

MARKET REPORT

	CLOSE	CHANGE	
Nasdaq	2,183.75	-1.98	-0.1%
Dow Jones	11,381.15	-1.76	---
S&P 500	1,303.82	-0.45	---
MN 150	1,763.29	-0.72	---
Bonds*	4.73%	-0.03	---
Dollar	117.33	+0.20	---

*10-year Treasury

BUSINESS BRIEFING | PAGE 2D

**OPTIONS EXPENSING
 PRACTICE CHALLENGED**

BUSINESS EXTRA | PAGE 3D

**SUNNYVALE'S CEPHEID
 WINS TB TEST GRANT**

TECHTICKER

Intel announcement to address efficiency

Intel is preparing to make an announcement Tuesday related to restructuring the company, according to sources familiar with the announcement.

Paul Otellini, chief executive of the Santa Clara chip maker, will address employees in an internal Webcast at 1 p.m. Tuesday. The topic is the result of Intel's efficiency analysis, a task the company undertook three months ago to shave \$1 billion in costs and become more productive.

Chuck Mulloy, an Intel spokesman, declined to comment on the Webcast and whether Intel will make an announcement soon about layoffs.

Analysts have said previously that Intel could lay off more than 10,000 employees, or more than 10 percent of its workforce.

In July, Otellini announced the company would cut 1,000 managers.

Chinese iPod maker cuts damages demand

The top tech hub — for now

HIGH HOUSING COSTS THREATEN VALLEY'S STATURE, STUDY SAYS

By Scott Duke Harris
Mercury News

Silicon Valley retains its stature as the world's top tech center as capital investment continues to rise in the region, but the price of this success — high housing costs — threatens to erode the valley's position.

Those are some of the conclusions drawn from an annual study by the Silicon Valley Leadership Group, a public policy advocacy organization. The report, subtitled "Tough Challenges — Hopeful Signs," highlighted both the pluses and minuses of doing business in the valley.

One acute downside: The study's "Housing Opportunity Index" found a sharp drop in the affordability of homes in Silicon Valley in the past year. Only 14.9 percent of the valley houses sold in March 2006

Online Extra

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were affordable to median-income households — a sharp drop from 19.5 percent a year earlier and 32.6 percent two years ago, according to the National Association of Home Builders.

Among the report's other findings:

■ Silicon Valley attracted \$7.9 billion in venture capital investment in 2005, nearly as much as the next 11 U.S. tech hubs combined. Runners-up were Boston at \$2.08 billion, Portland at \$1.85 billion and Seattle at \$1.03 billion.

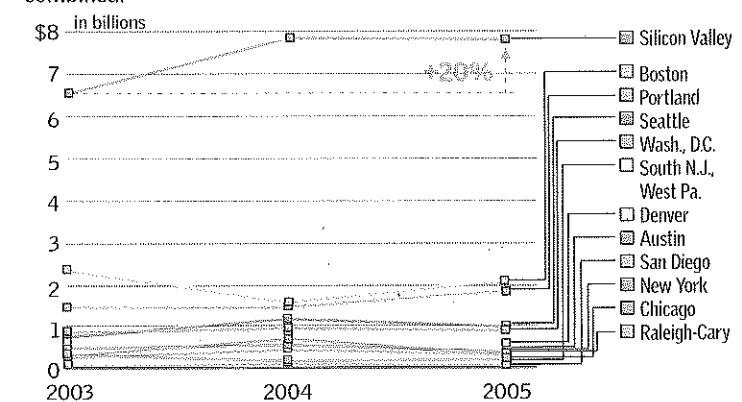
See **STUDY**, Page 5D

Silicon Valley's strengths, challenges

Silicon Valley retains its edge as the center of the tech industry, but its problems could erode its global leadership position. High housing costs discourage newcomers. But capital investment is still pouring into the valley far more than other regional tech centers.

Valley gets more investment

Capital investments in Silicon Valley soared 20 percent from 2003 to 2005. With a total of more than \$79 billion in 2005, venture investments in Silicon Valley nearly equaled the total of the nation's next 11 tech regions combined.

