and consulting. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period. Material differences could result in the amount and timing of our revenue for any period if our management made different judgments or utilized different estimates.

We recognize revenue in accordance with the provisions of SEC Staff Accounting Bulletin 104 "Revenue Recognition" ("SAB104") and, when applicable, Emerging Issues Task Force 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"), for the sale of controllers, printers, and ink. As such, revenue is generally recognized when persuasive evidence of an arrangement exists, the product has been delivered or services have been rendered, the fee is fixed or determinable and collection of the resulting receivable is reasonably assured.

We use either a purchase order or signed contract as evidence of an arrangement. Sales through some of our OEMs are evidenced by a master agreement governing the relationship together with purchase orders on a transaction-by-transaction basis. Our arrangements do not generally include acceptance clauses. Delivery for hardware generally is complete when title and risk of loss is transferred at point of shipment from manufacturing facilities. In some instances, we also sell products and services in which the terms included in sales arrangements result in different timing for revenue recognition. We assess whether the fee is fixed or determinable based on the terms of the contract or purchase order. We assess collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We may not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash.

We license our software primarily under perpetual licenses. Revenue from software consists of software licensing, post-contract customer support and professional consulting. We apply the provisions of Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions", ("SOP 98-9") and if applicable, SAB 104 and EITF 00-21 to all transactions involving the sale of software products and hardware transactions where the software is not incidental.

When several elements, including software licenses, post-contract customer support and professional services, are sold to a customer through a single contract, the revenue from such multiple-element arrangements are allocated to each element using the residual method in accordance with SOP 98-9. Revenue is allocated to the support elements and professional service elements of an agreement using vendor specific objective evidence of fair value ("VSOE") and to the software license portion of the agreements using the residual method. We have established VSOE of the fair value of our professional services based on the rates charged to our customers in stand alone orders. We have also established VSOE of fair value for post-contract customer support based on substantive renewal rates. Accordingly, software license fees are recognized under the residual method for arrangements in which the software is licensed with maintenance and/or professional services, and where the maintenance and professional services are not essential to the functionality of the delivered software. Revenue allocated to software licenses is recognized when the following four basic criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is probable. Revenue allocated to post-contract support is recognized ratably over the term of the support contract assuming the four basic criteria are met. We also have subscription arrangements where the customer pays a fixed fee and receives services over a period of time. We recognize revenue from the subscriptions ratably over the service period. Any upfront setup fees associated with our subscription arrangements are recognized ratably, generally over one year.

*Advertising*

Advertising costs are expensed as incurred. Total advertising and promotional expenses were $4.9 million for 2008, $6.3 million for 2007 and $4.4 million for 2006.

*Income Taxes*

We account for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes". Under SFAS 109, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

*Business Combinations*

We apply the provisions of SFAS 141, Business Combinations, when accounting for our acquisitions. We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development based on their estimated fair values. All acquisitions are included in our financial statements from the date of acquisition.

On July 28, 2008, we acquired Pace Systems Group, Inc. ("Pace") to strengthen our APPS product category. On December 2 2008, we acquired Raster Printers, Inc.("Raster") a mid-market, wide format graphics printer developer and manufacturer, to further expand our Inkjet line of products. The Pace and Raster acquisitions are discussed in Note 2—Acquisitions to the Notes to Consolidated Financial Statements.

*Stock-Based Compensation*

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) "Share-Based Payment (Revised 2004)" ("SFAS 123(R)"), using the modified prospective transition method. Under this transition method, stock-based compensation expense in fiscal 2008, 2007 and 2006 includes compensation expense for all share-based payment awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). We recognize these compensation costs using a graded-vesting method over the requisite service period. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised on a cumulative basis, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We use historical data and future expectations of employee turnover to estimate forfeitures. Prior to the adoption of SFAS 123(R), we presented the tax benefit related to stock plans as operating cash flows. Upon the adoption of SFAS 123(R), the tax benefit resulting from tax deductions in excess of the tax benefit related to compensation cost recognized for those awards are classified as financing cash flows.

On November 10, 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. SFAS 123(R)-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We have elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS 123(R). The alternative transition method included a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee stock-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123(R). This method resulted in an additional paid-in capital pool of zero as part of our adoption of SFAS 123(R).



Periods prior to the adoption of SFAS 123(R)

Prior to January 1, 2006 we accounted for equity awards and the Employee Stock Purchase Plan using the intrinsic value method in accordance with APB 25 and related interpretations. Under the intrinsic value method, stock-based compensation expense was recognized in our consolidated statement of operations if the exercise price of our equity awards granted to employees and directors was below the fair market value of the underlying stock at the date of grant or if shares granted under the Employee Stock Purchase Plan were issued at greater than a 15% discount.

*Foreign Currency Translation*

The U.S. dollar is the functional currency for all of our foreign operations, except for our Germany subsidiary, for which the Euro is the functional currency, and our Japanese subsidiary, for which the Japanese yen is the functional currency. Where the U.S. dollar is the functional currency, translation adjustments are recorded in income. Where a currency other than the U.S. dollar is the functional currency, translation adjustments are recorded as a separate component of stockholders' equity.

*Computation of Net (Loss) Income per Common Share*

Net (loss) income per basic common share is computed using the weighted average number of common shares outstanding during the period excluding unvested restricted stock. Net income (loss) per diluted common share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares result from the assumed exercise of outstanding common stock options having a dilutive effect using the treasury stock method, from unvested shares of restricted stock using the treasury stock method and from the potential conversion of our 1.50% convertible senior debentures. In addition, in computing the dilutive effect of the convertible securities, the numerator is adjusted to add back the after-tax amount of interest and amortized debt-issuance costs recognized in the period associated with our convertible senior debentures. Any potential shares that are anti-dilutive, as defined in SFAS 128, are excluded from the effect of dilutive securities.

The following table presents a reconciliation of basic and diluted earnings per share for the three years ended December 31, 2008:

| | For the years ended December 31, | | |
|---|---|---|---|
| (in thousands except per share data) | 2008 | 2007 | 2006 |
| **Basic net (loss) income per share:** | | | |
| Net (loss) income available to common shareholders | $(113,444) | $26,843 | $ (183) |
| Weighted average common shares outstanding | 52,553 | 56,679 | 56,559 |
| Basic net (loss) income per share | $ (2.16) | $ 0.47 | $ (0.00) |
| **Dilutive net (loss) income per share:** | | | |
| Net (loss) income available to common shareholders | $(113,444) | $26,843 | $ (183) |
| After-tax equivalent of expense related to 1.50% convertible senior debentures | — | 3,000 | — |
| (Loss) Income for purposes of computing diluted net income per share | $(113,444) | $29,843 | $ (183) |
| Weighted average common shares outstanding | 52,553 | 56,679 | 56,559 |
| Dilutive stock options and awards | — | 2,339 | — |
| Weighted average assumed conversion of 1.50% convertible senior debentures | — | 9,084 | — |
| Weighted average common shares outstanding for purposes of computing diluted net income per share | 52,553 | 68,102 | 56,559 |
| Dilutive net (loss) income per share | $ (2.16) | $ 0.44 | $ (0.00) |

The following table sets forth potential shares of common stock that are not included in the diluted net income (loss) per share calculation above because to do so would be anti-dilutive for the periods presented.

| | For the years ended December 31, | | |
|---|---|---|---|
| (in thousands) | 2008 | 2007 | 2006 |
| Weighted average stock options and awards outstanding | 7,801 | 2,951 | 10,246 |
| Convertible senior debentures | 3,783 | — | 9,084 |
| Total potential shares of common stock excluded from the computation of diluted earnings per share | 11,584 | 2,951 | 19,330 |

*Accounting for Derivative Instruments and Risk Management*

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, requires companies to reflect the fair value of all derivative instruments, including those embedded in other contracts, as assets or liabilities in an entity's balance sheet. We have no derivative or hedging instruments as of December 31, 2008.

*Variable Interest Entities*

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", as amended ("FIN 46R") requires that we consolidate any variable interest entities, or VIE, in which we are the primary beneficiary. The primary beneficiary is generally defined as having the majority of the risks and rewards arising from the VIE. We have evaluated and will continue to assess our synthetic lease arrangements and other entities that we have a relationship with that may be deemed a VIE. See Note 8 for discussion of our synthetic lease arrangements.

*Recent Accounting Pronouncements*

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007) Business Combinations ("SFAS No. 141R") which replaces SFAS No. 141 Business Combinations ("SFAS No. 141"). SFAS No. 141R retains the fundamental requirement of SFAS No. 141 that the acquisition method of accounting be used for all business combinations. However, SFAS No. 141R provides for the following changes from SFAS No. 141: an acquirer will record 100% of assets and liabilities of acquired business, including goodwill, at fair value, regardless of the level of interest acquired; certain contingent assets and liabilities will be recognized at fair value at the acquisition date; contingent consideration will be recognized at fair value on the acquisition date with changes in fair value to be recognized in earnings upon settlement; acquisition-related transaction and restructuring costs will be expensed as incurred; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings; and when making adjustments to finalize preliminary accounting, acquirers will revise any previously issued post-acquisition financial information in future financial statements to reflect any adjustments as if they occurred on the acquisition date. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. SFAS No. 141R may have an impact on the Company's consolidated financial statements when effective in the event a business combination occurs. The nature and magnitude of the specific effects will depend upon the nature, terms, and size of the acquisitions consummated after the effective date.



In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 ("SFAS No. 160"), which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 provides that accounting and reporting for minority interests be recharacterized as non-controlling interests and classified as a component of equity. This statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008. Currently, we do not have any non-controlling interests (ownership interests in a subsidiary that are held by owners other than us) recorded in our financial statements, and do not expect the adoption of SFAS No. 160 to have a material effect on our consolidated financial statements.

In April 2008, the FASB issued Staff Position ("FSP") 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 applies to intangible assets that are acquired, individually or with a group of other assets, after the effective date in either a business combination or asset acquisition. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We are currently evaluating the effect FSP 142-3 will have on our consolidated financial statements.

In October 2008, the FASB issued “FSP 157-3”, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active”. In this FSP, the FASB clarified the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active such as including appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. FSP 157-3 is effective upon its issuance on October 10, 2008, including prior periods for which financial statements have not been issued. We have adopted FSP 157-3 accordingly for the fiscal year ended December 31, 2008.

*Supplemental Cash Flow Information*

| (in thousands) | Years ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest expense | $ (1,837) | $(3,614) | $ (3,629) |
| Cash (paid for) refunded for income taxes | $ (8,303) | $ 3,017 | $(10,056) |
| Acquisition related activities: | | | |
| Cash paid for acquisitions | $(25,405) | $ — | $(41,427) |
| Cash acquired in acquisitions | 122 | — | — |
| Net cash paid for acquisitions | $(25,283) | $ — | $(41,427) |

### Note 2: Acquisitions

During 2008, we acquired Raster and Pace. We acquired Jetrion LLC (“Jetrion”) during 2006. The purchase method of accounting has been used for these acquisitions. Under this method of accounting, the purchase consideration is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed according to their respective fair values on the date of acquisition. The excess purchase consideration is recorded as goodwill. Factors that contribute to a purchase price that results in goodwill include, but are not limited to, the retention of research and development personnel with the skills to develop future technology, support personnel to provide maintenance services related to the products, a trained sales force capable of selling current and future products, the opportunity to cross-sell Rastek, Pace, Jetrion, and EFI products to existing customers and the positive reputation that each of these companies have in the market.

### Valuation Methodology

Intangible assets acquired consist of developed technology, in-process research & development (IPR&D), patents, trademarks and trade names and customer relationships. The amount allocated to IPR&D was determined using established valuation techniques and was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. The value of IPR&D was determined by estimating the costs to develop the purchased IPR&D into a commercially viable product, estimating the resulting net cash flows from the sale of the products resulting from the completion of the IPR&D and discounting the net cash flows back to their present value. Project completion schedules were based on management’s estimate of tasks completed and the tasks to be completed to bring the project to technical and commercial feasibility. IPR&D was included in operating expenses as part of other acquisition-related charges. We expensed IPR&D of $0.7 million related to our acquisition of Raster and $2.0 million related to our acquisition of Pace during 2008. We expensed IPR&D of $8.5 million related to our acquisition of Jetrion during 2006.

| | Raster | Pace | Jetrion |
|---|---|---|---|
| Discount rate for IPR&D | 17 – 18% | 24% | 22 – 25% |
| Percentage of completion for in-process projects acquired | 64 – 81% | 23 – 83% | 25 – 75% |

*Raster Printers, Inc.*

On December 2, 2008, we acquired the remaining interest in Rastek for approximately $5.3 million, including direct acquisition costs, plus an additional earn out amount which is contingent upon achieving certain performance targets. The maximum additional earn-out is $1.7 million. Headquartered in San Jose, California, Raster sells UV wide format printers primarily to mid-range customers in the display graphics market. Adjustments to the purchase price allocation may be made during 2009.

*Pace Systems Group, Inc*

On July 28, 2008, we acquired 100% interest of Pace for approximately $20.1 million in cash including direct acquisition costs plus an additional future cash earn out amount which is contingent upon achieving certain performance targets. The maximum additional earn-outs is $9.0 million. Headquartered in Jacksonville, Florida, Pace is a print management software company that provides MIS and e-commerce software solutions. Adjustments to the purchase price allocation may be made during 2009.

*Jetrion LLC*

On October 31, 2006 we acquired Jetrion for approximately $41.4 million in cash. No adjustments were made to the purchase price allocation during 2007 and 2008.

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed (in thousands) with respect to each of these acquisitions:

| | Raster | | Pace | | Jetrion | |
|---|---|---|---|---|---|---|
| | Weighted average useful life | Allocation at December 31, 2008 | Weighted average useful life | Allocation at December 31, 2008 | Weighted average useful life | Allocation at December 31, 2008 |
| In-process research and development | | $ 680 | | $ 2,000 | | $ 8,500 |
| Existing and core technology | 3 years | 1,340 | 5 years | 8,100 | 3 years | 1,500 |
| Customer contracts, relationships and maintenance agreements | 5 years | 980 | 9 years | 4,600 | 7 years | 1,200 |
| Existing NRE contracts | | | | | 1 year | 600 |
| Trademarks and trade names | 4 years | 650 | 6 years | 300 | 3 years | 300 |
| Goodwill | | 1,980 | | 12,959 | | 25,491 |
| | | 5,630 | | 27,959 | | 37,591 |
| Excess of assets over liabilities assumed | | 392 | | (7,893) | | 3,836 |
| Total purchase price | | $6,022 | | $20,066 | | $41,427 |

**Note 3: Balance Sheet Components**

Selected balance sheet components are as follows (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **Inventories, net of allowances:** | | |
| Raw materials | $ 17,115 | $ 21,362 |
| Work in process | 2,901 | 3,497 |
| Finished goods | 28,769 | 15,090 |
| | $ 48,785 | $ 39,949 |
| **Property and equipment, net:** | | |
| Land, building and improvements | $ 19,179 | $ 43,574 |
| Equipment and purchased software | 57,914 | 51,528 |
| Furniture and leasehold improvements | 20,382 | 19,439 |
| | 97,475 | 114,541 |
| Less accumulated depreciation and amortization | (62,250) | (56,937) |
| | $ 35,225 | $ 57,604 |
| **Accrued and other liabilities:** | | |
| Accrued compensation and benefits | $ 21,163 | $ 23,190 |
| Warranty provision | 6,791 | 7,918 |
| Accrued royalty payments | 3,961 | 4,272 |
| Current deferred tax liabilities | — | 19,456 |
| Other accrued liabilities | 13,043 | 17,564 |
| | $ 44,958 | $ 72,400 |

**Note 4: Goodwill and Long-Lived Asset Impairment**

| | | December 31, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | Weighted average useful life | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Goodwill | | $122,581 | $ — | $122,581 | $211,780 | $ — | $211,780 |
| Acquired technology | 4.5 | $108,914 | $ (94,354) | $ 14,560 | $100,878 | $ (77,118) | $ 23,760 |
| Patents, trademarks and trade names | 24.0 | 49,829 | (15,513) | 34,316 | 49,537 | (13,091) | 36,446 |
| Other intangible assets | 6.1 | 65,765 | (41,649) | 24,116 | 58,276 | (31,928) | 26,348 |
| Amortizable intangible assets | 9.3 | $224,508 | $(151,516) | $ 72,992 | $208,691 | $(122,137) | $ 86,554 |

Acquired technology, patents, trademarks and trade names and other intangible assets are amortized over their estimated useful lives of 1 to 30 years using the straight-line method which approximates the pattern in which the economic benefits of the intangible assets are consumed. Aggregate amortization expense was $29.4 million, $33.5 million, and $35.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008 future estimated amortization expense related to amortizable intangible assets is estimated to be (in thousands):

| For the periods: | Future amortization expense |
|---|---|
| 2009 | $18,168 |
| 2010 | 10,944 |
| 2011 | 7,344 |
| 2012 | 4,242 |
| Thereafter | 32,294 |
| | $72,992 |

A reconciliation of the activity in goodwill for 2006 through 2008 is presented below (in thousands).

| | |
|---|---|
| **Ending balance, December 31, 2006** | $ 212,992 |
| Additions | — |
| Other | (1,212)[(1)] |
| **Ending balance, December 31, 2007** | $ 211,780 |
| Additions | $ 14,939[(2)] |
| Impairment | (103,991) |
| Other | (147) |
| **Ending Balance, December 31, 2008** | $ 122,581 |

(1) Included in “Other” are translation adjustments of $0.6 million and an adjustment to taxes payable related to prior acquisitions of $(1.8) million.

(2) Additions to goodwill consist of $13.0 million for Pace and $1.9 million for Raster.

We perform our annual impairment analysis of goodwill in the third quarter of each year according to the provisions of SFAS 142, Goodwill and Other Intangible Assets (“SFAS 142”). The provision requires that we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment testing to determine the implied fair value of the reporting unit’s goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, then we record an impairment loss equal to the difference.

We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance with SFAS142 as stated above. The goodwill valuation analysis was performed based on our respective reporting units—Controller, Inkjet, and Advanced Professional Print Software. Our reporting units are consistent with our product categories identified in Note 15 of Notes to the Consolidated Financial Statements. Our product categories meet the definition of a reporting unit one level below an operating segment in accordance with SFAS 142 as each product category constitute a business for which discrete financial information is available and reviewed by segment management.

We determined the fair value of the Inkjet reporting unit based on the weighting of market and income approaches. The fair value of the Controller and APPS reporting units was determined based on the market approach. Under the market approach, we estimated the fair value based on market multiples of revenues or earnings. Under the income approach, we measured fair value of the reporting units based on a projected cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our current business model. Based on our valuation results, we had determined that the fair values of our reporting units continued to exceed their carrying values. Therefore, management determined that no goodwill impairment charge was required as of September 30, 2008.

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the life of the asset may need to be revised. Factors we consider important which could trigger an impairment review include the following:

- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period;
- our market capitalization relative to net book value; and
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business.

When we determine that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure the potential impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Our annual review of goodwill performed in the third quarter of 2008 indicated that there was no impairment of goodwill. We performed our annual valuation analysis of goodwill on September 30, 2008 in accordance with SFAS142 as stated above.

During the fourth quarter of 2008, our market capitalization declined significantly as a result of declining worldwide economic conditions caused by the tightening of global credit markets. Based on a combination of factors including the recent economic environment, the resulting erosion in our market capitalization, and the lowering of our 2009 revenue outlook subsequent to the third quarter of 2008, we performed an interim impairment analysis during the fourth quarter of 2008.

Based on the internal market-based valuation that we performed, the fair value of the Controller and APPS product categories significantly exceeded their carrying value as of December 31, 2008. Consequently, it was not considered necessary to obtain a third party valuation of these reporting units. A third party interim valuation was obtained with respect to the Inkjet product category, which was equally weighted between the income and market approach.

Based on the outcome of the interim impairment analysis, we concluded that an impairment had occurred relating to the Inkjet product category resulting in a non-cash goodwill impairment charge of $104 million during the fourth quarter of 2008. There were no impairments of goodwill, intangible assets or long lived assets in 2007 and 2006.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, we made the following assumptions:

- the current economic downturn will continue through fiscal year 2010,

- the economic downturn is partially mitigated by new product introductions in 2010,
- followed by a recovery period between 2011 and 2013, and
- long-term industry growth past 2013.

Our discounted cash flow projections for the Inkjet reporting unit were based on five-year financial forecasts. The five-year forecasts were based on annual financial forecasts developed internally by management for use in managing our business and through discussions with the independent valuation firm engaged by us. The significant assumptions of these five-year forecasts included annual revenue growth rates ranging from (11.0%) to 12% for the Inkjet reporting unit. The future cash flows were discounted to present value using a mid-year convention and a discount rate of 16%. Terminal values were calculated using the Gordon growth methodology with a long-term growth rate of 4.5%. The sum of the fair values of the Controllers, APPS, and Inkjet reporting units was reconciled to our current market capitalization (based on our stock price) plus an estimated control premium. The significant assumptions used in determining fair values of the reporting units using comparable company market values include the determination of appropriate market comparables, the estimated multiples of revenue, EBIT, and EBITDA that a willing buyer is likely to pay, and the estimated control premium a willing buyer is likely to pay.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross margin rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the third quarter of 2009 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.



Other investments consist of equity and debt investments in privately-held companies that develop products, markets and services that are strategic to us. Investments in which we exercise significant influence over operating and financial policies, but do not have a majority voting, interest are accounted for using the equity method of accounting.

The process of assessing whether a particular equity investment's fair value is less than its carrying cost requires a significant amount of judgment due to the lack of a mature and stable public market for these securities. In making this judgment, we carefully consider the investee's most recent financial results, cash position, recent cash flow data, projected cash flows (both short and long-term), financing needs, recent financing rounds, most recent valuation data, the current investing environment, management or ownership changes, and competition. This process is based primarily on information that we request and receive from these privately-held companies, and is performed on a quarterly basis. Although we evaluate all of our privately-held equity investments for impairment based on the criteria established above, each investment's fair value is only estimated when events or changes in circumstances have occurred that may have a significant effect on its fair value (because the fair value of each investment is not readily determinable). Where these factors indicate that the equity investment's fair value is less than its carrying cost, and where we consider such diminution in value to be other than temporary, we record an impairment charge to reduce such equity investment to its estimated net realizable value.

