History & Strategy

- Founded in 1987 in Santa Barbara, California
- In 1997, became an operating company with the launch of the first commercial product, the SuperFilter
- Application of HTS technology on the wireless communications industry
- Global leader in 2003
Overall performance

- 2 main operating entities:
  - Sunnyvale, California -- primarily involved in research activity
  - Santa Barbara, California -- commercial applications
- Over 3000 STI systems had been installed worldwide, making STI the clear leader in the HTS wireless network optimization technology marketplace
- Since 2001, STI revenues had grown rapidly, but still had never made a profit in past 17 years
- Stock price stuck far below its historical highs, most of the time the stock had been trading below $5 per share, making the stock options granted underwater

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Evaluation of cash bonus

- Based on the achievement of a weighted combination of corporate and individual objectives.
- The targeted bonus awards varied by organizational level, from 25-40% of base salary.
- The compensation committee judge the corporate performance by comparing results measured in terms of the elements of a “performance scorecard.” Table 1.

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75% corporate performance

CASH
Sales
Profits
Timing of sales
Receivables (days outstanding)
On-time delivery performance

Number of employees
Warranty expenses
Inventory
Yield
Gross Margins
Product reliability
25% individual performance

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>% of target bonus earned</th>
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</thead>
<tbody>
<tr>
<td>Exceeded objectives</td>
<td>37.5</td>
</tr>
<tr>
<td>Met objectives</td>
<td>25</td>
</tr>
<tr>
<td>Partially missed objectives</td>
<td>12.5</td>
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<tr>
<td>Substantively missed objectives</td>
<td>0</td>
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</tbody>
</table>
Pros and Cons of cash bonus

Pros

- Not subjective as it was before 2002.
- In 2002, 25% on individual performance; employee will be motivated and feel valuable part of company.
- Cutting salary for example by $100 weekly, would hurt executive earning less than other executive in comparison to reduce salary by 5% of all top executives.

Cons

- Cut of 10% in salary and no bonuses; demotivate employees.
- Too many key elements of corporate “performance Scorecard.” Lose sight of which ones contribute directly to strategic objectives.
- No standards or indicators for performance measurements.
Suggestions

Keep Employees Motivated: Non-financial incentives such as;
• » Autonomy Financial incentive
• » Recognition
• » Participation in decisions
• » Office assignments
• » Preferred parking places
• » Titles

Communicate
Build an effective incentive plan