

WEEKEND FORECAST: HOT!

TODAY'S HIGH: 91-95 SATURDAY'S HIGH: 92-96 SUNDAY'S HIGH: 89-93

MORE COVERAGE, 1B | WEATHER MAP, 12B | FOR UPDATES: MERCURYNEWS.COM

GOOD DAY FOR BONDS

No indictment for No. 25 this week, but new grand jury to convene next week. **SPORTS, 1C**

San Jose Mercury News

50 CENTS | VALLEY FINAL | VF

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JULY 21, 2006 | FRIDAY

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THE NEWSPAPER OF SILICON VALLEY

NEWS THIS SECTION

MARINES LAND IN BEIRUT

Hundreds of Americans trapped in Lebanon are ferried to a warship offshore as fighting continues for another day. **PAGE 3A**

BUSH ATTENDS NAACP MEETING

President pledges to rebuild trust between blacks and the GOP during his first convention appearance in years. **PAGE 6A**

JAPAN AND U.S. BEEF UP MISSILES

Advanced surface-to-air missiles will be set up on Japanese soil in reaction to North Korean missile threat. **PAGE 14A**

LOCAL NEWS SECTION B

LOBBYISTS FILE FIRST REPORTS

Reports filed under new stricter rules detail the role of lobbyists in San Jose mayor's race. **PAGE 1B**

BUSINESS SECTION D

GOOGLE EXCEEDS EXPECTATIONS

Search engine leader more than doubles its quarterly profit as online advertising surges. **PAGE 1C**

SPORTS SECTION C

HEAT A FACTOR IN BRITISH OPEN

No wretched gloom: This British Open starts today with a heat wave, parched fairways and brush-fire warnings. **PAGE 1D**

SCORES

Giants 9, San Diego 3

A+E MOVIES SECTION E

★★★ 'MONSTER' ★½ 'LADY'

'Monster House': Scary and funny at the same time ★★★
'Lady in the Water': Brings new meaning to the term apartment complex. ★½ **PAGE 1F**

DRIVE SECTION F

MERCEDES E-CLASSICS

2007 E-Class features super-luxury and sports versions. **PAGE 1F**

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WEATHER

Partly cloudy
High: 91-95
Low: 66-70

Complete forecast, 12B

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CRIMINAL CHARGES: Greg Reyes, left, and another former Brocade executive are indicted.

CIVIL CHARGES: They and Brocade's former CFO are charged with securities violations.

MORE TO COME: 'This case will not be the last,' says the SEC's director of enforcement.

OPTIONS RIGGING CHARGES FILED



MARIA J. ÁVILA — MERCURY NEWS

Staff members of various government organizations involved in the probe stand in federal district court in San Francisco on Thursday.

BROCADE: ATTORNEYS FOR 3 EXECUTIVES DENY WRONGDOING

By Therese Poletti and Sue McAllister
Mercury News

Federal authorities on Thursday filed the first criminal charges against top executives for manipulating stock options and sent a clear signal to Silicon Valley that the legal crackdown on backdating is just beginning.

Prosecutors accused Greg Reyes, 43, former chief executive of Brocade Communications Systems of San Jose, and Stephanie Jensen, 48, its former vice president of human resources, of routinely backdating options grants and other paperwork, mostly during the tech boom, to give employees and new recruits a head start to profits.

The criminal lawsuit alleging securities fraud was filed Thursday in federal district court in San Francisco by the U.S. Attorney's Office for Northern California. The maximum penalty is 20 years in prison.

See **OPTIONS**, Page 10A

MORE COVERAGE

EX-CEO AGGRESSIVE

Part owner of the Sharks, Reyes called charismatic

PAGE 11A

SCANDAL Q&A

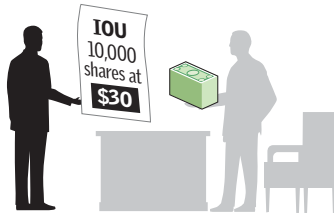
What the options scandal means to Silicon Valley

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BEHIND THE SCANDAL

How options work and why companies backdate

PAGE 12A



ANALYSIS: EXCECS' PERSONAL GAIN NOT FOCUS OF CHARGES

By Mark Schwanhauser
Mercury News

Silicon Valley got a clear message from federal prosecutors Thursday: Harsh penalties may await top executives and their lieutenants who rigged stock options, even if their actions enriched employees and not themselves.