During the fourth quarter of 2008, we assessed each remaining investment's R&D technology pipeline and market conditions for the next several years in the industry and determined that it is no longer probable that they will generate enough positive future cash flows to recover the full carrying amount of the investment. Please refer to the preceding paragraph for a full discussion of the factors considered. As such, we recognized an impairment charge of $7.9 million.

**Note 5: Investments and Fair Value Measurements**

Debt and marketable equity securities are classified as available-for-sale and are carried at fair value, which is determined based on quoted market prices, with net unrealized gains and losses included in Accumulated other comprehensive income, net of tax. We review investments in debt and equity securities for other-than-temporary impairment whenever the fair value of an investment is less than the amortized cost and evidence indicates that the investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. We have determined that the gross unrealized losses on short-term investments at December 31, 2008 are temporary in nature because each investment meets our investment policy credit quality requirements and we have the ability and the intent to hold these investments until they recover their unrealized losses, which may be until maturity.

The following tables summarize our available-for-sale securities (in thousands):

| December 31, 2008 | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Government securities | $ 14,453 | $ 242 | $ (1) | $ 14,694 |
| Corporate debt securities | 36,871 | 33 | (961) | $ 35,943 |
| Municipal securities | 3,624 | 38 | — | 3,662 |
| Money market funds[(1)] | 2,900 | — | — | 2,900 |
| Total short-term investments | $ 57,848 | $ 313 | $(962) | $ 57,199 |
| **December 31, 2007** | | | | |
| U.S. Government securities | $151,892 | $1,290 | $ (19) | $153,163 |
| Corporate debt securities | 180,288 | 1,083 | (318) | 181,053 |
| Total short-term investments | $332,180 | $2,373 | $(337) | $334,216 |

(1) Money market funds of $2.9 million represent funds from The Reserve Primary Fund ("Fund") reclassified from cash and cash equivalents as the Fund has adopted a plan of liquidation in 2008. As a result, the Fund's shares were not tradable at December 31, 2008. Our interest in the Fund was approximately $14.8 million prior to their adoption of the liquidation plan. As of December 31, 2008, we received a total of $11.7 million in partial liquidation of our interest in the Fund, which has been invested in alternative money market funds all of which are highly liquid and currently tradable at $1 Net Asset Value. On February 20, 2009, we received a total of $1.0 million in further partial liquidation of our interest in the Fund, which was similarly invested in alternative money market funds freely tradable at $1 Net Asset Value.

The following table summarizes the contractual maturities of the available-for-sale investment securities as of December 31, 2008 (in thousands):

| | Amortized cost | Fair value |
|---|---|---|
| Mature in less than one year | $26,366 | $25,743 |
| Mature in one to three years | 31,482 | 31,456 |
| Total short-term investments | $57,848 | $57,199 |

For the twelve months ended December 31, 2008, $3.9 million was recognized in net realized gains, which comprised $5.3 million in realized gains from sale of investments offset by $1.4 million in realized losses of which $0.6 million impairment charges related to the Fund, and one corporate debt instrument due to its significantly low level of trading activity. For the twelve months ended December 31, 2007, $0.3 million was recognized in net realized losses, which comprised $0.7 million in realized gains from sale of investments offset by $1.0 million in realized losses of which $0.3 million impairment charges on one corporate debt instrument due to its significantly low level of trading activity. As of December 31, 2008 and December 31, 2007, net unrealized losses of $0.6 million and net unrealized gains of $2.0 million, respectively, were included in accumulated other comprehensive income in the accompanying Consolidated Balance Sheets.

*Fair Value Measurements*

The company adopted SFAS No. 157, Fair Value Measurements ("SFAS No. 157"), effective January 1, 2008. SFAS No. 157 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a three-tier fair value hierarchy as follows:

Level 1: Inputs that are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

Level 2: Inputs that are other than quoted prices included within Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date for the duration of the instrument's anticipated life or by comparison to similar instruments; and

Level 3: Inputs that are unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. These include management's own assumptions about market participant assumptions developed based on the best information available in the circumstances.

At December 31, 2008 the Company's investments have been presented in accordance with the fair value hierarchy specified in SFAS No. 157, Fair Value Measurements as follows:

| | | Fair Value Measurements at Reporting Date using | | |
|---|---|---|---|---|
| | December 31, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| U.S. Government securities | $ 14,694 | $ — | $14,694 | $ — |
| Corporate debt securities | 35,943 | — | 35,744 | 199 |
| Municipal securities | 3,663 | — | 3,663 | — |
| Money market funds | 99,827 | 96,927 | — | 2,900 |
| | $154,127 | $96,927 | $54,101 | $3,099 |

Included in money market funds is $96.9 million which have been classified as Cash Equivalents at December 31, 2008.

Investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, or alternative pricing sources with reasonable levels of price transparency. Investments in United States Treasury securities and overnight Money Market Mutual Funds have been classified as Level 1 because these securities are valued based upon quoted prices in active markets or because the investments are actively traded at $1.00 Net Asset Value.

Government Agency investments and Corporate Debt instruments (including investments in Asset-Backed and Mortgage-Backed securities) have generally been classified as Level 2 because markets for these securities are less active or valuations for such securities utilize significant inputs which are directly or indirectly observable.

At December 31, 2008, one Corporate Debt instrument and one Money Market Fund have been classified as Level 3 due to their significantly low trading activity. The portion of Money Market Fund which has been classified as Level 3 consists of funds placed in The Reserve Primary Fund of $2.9 million at December 31, 2008.

The following table presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the twelve months ended December 31, 2008 (in thousands):

| | Level 3 | |
|---|---|---|
| | Corporate Debt Securities | Money Market Funds |
| **Balance at December 31, 2007** | $ 687 | $ — |
| Reclassification from Level 2 to Level 3 | — | 14,836 |
| Included in other income (loss), net | (313) | (251) |
| Included in other comprehensive income | (96) | — |
| Purchases, sales, and maturities | (79) | (11,685) |
| **Balance at December 31, 2008** | $ 199 | $ 2,900 |
| Impairment charges for the twelve months ended December 31, 2008 in other income (loss), net attributable to assets still held as of December 31, 2008 | (340) | (251) |

### Note 6: Convertible Debt

On June 4, 2003, we sold $240.0 million of 1.50% convertible senior debentures due 2023 ("Debentures") in a private placement, which are unsecured senior obligations, paying interest semi-annually in arrears at an annual rate of 1.50%.

On June 2, 2008, (the 'Redemption Date'), we redeemed the outstanding balance of the Debentures at our option, which totaled $240.0 million and was 100% of the principal amount. Interest paid during the second quarter of 2008 totaled $1.8 million, which consisted of accrued and unpaid interest payments between December 1, 2007 and June 2, 2008.

### Note 7: Other Comprehensive Income

The activity in other comprehensive income and related tax effects are as follows (in thousands):

| | Years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Net unrealized investment (losses)/gains: | | | |
| Unrealized holding gains, net of tax provision of ($1.0) million in 2008, ($1.1) million in 2007 and ($1.2) million in 2006 | $ 1,532 | $1,649 | $1,759 |
| Reclassification adjustment for gains (losses) included in net income, net of tax (provision) benefit of $2.1 million in 2008, $0.0 million in 2007 and ($0.2) million in 2006 | (3,133) | 20 | 348 |
| Net unrealized investment gains (losses) | (1,601) | 1,669 | 2,107 |
| Translation adjustments | (295) | 666 | 1,199 |
| Other comprehensive income/(loss) | (1,896) | 2,335 | 3,306 |

The components of accumulated other comprehensive income was (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Net unrealized investment (losses) /gains | $ (388) | $1,213 |
| Translation gains | 2,064 | 2,359 |
| Accumulated other comprehensive income | $1,676 | $3,572 |

## Note 8: Commitments and Contingencies

### Leases

*Off-Balance Sheet Financing—Synthetic Lease Arrangement*

As of December 31, 2008 we were a party to two synthetic leases (the "301 Lease" and the "303 Lease", together "Leases") covering our Foster City facilities located at 301 and 303 Velocity Way, Foster City, California. These leases provided a cost effective means of providing adequate office space for our corporate offices. Both Leases were scheduled to expire in July 2014. The Leases included an option to, purchase the facilities during or at the end of the term of the Leases for the amount expended by the lessor to purchase the facilities. The funds pledged under the Leases ($56.9 million for the 303 Lease and $31.7 million for the 301 Lease at December 31, 2008 for a total of $88.6 million) are in LIBOR-based interest bearing accounts and are restricted to withdrawals at all times.

We have exercised our purchase option in January 2009 with respect to the 301 Lease. On January 29, 2009, we completed the sale of land and building to Gilead for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010. The property sold included approximately thirty acres of land and the office building located on the land at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property. Accordingly, the $31.7 million of pledged funds have been re-classified as Assets Held For Sale in the condensed consolidated financial statements as of December 31, 2008.

We have guaranteed to the lessor a residual value associated with the buildings equal to 82% of their funding of the respective Leases. Under the financial covenants, we must maintain a minimum net worth and a minimum tangible net worth as of the end of each quarter. There is an additional covenant regarding mergers. We were in compliance with all such financial and merger related covenants as of December 31, 2008. We have assessed our exposure in relation to the first loss guarantees under the Leases and have determined that there is no deficiency to the guaranteed value at December 31, 2008. If there is a decline in value, we will record a loss associated with the residual value guarantee. In conjunction with the Leases, we have entered into separate ground leases with the lessor for approximately 30 years. As of December 31, 2008, we were treated as the owner of these buildings for federal income tax purposes. Since we exercised our purchase option with respect to the 301 Lease, our maximum exposure under our remaining synthetic lease arrangement is $56.9 million as of January 29, 2009.

We apply the accounting and disclosure rules set forth in FASB Interpretation No. 46 "Consolidation of Variable Interest Entities", as revised ("FIN 46R") for variable interest entities ("VIEs"). We have evaluated our synthetic lease agreements to determine if the arrangements qualify as variable interest entities under FIN 46R. We have determined that the synthetic lease agreements do qualify as VIEs; however, because we are not the primary beneficiary under FIN 46R we are not required to consolidate the VIEs in our financial statements.

As part of the September 2004 amended financing arrangement for the 301 Lease, we completed a valuation of the building located at 301 Velocity Way. Under the original financing agreement, we guaranteed the lessor upon termination of the original lease an 82% residual value in the building which cost $43.1 million to construct. The valuation provided a value of approximately $31.7 million, and we recorded a one-time loss of $11.4 million associated with the original lease. In addition, we took a non-cash charge of $0.9 million for capitalized costs associated with the financial arrangement.

We also lease office facilities in various locations in the United States and overseas. Following is a table for future minimum lease payments under non-cancellable operating leases and future minimum sublease income under non-cancellable subleases for each of the next five years and thereafter (in thousands) as of December 31, 2008:

| Fiscal Year | Future Minimum Lease Payments | Future Minimum Sublease Income |
|---|---|---|
| 2009 | $ 8,155 | $2,384 |
| 2010 | 6,536 | 2,217 |
| 2011 | 5,322 | 558 |
| 2012 | 5,295 | — |
| 2013 | 4,505 | — |
| Thereafter | 3,222 | — |
| Total | $33,035 | $5,159 |

Lease obligation related to the principal corporate facility is estimated and is based on current market interest rates (LIBOR) and based on collateralized assumptions.

In January, 2009, we sold the 163,000 square foot building and approximately 30 acres of land in our Foster City, California campus to Gilead. As a result of the sale, total future minimum operating lease obligations would decrease by approximately $5.8 million for 2009 and beyond, and total sublease income would decrease by approximately $5.0 million for 2009 and beyond.

Rent expense was approximately $9.9 million, $11.0 million, and $10.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. Sublease rental income was approximately $2.5 million, $2.1 million, and $1.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

*Purchase Commitments*

We sub-contract with other companies to manufacture our products. During the normal course of business the sub-contractors procure components based upon orders placed by us. If we cancel all or part of the order, we may still be liable to the sub-contractors for the cost of the components purchased by the sub-contractors for placement in our products. We periodically review the potential liability and the adequacy of the related allowance. Our consolidated financial position and results of operations could be negatively impacted if we were required to compensate the sub-contract manufacturers for amounts in excess of the related allowance.

*Guarantees and Product Warranties*

Under Financial Accounting Standards Board Interpretation No 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"), we are required upon issuance of a guarantee to disclose and recognize a liability for the fair value of the obligation we assume under that guarantee.

Our products are generally accompanied by a 12-month warranty, which covers both parts and labor. We accrue for warranty costs as part of cost of sales based on associated material product costs and technical support labor costs. The warranty provision is based upon historical experience, by product, configuration and geographic region.

Changes in the warranty reserves for the years ended December 31, 2007 and 2008 were as follows (in thousands):

| | |
|---|---|
| **Balance at December 31, 2006** | $ 6,655 |
| Provision for warranty during the year | 9,136 |
| Settlements | (7,873) |
| **Balance at December 31, 2007** | 7,918 |
| Provision for warranty during the year | 5,720 |
| Settlements | (6,847) |
| **Balance at December 31, 2008** | $ 6,791 |

The lease agreements for our company headquarters provided for residual value guarantees. Under FIN 45, the fair value of a residual value guarantee in lease agreements entered into after December 31, 2002, must be recognized as a liability on our consolidated balance sheet. We have determined that the residual value guarantees do not represent a material liability as of December 31, 2008.

In the normal course of business and in an effort to facilitate the sales of our products, we sometimes indemnify other parties, including customers, lessors and parties to other transactions with us. Typically our indemnity provisions provide that we agree to hold the other party harmless against losses arising from a breach of representations and warranties or covenants and intellectual property infringement. Our indemnity provisions often limit the time within which an indemnification claim can be made as well as the amount of the claim which can be made. In addition, we have entered into indemnification agreements with our current and former officers and directors; our bylaws also contain similar indemnification obligations for our agents.



### Legal Proceedings

We may be involved, from time to time, in a variety of claims, lawsuits, investigations and proceedings relating to contractual disputes, securities law, intellectual property, employment matters and other claims or litigation matters relating to various claims that arise in the normal course of our business. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our specific litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with inside and outside counsel, which involves a subjective analysis of potential results and outcomes, assuming various combinations of appropriate litigation and settlement strategies. Because of the uncertainties related to both the amount and ranges of possible loss on the pending litigation matters, we are unable to predict with certainty the precise liability that could finally result from a range of possible unfavorable outcomes. However, taking all of the above factors into account, we reserve an amount that we could reasonably expect to pay. However, our estimates could be wrong, and we could pay more or less than our current accrual. Litigation can be costly, diverting management's attention and could, upon resolution, have a material adverse effect on our business, results of operations, financial condition and cash flow.

As of December 31, 2008, the end of the annual period covered by this report, we are subject to the various claims, lawsuits, investigations or proceedings discussed below, as well as certain other legal proceedings that have arisen in the ordinary course of business. We also settled certain matters during the fourth quarter of 2008.

### Leggett & Platt, Inc. and L&P Property Management Company:

On November 6, 2007, EFI filed a complaint against Leggett & Platt, Inc. and its patent holding subsidiary, L&P Property Management Company, in the U.S. District Court for the Eastern District of Missouri for declaratory and injunctive relief challenging the validity and enforceability of a patent issued to L&P. The challenged patent is a continuation of a patent that L&P previously asserted against EFI in a prior court action. The court ultimately invalidated the patent in the prior court action on multiple grounds. EFI firmly believes that the court should summarily invalidate the continuation patent for similar reasons. Further, EFI believes that L&P's failure to adequately disclose the previous lawsuit proceedings to the U.S. Patent and Trademark Office amounts to inequitable conduct that should render the new patent unenforceable. Thus, EFI has filed a motion for summary judgment on these issues. L&P filed counterclaims against EFI, including claims for alleged infringement of the continuation patent. While EFI believes that its products do not infringe, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this litigation.

**Durst Fototechnik Technology GmbH v. Electronics for Imaging, GmbH et al.:**

On February 23, 2007, Durst brought a patent infringement action against Electronics for Imaging, GmbH ("EFI GmbH") in the Mannheim District Court in Germany. On May 10, 2007, EFI GmbH filed its Statement of Defenses. These defenses include lack of jurisdiction, non-infringement, invalidity and unenforceability based on Durst's improper actions before the German patent office. The Company filed its Statement of Defense on August 29, 2007. EFI's defenses include those for EFI GmbH, as well as an additional defense for prior use based on EFI's own European patent rights. The Mannheim court conducted a trial on November 30, 2007. At the conclusion of the trial, the court ordered the parties to provide further briefing regarding issues raised by EFI regarding the validity of Durst's patent. On February 15, 2008, the Court decided to appoint an expert to assist it on questions related to the validity of the Durst utility model right. EFI will continue to defend itself vigorously. While EFI believes that its products do not infringe any valid claim of Durst's patent, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this litigation.

**Acacia | Screentone Patent Litigation:**

On August 8, 2007, Screentone Systems Corporation, a subsidiary of Acacia Technologies Group, initiated litigation against several defendants, including Konica Minolta Printing Solutions, Canon USA, and Ricoh Americas, for infringement of a patent related to apparatus and methods of digital halftoning in the U.S. District Court for the Eastern District of Texas. Konica Minolta, Canon and Ricoh are EFI customers. EFI has contractual obligations to indemnify its customers to varying degrees and subject to various circumstances. At least one defendant has written requesting indemnification for any EFI products that allegedly infringe these patents.

In order to protect its products and its customers, on November 13, 2007 EFI filed a declaratory judgment action ("DJ") in the U.S. District Court for the Central District of California seeking to invalidate the patent asserted in the Texas action, as well as an additional patent Acacia identified in previous correspondence. At about the same time, other defendants from the Texas actions filed DJ actions in Washington and Delaware. A federal multidistrict litigation panel consolidated all cases with EFI's case in the U.S. District Court for the Central District of California, where the consolidated cases are now proceeding. The claims challenging the patent first asserted in the Texas action remain pending, and the consolidated case is currently set for trial on August 30, 2010.

While EFI does not believe that its products infringed any valid claim of Acacia and Screentone's patents, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of this litigation.

**Bureau of Industry and Security Export Investigation:**

In January 2005, prior to EFI's acquisition of VUTEk, the U.S. Commerce Department's Bureau of Industry and Security ("BIS") initiated an investigation of VUTEk relating to VUTEk's alleged failure to comply with U.S. export regulations in connection with several export sales to Syria in 2004. EFI self-initiated an internal compliance review of historical export practices for both VUTEk and EFI. Potential violations uncovered during our compliance review were voluntarily disclosed to BIS in November 2006 (for VUTEk) and December 2006 (for EFI). Additionally, we provided BIS with detailed reports of our compliance review findings and supplemental information in March 2007 (for VUTEk) and May 2007 (for EFI). The areas of possible non-compliance found in the internal review relate to: (1) deemed exports of controlled encryption source code and/or technology to foreign nationals of Syria and Iran, (2) exports of printers and other products with encryption functionality before completion of encryption reviews by BIS and (3) statistical reporting errors on some export declarations. The Office of Export Enforcement at BIS HQ referred the VUTEk matter to an attorney in the Office of Chief Counsel for Industry and Security for final determination. In December 2008, these matters were resolved solely with administrative penalties of $32,000.

**Purported Derivative Shareholder Complaints:**

Beginning on August 16, 2006, several purported derivative shareholder complaints were filed in the Superior Court of the State of California for the County of San Mateo, the United States District Court for the Northern District of California, and Delaware Chancery Court. The complaints generally alleged that certain of the Company's current and former officers and/or directors breached their fiduciary duties by improperly backdating stock option grants to various officers and directors in violation of the Company's stock option plans, as well as in improperly accounting for the allegedly backdated options in violation of Generally Accepted Accounting Principles. The actions in the Northern District of California also alleged that the individual defendants violated the Securities Exchange Act of 1934. The Delaware actions also purported to be brought on behalf of a class consisting of all others similarly situated and alleged a class claim for breach of the fiduciary duty of disclosure. The actions filed in San Mateo County were dismissed without prejudice. The actions in the Northern District of California were stayed in deference to the litigation pending in Delaware.

On September 4, 2008, the Delaware Chancery Court approved the previously disclosed proposed settlement of related shareholder derivative litigation concerning the Company's historical option granting practices. On October 6, 2008, the time to file a notice of appeal from the Chancery Court's order approving the settlement elapsed, and no notice of appeal was filed.

Pursuant to the settlement, the Company received $5.0 million in insurance proceeds and paid approximately $3.1 million in plaintiffs' legal fees and costs in October 2008. The settlement also provided for the adoption of certain remedial measures, including the cancellation and repricing of certain stock options, certain payments to be made to the Company and the adoption of a number of changes to EFI's corporate governance and procedures.

**Tesseron Patent Litigation:**

On September 26, 2007, Tesseron, Ltd. initiated litigation against Konica Minolta Business Solutions USA, Konica Minolta Business Technologies and Konica Minolta Holdings for infringement of eight patents related to variable printing technology in the United States District Court for the Northern District of Ohio, Eastern Division. Konica Minolta is an EFI customer and the complaint references EFI Fiery variable data enabled printer controllers. EFI has contractual obligations to indemnify its customers to varying degrees and subject to various circumstances. Konica Minolta has written requesting indemnification for any EFI products that allegedly infringe these patents. On December 6, 2007, Tesseron filed an amended complaint in the Ohio action wherein it added EFI and Ricoh as defendants, but dropped 6 of the 8 original patents in suit.

On October 30, 2007, EFI filed a complaint against Tesseron in the United States District Court for the Northern District of California, which subsequently transferred the action to the United States District Court for the Northern District of Ohio. EFI's complaint sought a declaratory judgment that Tesseron's patents are invalid and/

or not infringed. EFI also sought to prevent Tesseron and its attorneys from threatening EFI or its OEM customers with infringement of those patents, or bringing a lawsuit claiming infringement with regard to such products. After transfer of EFI's action to Ohio, EFI negotiated for a covenant not to sue on 6 of the 8 patents that Tesseron had originally threatened against EFI and its customers.

On September 30, 2008, EFI reached a settlement with Tesseron and, on October 17, 2008, the Ohio District Court dismissed EFI's and Tesseron's claims, defenses, and counterclaims against one another. The terms of the settlement between the parties are confidential and the amount has been paid to Tesseron in full.