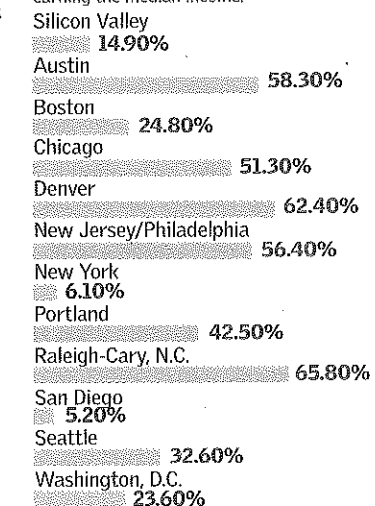


Sources: PWC, Venture Economics, NVCA Money Tree, National Association of Home Builders, www.nahb.org

Fewer affordable homes

Fewer homes sold in Silicon Valley are affordable to a median-income household, according to the regional "Housing Opportunity Index" compiled by the National Association of Home Builders. It assumes that 28 percent of a household income would be applied to housing costs.

Percentage of homes affordable to households earning the median income.



STUDY | High costs threaten tech economy

Continued from Page ID

California, with the valley leading the way, is a magnet for "clean tech" investments such as alternative energy technologies including solar and biodiesel. According to the Cleantech Venture Network, California companies received \$484 million of the \$1.6 billion invested nationwide in clean tech.

The valley's combination of strengths — with leadership in computer and telecommunications technology, and also in life sciences research — is unsurpassed in a global comparison with tech centers such as Bangalore, India; Singapore; Shanghai, China; Tokyo; London; Dublin; and Berlin.

The valley ranked dead last in a comparison of 12 U.S. tech hubs on a matrix that gave equal weight to six "critical issues": unemployment rate, housing costs, traffic congestion costs, 8th-grade math achievement, electricity costs and state tax rates.

'Success curse'

Silicon Valley suffers from the success curse," said Rick Weddle, chief executive of North Carolina's Research Triangle Park. The Raleigh-Durham area, with its low housing costs and free-flowing traffic, ranked first in the comparison for the second straight year.

Housing costs and traffic congestion unquestionably reflect the doubled-edged aspect of the region's dynamic economy, said Carl Guardino, chief executive of the valley leadership group. But the valley also faces challenges in education, energy costs and health care that primarily reflect policy decisions, Guardino said. If not addressed, these troubles could ultimately hurt the valley's ability to maintain its leadership status, he said.

For companies trying to recruit and retain employees, housing costs have become a greater obstacle, even though census data recently found San Jose ranks second in the nation with a median income of \$70,921.

The report's "Housing Opportunity Index" was based on a formula that applies one-third of a household's income toward housing costs. In actuality, many new homeowners in the valley apply half or more of their income toward home purchases, while increasingly using creative financing such as adjustable mortgages, balloon payments and interest-only payment options to minimize mortgage payments.

High-costs burden

Anecdotal evidence abounds on the burden of housing costs. One CEO, Guardino said, recently told him of having 17 out of 20 applicants reject job offers in part because of the Bay Area's high costs.

The various costs associated with doing business in Silicon Valley, Guardino said, rarely prompt companies to relocate to other regions. But it can have profound effects on where companies choose to expand their workforce. "What happens most often is just a quiet decision that, as jobs are added, they're not added here," Guardino said.

On a positive note, the lead-

Only 14.9 percent of homes sold in March 2006 were affordable to median-income earners.

ership group, which includes the Mercury News as a member, said California's environmental policies, such as a new effort to limit greenhouse gases, will help stimulate "clean tech" development in the years to come. SVLG member Barry Cinnamon, founder of Alkeena Solar in Los Gatos, says the incentives encouraging solar production could also spur a new wave of manufacturing.

North Carolina's Weddle says his group doesn't just use the SVLG study as a selling point to attract investment. "We use those studies to illustrate to our political leadership why we need to stay ahead of the problem," he said.

IF YOU'RE INTERESTED

The Silicon Valley Leadership Group will hold a forum on its report Wednesday from 8 a.m. to 12:30 p.m. at the Meyer Theater at Santa Clara University. The public is welcome, but registration is required at www.svlq.net

Contact Scott Duke Harris at sdharris@mercurynews.com or (408) 920-2704.

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