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9 UNITED STATES DISTRICT COURT
10 NORTHERN DISTRICT OF CALIFORNIA

11
12 IN RE ZORAN CORPORATION
13 DERIVATIVE LITIGATION,

Case No. CV 06-05503 WHA

14 **DECLARATION OF STEVEN S.
15 KAUFHOLD IN SUPPORT OF
16 PRELIMINARY APPROVAL OF
17 DERIVATIVE SETTLEMENT**

18 This Document Relates To:
19
20 ALL ACTIONS

Date: TBA
Time: TBA
Ctrm: 9, 19th Floor
The Honorable William Alsup

1 I, Steven S. Kaufhold, am a partner in the law firm of Akin Gump Strauss Hauer & Feld LLP
2 and am counsel in this action for nominal defendant Zoran Corporation (“Zoran” or the “Company”). I
3 make this declaration based on my own personal knowledge and, if called to do so, could and would
4 competently so testify in court.

5 1. On September 11, 2007 the Honorable U.S. District Judge Charles Legge (Ret.)
6 conducted an all-day, in-person, mediation session with the parties to this action. Philip Young, a non-
7 management director at Zoran, and I actively participated in the mediation session on behalf of Zoran.
8 Plaintiff Gerald del Rosario also attended the mediation in person and participated.

9 2. Subsequently, Judge Legge communicated with the parties both in writing and
10 telephonically. Eventually, the parties met again in-person with Judge Legge, prior to execution of a
11 proposed settlement on February 20, 2008. Again, I participated in that meeting on behalf on Zoran.

12 3. The mediation process was fair and conducted at all times in an arms-length manner
13 between the parties with the assistance of Judge Legge.

14 4. After the Court’s April 7 Order Denying Preliminary Approval for the parties’ first
15 proposed settlement (the “April 7 Order”), the parties engaged in further arms-length negotiations,
16 guided by the Court’s concerns with the first proposed settlement. The result of those negotiations is
17 the Stipulation of Settlement attached hereto as Exhibit A (the “New Settlement”).

18 5. Plaintiff’s counsel and his expert have reviewed and found acceptable the methodology
19 used in the Individual Defendants’ Black-Scholes calculations for valuing the cancelled options.

20 6. Prior to this settlement, the Securities and Exchange Commission (“SEC”) conducted an
21 investigation of Zoran's stock options policies and practices. In the course of that investigation, the
22 SEC received voluminous documents relating to all of the Company’s significant officer/director and
23 refresh grants. The SEC terminated that investigation without recommending any enforcement action
24 against any current or former Zoran employee, officer or director (including the individual defendants
25 in this action).

26 7. Prior to entering into settlement negotiations, the Zoran board of directors also
27 commissioned an investigation of the Company's stock option practices by a special committee of the
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1 Zoran board. This committee hired independent counsel at the Morrison & Foerster law firm and
2 conducted a comprehensive investigation of stock grants made up through 2006.

3 8. In the course of that investigation, the committee and its counsel interviewed at least 23
4 current and former employees, officers and directors. They also interviewed five of the Company's
5 attorneys and accountants from DLA Gray Cary and PricewaterhouseCoopers. They also identified
6 over a million potentially relevant documents and identified as responsive and reviewed 228,000
7 company records.

8 9. Based on this work, the Company believes that the investigation was thorough and
9 comprehensive. The investigation reached no conclusion by the committee of any fraud or intentional
10 wrongdoing by any of the individual defendants (or any other Zoran personnel).

11 10. During the course of this litigation, the parties have exchanged over a million pages of
12 documents. Plaintiff's counsel has also taken the deposition testimony of individual defendants Levy
13 Gerzberg, Karl Schneider, Uzia Galil, Ray Burgess and Arthur B. Stabenow, as well as Zoran Human
14 Resources Vice President Connie Frederickson-Bray and Dr. Gerzberg's and Mr. Schneider's
15 Executive Assistant Diana Young. Messrs. Galil and Stabenow and Ms. Young were deposed after the
16 April 7 Order. My firm attended each of these depositions on behalf of Zoran. This deposition
17 testimony has not supported a finding of fraud or intentional wrongdoing by any of the individual
18 defendants in this action.

19 11. If this complex derivative action were to continue, Zoran would incur substantial fees
20 and costs due to the indemnity rights of the Individual Defendants.

21 12. The parties anticipate taking at least eight additional party and nonparty depositions.
22 The cost to Zoran and the other parties of such depositions, expert discovery, preparation of summary
23 judgment motions and trial preparation will be considerable.

24 13. The defendants' applicable insurance coverage is in the form of diminishing-limits
25 policies, such that defense fees and costs reduce the amount of insurance available for potential
26 resolution of this litigation. Thus, continuation of the litigation may quickly exhaust any funds
27 available to settle the case.

1 14. If the opportunity for settling passes, litigation proceeds, and the Individual Defendants
2 prevail at trial, I believe that Zoran will incur millions of dollars in attorney's fees and costs both in
3 defending itself and pursuant to its indemnity obligations.

4 I declare under penalty of perjury under the law of the United States of America that the
5 foregoing is true and correct. Executed this 30th day of May, 2008 in San Francisco, California.

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By _____ /s/ _____
Steven S. Kaufhold

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