### Note 9: Common Stock Repurchase Programs

In November 2007, our Board of Directors authorized $100.0 million to be used for the repurchase of our outstanding common stock. Under this publicly announced plan, we repurchased a total of 3.0 million shares for an aggregate purchase price of $67.3 million in 2007, and we repurchased a total of 4.7 million shares for an aggregate purchase price of $64.6 million in 2008. In February 2009, the remaining $33.2 million was canceled by the Board of Directors and replaced with a new authorization to purchase an additional $100.0 million of outstanding common stock. In 2008, we purchased an additional 55 thousand shares for an aggregate purchase price of $0.6 million from employees to satisfy tax withholding obligations that arise on the vesting of shares of restricted stock and stock units. These repurchased shares are recorded as treasury stock and are accounted for under the cost method. None of the shares of common stock we have repurchased have been retired. Our buyback program is limited by SEC regulations and by compliance with the Company's insider trading policy.

### Note 10: Disposition of Product Line

In June 2006 we sold our inventory and intangible assets related to the Mobile Workforce Automation product line for $10.0 million. Other elements of this product line are still reported under continued operations.

### Note 11: Income Taxes

The components of income from operations before income taxes are as follows (in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| U.S. | $(153,597) | $(34,110) | $ 90,939 |
| Foreign | 20,521 | 56,319 | (49,408) |
| Total | $(133,076) | $ 22,209 | $ 41,531 |

The provision (benefit) for income taxes is summarized as follows (in thousands)

| | For the years ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| Current: | | | |
| U.S. Federal | $ 8,256 | $ 4,470 | $16,662 |
| State | 825 | 3,099 | 283 |
| Foreign | 5,099 | 5,234 | 2,103 |
| Total current | 14,180 | 12,803 | 19,048 |
| Deferred: | | | |
| U.S. Federal | (27,235) | (10,230) | 19,237 |
| State | (6,465) | (6,919) | 3,592 |
| Foreign | (112) | (288) | (163) |
| Total deferred | (33,812) | (17,437) | 22,666 |
| Total provision (benefit) for income taxes | $(19,632) | $ (4,634) | $41,714 |

The tax effects of temporary differences that give rise to deferred tax assets (liabilities) are as follows (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Inventory reserves | $ 1,068 | $ 1,812 |
| Other reserves and accruals | 6,246 | 6,672 |
| Accrued compensation and benefits | 2,397 | 2,719 |
| Net operating loss carry forwards | 15,243 | 21,832 |
| Tax credit carry forwards | 30,140 | 40,626 |
| Deferred revenue | 2,760 | 2,694 |
| Stock-based compensation | 18,892 | 19,356 |
| Other | 5,563 | 3,888 |
| Gross deferred tax assets | 82,309 | 99,599 |
| Depreciation | (8,850) | (4,105) |
| Amortization of intangibles | (4,203) | (24,039) |
| Convertible debt | — | (33,389) |
| State taxes | (4,448) | (5,179) |
| Gross deferred tax liabilities | (17,501) | (66,712) |
| Deferred tax valuation allowance | (3,981) | (5,339) |
| Total deferred tax assets, net | $ 60,827 | $ 27,548 |

## Electronics For Imaging, Inc.
## Notes to Consolidated Financial Statements—(Continued)

Reconciliation between the income tax provision (benefit) computed at the federal statutory rate and the actual tax provision (benefit) is as follows (in thousands):

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2006 | |
| Tax expense (benefit) at federal statutory rate | $(46,577) | 35.0% | $ 7,775 | 35.0% | $14,536 | 35.0% |
| State income taxes, net of federal benefit | (2,059) | 1.6 | (2,430) | (10.9) | 2,446 | 5.9 |
| Research and development credits | (5,413) | 4.1 | (2,981) | (13.4) | (2,555) | (6.2) |
| Foreign tax rate differential | (1,636) | 1.2 | (7,031) | (31.7) | 26,197 | 63.2 |
| Reduction in accrual for estimated potential tax assessments | (422) | 0.3 | (1,293) | (5.8) | (395) | (1.0) |
| Extra-territorial income exclusion | — | — | — | — | (998) | (2.4) |
| Non-deductible travel & entertainment | 363 | (0.3) | 395 | 1.8 | 348 | 0.8 |
| Non-deductible stock compensation charge | 7,015 | (5.3) | 1,447 | 6.5 | 1,214 | 2.9 |
| Goodwill impairment | 29,663 | (22.3) | — | — | — | — |
| Valuation allowance changes affecting provision for income taxes | (1,122) | 0.9 | (619) | (2.8) | 1,129 | 2.7 |
| Other | 556 | (0.4) | 103 | 0.4 | (208) | (0.5) |
| | $(19,632) | 14.8% | $(4,634) | (20.9)% | $41,714 | 100.4% |

We have $38.4 million ($37.7 million for state tax purposes) and $13.9 million ($16.1 million for state tax purposes) of loss and credit carry-forwards at December 31, 2008 for US federal tax purposes. These losses and credits will expire between 2010 and 2021. A significant portion of these net operating loss and credit carry-forwards relate to recent acquisitions and utilization of these loss and credit carry-forwards will be subject to an annual limitation under the U.S. Internal Revenue Code (IRC). We also have a valuation allowance related to foreign tax credits resulting from the 2003 acquisition of Best and compensation limitations potentially limited by IRC 162(m). If these foreign tax credits and the compensation deductions are ultimately utilized, the resulting benefit would reduce tax expense.

Effective January 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by requiring a tax position be recognized only when it is more likely than not that the tax position, based on its technical merits, will be sustained upon ultimate settlement with the applicable tax authority. The tax benefit to be recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the applicable tax authority that has full knowledge of all relevant information. The cumulative effect of adopting FIN 48 has been recorded in 2007 as an increase of $4.8 million to retained earnings, and a decrease of $1.1 million and $5.9 million in goodwill and taxes payable respectively.

As of December 31 2008 and December 31, 2007, the total amount of gross unrecognized benefits was $33.8 million and $33.4 million which, after December 31, 2008, would affect the effective tax rate if recognized. Over the next twelve months, our existing tax positions will continue to generate an increase in liabilities for unrecognized tax benefits. A reconciliation of the change in the gross unrecognized tax benefits from January 1, 2007 to December 31, 2008 is as follows:

| | Federal, State and Foreign Tax | Accrued Interest and Penalties | Gross Unrecognized Income Tax Benefits |
|---|---|---|---|
| Balance at January 1, 2007 | $25.0 | $ 0.6 | $25.6 |
| Additions for tax positions of prior years | — | 0.3 | 0.3 |
| Additions for tax positions related to 2007 | 9.8 | — | 9.8 |
| Reductions for tax positions of prior years | (1.6) | — | (1.6) |
| Settlements | — | — | — |
| Reductions due to lapse of applicable statute of limitations | (0.7) | — | (0.7) |
| Balance at December 31, 2007 | $32.5 | $ 0.9 | $33.4 |
| Additions for tax positions of prior years | 0.2 | 0.7 | 0.9 |
| Additions for tax positions related to 2008 | 7.4 | — | 7.4 |
| Reductions for tax positions of prior years | (0.2) | — | (0.2) |
| Settlements | (6.9) | — | (6.9) |
| Reductions due to lapse of applicable statute of limitations | (0.8) | — | (0.8) |
| Balance at December 31, 2008 | $32.2 | $ 1.6 | $33.8 |

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. At December 31, 2008 and December 31, 2007, we have accrued $2.6 million and $1.5 million for potential payments of interest and penalties.

As of December 31, 2008 and December 31, 2007, the amount of net unrecognized benefits that, after December 31, 2008, would impact our effective tax rate if recognized was $33.8 million and $33.4 million respectively, offset by a deferred tax charge of $2.3 million and $2.9 million related to the federal tax effect of state taxes for the same periods. We were subject to examination by both the US federal and state tax jurisdictions for the 2004-2007 tax years and the Netherlands for 2006-2007 tax years. In the third quarter of 2008, we finalized a closing agreement with the Internal Revenue Service ("IRS") to complete their examination of the 2002 through 2004 tax years. As a result of the IRS audit settlement, we reduced our unrecognized tax benefits by $6.6 million, of which $2.5 million was recorded as a tax benefit in 2008. The reduction in unrecognized tax benefits related primarily to intercompany cost allocations and the research and development credits. Since the timing of the resolution of audits is uncertain, we are unable to estimate any potential adjustments in the next 12 months to the balance of unrecognized tax benefits.

## Note 12: Employee Benefit Plans

*Equity Incentive Plans*

As of December 31, 2008, we have 12 equity incentive plans. Since the approval by the Stockholders, on December 14, 2007, of our new 2007 Equity Incentive Award Plan, no awards may be granted under our 11 previously adopted equity incentive plans. As of December 31, 2008, 10 of these plans adopted prior to the 2007 Equity Incentive Award Plan continue to have outstanding awards.

Our primary equity incentive plans are summarized as follows:

2007 Stock Plan

In December 2007, our stockholders approved the 2007 Equity Incentive Award Plan (the "2007 Plan") and the reservation of an aggregate of 3,300,000 shares of the Company's common stock for issuance pursuant to the 2007 Plan. The 2007 Plan provides for grants of stock options (both incentive stock options and nonqualified stock options), restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units and performance-based awards. Options and awards generally vest over a period of three to four years from the date of grant and generally expire seven to ten years from the date of the grant. The terms of the 2007 Plan provide that an option price shall not be less than 100% of fair market value on the date of the grant. Our Board of Directors (the "Board of Directors") may grant a stock bonus or stock unit award under the 2007 Plan in lieu of all or a portion of any cash bonus that a participant would have otherwise received for the related performance period.

The shares of common stock covered by the 2007 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market. If an award under the 2007 Plan is forfeited (including a reimbursement of an unvested award upon a participant's termination of employment at a price equal to the par value of the common stock subject to the award) or expired, any shares of common stock subject to the award may be used again for new grants under the 2007 Plan.

The 2007 Plan is administered by a committee, which may be the Board of Directors or a committee appointed by the Board of Directors (the "Committee"). The Committee has the exclusive authority to administer the 2007 Plan, including the power to (i) designate participants under the 2007 Plan, (ii) determine the types of awards granted to participants under the 2007 Plan, the number of such awards, and the number of shares of common stock of the Company subject to such awards, (iii) determine and interpret the terms and conditions of any awards under the 2007 Plan, including the vesting schedule, exercise price, whether to settle, or accept the payment of any exercise price, in cash, common stock, other awards or other property, and whether an award may be cancelled, forfeited or surrendered, (iv) prescribe the form of each award agreement, and (v) adopt rules for the administration, interpretation and application of the 2007 Plan. The Committee does not have the authority to accelerate the vesting or waive the forfeiture of any qualified performance-based awards.

Persons eligible to participate in the 2007 Plan include all employees, directors and consultants of the Company and its subsidiaries, as determined by the Committee. As of December 31, 2008, approximately 2,000 employees and 5 non-employee directors were eligible to participate in the 2007 Plan.

As of December 31, 2008, there were 2.4 million shares outstanding and 0.6 million shares available for grant under the 2007 Plan. As of December 31, 2007, there were 1.1 million shares outstanding and 2.2 million shares available for grant under the 2007 Plan.

Since the adoption by the Company of the 2007 Plan, no awards may be granted under our previously adopted plans, described below.

2004 Stock Plan

With the adoption of the 2007 Plan, no additional awards may be granted under the 2004 Stock Plan (the "2004 Plan"). Under the 2004 Plan, 8.4 million shares of common stock were authorized for issuance. This amount includes 0.1 million shares that were consolidated from the acquired Splash Plan, T/R Plan and Printcafe Plans on June 7, 2006. The terms of the 2004 Plan provide that an option price shall not be less than 100% of fair market value on the date of the grant. The vesting period for restricted stock must be at least (a) one (1) year in the case of a restricted stock award subject to a vesting schedule based upon the achievement of specified performance goals by the participant or (b) three (3) years in the case of a restricted stock award absent such performance-based vesting. Under this plan, restricted stock and restricted stock unit awards could be granted that did not comply with the preceding minimum vesting requirement as long as the aggregate number of shares of common stock issued with respect to such non-conforming awards granted under this plan did not exceed 10% of the reserve. The 2004 Plan provides for accelerated vesting if there is a change in control (as defined in the 2004 Plan). The options and restricted stock awards generally vest over a 42 to 48 month period and expire from seven to ten years from the date of the grant. As of December 31, 2008, 2007 and 2006, there were 2.2 million, 3.4 million and 3.9 million shares, respectively, outstanding under the 2004 Plan.

1999 Stock Plan

With the adoption of the 2007 Plan, no additional awards may be granted under the 1999 Stock Plan (the "1999 Plan"). The 1999 Plan authorized 10.6 million shares of common stock for issuance. The terms of the 1999 Plan provide that an option price may not be less than 100% of fair market value and the purchase price under restricted stock purchase agreement may not be less than 50% of fair market value on the date of the grant. The Board of Directors or a committee designated by the Board of Directors had the authority to determine to whom options would be granted, the number of shares, the vesting period, the expiration date and the exercise price. The 1999 Plan provides for accelerated vesting if there is a change in control (as defined in the 1999 Plan). The options and restricted stock awards generally vest from two to four years and expire from seven to ten years from the date of the grant. As of December 31, 2008, 2007 and 2006, there were 2.4 million, 3.3 million and 3.7 million shares respectively, outstanding under the 1999 Plan.

1990 Stock Plan

The 1990 Stock Option Plan (the "1990 Plan") by its terms expired in June 2000 and no additional awards may be granted under this plan. In June 1990, the Company adopted the 1990 Plan, which, as amended, provided for the issuance of incentive and nonqualified stock options to our employees, directors and non-employees. The Company reserved 13.2 million shares of common stock for issuance under the 1990 Plan. The terms of the 1990 Plan required that incentive stock options be granted with an exercise price of no less than the fair market value on the date of the grant. The original terms of the 1990 Plan provided that the exercise price of nonqualified stock options could not be less than 85% of the fair market value on the date of the grant. On May 4, 1995, the 1990 Plan was amended to provide that the Company would not grant options at less than 100% of the fair market value of the Company's common stock on the date of the grant. Generally, the options vested over a four year period. The 1990 Plan allows the Company to buy out an option grant for a payment in cash or shares, an option previously granted based on terms and conditions as established by the Company at the time such offer is made. The 1990 Plan provides for accelerated vesting if there is a change in control (as defined in the 1990 Plan). The options are exercisable at times and increments as specified by the Board of Directors, and expire not more than 10 years from date of grant. All options available under the 1990 Plan have been issued. Any shares (plus any shares that might in the future be returned to the 1990 Plan as a result of cancellations) that remained available for future grants under the 1990 Plan have been cancelled. As of December 31, 2008, 2007 and 2006, there were approximately 0.7 million, 1.3 million, and 1.8 million shares, respectively, outstanding under the 1990 Plan.

Acquired Stock Plans

In connection with our acquisition of Splash Technology Holdings, Inc., T/R Systems, Inc, Print Café and Management Graphics, Inc, we assumed their stock incentive plans. As of December 31, 2008, there were 0.2 million options outstanding under these acquired stock plans.

*2000 Employee Stock Purchase Plan*

In May 2000, our Board of Directors adopted the 2000 Employee Stock Purchase Plan (the "ESPP"), which became effective on August 1, 2000 and reserved 0.4 million shares of common stock for issuance under the ESPP. The ESPP, as amended, has an automatic share increase feature pursuant to which the shares reserved under the ESPP will automatically increase on the first trading day in January of each year, beginning with calendar year 2006 and continuing through calendar year 2012. The amount of increase is equal to three quarters of one percent (0.75%) of the total number of shares of common stock outstanding on the last trading day of December in the immediately preceding calendar year but in no event shall any such increase exceed 2.5 million shares annually. As of December 31, 2008, 0.8 million shares of the Company's stock have been reserved for issuance under the ESPP.

The ESPP is qualified under Section 423 of the Internal Revenue Code. Eligible employees may contribute from one percent to ten percent of their base compensation not to exceed ten percent of the employee's earnings. Employees are not able to purchase more than the number of shares having a value greater than $25,000 in any calendar year, as measured at the beginning of the offering period under the ESPP. The purchase price shall be the lesser of 85% of the fair market value of the stock, either on the offering date or on the purchase date. The offering period shall not exceed 27 months beginning with the offering date. The ESPP provided for offerings of 4 consecutive, overlapping 6-month offering periods, with a new offering period commencing on the first trading day on or after February 1 and August 1 of each year.

The ESPP was suspended effective November 9, 2006 as a result of the Company not being able to timely file its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and remained suspended through the fourth quarter of 2007, when we became current in our filings with the SEC. For all participants that did not withdraw from the plan, contributions made through that date were being held to be applied towards the first purchase date subsequent to the reinstatement of the plan. We returned all amounts for participants with an offering period that exceeded 22 months from the beginning of the offering date. We resumed this plan in the fourth quarter of 2007. No shares were issued under the ESPP in 2007. In 2008 and 2006, 0.5 million and 0.4 million shares were issued under the ESPP at an average purchase price of $12.18 and $14.75, respectively. As of December 31, 2008, there was $2.8 million of total unrecognized compensation cost related to share-based compensation arrangements granted under the ESPP. That cost is expected to be recognized over a period of 1.8 years. At December 31, 2008, 2007 and 2006, there were 0.3 million, 0.4 million and 0.1 million shares, respectively, available for issuance under the ESPP.

*Valuation and Expense Information under SFAS 123(R)*

Effective January 1, 2006, we adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all equity awards made to our employees and directors, including employee stock options, restricted stock and employee stock purchases related to all stock-based compensation plans based on estimated fair values.

We use the Black-Scholes-Merton ("BSM") model to value stock-based compensation for all equity awards except market based awards. Market based awards are valued using a Monte Carlo valuation model. The BSM model is the same model which was previously used in preparing our pro forma disclosure required under SFAS 123.

The BSM model determines the fair value of share-based payment awards based on the stock price on the date of grant and is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, EFI's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because our employee stock options and awards have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of EFI's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SEC Staff Accounting Bulletin No. 107 ("SAB 107") using an option-pricing model, the value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

The following table summarizes stock-based compensation expense based on the aforementioned valuation models related to employee stock options, employee stock purchases and restricted stock under SFAS 123(R) for the years ended December 31, 2008, 2007, and 2006:

| (in thousands) | 2008 | 2007 | 2006 |
|---|---|---|---|
| Stock-based compensation expense by type of award: | | | |
| Employee stock options | $ 5,759 | $ 8,270 | $10,727 |
| Restricted stock units and nonvested shares | 23,187 | 14,834 | 12,271 |
| Employee stock purchase plan | 4,481 | 1,426 | 748 |
| Total stock-based compensation | 33,427 | 24,530 | 23,746 |
| Tax effect on stock-based compensation | (6,694) | (8,891) | (7,064) |
| Net effect on net income/loss | $26,733 | $15,639 | $16,682 |

*Stock Options and ESPP Shares*

Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by various assumptions including volatility, expected term and interest rates. Expected volatility is based on the historical volatility of our stock over a preceding period commensurate with the expected term of the option. Subsequent to the adoption of SFAS 123(R), we utilize the "simplified" method described in SAB 107 to determine the expected term of our options. Using this method, the expected term is estimated by taking the weighted average of the vesting term and the contractual term of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since we do not pay dividends and have no current plans to do so in the future.

The estimated per share weighted average fair value of options and ESPP shares granted and the assumptions used to determine fair value are shown below for the periods indicated:

| | Stock option plans for the years ended December 31, | | | Employee Stock Purchase Plan for the years ended December 31, | | |
|---|---|---|---|---|---|---|
| **Black Scholes assumptions and fair value** | **2008** | **2007** | **2006** | **2008** | **2007[(1)]** | **2006** |
| Weighted average fair value per share | $5.51 | $9.11 | $10.30 | $ 5.50 | N/A | $ 6.13 |
| Expected volatility | 40% | 35% | 39% | 32% – 74% | N/A | 28% – 38% |
| Risk-free interest rate | 2.8% | 4.5% | 4.8% | 1.9% – 2.5% | N/A | 4.7% – 5.2% |
| Expected term (in years) | 4.0 | 4.6 | 4.6 | 0.5 – 2.0 | N/A | 0.5 – 2.0 |

(1) No shares were issued under the ESPP in 2007.

Form 10-K

*Restricted Stock Units and Nonvested Shares of Restricted Stock*

The restricted stock units and nonvested shares of restricted stock generally vest over a service period of two to four years. The compensation expense incurred for these service awards is based on the closing market price of EFI's stock on the date of grant and is amortized on an accelerated basis over the requisite service period. The weighted average fair value of restricted stock units granted during the years ended December 31, 2008, 2007, and 2006 were $13.53, $22.16 and $22.13, respectively. No nonvested shares of restricted stock were granted during 2007 and 2008. The weighted average fair value of nonvested shares of restricted stock granted during the year ended December 31, 2006 was $27.41.

In February 2008, the remaining 138,750 shares of market-based nonvested restricted stock units were modified to seven-year service-based. No incremental stock-based compensation expense was incurred as a result of the modification.

*Tender Offer*

Based on the independent investigation of our historical stock option granting practices conducted by the Special Committee of our Board of Directors in 2007, we determined that certain compensatory stock options were granted with an exercise price lower than the fair market value of our common stock on the date of grant. Any such stock options which had not vested prior to January 1, 2005, absent amendment, would be subject to substantial additional taxes under Section 409A of the Internal Revenue Code and analogous state laws. On October 23, 2007, we filed a Tender Offer Statement on Schedule TO with the SEC with respect to stock options which were determined to have been granted with a below fair market value exercise price. The terms of the tender offer provided that each eligible stock option tendered would be amended to increase the exercise price to the fair market value of our common stock on the grant date determined in the independent investigation in exchange for a cash bonus in an amount equal to the aggregate exercise price increase for such stock option payable in January 2008, less applicable tax withholding. The tender offer expired on November 30, 2007. We accepted for amendment eligible options to purchase 482,380 shares of our common stock and made cash payments, in January 2008, to employees that held eligible options accepted for amendment in the aggregate amount of $283,514, less applicable tax withholding, to compensate them for the increased exercise prices per share of their amended eligible options, in each case, in accordance with the terms of the tender offer.