The criminal and civil complaints against Greg Reyes, Brocade Communications Systems' former chief executive, and two other former executives struck a nerve with other valley companies. After all, the hiring frenzy during the tech boom pressured others to dole out stock options like play money; and critics say Brocade was hardly the only valley company to flout accounting rules by luring workers with discounted stock.

"This clearly has everyone's attention," said Reid Linney, a vice president of human resources at Sunnyvale chip

See **ANALYSIS**, Page 11A

U.S. cycling star Floyd Landis one of thousands with troubling hip joint TOP RIDER FACES SURGERY

By Julie Sevrens Lyons
Mercury News

Elite cyclist Floyd Landis harbored a secret when he sat down to dinner this spring with a friend and his friend's mother at a San Diego sushi restaurant.

As the conversation gradually moved to the 80-year-old woman's upcoming hip replacement surgery, Landis peppered her with questions.

What only a small circle of friends knew at the time was that Landis, who has stepped out of Lance Armstrong's shadow and emerged as a contender in this year's Tour de France, needed to undergo the procedure too.

Earlier this month, Landis, 30,



FRIEDEMANN VOGEL — BONGARTS

American cyclist Floyd Landis, bad hip and all, won Stage 17 at the Tour de France on Thursday and is in third place overall.

MORE INSIDE

Graphic illustrates common causes of a degenerated hip joint and solutions. **PAGE 4A**
Floyd Landis rides to victory in the final mountain stage at Tour de France. **PAGE 4C**

stunned the world with his admission that his right hip joint is dying. He has been racing in pain since shattering his hip three years ago in a cycling crash. He plans to get a prosthetic hip practically as soon as he returns to the United States.

How could Landis have kept this a secret for nearly two years, many won-

See **LANDIS**, Page 4A

Governor energizes stem-cell research

By Lisa M. Krieger
Mercury News

Gov. Arnold Schwarzenegger has authorized a \$150 million loan to fund embryonic stem-cell research in California, ending a near-paralysis in the field due to legal challenges involving the voter-approved, \$3 billion California Institute for Regenerative Medicine.

The loan, announced one day after President Bush vetoed federally funded work, makes it possible for state-sponsored scientists to start filling a research void.

"California is poised to lead not only this country, but all countries on stem-cell research," the governor said.

The move also was one more way for the Republican governor — facing a tough re-election battle — to distance himself from an unpopular president with whom he has differed on a variety of national issues, including immigration reform and disaster-preparedness along with stem-cell research. Bush's veto came despite approval of stem-cell research by both houses of Congress and broad public support.

Schwarzenegger directed the California Department of Finance to issue a loan from the state's general fund to the institute, created by Proposition 71, which was passed by a large majority of voters in November 2004. The \$150 million repre-

See **LOAN**, Page 8A

WHT IT MATTERS

The loan frees start-up money for scientific work that has been stalled by legal challenges to California's \$3 billion, voter-approved embryonic stem-cell research initiative.

Phone records lawsuit to proceed

S.F. RULING A SETBACK FOR WHITE HOUSE ON WARRANTLESS WIRETAPS

By Pete Carey
Mercury News

In a setback for the Bush administration's secretive Terrorist Surveillance Program, a federal judge in San Francisco on Thursday denied a government motion to quash a warrantless-wiretapping lawsuit against AT&T.

U.S. Northern District Judge Vaughn R. Walker rejected the government's claim that allowing the suit to proceed would compromise state secrets.

In a 72-page order, which attorneys for the plaintiffs called a victory, Walker wrote that dismissing the case at this early stage "would sacrifice liberty for no apparent enhancement of security."

The ruling rejected the government's claim that the very existence of the super-secret National Security Agency (NSA) eavesdropping program was a state secret requiring dismissal of the case. Walker cited numerous newspaper stories, testimony by the U.S. attorney general and statements by President Bush to rebut that claim.

Walker is the first judge to rule in lawsuits filed in federal courts in Michigan, Illinois and elsewhere around the country

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