*Stock Option Activity*

The following table summarizes option activity under our stock plans (shares and aggregate intrinsic value in thousands):

| | Shares | Weighted average exercise price | Weighted average remaining contractual term (years) | Aggregate intrinsic value |
|---|---|---|---|---|
| **Options outstanding at December 31, 2005** | 10,117 | $23.60 | | |
| Options granted | 965 | $25.61 | | |
| Options exercised | (1,994) | $18.00 | | |
| Options forfeited or expired | (707) | $26.52 | | |
| **Options outstanding at December 31, 2006** | 8,381 | $24.90 | | |
| Options granted | 423 | $24.62 | | |
| Options exercised | (335) | $17.30 | | |
| Options forfeited or expired | (956) | $33.19 | | |
| **Options outstanding at December 31, 2007** | 7,513 | $24.19 | | |
| Options granted | 980 | $15.80 | | |
| Options exercised | (146) | $15.27 | | |
| Options forfeited or expired | (2,286) | $27.34 | | |
| **Options outstanding at December 31, 2008** | 6,061 | $22.73 | 3.1 | $ — |
| **Options vested and expected to vest at December 31, 2008** | 5,938 | $22.84 | 3.1 | $ — |
| **Options exercisable at December 31, 2008** | 4,769 | $24.04 | 2.4 | $ — |

Aggregate intrinsic value was calculated as the difference between the closing price of our common stock on the last trading day of the fiscal period and the exercise price of the underlying awards for the options that were in the money at December 31, 2008. The total intrinsic value of options exercised, determined as of the date of option exercise, was $0.3 million, $1.7 million and $16.6 million for the years ended December 31, 2008, 2007, and 2006, respectively. There was $3.5 million of total unrecognized compensation cost related to stock options expected to vest as of December 31, 2008. That cost is expected to be recognized over a weighted average period of one year.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2008 (shares in thousands):

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| **Range of exercise prices** | **Shares** | **Weighted average remaining contractual term (years)** | **Weighted average exercise price** | **Shares** | **Weighted average exercise price** |
| $11.26 to $16.17 | 1,674 | 4.3 | $ 15.47 | 912 | $ 15.32 |
| $16.20 to $17.15 | 1,081 | 4.5 | 16.83 | 863 | 16.96 |
| $17.17 to $21.38 | 1,011 | 2.1 | 19.45 | 1,003 | 19.44 |
| $21.45 to $25.28 | 1,125 | 2.5 | 23.09 | 953 | 23.12 |
| $25.37 to $48.38 | 1,063 | 1.8 | 31.93 | 930 | 32.65 |
| $48.50 and over | 107 | 1.1 | 131.47 | 108 | 131.47 |
| | 6,061 | 3.1 | $ 22.73 | 4,769 | $ 24.04 |

*Restricted Stock Units and Nonvested Shares of Restricted Stock*

Restricted stock units and nonvested shares of restricted stock were awarded to employees under our equity incentive plans. Nonvested shares of restricted stock have the same voting rights as other common stock and are considered to be currently issued and outstanding. Restricted stock units do not have the voting rights of common stock, and the shares underlying the restricted stock units are not considered issued and outstanding. A summary of the status of restricted stock units and nonvested shares of restricted stock as of December 31, 2008, and changes during the year ended December 31, 2008, is presented below:

| | Restricted Stock Units | | Nonvested Shares of Restricted Stock | |
|---|---|---|---|---|
| | Shares (in thousands) | Weighted average grant date fair value | Shares (in thousands) | Weighted average grant date fair value |
| Nonvested at January 1, 2008 | 1,880 | $22.07 | 336 | $24.21 |
| Awarded | 926 | $13.78 | — | $ — |
| Vested | (543) | $11.62 | (174) | $21.61 |
| Forfeited | (397) | $21.07 | (44) | $26.31 |
| Nonvested at December 31, 2008 | 1,866 | $18.22 | 118 | $27.21 |

Restricted Stock Units

The fair value of restricted stock units that vested during 2008 and 2007, determined as of the vesting date, were $6.4 million and $7.4 million, respectively. No restricted stock units vested during 2006. The aggregate intrinsic value of restricted stock units vested and expected to vest at December 31, 2008 was $15.4 million, calculated as the closing price per share of our common stock on the last trading day of the fiscal period multiplied by 1.6 million of restricted stock units vested and expected to vest at December 31, 2008. There was approximately $16.4 million of unrecognized compensation costs related to restricted stock units expected to vest as of December 31, 2008. That cost is expected to be recognized over a weighted average period of 1.4 years.

Nonvested Shares of Restricted Stock

The fair value of restricted stock vested, determined as of the vesting date, was $2.3 million, $7.1 million and $3.9 million during the years ended December 31, 2008, 2007 and 2006, respectively. There was $0.7 million of unrecognized compensation cost related to nonvested shares of restricted stock expected to vest as of December 31, 2008. That cost is expected to be recognized over a weighted average period of 0.7 years.

*Employee 401(k) Plan*

We sponsor a 401(k) Savings Plan (the "401(k) Plan") to provide retirement and incidental benefits for our employees. Employees may contribute from 1% to 40% of their annual compensation to the 401(k) Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service ("IRS"). We currently match 50% of the employee contributions, up to a maximum of the first 4% of the employee's compensation contributed to the plan, subject to IRS limitations. All matching contributions vest over four years starting with the hire date of the individual employee. Our matching contributions to the 401(k) Plan totaled $1.9 million in 2008, $2.0 million in 2007 and $1.8 million in 2006. The employees and our contributions are cash contributions invested in mutual funds managed by an independent fund manager, or in self-directed retirement plans. The fund manager or the employee may invest in our common stock at their discretion.

### Note 13: Sale of Land and Building

On October 23, 2008, we entered into a Purchase and Sale agreement with Gilead Sciences, Inc. (“Gilead”), under which certain real property and improvements, and other related assets were sold to Gilead for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010. The transaction closed on January 29, 2009. The property sold included approximately thirty acres of land and the office building located at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property. We continue to retain ownership of the remaining approximately five acres of land and remain obligated under the synthetic lease with respect to the office building located at 303 Velocity Way, Foster City, California, consisting of approximately 295,000 square feet on which the Company’s headquarters is located. As more fully disclosed in Note 8—Commitments and Contingencies of the Notes to Consolidated Financial Statements, the buildings are subject to synthetic lease agreements.

As a result of the sale to Gilead, assets held for sale of $55.4 million under current assets as of December 31, 2008 include $31.7 million of funds pledged with respect to the synthetic lease of the 301 Velocity Way facility, $2.5 million of related land, $19.8 million of undeveloped land, $1.1 million of leasehold and land improvements, and $0.3 million of previously capitalized financing costs.

### Note 14: Restructuring and Other

The Company recorded pretax restructuring and other charges of $11.0, $1.5 million, and $1.0 million for the years ended December 31, 2008, 2007, and 2006, respectively. Restructuring and other charges includes severance costs of $8.0 million related to headcount of 166 for the year ended December 31, 2008. Severance costs include severance payments, related employee benefits, related legal fees, and outplacement costs. Restructuring and other charges includes facility costs of $2.4 million related to the closure of three facilities and the partial closure of two facilities.

The following table summarizes 2008 activities related to the Company’s restructuring reserve (in thousands):

| | Restructuring Costs |
|---|---|
| Reserve balance at December 31, 2007 | $ — |
| Restructuring reserve | 9,524 |
| Restructuring reserve related to acquisition of Pace | 358 |
| Payments | (6,658) |
| Reserve balance at December 31, 2008 | $ 3,224 |

Also included in the Restructuring and other line item in our consolidated statement of operations are costs related to integrate our Pace and Raster acquisitions and related employees.

### Note 15: Information Concerning Business Segments and Major Customers

*Information about Products and Services*

We operate in a single industry segment, technology for high-quality printing in short production runs. In accordance with SFAS 131, “Disclosures About Segments of an Enterprise and Related Information,” our operating decision-makers have been identified as our executive officers, who review the operating results to make decisions about allocating resources and assessing performance for the entire Company. We do not have separate operating segments for which discrete financial statements are prepared. Our management makes operating decisions and assesses performance primarily based on the marketplace acceptance of our products, which is typically measured by revenues.

As our enterprise management processes are becoming further refined, including our 2009 planning process, to use financial information that is closely aligned with the three product categories, it is expected that it will be appropriate to present three operating segments beginning in the first quarter of 2009. It is expected that relevant financial information will be prepared for each of the three operating segments that will be used by the chief operating decision making group to allocate resources among the segments.

The following is a breakdown of revenues by product category for the years ended December 31, 2008, 2007 and 2006:

| | For the years ended December 31, | | |
|---|---|---|---|
| (in thousands) | 2008 | 2007 | 2006 |
| Controllers | $278,738 | $331,474 | $328,443 |
| Inkjet Products | 219,959 | 229,253 | 180,203 |
| APPS | 61,683 | 59,859 | 55,965 |
| Total Revenue | $560,380 | $620,586 | $564,611 |

Revenues in Controllers and APPS categories for the twelve months ended December 31, 2007 and December 31, 2006 have been revised to reflect the reclassification of Controller-related software revenue of $25.6 million and $21.8 million in 2007 and 2006, respectively from the Advanced Professional Printing Software category to the Controllers category. Total revenue from the twelve months ended December 31, 2006 and December 31, 2007 have not changed.

*Information about Geographic Areas*

Our sales originate in the United States, The Netherlands, Germany and Japan. Shipments to some of our OEM customers are made to centralized purchasing and manufacturing locations, which in turn sell through to other locations. As a result of these factors, we believe that sales to certain geographic locations might be higher or lower, as the ultimate destinations are difficult to ascertain.

The following is a breakdown of revenues by sales origin for the years ended December 31, 2008, 2007 and 2006:

| | For the years ended December 31, | | |
|---|---|---|---|
| (in thousands) | 2008 | 2007 | 2006 |
| Americas | $297,896 | $327,232 | $303,931 |
| Europe, Middle East and Africa | 194,474 | 216,308 | 175,037 |
| Japan | 52,048 | 58,015 | 63,248 |
| Other international locations | 15,962 | 19,031 | 22,395 |
| Total Revenue | $560,380 | $620,586 | $564,611 |

The following table presents our long-lived assets located outside the Americas, all of which are in the Europe, Middle East and Africa (“EMEA”) region, as of December 31, 2008 and 2007:

| | December 31, | |
|---|---|---|
| (in thousands) | 2008 | 2007 |
| Goodwill | $7,300 | $7,447 |
| Intangible Assets, net | 1,438 | 2,006 |
| | $8,738 | $9,453 |

*Information about Major Customers*

For the past three years we have had two major customers, Canon and Xerox, each with total revenues greater than 10%. These customers, in order of magnitude, accounted for approximately 13% and 16% of revenues in 2008, approximately 16% and 15% of revenue in 2007. One customer, Xerox, had an accounts receivable balance greater than 10% of our total accounts receivable balance, accounting for 16% and 12% of our total accounts receivable balance as of December 31, 2008 and 2007, respectively.

**Note 16: Subsequent Events**

In January 2009, we announced a restructuring plan to better align our costs with revenue levels. We expect to reduce our worldwide headcount by approximately 100 employees and incur severance costs of approximately $3.4 million.

On January 29, 2009, we completed the sale of land and building to Gilead for a total price of $137.5 million, subject to an escrow holdback of $15.5 million. The escrow period expires January 2010. The property sold included approximately thirty acres of land and the office building located on the land at 301 Velocity Way, Foster City, California, consisting of approximately 163,000 square feet and certain other assets related to the property.

On February 5, 2009, our Board of Directors approved a $100 million share repurchase program, including a $30 million accelerated share repurchase (“ASR”) by utilizing a portion of the proceeds from the recent sale of land and building to Gilead. On February 18, 2009, we also entered into an agreement with UBS AG, London branch (“UBS”), to repurchase $30 million of our common stock under the ASR program. We expect to complete the repurchases under the ASR program in the second or third quarter of 2009, with the final completion date subject to the discretion of UBS. Approximately $33.2 million remaining from prior board authorization were cancelled by the Board of Directors in February 2009.

## SUPPLEMENTARY DATA

**Unaudited Quarterly Consolidated Financial Information**

The following table presents our operating results for each of the eight quarters in the two-year period ended December 31, 2008. The information for each of these quarters is unaudited but has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report. In the opinion of management, all necessary adjustments (consisting only of normal recurring adjustments) have been included to state fairly the unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the notes thereto appearing in this Annual Report. These operating results are not necessarily indicative of the results for any future period (in thousands, except per share amounts).

| | 2008 | | | |
|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 |
| Revenue | $136,604 | $143,846 | $144,666 | $ 135,264 |
| Gross profit | 77,232 | 81,973 | 82,065 | 76,147 |
| Loss from operations | (14,308) | (5,892) | (8,619) | (116,196) |
| Net (loss) | (5,173) | (113) | (3,644) | (104,514) |
| Net (loss) for dilution calculation | (5,173) | (113) | (3,644) | (104,514) |
| Net (loss) per basic common share | $ (0.10) | $ — | $ (0.07) | $ (1.99) |
| Net (loss) per diluted common share | $ (0.10) | $ — | $ (0.07) | $ (1.99) |
| Goodwill and asset impairment | $ — | $ — | $ — | $ 111,858 |

| | 2007 | | | |
|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 |
| Revenue | $147,831 | $162,441 | $158,295 | $ 152,019 |
| Gross profit | 88,341 | 95,729 | 92,206 | 84,610 |
| (Loss) income from operations | (3,926) | 2,169 | 756 | (1,230) |
| Net (loss) income | 2,135 | 9,606 | 8,107 | 6,995 |
| Net (loss) income for dilution calculation | 2,135 | 10,356 | 8,857 | 7,745 |
| Net (loss) income per basic common share | $ 0.04 | $ 0.17 | $ 0.14 | $ 0.13 |
| Net (loss) income per diluted common share | $ 0.04 | $ 0.15 | $ 0.13 | $ 0.12 |

## Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A: Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, including the Chief Executive Officer and Chief Financial Officer, is engaged in a comprehensive effort to review, evaluate and improve our controls; however, management does not expect that our disclosure controls will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance as of December 31, 2008.

### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework.

Based on our assessment using those criteria, we concluded that our internal control over financial reporting was effective as of December 31, 2008.

We have excluded Pace and Raster from our assessment of internal control over financial reporting as of December 31, 2008 because they were acquired by us during fiscal year 2008. Pace and Raster are wholly owned subsidiaries whose total assets and total revenue represent 5.1% and 1.3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2008.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2008, as stated in their report included in this Annual Report on Form 10-K.

### Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Item 9B: Other Information

None.

# PART III

## Item 10: Directors, Executive Officers and Corporate Governance

Information regarding our directors is incorporated by reference from the information contained under the caption “Election of Directors” in our Proxy Statement for our 2009 Annual Meeting of Stockholders (the “2009 Proxy Statement”). Information regarding our current executive officers is incorporated by reference from information contained under the caption “Executive Officers” in our 2009 Proxy Statement. Information regarding Section 16 reporting compliance is incorporated by reference from information contained under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2009 Proxy Statement. Information regarding the audit committee of our board of directors and information regarding an audit committee financial expert is incorporated by reference from information contained under the caption “Meetings and Committees of the Board of Directors” in our 2009 Proxy Statement. Information regarding our code of ethics is incorporated by reference from information contained under the caption “Meetings and Committees of the Board of Directors” in our 2009 Proxy Statement. Information regarding our implementation of procedures for stockholder nominations to our board of is incorporated by reference from information contained under the caption “Meetings and Committees of the Board of Directors” in our 2009 Proxy Statement.

## Item 11: Executive Compensation

The information required by this item is incorporated by reference from the information contained under the captions “Compensation Discussion and Analysis” and “Executive Compensation” in our 2009 Proxy Statement.

## Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Other than information regarding securities authorized for issuance under equity compensation plans, which is set forth below, the information required by this item is incorporated by reference from the information contained under the caption “Security Ownership” in our 2009 Proxy Statement.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2008 concerning securities that are authorized under equity compensation plans.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 7,927,271[1] | $21.67 | 903,760[2] |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 7,927,271 | $21.67 | 903,760 |

(1) Includes options outstanding as of December 31, 2008, representing 78,840 shares with an average exercise price of $156.39 per share, that were assumed in connection with business combinations.

(2) Includes 566,130 shares available under our 2007 Equity Incentive Award Plan and 337,630 shares available under our 2000 Employee Stock Purchase Plan.

## Item 13: Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference from the information contained under the caption "Certain Relationships and Related Transactions, and Director Independence" in our 2009 Proxy Statement.

## Item 14: Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the information contained under the caption "Principal Accountant Fees and Services" in our 2009 Proxy Statement.

# PART IV

## Item 15: Exhibits, Financial Statement Schedules and Reports on Form 10-K

**(a) Documents Filed as Part of this Report**

**(1) Index to Financial Statements**

The Financial Statements required by this item are submitted in Item 8 of this report as follows:



**(2) Financial Statement Schedule**



(All other schedules are omitted because of the absence of conditions under which they are required or because the necessary information is provided in the consolidated financial statements or notes thereto in Item 8 of this report.)

**(3) Exhibits**

| Exhibit No. | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of August 30, 2000, by and among the Company, Vancouver Acquisition Corp. and Splash Technology Holdings, Inc. (1) |
| 2.2 | Amendment No. 1, dated as of October 19, 2000, to the Agreement and Plan of Merger, dated as of August 30, 2000, by and among the Company, Vancouver Acquisition Corp. and Splash Technology Holdings, Inc. (2) |
| 2.3 | Agreement and Plan of Merger and Reorganization, dated as of July 14, 1999, among the Company, Redwood Acquisition Corp. and Management Graphics, Inc. (3) |
| 2.4 | Agreement and Plan of Merger, dated as of February 26, 2003 by and among the Company, Strategic Value Engineering, Inc. and Printcafe Software, Inc. (4) |
| 2.5 | Merger Agreement, dated as of April 14, 2005 by and among the Company, VUTEk, Inc. and EFI Merger Sub, Inc. (5) |
| 2.6+ | Amended and Restated Equity Purchase Agreement dated October 31, 2006 among Electronics for Imaging, Inc., Electronics for Imaging, International, Jetrion, LLC and Flint Group North America Corporation (6) |
| 3.1 | Amended and Restated Certificate of Incorporation (7) |
| 3.2 | By-laws as amended (8) |
| 3.3 | Certificate of Amendment of By-laws (9) |

| Exhibit No. | Description |
|---|---|
| 3.4 | Certificate of Amendment of By-laws (10) |
| 4.2 | Specimen Common Stock certificate of the Company (8) |
| 10.1+ | Agreement dated December 6, 2000, by and between Adobe Systems Incorporated and the Company (11) |
| 10.2 | 1990 Stock Plan of the Company (8) |
| 10.3 | Management Graphics, Inc. 1985 Nonqualified Stock Option Plan (12) |
| 10.4 | The 1999 Equity Incentive Plan as amended (13) |
| 10.5 | 2000 Employee Stock Purchase Plan as amended (13) |
| 10.6 | Splash Technology Holdings, Inc. 1996 Stock Option Plan as amended to date (14) |
| 10.7 | Prographics, Inc. 1999 Stock Option Plan (15) |
| 10.8 | Printcafe Software, Inc. 2000 Stock Incentive Plan (15) |
| 10.9 | Printcafe Software, Inc. 2002 Key Executive Stock Incentive Plan (15) |
| 10.10 | Printcafe Software, Inc. 2002 Employee Stock Incentive Plan (15) |
| 10.11 | T/R Systems, Inc. 1999 Stock Option Plan (16) |
| 10.12 | Electronics for Imaging, Inc. 2004 Equity Incentive Plan (17) |
| 10.13 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan (18) |
| 10.14 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement (19) |
| 10.15 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (19) |
| 10.16 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement (19) |
| 10.17 | Form of Indemnification Agreement (8) |
| 10.18 | Form of Indemnity Agreement (20) |
| 10.19 | Lease Financing of Properties Located in Foster City, California, dated as of July 16, 2004, among the Company, Société Générale Financial Corporation and Société Générale (21) |
| 10.20+ | OEM Distribution and License Agreement dated September 19, 2005 by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, as amended by Amendment No. 1 dated as of October 1, 2005 (22) |
| 10.21+ | Amendment No. 2 to OEM Distribution and License Agreement by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, effective as of October 1, 2005 (23) |
| 10.22 | Employment Agreement effective August 1, 2006, by and between Guy Gecht and the Company (24) |
| 10.23 | Employment Agreement effective August 1, 2006, by and between Fred Rosenzweig and the Company (24) |
| 10.24 | Employment Agreement effective August 1, 2006, by and between John Ritchie and the Company (24) |

| Exhibit No. | Description |
|---|---|
| 10.25+ | Amendment No. 4 to OEM Distribution and License Agreement by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, effective as of January 1, 2006 (25) |
| 10.26 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and Guy Gecht (26) |
| 10.27 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and Fred S. Rosenzweig (26) |
| 10.28 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and John Ritchie (26) |
| 10.29 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and James S. Greene (26) |
| 10.30 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and Dan Maydan (26) |
| 10.31 | Amendment of Stock Option Agreement, dated as of August 29, 2008, by and between the Company and Gill Cogan (26) |
| 10.32 | Purchase and Sale Agreement and Joint Escrow Instructions dated as of October 23, 2008 by and between the Company and Gilead Sciences, Inc., as amended, if material |
| 12.1 | Computation of Ratios of Earnings to Fixed Charges |
| 21 | List of Subsidiaries |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 24.1 | Power of Attorney (see signature page) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

\+ The Company has received confidential treatment with respect to portions of these documents

(1) Filed as exhibit (d) (1) to the Company's Schedule TO-T on September 14, 2000 and incorporated herein by reference.

(2) Filed as exhibit (d) (5) to the Company's Schedule TO/A No. 3 on October 20, 2000 and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Report of Unscheduled Events on Form 8-K on September 8, 1999 (File No. 000-18805) and incorporated herein by reference.

(4) Filed as exhibit 10 to Amendment No. 2 to the Schedule 13D filed on February 26, 2003 and incorporated herein by reference.

(5) Filed as an exhibit to the Company's Current Report on Form 8-K filed on April 18, 2005 (File No. 000-18805) and incorporated herein by reference.

(6) Filed as an exhibit to the Company's Current Report on Form 8-K filed on November 3, 2006 (File No. 000-18805) and incorporated herein by reference.

(7) Filed as an exhibit to the Company's Registration Statement on Form S-1 (File No. 33-57382) and incorporated herein by reference.

(8) Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-50966) and incorporated herein by reference.

(9) Filed as an exhibit to the Company's Current Report on Form 8-K filed on June 29, 2007 (File No. 000-18805) and incorporated herein by reference.
(10) Filed as an exhibit to the Company's Current Report on Form 8-K filed on November 15, 2007 (File No. 000-18805) and incorporated herein by reference.
(11) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 000-18805) and incorporated herein by reference.
(12) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-18805) and incorporated herein by reference.
(13) Filed as an exhibit to the Company's Registration Statement on Form S-8 on June 24, 2003 and incorporated herein by reference.
(14) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 000-18805) and incorporated herein by reference.
(15) Filed as an exhibit to Printcafe Software, Inc.'s Registration Statement on Form S-1 (File No. 333-82646) and incorporated herein by reference.
(16) Filed as an exhibit to T/R Systems, Inc.'s Registration Statement on Form S-1 (File No. 333-82646) and incorporated herein by reference.
(17) Filed as an exhibit to the Company's Registration Statement on Form S-8 on June 16, 2004 and incorporated herein by reference.
(18) Filed as Appendix B to the Company's Proxy Statement filed on November 14, 2007 (File No. 000-18805) and incorporated herein by reference.
(19) Filed as an exhibit to the Company's Registration Statement on Form S-8 on December 20, 2007 and incorporated herein by reference.
(20) Filed as an exhibit to the Company's Current Report on Form 8-K filed on February 15, 2008 (File No. 000-18805) and incorporated herein by reference.
(21) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (File No. 000-18805) and incorporated herein by reference.
(22) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 000-18805) and incorporated herein by reference
(23) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 18805) and incorporated herein by reference.
(24) Filed as an exhibit to the Company's Current Report on Form 8-K filed on August 7, 2006 (File No. 000-18805) and incorporated herein by reference.
(25) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 18805) and incorporated herein by reference.
(26) Filed as an exhibit to the Company's Current Report on Form 8-K filed on September 5, 2008 (File No. 000-18805) and incorporated herein by reference.

**(b) List of Exhibits**

See Item 15 (a).

**(c) Consolidated Financial Statement Schedule II for the years ended December 31, 2008, 2007 and 2006.**

**ELECTRONICS FOR IMAGING, INC.**

Schedule II

Valuation and Qualifying Accounts (in thousands)

| Description | Balance at beginning of period | Charged to revenue and expenses | Charged to/(from) other accounts | Deductions | Balance at end of period |
|---|---|---|---|---|---|
| **Year Ended December 31, 2008** | | | | | |
| Allowance for doubtful accounts and sales-related allowances | $8,153 | $5,420 | $ 88[2] | $(5,209) | $8,452 |
| **Year Ended December 31, 2007** | | | | | |
| Allowance for doubtful accounts and sales-related allowances | $7,852 | $6,168 | $ — | $(5,867) | $8,153 |
| **Year Ended December 31, 2006** | | | | | |
| Allowance for doubtful accounts and sales-related allowances | $4,306 | $5,997 | $ 489[1] | $(2,940) | $7,852 |

(1) Adjustment due to acquired bad debt allowance: Jetrion—$489

(2) Adjustment due to acquired bad debt allowance: Pace—$88

## SIGNATURES

Pursuant to the requirements of Sections 13 or 16(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ELECTRONICS FOR IMAGING, INC.**

March 2, 2009

By: /s/ Guy Gecht

**Guy Gecht**
**Chief Executive Officer**

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Guy Gecht and John Ritchie jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to the Form 10-K Annual Report and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Guy Gecht<br>**Guy Gecht** | Chief Executive Officer, Director (Principal Executive Officer) | March 2, 2009 |
| /s/ Fred Rosenzweig<br>**Fred Rosenzweig** | President, Director | March 2, 2009 |
| /s/ John Ritchie<br>**John Ritchie** | Chief Financial Officer (Principal Financial and Accounting Officer) | March 2, 2009 |
| /s/ Thomas Georgens<br>**Thomas Georgens** | Director | March 2, 2009 |
| /s/ Gill Cogan<br>**Gill Cogan** | Director | March 2, 2009 |
| /s/ Dan Maydan<br>**Dan Maydan** | Director | March 2, 2009 |
| /s/ James S. Greene<br>**James S. Greene** | Director | March 2, 2009 |
| /s/ Richard A. Kashnov<br>**Richard A. Kashnov** | Director | March 2, 2009 |

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington D.C. 20549**

# FORM 10-K/A
**Amendment No. 1**

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 000-18805

# ELECTRONICS FOR IMAGING, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **94-3086355** |
| (State or other Jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**303 Velocity Way, Foster City, CA 94404**
(Address of principal executive offices) (Zip Code)

**(650) 357-3500**
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Exchange on which Registered |
|---|---|
| Common Stock, $.01 Par Value | The NASDAQ Stock Market LLC |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold on June 30, 2008 was $501,165,265.** The number of shares outstanding of the registrant's common stock, $.01 par value per share, as of March 31, 2009 was 49,217,723.

** Based upon the last trade price of the Common Stock reported on the NASDAQ Global Select Market on June 30, 2008, the last business day of the registrant's second quarter of the 2008 fiscal year. Excludes approximately 18,179,704 shares of common stock held by directors, executive officers and holders known to the registrant to hold 10% or more of the registrant's outstanding Common Stock, as of that date, in that such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

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# EXPLANATORY NOTE

Electronics For Imaging, Inc. hereby amends its Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (the "Original Annual Report") filed with the Securities and Exchange Commission (the "SEC") on March 2, 2009, to add disclosure required under Part III of Form 10-K. Except as described above, no attempt has been made in this Amendment on Form 10-K/A (this "Amendment" or "Form 10-K/A") to modify or update other disclosures presented in the Original Annual Report. This Amendment does not reflect events occurring after the filing of the Original Annual Report, or modify or update those disclosures, including the exhibits to the Original Annual Report, affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Annual Report, including any amendments to those filings.

# PART III

## Item 10: Directors, Executive Officers and Corporate Governance

### DIRECTORS

Set forth below are the names of each member of the Board of Directors (the "Board of Directors" or "Board") of Electronics For Imaging, Inc. (together with its subsidiaries, the "Company") and certain information about them as of April 1, 2009.

| Name of Nominee and Principal Occupation | Age | Director Since |
|---|---|---|
| Gill Cogan[1]<br>Founding Partner, Opus Capital Ventures LLC | 57 | 1992 |
| Guy Gecht<br>Chief Executive Officer of the Company | 43 | 2000 |
| Thomas Georgens[3]<br>President and Chief Operating Officer, NetApp, Inc. | 49 | 2008 |
| James S. Greene[2][3]<br>Vice President, Cisco Systems, Inc. | 55 | 2000 |
| Richard A. Kashnow[2][3]<br>Consultant, Self-Employed | 67 | 2008 |
| Dan Maydan[1][2]<br>Member, Board of Trustees, Palo Alto Medical Foundation | 73 | 1996 |
| Fred Rosenzweig<br>President of the Company | 53 | 2000 |

(1) Member of the Compensation Committee.
(2) Member of the Nominating and Governance Committee.
(3) Member of the Audit Committee.

Mr. Cogan has served as interim Chairman of the Board of the Company since June 28, 2007. Mr. Cogan is a founding Partner of Opus Capital Ventures LLC, a venture capital firm established in 2005. Previously, he was the Managing Partner of Lightspeed Venture Partners, a venture capital firm, from 2000 to 2005. From 1991 until 2000, Mr. Cogan was Managing General Partner of Weiss, Peck & Greer Venture Partners, L.P., a venture capital firm. From 1986 to 1990, Mr. Cogan was a partner of Adler & Company, a venture capital group handling technology-related investments. From 1983 to 1985, he was Chairman and Chief Executive Officer of Formtek, Inc., an imaging and data management computer company, whose products were based upon technology developed at Carnegie-Mellon University. Mr. Cogan is currently a director of several privately held companies. Mr. Cogan holds an M.B.A. from the University of California at Los Angeles.

Mr. Gecht was appointed Chief Executive Officer of the Company on January 1, 2000. From July 1999 to January 2000, he served as President of the Company. From January 1999 to July 1999, he was Vice President and General Manager of Controllers Products of the Company. From October 1995 through January 1999, he served as Director of Software Engineering. Prior to joining the Company, Mr. Gecht was Director of Engineering at Interro Systems, Inc., a technology company, from 1993 to 1995. From 1991 to 1993, he served as Software Manager of ASP Computer Products, a networking company and from 1990 to 1991 he served as Manager of Networking Systems for Apple Israel, a technology company. From 1985 to 1990, he served as an officer in the Israeli Defense Forces, managing an engineering development team, and later was an acting manager of one of the IDF high-tech departments. Mr. Gecht currently serves as a member of the board of directors, audit committee and compensation committee of Check Point Software Technologies Ltd., a global information technology security company. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben Gurion University in Israel.

Mr. Georgens has served as a director of the Company since April 2008. Mr. Georgens is currently President and Chief Operating Officer of NetApp, Inc., a provider of data management solutions. From January 2007 to

January 2008, Mr. Georgens was Executive Vice President, Product Operations and from October 2005 to January 2007, he was Executive Vice President and General Manager of Enterprise Storage Systems for NetApp. From 1996 to 2005, Mr. Georgens served LSI Logic and its subsidiaries, including Engenio, in various capacities, including as President, Chief Executive Officer, Vice President and General Manager, and Director. Prior to working with LSI Logic and its subsidiaries, Mr. Georgens spent 11 years at EMC Corporation in a variety of engineering and marketing positions. Mr. Georgens graduated from Rensselaer Polytechnic Institute with a B.S. and M.Eng degrees in computer and systems engineering, and also holds an M.B.A. from Babson College.

Mr. Greene is currently a Vice President of Cisco Systems, Inc., a communications and information technology company, where he is responsible for the Global Financial Services business. From January 2004 until February 2005, Mr. Greene was the President and General Manager for the Global Financial Services business of TeleTech Holdings, Inc., a customer management services company. From September 2001 until February 2004, Mr. Greene was a Senior Vice President with Cap Gemini Ernst & Young, a consulting services firm, where he served clients in the global financial services industries. Prior to that he was Chief Executive Officer and President of Abilizer Solutions Inc., a global Enterprise Information Portal software business. Prior to Abilizer, Mr. Greene was a Senior Partner with Accenture, a consulting firm. Mr. Greene joined Accenture in 1979 and left in 2000 as the Managing Partner of their Western Region. Mr. Greene received his B.A. in Economics from the University of California at Davis and his M.B.A. from Santa Clara University.

Mr. Kashnow has served as a director of the Company since April 2008. Since 2003, Mr. Kashnow has been self-employed as a consultant. From 1999 until 2003, Mr. Kashnow served as President of Tyco Ventures, the venture capital unit he established for Tyco International, Inc., a diversified manufacturing and services company. From 1995 to 1999, he served as Chairman, Chief Executive Officer, and President of Raychem Corporation, a global technology materials company. He started his career as a physicist at General Electric's Corporate Research and Development Center in 1970. During his seventeen years with GE, he progressed through a series of technical and general management assignments. Mr. Kashnow received a Ph.D. in physics from Tufts University in 1968 and a B.S. in physics from Worcester Polytechnic Institute in 1963. He served in the U.S. Army between 1968 and 1970 and completed his active duty tour as a Captain. He also serves on the board of Ariba, Inc., a public company providing on-demand spend management solutions. Until March 2008, he served as Chairman of ActivIdentity, a public software security company. Until September 2007, he also served as Chairman of Komag, Inc., a public data storage media company which was acquired at that time by Western Digital.

Dr. Maydan was President of Applied Materials Inc., a semiconductor manufacturing equipment company, from January 1994 to April 2003 and a member of that company's board of directors from June 1992 to October 2005. From March 1990 to January 1994, Dr. Maydan served as Applied Materials' Executive Vice President, with responsibility for all product lines and new product development. Before joining Applied Materials in September 1980, Dr. Maydan spent thirteen years managing new technology development at Bell Laboratories during which time he pioneered laser recording of data on thin-metal films and made significant advances in photolithography and vapor deposition technology for semiconductor manufacturing. In 1998, Dr. Maydan was elected to the National Academy of Engineering. He serves on the board of directors of Infinera Corporation, a digital optical communications company and the board of directors of a privately held company. Dr. Maydan is a member of the Board of Trustees of the Palo Alto Medical Foundation (P.A.M.F.). Dr. Maydan received his B.S. and M.S. degrees in electrical engineering from Technion, the Israel Institute of Technology, and his Ph.D. in Physics from Edinburgh University in Scotland.

Mr. Rosenzweig was appointed President of the Company as of January 1, 2000. From July 1999 to January 2004 he served as Chief Operating Officer of the Company. From August 1998 to July 1999, Mr. Rosenzweig served as Executive Vice President. From January 1995 to August 1998, Mr. Rosenzweig served as Vice President, Manufacturing and Support of the Company. From May 1993 to January 1995, Mr. Rosenzweig served as Director of Manufacturing of the Company. Prior to joining the Company, from July 1992 to May 1993, he was a plant general manager at Tandem Computers Corporation, a computer company. From October 1989 to July 1992, Mr. Rosenzweig served as a systems and peripheral test manager at Tandem Computers Corporation.

Mr. Rosenzweig holds a B.S. in Metallurgical Engineering from The Pennsylvania State University and an M.B.A. from the University of California at Berkeley.

## EXECUTIVE OFFICERS

The following table lists certain information regarding the Company's executive officers as of April 1, 2009.

| Name | Age | Position |
|---|---|---|
| Guy Gecht | 43 | Chief Executive Officer |
| Fred Rosenzweig | 53 | President |
| John Ritchie | 43 | Chief Financial Officer |

Mr. Gecht was appointed Chief Executive Officer of the Company on January 1, 2000. From July 1999 to January 2000, he served as President of the Company. From January 1999 to July 1999, he was Vice President and General Manager of Controllers Products of the Company. From October 1995 through January 1999, he served as Director of Software Engineering. Prior to joining the Company, Mr. Gecht was Director of Engineering at Interro Systems, a technology company, from 1993 to 1995. From 1991 to 1993, he served as Software Manager of ASP Computer Products, a networking company and from 1990 to 1991 he served as Manager of Networking Systems for Apple Israel, a technology company. From 1985 to 1990, he served as an officer in the Israeli Defense Forces, managing an engineering development team, and later was an acting manager of one of the IDF high-tech departments. Mr. Gecht currently serves as a member of the board of directors, audit committee and compensation committee of Check Point Software Technologies Ltd., a global information technology security company. Mr. Gecht holds a B.S. in Computer Science and Mathematics from Ben Gurion University in Israel.

Mr. Rosenzweig was appointed President of the Company as of January 1, 2000. From July 1999 to January 2004 he served as Chief Operating Officer of the Company. From August 1998 to July 1999, Mr. Rosenzweig served as Executive Vice President. From January 1995 to August 1998, Mr. Rosenzweig served as Vice President, Manufacturing and Support of the Company. From May 1993 to January 1995, Mr. Rosenzweig served as Director of Manufacturing of the Company. Prior to joining the Company, from July 1992 to May 1993, he was a plant general manager at Tandem Computers Corporation, a computer company. From October 1989 to July 1992, Mr. Rosenzweig served as a systems and peripheral test manager at Tandem Computers Corporation. Mr. Rosenzweig holds a B.S. in Metallurgical Engineering from The Pennsylvania State University and an M.B.A. from the University of California at Berkeley.

Mr. Ritchie was appointed Chief Financial Officer on April 1, 2006. From January 2001 to April 1, 2006, Mr. Ritchie served as the Company's Vice President of Finance. From March 1996 to January 2001, Mr. Ritchie served in a variety of capacities at Splash Technology Holdings, Inc., a server company, most recently as Chief Financial Officer. Prior to Splash, Mr. Ritchie held various accounting and finance positions at Western Waste Industries, Inc., a waste services company, Oce-Bruning, Inc., a printer and copier company, and Mariani Packing Company, an agricultural company. Mr. Ritchie holds a B.A. in Business Administration from San Jose State University.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers, directors and persons who beneficially own more than ten percent of a registered class of the Company's equity securities to file reports of security ownership and changes in such ownership with the SEC. Officers, directors and greater than ten percent beneficial owners also are required by rules promulgated by the SEC to furnish the Company with copies of all Section 16(a) forms they file.

Based solely upon a review of the copies of such forms furnished to the Company, or written representations that no Form 5 filings were required, the Company believes that during the period from January 1, 2008 to December 31, 2008, all Section 16(a) filing requirements were timely met.

**Audit Committee and Code of Ethics**

The Audit Committee currently consists of Directors Georgens, Greene and Kashnow. The Audit Committee conducted ten (10) meetings in 2008. The Audit Committee approves the engagement of and the services to be performed by the Company's independent auditors and reviews the Company's accounting principles and its system of internal accounting controls. The Board has determined that all members of the Audit Committee are "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ rules and also meet the additional criteria for independence of Audit Committee members set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, our Board of Directors has determined that Mr. Kashnow is an "audit committee financial expert" as defined by the SEC.

The Audit Committee oversees the Company's Ethics Program, which presently includes, among other things, the Company's Code of Business Conduct and Ethics, the Company's Code of Ethics for the Management Team, the Company's Code of Ethics for the Accounting and Finance Team, the Company's Code of Ethics for the Sales Team (collectively, the "Codes"), an Internal Audit Committee responsible for receiving and investigating complaints, a 24-hour global toll-free hotline and an internal website whereby employees can anonymously submit complaints via email. The Company's Codes can be found on the Company's website at www.efi.com.

## Item 11: Executive Compensation

**COMPENSATION DISCUSSION AND ANALYSIS**

Compensation Objectives and Philosophy

The Company's compensation objectives and philosophy provide the guiding principles for decisions made by the Compensation Committee of the Board of Directors (the "Committee") for compensation to be paid to the Company's named executive officers, which, during fiscal year 2008, included Guy Gecht, Chief Executive Officer; Fred Rosenzweig, President; and John Ritchie, Chief Financial Officer.

The Committee believes that compensation paid to executive officers should be closely aligned with the performance of the Company on both a short-term and long-term basis, and linked to specific, measurable results intended to create value for stockholders. In establishing compensation programs for the named executive officers for fiscal year 2008, the Committee considered the following principles and objectives:

- Attract and retain individuals of superior ability and managerial talent;
- Ensure compensation is closely aligned with the Company's corporate strategies, business and financial objectives and the long-term interests of the Company's stockholders;
- Create incentives to achieve key strategic and financial performance goals of the Company by linking executive incentive award opportunities to the achievement of these goals; and
- Ensure that the total compensation is fair, reasonable and competitive.

**The Compensation Committee of the Board of Directors**

The Committee, serving under a charter adopted by the Board of Directors, is composed entirely of outside directors who have never served as officers of the Company. Under the charter, the Committee has overall responsibility for approving and evaluating the executive officer compensation plans, policies and programs of the Company. This includes base salaries, incentive awards, stock option grants, employment agreements, severance arrangements, change in control provisions, as well as any other benefits or compensation arrangements for the named executive officers. In certain circumstances, the Committee may solicit input from the full Board of Directors before making final decisions relating to executive compensation. Messrs. Cogan and Maydan serve on the Committee as of the date of this Form 10-K/A.

**Role of Management in Assisting Compensation Decisions**

Members of the executive management team of the Company, such as the named executive officers and the Vice President of Human Resources ("Executive Management"), may assist and support the Committee in determining compensation for the named executive officers. Members of Executive Management may provide recommendations and information to the Committee to consider, analyze and review in connection with any compensation proposal for the named executive officers. Members of Executive Management do not have any final decision-making authority in regards to named executive officer compensation. The Committee reviews any recommendations and information provided by Executive Management, and approves the final executive compensation package for the named executive officers. During fiscal year 2008, members of Executive Management provided the Committee with recommendations and proposals relating to each element of executive compensation described below. These recommendations and proposals were based on competitive factors, individual compensation histories, prior equity awards, and anticipated and projected operating results of the Company for fiscal year 2008.

**Use of Independent Third Party Consultants**

The Committee may use consultants to assist in the evaluation of compensation for the named executive officers. The Committee has the sole authority to retain and terminate any compensation consultant engaged to perform these services. The Committee also has authority to obtain advice and assistance from internal or external legal, accounting, or other advisers.

The Committee has retained Mercer (US) Inc.("Mercer") to provide information, analyses, and advice regarding executive and director compensation, as described below. The Company also retains Mercer and its related entities to perform other services. Mercer was selected as the consultant to the Committee in 2007 after an interview process with several compensation consulting firms. The Committee evaluates Mercer on an annual basis and has found its performance to be satisfactory. In 2008, the Compensation Committee requested Mercer to advise it on a variety of compensation-related issues, including:

- Compensation strategy development
- Officer pay levels
- Officer short-term incentive pay
- Officer long-term incentive pay
- Peer group review and refinement
- Board compensation
- The Committee agenda and annual calendar

In the course of conducting its activities, Mercer attended meetings of the Committee and presented its findings and recommendations for discussion. During the course of the year, Mercer met with management to obtain and validate data, and review materials.

In addition to providing consulting advice to the Committee, Mercer has been engaged by the Company to perform a review of its employment practices under applicable state law and international compensation consulting. Mercer received approximately $417,000 from the Company in connection with the performance of these services during fiscal year 2008. In addition, Mercer is a subsidiary of Marsh & McLennan Companies, Inc. ("Marsh"), a diversified conglomerate of insurance, security and human resources consulting services. The Company uses the brokerage services of Marsh for the casualty insurance portion of the Company's risk management and insurance program. During fiscal year 2008, Marsh received approximately $168,000 for the brokerage services provided to the Company. The Committee has reviewed Mercer's employment practice review services as well as the Marsh brokerage services and has determined that these services do not constitute a conflict of interest or prevent Mercer from being objective in its work for the Committee. Other than providing the services described above and the work performed in its role as consultant to the Committee, Mercer provided no other services to either the Company or the Committee in fiscal year 2008.

**Benchmarking**

The Committee does not apply a formulaic approach to setting of individual elements of the named executive officers' compensation or their total compensation amounts. However, the Committee reviews, at least annually, market compensation levels to determine whether the total compensation opportunity for the Company's named executive officers is appropriate in light of the compensation arrangements at the Company's peers and makes adjustments when the Committee determines they are needed. For 2008, this assessment included evaluation of base salary, annual incentives and long-term incentives against a peer group of high-technology companies provided by Mercer, which is described below. The Committee also considers business performance as compared to its peers as part of its assessment of appropriate payout levels for performance. Because total compensation for the named executive officers is determined in part based on market compensation levels, differences in compensation among the chief executive officer and other named executive officers are due in part to differences of compensation among similarly situated executive officers in the market.

The basis for selection of companies in the peer group included the following:

- Status—Peer companies should be publicly traded on a U.S. stock exchange.
- Revenue—Peer companies should be similarly sized to EFI for appropriate compensation benchmarking.
- Industry—Peer companies should be within similar industry sectors that have similar business characteristics.
- Competitive Landscape—Peer companies should be competing with EFI for executive talent.

For 2008, the peer group included:

| | |
|---|---|
| Palm Inc. | ADC Telecommunications Inc. |
| 3Com Corp. | Moduslink Global Solutions (formerly CMGI, Inc.) |
| Arris Group Inc. | Komag Inc. |
| Zebra Technologies | Savvis Inc. |
| Hutchinson Technology, Inc. | Avocent Corp. |
| QLogic Corp. | Emulex Corp. |
| Zoran Corp. | MRV Communications, Inc. |
| Ariba Inc. | Openwave Systems Inc. |

**Executive Compensation Elements**

For the fiscal year 2008, the principal elements or components of compensation for the named executive officers were: (1) base salary; (2) performance-based incentive compensation; and (3) long-term equity compensation.

During 2008, for each element of executive compensation, the Committee considered a number of factors, such as the executive's employment experience, performance of the executive during the period, performance of the Company during the period, achievement of Company performance targets set by the Board of Directors, demonstrated leadership, potential to enhance long-term stockholder value, information relating to marketplace competitiveness, current compensation levels, compensation history and prior equity awards. Since there are no static or fixed policies regarding the amount and allocation for each component or element of executive compensation, the determination and composition of total compensation is up to the discretion of the Committee and is decided on a year by year basis.

The measurement or assessment of performance of the individual named executive officer, and his demonstrated leadership and potential to enhance long-term stockholder value during 2008 was qualitative in nature, and was determined using the judgment and discretion of the Committee. During 2008, the measurement or assessment of the Company's performance and the achievement of Company performance targets were primarily quantitative with respect to the elements of incentive based compensation, and are addressed in greater detail below. The factors relating to current compensation levels, compensation history and prior equity awards for each of the executive officers were primarily used to assist in evaluating the appropriate levels of compensation for each element of compensation for the 2008 fiscal year, and any potential increase or decrease from the prior year levels.

The disparity in the levels of compensation for each element of compensation between the named executive officers reflects consideration of the executive's roles and responsibilities, the executive's tenure with the Company as well as the other factors mentioned above. The Committee evaluates these factors in establishing compensation for each named executive officer, individually.

The Committee considers the value of the entire compensation package when establishing the appropriate levels of compensation for each element. As such, amounts paid under one element of compensation may affect the amounts paid under another element of compensation. For example, the Company may reserve a significant portion of executive compensation for performance-based incentive programs, while allocating a comparatively lesser amount for fixed compensation elements. As noted above, however, the Company does not apply a formulaic approach to the allocation of specific elements within the total compensation package available to the named executive officers. The Committee exercises its judgment and discretion when approving the amount and allocation of each element of the total compensation package.

***Base Salary***

The Company provides the named executive officers with a base salary, which is comprised of a fixed amount of annual cash compensation. Base salary is a principal and common component of compensation for all employees of the Company. In setting base salaries for the named executive officers, the Committee considers a number of factors, including the executive's prior salary history, current compensation levels, individual performance, and marketplace competitiveness for executive officers.

The Committee considers changes to base salaries for the named executive officers on an annual basis. There are no formulaic increases, and for 2008, Mr. Ritchie did not receive an increase in base salary as the Committee determined that with the increase provided to Mr. Ritchie in 2007 his base salary remained competitive. The Committee approved increases in the base salaries effective April 1, 2008 for Mr. Gecht and Mr. Rosenzweig to $620,000 and $530,000, respectively. The adjustments reflected percentage increases of 8.8% and 3.9%, respectively and were approved following the Committee's consultation with Mercer and its assessment of each of Messrs. Gecht's and Rosenzweig's target total cash compensation for fiscal year 2008 relative to the Company's peer group and in light of the absence of any adjustments to Mr. Gecht's or Mr. Rosenzweig's base salaries in 2005, 2006 or 2007.

On April 3, 2009, the Committee approved and accepted the voluntary reduction of the annual base salaries of each of Messrs. Gecht, Rosenzweig and Ritchie by fifteen percent (15%) for Messrs. Gecht and Rosenzweig, to equal $527,000 and $450,500, respectively, and by ten percent (10%) for Mr. Ritchie, to equal $279,000. This reduction was volunteered by the named executive officers in support of the Company's cost reduction activities due to deteriorating global economic and industry conditions provided that such voluntarily reduced base annual salaries would not be used in the calculation of any other benefits set forth in each named executive officer's current employment agreement. The temporarily reduced base annual salaries of each of the named executive officers became effective as of April 16, 2009.

### *Performance-Based Incentive Compensation*

The Company believes that a significant portion of executive compensation should be directly related to the Company's overall financial performance, stock price performance and other relevant financial factors that affect stockholder value. Accordingly, the Company sets goals designed to link executive compensation to the Company's overall performance and reserves the largest potential compensation awards for performance-based and incentive-based programs, which include both cash and equity awards.

### *Executive Incentive Plan*

The executive incentive plan allows named executive officers to receive bonus compensation in the event certain specified corporate and individual performance measures are achieved. For fiscal year 2008, bonuses awarded under the executive bonus plan were weighted 80% based on Company performance and 20% based on individual performance. The total potential bonus for each of the named executive officers is calculated as a percentage of his base salary.

The Committee sets the percentage of base salary for each named executive officer's target bonus based on its review of total compensation and the bonus programs at the Company's peer group and its assessment of the past and expected future contributions of the named executive officers. The target bonus opportunity for the 2008 fiscal year for Mr. Gecht, Mr. Ritchie and Mr. Rosenzweig was 105%, 55% and 95% of annual base salary, respectively. In addition to correlating with similar positions at the Company's peer group, the differentiation in percentages between Mr. Gecht, Mr. Ritchie and Mr. Rosenzweig correlate with their level of responsibility within the Company.

The Company performance measures for determining bonuses for 2008 were equally weighted between the Company's total annual revenue and operating income and were approved by the Committee based on information provided by Executive Management. For fiscal year 2008, the Company's total annual revenue and operating income targets were $630,000,000 and $74,762,000, respectively. In determining the bonus compensation awarded to each executive officer, the executive incentive plan requires threshold performance of both 94% of the total annual revenue target and 79% of the operating income target. If the Company does not satisfy the thresholds, the named executive officers are not eligible to receive any bonus compensation with respect to Company performance. In the event threshold performance levels are exceeded, the named executive officers earn proportional awards linked to the Company's performance. The proportional awards for the cash portion of bonus compensation tied to Company performance were subject to formulaic accelerators and decelerators, so that overachievement and underachievement of the target levels have a multiplier affect. For example, if the applicable target levels are exceeded, the executive officers earn bonuses that exceed their target cash bonuses by a factor of the percentage exceeding the target levels, up to a maximum of 200%. On the other hand, if the applicable target levels are not met, the actual cash bonuses are reduced by a factor of the percentage difference between the target levels and the actual levels of total annual revenue and net income.

For fiscal year 2008, the Committee assessed the performance of the Company by comparing the actual total fiscal year revenue and operating income results to the pre-determined target levels for each objective. During the first quarter of 2009, the Committee determined that the total fiscal year revenue and net income targets established by the Board of Directors were achieved at 88.9% and 55.6% of the respective total annual revenue and operating income target amounts, such that the executive incentive plan payout with respect to Company performance was at 0%.

Twenty percent of the target bonus under the executive incentive plan was payable based on the individual performance of the named executive officers. For 2008, the Committee set individual performance objectives for each named executive officer in line with the named executive officer's roles and responsibilities for the Company. For Mr. Gecht, these objectives were subjective and related to the vision and strategy of the Company, the Company's innovation and product leadership and Mr. Gecht's leadership of the Company. Mr. Ritchie's individual objectives were also subjective and related to financial performance and management, personnel development and compliance efforts. Mr. Rosenzweig's individual objectives for 2008 related to product innovation, strategy execution, mentoring executives and evaluation of staffing. While the achievement of many of the individual performance objectives is subjective, each of the individual performance objectives were set by the Committee in a manner to require significant effort on the part of the named executive officers to achieve, and these objectives have not been set to be achieved with average performance. For fiscal year 2008, the Committee determined that no bonuses would currently be payable as a result of the Company's performance. The Committee also determined that given current economic conditions it did not currently intend to pay bonuses to the named executive officers based on the attainment of individual performance goals. The Committee noted, however, that it retained discretion to pay bonuses or adjust salaries at any time in the future based on, without limitation, individual performance or improved financial performance of the Company.

Incentive amounts to be paid under the performance-based programs may be adjusted by the Committee to account for unusual events such as extraordinary transactions, asset dispositions and purchases, and mergers and acquisitions if, and to the extent, the Committee does not consider the effect of such events indicative of Company performance. Payments under the executive incentive plan are contingent upon continued employment, and are at the discretion of the Committee. The Committee believes that the payment of bonuses under the executive incentive plan provides incentives necessary to retain the named executive officers and reward them for short-term Company performance.

***Long-Term Performance-Based Equity Incentive Program***

As indicated by its performance-based approach to compensation, the Company believes that equity ownership in the Company is important to closely align the interests of executive officers with those of Company stockholders, and thereby promote incentives to achieve sustained, long-term revenue growth and profitability. To meet these objectives, the Company's named executive officers have received restricted stock that vests based upon achieving the Company performance criteria described above.

Restricted stock that has been granted under this component is subject to forfeiture restrictions which lapse if the Company meets pre-determined, threshold performance levels and specific performance target levels each tied to total annual revenue and operating income, as determined by the Board each year, as mentioned above. If the Company does not achieve the financial targets specified by the Board, then the restrictions on vesting will remain in place until the threshold financial targets or plans have been met. To the extent vesting has been deferred because the Company had not yet met the financial targets for such fiscal year, upon the achievement of such financial targets or if the named executive officers continue to provide services to the Company for three years after the final date the restricted stock awards would have vested had the targets been met, the shares will vest.

Individual restricted stock grants under this component were made to each of our named executive officers during 2005 and 2006 under the Company's 2004 Equity Incentive Plan. The forfeiture restrictions lapse over a three-and-a-half to four-year service vesting period in equal installments once the financial targets are met, and the restricted stock entitles the holder to receive dividends in an amount per restricted share, both vested and non-vested, equal to the dividends per share paid on the Company's common stock. The financial objectives required to be met for the 2005 restricted stock awards to fully vest were met by the Company on November 30, 2008. The Committee has also determined that the financial targets for the 2006 restricted stock awards were met so that 25% of the restricted common stock vested on each of March 15, 2007 and March 15, 2008, and the remaining portion is subject to forfeiture in the event service to the Company is not continued through the date of vesting. Performance objectives were not met in 2008 with respect to the 2006 restricted stock grants; accordingly, 25% of the restricted common stock did not vest on March 15, 2009.

Please see the Option Exercises and Stock Vested in 2008 Table on page 17 of this Form 10-K/A for restricted stock awards held by the named executive officers that vested during 2008.

On August 29, 2008, in connection with the previously completed review of historical stock option granting practices by the special committee of the Company's Board of Directors and the settlement of related shareholder derivative litigation, each named executive officer entered into an Amendment of Stock Option Agreement and Stock Option Repayment Agreement with the Company. Under these agreements, Mr. Gecht, Mr. Rosenzweig and Mr. Ritchie forfeited options to purchase 282,248, 256,192 and 7,128 shares of Company common stock, respectively, having respective Hull-White values of $678,109, $593,684 and $17,392. In addition, each named executive officer amended outstanding options to reflect the measurement date determined by the special committee of the Board of Directors. Mr. Gecht and Mr. Rosenzweig also forfeited additional options to acquire 62,863 and 54,775 shares of Company common stock, respectively, as additional consideration for the settlement of the derivative litigation.

***Discretionary Long-Term Equity Incentive Awards***

The Company's executive officers may receive an annual award of stock options, restricted stock and/or restricted stock units, at the discretion of the Committee. Guidelines for the number of stock options, restricted stock and/or restricted stock unit awards granted to each executive officer are determined and approved by the Committee, based upon several factors, including the individual's performance, the Company's performance and the value of the stock option at the time of grant. As a result, additional grants other than the annual award may be made in the event there are significant changes in the performance of the Company or the individual executive during the evaluation period. The Committee considers the same factors as described throughout this discussion when evaluating these long-term discretionary equity awards.

Restricted stock units granted to executive officers typically have a three-year annual vesting schedule, and stock options granted to executive officers typically have a three and a half year vesting schedule in order to provide an incentive for continued employment and generally expire seven years from the date of the grant. This term provides a reasonable time frame in which to align the executive officer with the price appreciation of the Company's stock, while managing the potential dilution to stockholders more effectively, as compared to a more typical ten-year option term. The Company sets the exercise price of options granted under the Company's stock plans equal to 100% of the fair market value of the underlying stock on the date of grant.

On February 15, 2008, the Committee approved awards of 116,677, 66,677 and 50,000 restricted stock units to Mr. Gecht, Mr. Rosenzweig and Mr. Ritchie, respectively, and options to purchase 350,000, 200,000 and 100,000 shares of the Company's common stock, respectively, each with a grant date of February 26, 2008. The restricted stock units vest annually over three years and the stock options vest with respect to 33% of the shares subject to the options on February 26, 2009 and then in equal monthly installments over the subsequent two and a half years. The Committee determined the size of these equity grants, as well as the differentiation in size of grant, after reviewing the roles and responsibilities of each named executive officer, each executive's total compensation, compensation information from the Company's peer group and recommendations from Executive Management.

On January 29, 2009, the Committee approved an award to Mr. Ritchie of 20,000 restricted stock units with a grant date of January 30, 2009. The restricted stock units vest in equal installments on each of the first two anniversaries of the date of grant. The Committee granted the restricted stock units to Mr. Ritchie in recognition of his efforts and performance in the completion of a material real estate transaction. The Committee determined the number of Mr. Ritchie's restricted stock unit based on its subjective evaluation of the benefit to the Company of the real estate transaction and Mr. Ritchie's efforts in completing the transaction.

***Severance Arrangements***

Each named executive officer has entered into a three (3) year employment agreement with the Company, subject to automatic one-year renewals if not terminated by either party, which provide for severance benefits under certain events, such as a termination without cause or the executive resigning for good reason. The employment agreements are designed to promote stability and continuity of senior management.

In addition, the Company recognizes that the possibility of a change of control may exist from time to time, and that this possibility, and the uncertainty and questions it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Accordingly, the Board has determined that appropriate steps should be taken to encourage the continued attention and dedication of members of the Company's management to their assigned duties without the distraction that may arise from the possibility of a change of control. As a result, the employment agreements include provisions relating to the payment of severance benefits under certain circumstances in the event of a change of control. Under the change of control provisions, in order for severance benefits to be triggered, an executive must be involuntarily terminated without cause or the executive must leave for good reason within 24 months after a change of control. The Committee approved the employment agreements during 2006, which contain the severance benefits described below. The Committee considered information provided by Executive Management in concert with data from Mercer, and used its discretion when approving each element and amount of the potential severance benefits payable to the named executive officers.

Information regarding applicable payments under such agreements for the named executive officers is provided under the headings "Employment Agreements" and "Potential Payments upon Termination or Change of Control" on page 18 of this Form 10-K/A.

### *Other Elements of Compensation and Perquisites*

There are no other material elements of compensation that the named executive officers receive. The named executive officers may not defer any component of any annual incentive bonus earned at this time and do not participate in another deferred compensation plan. Likewise, the Company does not maintain any defined benefit pension plans for its employees. However, named executive officers are eligible to participate in the Company's 401(k) savings plan on the same terms and conditions as other Company employees. In addition, the named executive officers are eligible to participate in the Company's group health and welfare plans on the same terms and conditions as other Company employees.

The Company also provides the Chief Executive Officer and the President with an automobile allowance during the term of their employment with the Company, as the Company in its sole discretion may from time to time make available.

## Tax Considerations

### *Deductibility of Executive Compensation*

As part of its performance-based compensation program, the Company aims to compensate the named executive officers in a manner that is tax effective for the Company. In practice, some of the annual compensation delivered by the Company is tax-qualified under Section 162(m) of the Internal Revenue Code. Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over $1 million paid for any fiscal year to each of the corporation's named executive officers, other than the chief financial officer, as of the end of the fiscal year. However, Section 162(m) exempts qualifying performance-based compensation from the deduction limit if certain requirements are met. Although the Committee considers the impact of Section 162(m) when developing and implementing executive compensation programs, the Committee believes that it is important and in the best interests of stockholders to preserve flexibility in designing compensation programs. Accordingly, the Committee has not adopted a policy that all compensation must qualify as deductible under Section 162(m). The Committee has from time to time approved, and may in the future approve, compensation arrangements for certain officers that are not fully deductible. Further, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, no assurance can be given, notwithstanding the Committee's efforts, that compensation intended to satisfy the requirements for deductibility under Section 162(m) does in fact do so.

### Compensation Recovery Policy

The Company does not have a policy to seek the reimbursement of cash bonus awards paid to an executive officer if such executive engages in misconduct that caused or partially caused a restatement of financial results. However, as previously disclosed, a Special Committee of the Board of Directors recommended certain remedial actions in connection with the Company's investigation of its historical stock option practices which included the repayment of certain amounts by certain current and former directors and executive officers of the Company.

### Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee has at any time been one of our executive officers or employees. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

## COMPENSATION COMMITTEE REPORT

*The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically requests that it be treated as soliciting material or incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or Securities Exchange Act of 1934, as amended.*

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Form 10-K/A.

COMPENSATION COMMITTEE

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## Compensation of Executive Officers

*Summary Compensation Table for 2008*

The following table includes information concerning the compensation for the fiscal years ended December 31, 2008, December 31, 2007 and December 31, 2006 of our executive officers (the “named executive officers”).

| Name and principal position (a) | Year (b) | Salary (c)[1] | Bonus (d)[1][4] | Stock awards (e)[2] | Option awards (f)[2][3] | Non-equity incentive plan compensation (g)[1][4] | Change in pension value and nonqualified deferred compensation earnings (h) | All other compensation (i)[1][5] | Total (j) |
|---|---|---|---|---|---|---|---|---|---|
| Guy Gecht, Chief Executive Officer | 2008 | $607,500 | $ — | $1,481,993 | $1,366,071 | $— | $— | $ 8,300 | 3,463,864 |
| | 2007 | 570,000 | 478,800 | 889,943 | 668,863 | — | — | 21,914 | 2,629,520 |
| | 2006 | 570,000 | 256,979 | 1,291,485 | 1,247,393 | — | — | 8,131 | 3,373,988 |
| Fred Rosenzweig, President | 2008 | 525,000 | — | 949,580 | 845,214 | | | 9,400 | 2,329,194 |
| | 2007 | 510,000 | 385,560 | 686,850 | 516,983 | — | — | 9,300 | 2,108,693 |
| | 2006 | 510,000 | 206,936 | 983,746 | 984,327 | — | — | 8,138 | 2,693,147 |
| John Ritchie, Chief Financial Officer | 2008 | 310,000 | — | 528,084 | 305,321 | | | 4,600 | 1,148,005 |
| | 2007 | 310,000 | 143,220 | 197,319 | 28,052 | — | — | 17,223 | 695,814 |
| | 2006 | 258,750 | 62,126 | 277,935 | 76,787 | — | — | 4,400 | 679,998 |

(1) All cash compensation earned by each executive officer for fiscal years 2008, 2007 and 2006 is found in either the Salary, Bonus or All other compensation columns of this table. There were no deferred salaries or other compensation in 2008, 2007, or 2006.

(2) Amounts included in the “Stock Awards” and “Option Awards” columns represent the compensation cost, except disregarding estimated forfeitures, that was recognized by us in the year ended December 31, 2008, 2007 and 2006 on all previously granted awards and options in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-based Payments,” or “SFAS 123R.” See Note 12 of the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

(3) In August 2008, certain options held by Messrs. Gecht, Rosenzweig and Ritchie were repriced in connection with the settlement of the derivative litigation, as set forth in the table below:

| Name | Grant Date (corrected as required) | Number of Options Subject to Amendment | Original Exercise Price Per Share | Amended Exercise Price Per Share |
|---|---|---|---|---|
| Guy Gecht | 06/08/99 | 110,000 | $33.81 | $48.38 |
| | 02/12/01 | 16,250 | 13.75 | 22.06 |
| | 09/05/03 | 61,250 | 19.45 | 23.89 |
| Fred Rosenzweig | 06/08/99 | 110,000 | 33.81 | 48.38 |
| | 02/12/01 | 7,000 | 13.75 | 22.06 |
| | 09/05/03 | 52,500 | 19.45 | 23.89 |
| John Ritchie | 08/21/03 | 20,500 | 19.45 | 19.98 |

In addition, Messrs. Gecht, Rosenzweig and Ritchie forfeited options to purchase 282,248, 256,192 and 7,128 shares of Company common stock, respectively, having a respective Hull-White value of $678,109, $593,684 and $17,392, as set forth in the table below.

| Name | Grant Date (corrected as required) | Number of Surrendered Options | Hull-White Value | Total Value of Surrendered Options |
|---|---|---|---|---|
| Guy Gecht . . . . . . . . . . . . . . . . . . . . . . . . . . . | 06/08/99 | 55,228 | $0.23 | $ 12,702.44 |
| | 03/15/06 | 108,333 | 3.04 | 329,332.32 |
| | 09/05/03 | 61,250 | 1.92 | 117,600.00 |
| | 02/12/01 | 8,159 | 2.40 | 19,581.60 |
| | 04/25/02 | 30,250 | 4.04 | 122,210.00 |
| | 04/11/05 | 19,028 | 4.03 | 76,682.84 |
| | | | | $678,109.20 |
| Fred Rosenzweig . . . . . . . . . . . . . . . . . . . . . . | 06/08/99 | 58,502 | $0.23 | $ 13,455.46 |
| | 03/15/06 | 83,333 | 3.04 | 253,332.32 |
| | 03/13/01 | 10,000 | 2.27 | 22,700.00 |
| | 09/05/03 | 52,500 | 1.92 | 100,800.00 |
| | 02/12/01 | 3,723 | 2.40 | 8,935.20 |
| | 04/25/02 | 31,467 | 4.04 | 127,126.68 |
| | 04/25/02 | 16,667 | 4.04 | 67,334.68 |
| | | | | $593,684.34 |
| John Ritchie . . . . . . . . . . . . . . . . . . . . . . . . . | 08/21/03 | 7,128 | $2.44 | $ 17,392.32 |

Messrs. Gecht and Rosenzweig also forfeited additional options to acquire 62,863 and 54,775 shares of Company common stock, respectively, as additional consideration for the settlement of the derivative litigation.

(4) As a result of Company and individual performance during fiscal year 2008 and current economic conditions, no bonuses were payable to the named executive officers under the executive incentive plan. Amounts listed for fiscal year 2007 represent cash bonuses accrued in 2007 under the executive incentive plan and paid in February 2008 under bonus targets of 100% of base salary for Mr. Gecht, 90% of base salary for Mr. Rosenzweig, and 55% of base salary for Mr. Ritchie. Amounts listed for fiscal year 2006 represent cash bonuses accrued in 2006 under the executive incentive plan and paid in March 2007 under bonus targets of 100% of base salary for Mr. Gecht, 90% of base salary for Mr. Rosenzweig and 40% of base salary for Mr. Ritchie. Each executive received performance-based restricted common stock awards in lieu of portions of the cash component of their respective bonuses for the 2006 plan year. The compensation cost recognized by the Company for these awards are included in the Stock Awards Column.

(5) For fiscal year 2008, includes auto allowances and 401(k) employer matching contributions, as indicated below. Includes $4,800 and $3,500 in auto allowance and 401(k) employer matching contributions, respectively, for Mr. Gecht. Includes $4,600 in 401(k) employer matching contributions for Mr. Ritchie. Includes $4,800 and $4,600 in auto allowance and 401(k) employer matching contributions, respectively, for Mr. Rosenzweig. For fiscal years 2007 and 2006, includes auto allowances, 401(k) employer matching contributions, and employee stock plan matching bonuses.

*2008 Grants of Plan-Based Awards Table*

The following options, restricted stock awards, restricted stock units, and non-equity incentive plan-based awards were granted during the fiscal year ended December 31, 2008 to each of our named executive officers.

| Name (a) | Grant Type (b) | Grant Date (c) | Board of Directors or Compensation Committee Approval Date (d) | Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1] Target ($) (f) | Maximum ($) (g) | All Other Stock Awards: Number of Shares of Stock or Units (#) (h)[2] | All Other Option Awards: Number of Securities Underlying Options (#) (i) | Exercise or Base Price of Option Awards ($/Sh) (j) | Grant Date Fair Value of Stock and Option Awards ($) (k)[4] |
|---|---|---|---|---|---|---|---|---|---|
| Guy Gecht | Restricted Stock Units | 2/26/2008 | 2/15/2008 | | | 116,667 | | | $1,852,672 |
| | Stock Options[3] | 2/26/2008 | 2/15/2008 | | | | 350,000 | $15.88 | $1,952,956 |
| | Annual Target Bonus | | | $651,000 | $1,302,000 | | | | |
| | Repriced Stock Options[5] | 6/8/1999 | 8/28/2008 | | | | 110,000 | $48.38 | $ 0 |
| | Repriced Stock Options[5] | 2/12/2001 | 8/28/2008 | | | | 16,250 | $22.06 | $ 0 |
| | Repriced Stock Options[5] | 9/5/2003 | 8/28/2008 | | | | 61,250 | $23.89 | $ 0 |
| Fred Rosenzweig | Restricted Stock Units | 2/26/2008 | 2/15/2008 | | | 66,667 | | | $1,058,672 |
| | Stock Options[3] | 2/26/2008 | 2/15/2008 | | | | 200,000 | $15.88 | $1,115,541 |
| | Annual Target Bonus | | | $503,500 | $1,007,000 | | | | |
| | Repriced Stock Options[5] | 6/8/1999 | 8/28/2008 | | | | 110,000 | $48.38 | $ 0 |
| | Repriced Stock Options[5] | 2/12/2001 | 8/28/2008 | | | | 7,000 | $22.06 | $ 0 |
| | Repriced Stock Options[5] | 9/5/2003 | 8/28/2008 | | | | 52,500 | $23.89 | $ 0 |
| John Ritchie | Restricted Stock Units | 2/26/2008 | 2/15/2008 | | | 50,000 | | | $ 794,000 |
| | Stock Options[3] | 2/26/2008 | 2/15/2008 | | | | 100,000 | $15.88 | $ 557,771 |
| | Annual Target Bonus | | | $170,500 | $ 341,000 | | | | |
| | Repriced Stock Options[5] | 8/21/2003 | 8/28/2008 | | | | 20,500 | $19.98 | $ 0 |

(1) Amounts reported as "Target" and "Maximum" in the "Estimated Future Payouts Under Non-Equity Incentive Plan Awards" columns represent amounts payable under the Company's annual target bonus program. The maximum payable under the annual target bonus program is 200% of a participant's target bonus. No bonuses were payable for fiscal year 2008.

(2) Each restricted stock unit award vests with respect to one-third of the shares on the first, second, and third anniversaries of the date of grant.

(3) Each option vests with respect to 33% of the shares subject thereto on the first anniversary of the date of grant and thereafter with respect to an additional 2.23% of the shares each month, with full vesting in 42 months from the date of grant.

(4) Amounts included in the "Grant Date Fair Value of Stock or Option Awards" column represent the grant date fair value of the applicable award calculated in accordance with SFAS 123R or, with respect to repriced stock options, the incremental fair value of the applicable award as of the date of modification. See Note 12 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

(5) Each repriced stock option is fully vested. Each stock option was repriced in connection with the previously completed review of historical stock option granting practices by the special committee of the Company's Board of Directors and the settlement of related shareholder derivative litigation, each named executive officer entered into an Amendment of Stock Option Agreement and Stock Option Repayment Agreement with the Company as further described on page 11 of this Form 10-K/A under the heading "Long-Term Performance-Based Equity Incentive Program". The original exercise price of each repriced stock option is set forth in the footnote 3 of the Summary Compensation Table on page 14 of this Form 10-K/A.

*Outstanding Equity Awards at 2008 Fiscal Year-End Table*

The following table includes certain information with respect to the value of all unexercised options previously awarded to the named executive officers at the fiscal year end December 31, 2008.

| | | Option Awards | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name (a) | Vesting Commencement Date (b) | Number of securities underlying unexercised options exercisable (#) (c) | Number of securities underlying unexercised options unexercisable (#) (d) | Option exercise price per share ($) (e) | Option expiration date (f) | Number of shares or units of stock that have not vested (#) (g) | Market value of shares or units of stock that have not vested (#) (h) | Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i) | Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (j) |
| Guy Gecht | 4/11/2005(1) | 197,639 | | $17.00 | 4/11/2012 | | | | |
| | 3/15/2006(2) | | | | | | | 36,110 | $345,212 |
| | 2/26/2008(3) | | 350,000 | $15.88 | 2/26/2015 | | | | |
| | 2/26/2008(4) | | | | | 116,667 | $1,115,337 | | |
| Fred Rosenzweig | 4/25/2002(1) | 51,866 | | $17.50 | 4/24/2012 | | | | |
| | 4/11/2005(1) | 166,667 | | $17.00 | 4/25/2012 | | | | |
| | 3/15/2006(2) | | | | | | | 27,776 | $265,539 |
| | 2/26/2008(3) | | 200,000 | $15.88 | 2/26/2015 | | | | |
| | 2/26/2008(4) | | | | | 66,667 | $ 637,337 | | |
| John Ritchie | 8/21/2003(1) | 13,372 | | $19.98 | 8/21/2010 | | | | |
| | 4/18/2005(1) | 18,125 | | $16.42 | 4/18/2012 | | | | |
| | 3/15/2006(2) | | | | | | | 8,000 | $ 76,480 |
| | 2/26/2008(3) | | 100,000 | $15.88 | 2/26/2015 | | | | |
| | 2/26/2008(4) | | | | | 50,000 | $ 478,000 | | |

(1) Option vests with respect to 25% of the shares subject thereto on the vesting commencement date and then at a rate of 2.5% of the total number of shares subject to the option per month over the next thirty months.

(2) Restricted stock award vests at the rate of 25% on each anniversary of the vesting commencement date if specified performance targets are achieved.

(3) Option vests with respect to 33% of the shares subject thereto on the first anniversary of the date of grant and thereafter with respect to an additional 2.23% of the shares each month, with full vesting in 42 months from the date of grant.

(4) Restricted stock unit award vests with respect to one-third of the shares on the first, second, and third anniversary of the date of grant.

*Option Exercises and Stock Vested in 2008 Table*

The following table includes certain information with respect to the options exercised and restricted stock awards vested by the named executive officers during the fiscal year ended December 31, 2008.

| | Option Awards | | Stock Awards | |
|---|---|---|---|---|
| Name (a) | Number of shares acquired on exercise (#) (b) | Value realized on exercise ($) (c) | Number of shares acquired on vesting (#) (d) | Value realized on vesting ($) (e) |
| Guy Gecht | | | 39,722 | $519,597 |
| Fred Rosenzweig | | | 30,555 | 399,684 |
| John Ritchie | | | 9,000 | 117,565 |

*Pension Benefits*

The Company does not provide Pension Benefits to its employees.

*Nonqualified Deferred Compensation*

The Company historically has not provided nonqualified deferred compensation to its employees.

## Employment Agreements

We have entered into an employment agreement with each of our named executive officers. The employment agreements, each effective as of August 1, 2006, have an initial term of three years and will automatically renew for additional one year periods unless terminated by either party upon sixty days written notice prior to the expiration of the agreement. Each named executive officer's employment with the Company is at-will and either party may terminate the employment relationship at any time for any reason, with or without cause and with or without notice.

Each employment agreement provides, among other things, that:

- the named executive officer shall be eligible for bonuses under the annual management bonus plan as approved by the Committee;
- the named executive officer is eligible to receive stock options under the Company's stock option program and additional equity awards based on the named executive officer's performance;
- in the event that prior to or within two years following a change in control, the Company terminates the named executive officer's employment without cause or the named executive officer voluntarily terminates his employment for good reason, the named executive officer is eligible for severance benefits consisting of salary continuation, a pro-rata bonus, employer subsidized health benefit continuation under COBRA and outplacement services;
- if the named executive officer becomes entitled to receive severance, the vesting of the named executive officer's unvested stock options and equity awards shall be either partially or fully accelerated and the post-termination exercise period for stock options shall be extended;
- if the named executive officer is required to pay tax penalties under Section 409A of the Internal Revenue Code in connection with his receipt of the severance benefits, the Company shall pay the named executive officer a gross up payment to hold the named executive officer harmless, on an after-tax basis, for any such penalties; and
- the named executive officer is subject to a non-solicitation covenant during his employment and for one year following termination of employment.

## Potential Payments upon Termination or Change of Control

The section below describes the potential payments that may be made to our named executive officers upon termination or a change of control, pursuant to their employment agreements or otherwise.

The tables below estimate the quantitative benefits that would have accrued to each of our named executive officers employed by us on December 31, 2008. The estimate of quantitative benefits that would have accrued to each of our named executive officers employed by us on December 31, 2008 assumes certain events as of December 31, 2008, uses the closing sales price of our common stock on such date ($9.56), and assumes the named executive officers could have exercised stock options and sold such underlying shares. Receipt of these benefits is subject to the Company's receipt of an executed separation agreement and full release of all claims from the named executive officer. We cannot assure you that a termination or change of control would produce the same or similar results as those described below if such event were to occur on any other date or at any other price, or if any assumption is not correct in fact.

The table below provides information concerning potential payments to our named executive officers upon termination by us without cause or termination by the named executive officer for good reason, other than within the 24 month period commencing on a change in control.

| Name | Lump sum severance payment ($)(1) | Outplacement benefits ($)(2) | Continued health care coverage benefits ($)(3) | Value of accelerated vesting of stock options and awards ($)(4) | Total ($) |
|---|---|---|---|---|---|
| Guy Gecht | $1,891,000 | $35,000 | $24,103 | $379,217 | $2,329,319 |
| Fred Rosenzweig | 1,298,500 | 35,000 | 24,411 | 216,697 | 1,574,607 |
| John Ritchie | 635,500 | 35,000 | 24,411 | 162,520 | 857,431 |

(1) The amount shown is the lump sum severance payment that consists of 24 months of base salary for Mr. Gecht and 18 months for each of Messrs. Ritchie and Rosenzweig, plus an amount equal to the bonus that the named executive officer would have earned in 2008. If the named executive officer is terminated during the year, the bonus is prorated for the portion of the year that the named executive officer was with the Company.

(2) Messrs. Gecht, Ritchie and Rosenzweig are entitled to outplacement services up to a maximum of $35,000.

(3) Messrs. Gecht, Ritchie and Rosenzweig are entitled to premium reimbursement for health insurance coverage under Part 6 of Title I of ERISA (COBRA) for up to 18 months.

(4) Messrs. Gecht, Ritchie and Rosenzweig are entitled to the accelerated vesting of options and restricted stock awards with respect to that number of shares that would otherwise have vested during the six month period following the termination date. For options and awards that vest on an annual basis, credit is given as if the vesting accrued monthly. The value of the accelerated options and awards is calculated based on the Company's closing stock price at December 31, 2008 of $9.56 per share. The number of stock options and restricted stock awards/units subject to acceleration for each named executive officer upon termination without cause by us or upon termination by the named executive officer for good reason, are as follows:

| Name | Stock Options (#) | Restricted Stock awards/units (#) |
|---|---|---|
| Guy Gecht | 146,766 | 39,667 |
| Fred Rosenzweig | 83,866 | 22,667 |
| John Ritchie | 41,933 | 17,000 |

The table below provides information concerning potential payments to our named executive officers upon termination without cause by us, or upon termination for good reason by the named executive officers, within 24 months following a change of control.

| Name | Lump sum severance payment ($)(1) | Outplacement benefits ($)(2) | Continued health care coverage benefits ($)(3) | Value of accelerated vesting of stock options and awards ($)(4) | Total ($) |
|---|---|---|---|---|---|
| Guy Gecht | $2,511,000 | $35,000 | $24,103 | $1,460,548 | $4,030,651 |
| Fred Rosenzweig | 1,563,500 | 35,000 | 24,411 | 902,875 | 2,525,786 |
| John Ritchie | 790,500 | 35,000 | 24,411 | 554,480 | 1,404,391 |

(1) The amount shown is the lump sum severance payment that consists of 36 months of base salary for Mr. Gecht and 24 months for each of Messrs. Ritchie and Rosenzweig, plus an amount equal to the bonus that the named executive officer would have earned in 2008.

(2) Messrs. Gecht, Ritchie and Rosenzweig are entitled to outplacement services up to a maximum of $35,000.

(3) Messrs. Gecht, Ritchie and Rosenzweig are entitled to premium reimbursement for health insurance coverage under Part 6 of Title I of ERISA (COBRA) for up to 18 months.

(4) Messrs. Gecht, Ritchie and Rosenzweig are entitled to accelerate vesting on 100% of all unvested options, and restricted stock awards and units as of their termination date. The value of the accelerated options and awards is calculated based on the Company's closing stock price at December 31, 2008 of $9.56 per share. The number of stock options and restricted stock awards/units subject to acceleration for each named executive officer upon a change of control are as follows:

| Name | Stock Options (#) | Restricted Stock awards/units (#) |
|---|---|---|
| Guy Gecht | 350,000 | 152,777 |
| Fred Rosenzweig | 200,000 | 94,443 |
| John Ritchie | 100,000 | 58,000 |

If any of the severance payments set forth in the tables above constitutes a deferral of compensation subject to tax under Section 409A of the Internal Revenue Code, the Company will pay the named executive officer a gross-up payment such that after the payment of all taxes on the gross-up payment, the named executive officer retains an amount equal to the taxes imposed under Section 409A, including interest and penalties, imposed on the severance pay.

## COMPENSATION OF DIRECTORS

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2008.

| Name(1) (a) | Fees earned or paid in cash ($) (b) | Stock awards ($)(2)(3) (c) | Option awards ($)(2)(3) (d) | Non-equity incentive plan compensation ($) (e) | Change in pension value and nonqualified deferred compensation earnings ($) (f) | All other compensation ($) (g) | Total ($) (h) |
|---|---|---|---|---|---|---|---|
| Gill Cogan | $102,750 | $82,223 | $ 69,660 | — | — | — | $254,633 |
| Thomas Georgens | 43,500 | — | 49,611 | — | — | — | 93,111 |
| James S. Greene | 115,500 | 82,223 | 162,308 | — | — | — | 360,031 |
| Richard A. Kashnow | 59,750 | — | 49,611 | — | — | — | 109,361 |
| Dan Maydan | 115,000 | 82,223 | 90,961 | — | — | — | 288,184 |
| Christopher Paisley | 33,000 | 30,693 | 0 | — | — | — | 63,693 |

(1) Guy Gecht, the Company's Chief Executive Officer, and Fred Rosenzweig, the Company's President, are not included in this table as they are employees of the Company and thus receive no compensation for their services as directors. The compensation received by Messrs. Gecht and Rosenzweig as employees of the Company is shown in the Summary Compensation Table for 2008 on page 14 of this Form 10-K/A. Mr. Paisley did not stand for reelection to the Board of Directors at our 2008 Annual Meeting held on May 20, 2008 and is no longer a director of the Company. Thomas Georgens and Richard Kashnow were appointed to the Board in April 2008.

(2) At December 31, 2008, the aggregate number of stock awards outstanding for each independent director was as follows: Gill Cogan 9,000, including 3,000 restricted stock awards and 6,000 restricted stock units; Thomas Georgens 0; James S. Greene 9,000, including 3,000 restricted stock awards and 6,000 restricted stock units; Richard Kashnow 0; Dan Maydan 9,000, including 3,000 restricted stock awards and 6,000 restricted stock unit; Christopher Paisley: 0. At December 31, 2008, the aggregate number of option awards outstanding for each independent director was as follows: Gill Cogan 151,668, of which 121,043 were vested and 30,625 were unvested; Thomas Georgens 40,000, all unvested; James S. Greene 81,623, of

which 25,534 were unvested and 56,089 were vested; Richard Kashnow 40,000, all unvested; Dan Maydan 25,000, all unvested; Christopher Paisley 0. During 2008, 15,000 shares of common stock subject to option awards granted to Mr. Cogan in 1998 expired.

In addition, the following option awards to non-employee directors were repriced in connection with the settlement of the derivative litigation.

*Repriced option awards*

| Name | Grant Date (corrected as required) | Number of Options Subject to Amendment | Original Exercise Price Per Share | Amended Exercise Price Per Share |
|---|---|---|---|---|
| Dan Maydan . . . . . . . . . . . . . . . . | 06/08/99 | 18,000 | $33.81 | $48.38 |
| | 11/25/03 | 2,934 | 26.59 | 26.85 |
| Gill Cogan . . . . . . . . . . . . . . . . . | 10/05/98 | 15,000 | 13.75 | 20.19 |
| | 06/08/99 | 18,000 | 33.81 | 48.38 |
| | 02/12/01 | 20,000 | 13.75 | 22.06 |
| | 11/25/03 | 22,000 | 26.59 | 26.85 |
| James S. Greene . . . . . . . . . . . . . | 11/25/03 | 22,000 | 26.59 | 26.85 |

In addition, the following option awards having Hull-White values as set forth in the table below were surrendered by non-employee directors in connection with the settlement of the derivative litigation.

*Surrendered option awards*

| Name | Grant Date (corrected as required) | Number of Surrendered Options | Hull-White Value | Total Value of Surrendered Options |
|---|---|---|---|---|
| Dan Maydan* . . . . . . . . . . . . . . . . . . . . | 06/08/99 | 18,000 | $ 0.23 | $ 4,140.00 |
| | 03/15/06 | 25,000 | 3.04 | 76,000.00 |
| | 11/25/03 | 2,934 | 1.63 | 4,782.42 |
| | 07/22/05 | 25,000 | 3.41 | 85,250.00 |
| | | | Total | $170,172.42 |
| James S. Greene . . . . . . . . . . . . . . . . . . | 03/15/06 | 22,512 | $ 3.04 | $ 68,436.48 |
| | 11/25/03 | 9,533 | $ 1.63 | 15,538.79 |
| | | | Total | $ 83,975.27 |

* Mr. Maydan also repaid to the Company an amount of $19,456.

(3) Amounts included in the "Stock Awards" and "Option Awards" columns represent the compensation cost, except disregarding estimated forfeitures, that was recognized by us in the year ended December 31, 2008 on all previously-granted awards and options in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-based Payments," or "SFAS 123R." See Note 12 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 regarding assumptions underlying valuation of equity awards.

The compensation of the non-employee directors serving on the Board is determined by the Compensation Committee. Non-employee members of the Board currently receive cash and equity compensation in connection with their service to the Company and do not receive any additional compensation for service on the Board.

*Cash Compensation.* Non-employee members of the Board of Directors receive cash compensation in the form of the annual retainers and attendance fees per meeting of the Board of Directors and its committees as set forth below:

| | | |
|---|---|---|
| Annual Retainer for Each Non-Employee Director | $25,000 | |
| Audit Committee Chairperson Retainer | $10,000 | |
| Audit Committee Member Retainer | $ 5,000 | |
| Compensation Committee Chairperson Retainer | $ 5,000 | |
| Compensation Committee Member Retainer | $ 2,500 | |
| Nominating and Governance Chairperson Retainer | $ 5,000 | |
| Nominating and Governance Member Retainer | $ 2,500 | |
| Special Committee Member Compensation | $50,000 | |
| Board Meeting Attendance (in person) | $ 2,000 | |
| Board Meeting Attendance (by telephone) | $ 1,000 | |
| Audit Committee Meeting Attendance (in person) | $ 4,000 | (Chairperson) |
| | $ 2,000 | (other directors) |
| Audit Committee Meeting Attendance (by telephone) | $ 2,000 | (Chairperson) |
| | $ 1,000 | (other directors) |
| Compensation Committee Attendance | $ 2,000 | (Chairperson) |
| | $ 1,000 | (other directors) |
| Compensation Committee Attendance (by telephone) | $ 1,000 | (Chairperson) |
| | $ 500 | (other directors) |
| Nominating and Governance Committee Attendance | $ 2,000 | (Chairperson) |
| | $ 1,000 | (other directors) |
| Nominating and Governance Committee Attendance (by telephone) | $ 1,000 | (Chairperson) |
| | $ 500 | (other directors) |

The Company also reimburses each non-employee member of the Board for out-of-pocket expenses incurred in connection with attendance at meetings.

*Equity Compensation.* During 2008, each of Messrs. Cogan, Greene and Maydan was granted (i) an option to purchase 25,000 shares of common stock at an exercise price of $16.32 per share, vesting with respect to 25% of the shares on August 15, 2009, and thereafter with respect to an additional 2.5% of the shares each month, with full vesting in 42 months and (ii) 6,000 restricted stock units, vesting with respect to one-fourth of the shares on the first, second, third and fourth anniversaries of the date of grant. Each restricted stock unit represents a contingent right to receive one share of Company’s common stock. Each of Messrs. Georgens and Kashnow, the newly elected directors of the Company, was granted an option to purchase 40,000 shares of common stock at an exercise price of $16.32 per share, vesting with respect to 25% of the shares on August 15, 2009, and thereafter with respect to an additional 2.5% of the shares each month, with full vesting in 42 months.

## Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 31, 2008 concerning securities that are authorized under equity compensation plans.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 7,927,271[1] | $21.67 | 903,760[2] |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 7,927,271 | $21.67 | 903,760 |

(1) Includes options outstanding as of December 31, 2008, representing 78,840 shares with an average exercise price of $156.39 per share, that were assumed in connection with business combinations.

(2) Includes 566,130 shares available under our 2007 Equity Incentive Award Plan and 337,630 shares available under our 2000 Employee Stock Purchase Plan

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Except as otherwise indicated below, the following table sets forth certain information regarding beneficial ownership of Common Stock of the Company as of March 31, 2009 by: (1) each of our current directors; (2) each of the named executive officers listed in the Summary Compensation Table for 2008 on page 14 of this Form 10-K/A (collectively, our "named executive officers"); (3) each person known to us to be the beneficial owner of more than 5% of the outstanding shares of our Common Stock based upon Schedules 13G or 13D filed with the SEC; and (4) all of our directors and executive officers as a group. As of March 31, 2009, there were 49,217,723 shares of our Common Stock outstanding.

Shares of Common Stock subject to options or other rights that are currently exercisable or exercisable within 60 days of March 31, 2009 are considered outstanding and beneficially owned by the person holding the options or other rights for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person except with respect to the percentage ownership of all directors and executive officers as a group. Unless otherwise indicated below, the address of each beneficial owner listed below is c/o Electronics For Imaging, Inc., 303 Velocity Way, Foster City, California 94404.

| Name of beneficial owner[1] | Common stock: Number of shares | Common stock: Percentage owned |
|---|---|---|
| Ameriprise Financial, Inc.[2]<br>145 Ameriprise Financial Center<br>Minneapolis, MN 55474 | 7,962,138 | 16.18% |
| Blum Capital Partners[3]<br>909 Montgomery Street<br>Suite 400<br>San Francisco, California 94133 | 5,008,213 | 10.18% |

| Name of beneficial owner[1] | Common stock | |
|---|---|---|
| | Number of shares | Percentage owned |
| Barclays Global Investors, NA[4]<br>500 Howard Street<br>San Francisco, California 94105 | 2,851,406 | 5.79% |
| Third Avenue Management LLC[5]<br>622 Third Avenue<br>32nd Floor<br>New York, New York 10017 | 4,543,699 | 9.23% |
| Wellington Management Company, LLP[6]<br>75 State Street<br>Boston, Massachusetts 02109 | 1,603,962 | 3.26% |
| Guy Gecht[7] | 553,627 | 1.12% |
| Fred Rosenzweig[8] | 428,185 | * |
| Gill Cogan[9] | 146,168 | * |
| John Ritchie[10] | 112,849 | * |
| James S. Greene[11] | 68,386 | * |
| Dan Maydan[12] | 12,060 | * |
| Thomas Georgens[13] | 0 | — |
| Richard A. Kashnow[14] | 0 | — |
| All current executive officers and directors as a group (8 persons)[15] | 1,321,275 | 2.68% |

* Less than one percent.

(1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G and Forms 3 and 4 filed with the SEC as of March 31, 2009. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Unless otherwise indicated, applicable percentages are based on 49,217,723 shares outstanding on March 31, 2009 adjusted as required by rules promulgated by the SEC.

(2) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 5, 2009 by Ameriprise Financial, Inc. ("AFI"), RiverSource Investments, LLC ("RvS") and Seligman Communications and Information Fund, Inc. ("C&I Fund"). The Schedule 13G indicates that each of AFI and RvS has shared voting power as to 396,508 shares and shared dispositive power as to 7,962,138 shares. C&I Fund has sole voting and dispositive powers as to 4,680,200 shares. RvS, in its capacity as investment adviser, may be deemed to beneficially own the shares of Common Stock reported by C&I Fund. AFI, as the parent company of RvS, may be deemed to beneficially own the shares reported by RvS. AFI, together with RvS and C&I Fund beneficially own 7,962,138 shares.

(3) Beneficial ownership information is based on information contained in Form 4 filed with the SEC on October 22, 2008 by Blum Capital Partners, L.P., Richard C. Blum & Associates, Inc., Blum Strategic GP III, L.L.C., Blum Strategic GP III, L.P., Blum Strategic GP IV, L.L.C. and Saddlepoint Partners GP, L.L.C. Together, the entities beneficially own 5,008,213 shares of Common Stock. The entities share voting and investment power as to all 5,008,213 shares of Common Stock.

(4) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 5, 2009 by Barclays Global Investors, NA. Barclays Global Investors, NA and its affiliate, Barclays Global Fund Advisors, together beneficially own 2,851,406 shares and together have sole voting power and dispositive power as to 2,647,644 and 2,851,406 shares, respectively.

(5) Beneficial ownership information is based on information contained in Schedule 13G filed with the SEC on February 13, 2009 by Third Avenue Management LLC. Third Avenue Management LLC has sole voting power as to 4,341,724 shares of Common Stock and sole dispositive power as to 4,543,699 shares of Common Stock.

(6) Beneficial ownership information is based on information contained in Schedule 13G/A filed with the SEC on February 17, 2009 by Wellington Management Company, LLP ("WMC"). WMC, in its capacity as investment adviser, may be deemed to beneficially own 1,603,962 shares of Common Stock which are held of record by clients of WMC. WMC has shared voting power as to 1,158,962 shares of Common Stock and shared dispositive power as to 1,603,962 shares of Common Stock.

(7) Includes 336,589 shares of Common Stock issuable upon the exercise of options granted to Mr. Gecht under the 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(8) Includes 297,933 shares of Common Stock issuable upon exercise of options granted to Mr. Rosenzweig under the 1999, 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(9) Includes 124,168 shares of Common Stock issuable upon exercise of options granted to Mr. Cogan under the 1990, 1999 and 2004 equity incentive plans which are exercisable within 60 days of March 31, 2009, of which 18,000 will expire on May 20, 2009.

(10) Includes 71,197 shares of Common Stock issuable upon the exercise of options granted to Mr. Ritchie under the 1999, 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(11) Includes 78,668 shares of Common Stock issuable upon exercise of options granted to Mr. Greene under the 1999 and 2004 equity incentive plans which are exercisable within 60 days of March 31, 2009.

(12) No options granted to Dr. Maydan under the 2007 equity incentive plan are exercisable within 60 days of March 31, 2009.

(13) No options granted to Mr. Georgens under the 2007 equity incentive plan are exercisable within 60 days of March 31, 2009.

(14) No options granted to Mr. Kashnow under the 2007 equity incentive plan are exercisable within 60 days of March 31, 2009.

(15) Includes an aggregate of 886,273 shares of Common Stock issuable upon the exercise of options granted to executive officers and directors collectively under the 1990, 1999, 2004 and 2007 equity incentive plans which are exercisable within 60 days of March 31, 2009.

## Item 13: Certain Relationships and Related Transactions, and Director Independence

*Indemnification of Officers and Directors*

As permitted under Delaware law, pursuant to our bylaws, charter and indemnification agreements that we have entered into with our current and former executive officers, directors and general counsel, we are required, subject to certain limited qualifications, to indemnify our executive officers, directors and general counsel for certain events or occurrences while the executive officer, director or general counsel is, or was serving, at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the executive officer's, director's or general counsel's lifetime. Our indemnification obligations generally extend to the derivative shareholder suits and NASDAQ Global Select Market delisting proceedings of the Company. In this regard, we have received, and expect to receive, requests for indemnification by certain current and former executive officers and directors in connection with the review of our historical stock option granting practices and the related restatement, related government inquiries and derivative shareholder suits. The maximum potential amount of future payments we may be obligated to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and may enable us to recover a portion of any future amounts paid.

*Related Transactions*

The Audit Committee of our Board has the responsibility of reviewing and approving in advance any proposed related party transactions as defined under Item 404 of Regulation S-K during 2008.

The Company has previously entered into employment agreements with its named executive officers. These agreements are described above under "Employment Agreements."

There were no other related transactions as defined under Item 404 of Regulation S-K during 2008.

*Director Independence*

The Board of Directors has determined that each of the non-employee directors is independent and that each director who serves on each of its committees is independent, as the term is defined by rules of the NASDAQ Global Select Market and the SEC.

## Item 14: Principal Accountant Fees and Services

During the fiscal years ended December 31, 2008 and 2007, PricewaterhouseCoopers LLP provided various audit, audit related and non-audit services to the Company as follows (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Audit fees[a] | $1,461 | $4,417 |
| Audit related fees[b] | 66 | 482 |
| Tax fees[c] | — | — |
| All other fees[d] | 33 | 2 |
| Total | $1,560 | $4,901 |

(a) Audit fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements.

(b) Audit related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." These services include accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

(c) Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international compliance and mergers and acquisitions.

(d) All other fees consist of services provided in connection with other services.

The Audit Committee is responsible for pre-approving audit and non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is necessary and permissible); in this regard, the Audit Committee has the sole authority to approve the employment of the independent auditors, all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent auditors.

The Audit Committee of the Board of Directors has considered whether provision of the services described in sections (b), (c) and (d) above is compatible with maintaining the independent auditors' independence and has determined that such services have not adversely affected PricewaterhouseCoopers LLP's independence. All of the services of each of (b), (c) and (d) were pre-approved by the Audit Committee.

# PART IV

## Item 15: Exhibits, Financial Statement Schedules and Reports on Form 10-K

**(a) Documents Filed as Part of this Report**

**(1) Index to Financial Statements**

The Financial Statements were included in our Annual Report on Form 10-K for the year ended December 31, 2008, as originally filed.

**(2) Financial Statement Schedule**

Schedule II—Valuation and Qualifying Accounts, was included in our Annual Report on Form 10-K for the year ended December 31, 2008, as originally filed. All other schedules are omitted because of the absence of conditions under which they were required or because the necessary information was provided in the consolidated financial statements or notes thereto.

**(3) Exhibits**

**(b) List of Exhibits**

| Exhibit No. | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of August 30, 2000, by and among the Company, Vancouver Acquisition Corp. and Splash Technology Holdings, Inc. (1) |
| 2.2 | Amendment No. 1, dated as of October 19, 2000, to the Agreement and Plan of Merger, dated as of August 30, 2000, by and among the Company, Vancouver Acquisition Corp. and Splash Technology Holdings, Inc. (2) |
| 2.3 | Agreement and Plan of Merger and Reorganization, dated as of July 14, 1999, among the Company, Redwood Acquisition Corp. and Management Graphics, Inc. (3) |
| 2.4 | Agreement and Plan of Merger, dated as of February 26, 2003 by and among the Company, Strategic Value Engineering, Inc. and Printcafe Software, Inc. (4) |
| 2.5 | Merger Agreement, dated as of April 14, 2005 by and among the Company, VUTEk, Inc. and EFI Merger Sub, Inc. (5) |
| 2.6+ | Amended and Restated Equity Purchase Agreement dated October 31, 2006 among Electronics for Imaging, Inc., Electronics for Imaging, International, Jetrion, LLC and Flint Group North America Corporation (6) |
| 3.1 | Amended and Restated Certificate of Incorporation (7) |
| 3.2 | By-laws as amended (8) |
| 3.3 | Certificate of Amendment of By-laws (9) |
| 3.4 | Certificate of Amendment of By-laws (10) |
| 4.2 | Specimen Common Stock certificate of the Company (8) |
| 10.1+ | Agreement dated December 6, 2000, by and between Adobe Systems Incorporated and the Company (11) |
| 10.2 | 1990 Stock Plan of the Company (8) |
| 10.3 | Management Graphics, Inc. 1985 Nonqualified Stock Option Plan (12) |

| Exhibit No. | Description |
|---|---|
| 10.4 | The 1999 Equity Incentive Plan as amended (13) |
| 10.5 | 2000 Employee Stock Purchase Plan as amended (13) |
| 10.6 | Splash Technology Holdings, Inc. 1996 Stock Option Plan as amended to date (14) |
| 10.7 | Prographics, Inc. 1999 Stock Option Plan (15) |
| 10.8 | Printcafe Software, Inc. 2000 Stock Incentive Plan (15) |
| 10.9 | Printcafe Software, Inc. 2002 Key Executive Stock Incentive Plan (15) |
| 10.10 | Printcafe Software, Inc. 2002 Employee Stock Incentive Plan (15) |
| 10.11 | T/R Systems, Inc. 1999 Stock Option Plan (16) |
| 10.12 | Electronics for Imaging, Inc. 2004 Equity Incentive Plan (17) |
| 10.13 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan (18) |
| 10.14 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan Stock Option Grant Notice and Stock Option Agreement (19) |
| 10.15 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (19) |
| 10.16 | Electronics For Imaging, Inc. 2007 Equity Incentive Award Plan Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement (19) |
| 10.17 | Form of Indemnification Agreement (8) |
| 10.18 | Form of Indemnity Agreement (20) |
| 10.19 | Lease Financing of Properties Located in Foster City, California, dated as of July 16, 2004, among the Company, Société Générale Financial Corporation and Société Générale (21) |
| 10.20+ | OEM Distribution and License Agreement dated September 19, 2005 by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, as amended by Amendment No. 1 dated as of October 1, 2005 (22) |
| 10.21+ | Amendment No. 2 to OEM Distribution and License Agreement by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, effective as of October 1, 2005 (23) |
| 10.22 | Employment Agreement effective August 1, 2006, by and between Guy Gecht and the Company (24) |
| 10.23 | Employment Agreement effective August 1, 2006, by and between Fred Rosenzweig and the Company (24) |
| 10.24 | Employment Agreement effective August 1, 2006, by and between John Ritchie and the Company (24) |
| 10.25+ | Amendment No. 4 to OEM Distribution and License Agreement by and among Adobe Systems Incorporated, Adobe Systems Software Ireland Limited and the Company, effective as of January 1, 2006 (25) |
| 10.26 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and Guy Gecht (26) |
| 10.27 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and Fred S. Rosenzweig (26) |

| Exhibit No. | Description |
|---|---|
| 10.28 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and John Ritchie (26) |
| 10.29 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and James S. Greene (26) |
| 10.30 | Amendment of Stock Option Agreement and Stock Option Repayment Agreement, dated as of August 29, 2008, by and between the Company and Dan Maydan (26) |
| 10.31 | Amendment of Stock Option Agreement, dated as of August 29, 2008, by and between the Company and Gill Cogan (26) |
| 10.32* | Purchase and Sale Agreement and Joint Escrow Instructions dated as of October 23, 2008 by and between the Company and Gilead Sciences, Inc., as amended, if material |
| 12.1* | Computation of Ratios of Earnings to Fixed Charges |
| 21* | List of Subsidiaries |
| 23.1* | Consent of Independent Registered Public Accounting Firm |
| 24.1* | Power of Attorney |
| 31.1** | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2** | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1* | Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

+ The Company has received confidential treatment with respect to portions of these documents
* Previously filed.
** Filed herewith.
(1) Filed as exhibit (d) (1) to the Company's Schedule TO-T on September 14, 2000 and incorporated herein by reference.
(2) Filed as exhibit (d) (5) to the Company's Schedule TO/A No. 3 on October 20, 2000 and incorporated herein by reference.
(3) Filed as an exhibit to the Company's Report of Unscheduled Events on Form 8-K on September 8, 1999 (File No. 000-18805) and incorporated herein by reference.
(4) Filed as exhibit 10 to Amendment No. 2 to the Schedule 13D filed on February 26, 2003 and incorporated herein by reference.
(5) Filed as an exhibit to the Company's Current Report on Form 8-K filed on April 18, 2005 (File No. 000-18805) and incorporated herein by reference.
(6) Filed as an exhibit to the Company's Current Report on Form 8-K filed on November 3, 2006 (File No. 000-18805) and incorporated herein by reference.
(7) Filed as an exhibit to the Company's Registration Statement on Form S-1 (File No. 33-57382) and incorporated herein by reference.
(8) Filed as an exhibit to the Company's Registration Statement on Form S-1 (No. 33-50966) and incorporated herein by reference.
(9) Filed as an exhibit to the Company's Current Report on Form 8-K filed on June 29, 2007 (File No. 000-18805) and incorporated herein by reference.
(10) Filed as an exhibit to the Company's Current Report on Form 8-K filed on November 15, 2007 (File No. 000-18805) and incorporated herein by reference.
(11) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 000-18805) and incorporated herein by reference.

(12) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 000-18805) and incorporated herein by reference.
(13) Filed as an exhibit to the Company's Registration Statement on Form S-8 on June 24, 2003 and incorporated herein by reference.
(14) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 000-18805) and incorporated herein by reference.
(15) Filed as an exhibit to Printcafe Software, Inc.'s Registration Statement on Form S-1 (File No. 333-82646) and incorporated herein by reference.
(16) Filed as an exhibit to T/R Systems, Inc.'s Registration Statement on Form S-1 (File No. 333-82646) and incorporated herein by reference.
(17) Filed as an exhibit to the Company's Registration Statement on Form S-8 on June 16, 2004 and incorporated herein by reference.
(18) Filed as Appendix B to the Company's Proxy Statement filed on November 14, 2007 (File No. 000-18805) and incorporated herein by reference.
(19) Filed as an exhibit to the Company's Registration Statement on Form S-8 on December 20, 2007 and incorporated herein by reference.
(20) Filed as an exhibit to the Company's Current Report on Form 8-K filed on February 15, 2008 (File No. 000-18805) and incorporated herein by reference.
(21) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (File No. 000-18805) and incorporated herein by reference.
(22) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 000-18805) and incorporated herein by reference
(23) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 000-18805) and incorporated herein by reference.
(24) Filed as an exhibit to the Company's Current Report on Form 8-K filed on August 7, 2006 (File No. 000-18805) and incorporated herein by reference.
(25) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 000-18805) and incorporated herein by reference.
(26) Filed as an exhibit to the Company's Current Report on Form 8-K filed on September 5, 2008 (File No. 000-18805) and incorporated herein by reference.

## SIGNATURES

Pursuant to the requirements of Sections 13 or 16(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ELECTRONICS FOR IMAGING, INC.**

April 30, 2009

By: /s/ GUY GECHT

**Guy Gecht**
**Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ GUY GECHT<br>**Guy Gecht** | Chief Executive Officer, Director (Principal Executive Officer) | April 30, 2009 |
| *<br>**Fred Rosenzweig** | President, Director | April 30, 2009 |
| *<br>**Thomas Georgens** | Director | April 30, 2009 |
| *<br>**Gill Cogan** | Director | April 30, 2009 |
| *<br>**Dan Maydan** | Director | April 30, 2009 |
| *<br>**James S. Greene** | Director | April 30, 2009 |
| *<br>**Richard A. Kashnow** | Director | April 30, 2009 |
| *By: /s/ GUY GECHT<br>**Guy Gecht, Attorney-in-Fact** | Director | April 30, 2009 |

Form 10-K/A

## CORPORATE DIRECTORY

### Stockholder Information
Independent Accounting Firm
PricewaterhouseCoopers LLP
San Jose, California

### Listing
Electronics For Imaging, Inc. is listed
on the NASDAQ Stock Market LLC
The trading symbol is EFII

### Transfer Agent & Registrar
American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
Telephone: (800) 937-5449

### Annual Meeting
The annual meeting of Stockholders will
be held on June 19, 2009

### Corporate & Investor Information
Please direct inquiries to:
Investor Relations
EFI
303 Velocity Way
Foster City, California 94404
Telephone: (650) 357-3828
Facsimile: (650) 357-3907
Web site: www.efi.com

## Corporate Officers

### Guy Gecht
Chief Executive Officer

### Fred Rosenzweig
President

### John Ritchie
Chief Financial Officer

## Board of Directors

### Gill Cogan (1)
Interim Chairman of the Board of the Company
Founding Partner,
Opus Capital Ventures LLC

### Guy Gecht
Chief Executive Officer of the Company

### Thomas Georgens (3)
President and Chief Operating Officer,
NetApp, Inc.

### James S. Greene (2)(3)
Vice President, Cisco Systems, Inc.

### Richard A. Kashnow (2)(3)
Consultant, Self-Employed

### Dan Maydan (1)(2)
Member, Board of Trustees,
Palo Alto Medical Foundation

### Fred Rosenzweig
President of the Company

(1) Member of the Compensation Committee
(2) Member of the Nominating and Governance Committee
(3) Member of the Audit Committee

print to win.