

ULTRALIFE BATTERIES INC

Form DEF 14A

April 29, 2008

**Table of Contents**

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
  - Definitive Proxy Statement
  - Definitive Additional Materials
  - Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ULTRALIFE BATTERIES, INC.  
(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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- No fee required
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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-

**Table of Contents**

**ULTRALIFE BATTERIES, INC.  
2000 Technology Parkway  
Newark, New York 14513**

May 1, 2008

To Our Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Ultralife Batteries, Inc. on Thursday, June 5, 2008 at 10:30 A.M. at our corporate offices, 2000 Technology Parkway, Newark, New York 14513.

The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe in detail the matters expected to be acted upon at the meeting. This package also contains our 2007 Annual Report to Shareholders, which consists of the Company's annual report and Form 10-K for the fiscal year ended December 31, 2007 and which sets forth important business and financial information concerning your Company.

We hope that you will be able to attend this year's Annual Meeting.

Very truly yours,

John D. Kavazanjian  
President and Chief Executive Officer

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**Table of Contents**

**ULTRALIFE BATTERIES, INC.  
2000 Technology Parkway  
Newark, New York 14513**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
JUNE 5, 2008**

Notice is hereby given that the 2008 Annual Meeting of Shareholders (the Meeting ) of Ultralife Batteries, Inc. (the Company ) will be held on Thursday, June 5, 2008 at 10:30 A.M. at our corporate offices, 2000 Technology Parkway, Newark, New York 14513 for the following purposes:

1. to elect eight directors for a term of one year and until their successors are duly elected and qualified;
2. to ratify the selection of BDO Seidman LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008;
3. to approve the amendment to our Certificate of Incorporation to change our corporate name to Ultralife Corporation;
4. to approve the amendment to our Amended and Restated 2004 Long-Term Incentive Plan by increasing from 1,500,000 to 2,000,000 the number of shares of our Common Stock authorized to be issued pursuant to that plan; and
5. to transact such other business as may properly come before the Meeting and any adjournments thereof.

Only shareholders of record of Common Stock, par value \$.10 per share, of the Company at the close of business on April 15, 2008 are entitled to receive notice of, and to vote at and attend the Meeting. If you do not expect to be present, you are requested to fill in, date and sign the enclosed proxy, which is solicited by our Board of Directors, and to return it promptly in the enclosed envelope. In the event you decide to attend the Meeting in person, you may, if you desire, revoke your proxy and vote your shares in person.

Our Annual Report to Shareholders for the fiscal year ended December 31, 2007, which includes the Company's Form 10-K, is enclosed.

By Order of the Board of Directors

Patricia C. Barron  
Chair of the Board of Directors

Dated: May 1, 2008

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## TABLE OF CONTENTS

Title	Page
<u>INFORMATION CONCERNING SOLICITATION AND VOTING</u>	1
<u>CORPORATE GOVERNANCE</u>	3
<u>General</u>	3
<u>Committees of the Board of Directors</u>	3
<u>Shareholder Recommendations for Director Nominations</u>	4
<u>Annual Meeting Attendance</u>	4
<u>Executive Sessions</u>	5
<u>Communicating with the Board of Directors</u>	5
<u>Code of Ethics</u>	5
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	5
<u>DIRECTORS' COMPENSATION</u>	8
<u>Directors' Cash Compensation</u>	8
<u>Directors' Stock-Based Incentive Compensation</u>	8
<u>Director Summary Compensation Table</u>	9
<u>PROPOSAL 2 RATIFY THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	10
<u>Principal Accountant Fees and Services</u>	11
<u>EXECUTIVE OFFICERS</u>	12
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS</u>	14
<u>SECURITY OWNERSHIP OF MANAGEMENT</u>	15
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	16
<u>EXECUTIVE COMPENSATION</u>	16
<u>Compensation Discussion and Analysis</u>	16
<u>Compensation and Management Committee Report</u>	23
<u>Summary Compensation Table</u>	24
<u>2007 Grants of Plan-Based Awards</u>	25
<u>Outstanding Equity Awards at December 31, 2007</u>	26
<u>2007 Option Exercises and Stock Vested</u>	29
<u>EMPLOYMENT ARRANGEMENTS</u>	29
<u>Mr. Kavazanjian</u>	29
<u>Mr. Schmitz</u>	30
<u>Other Executive Officers</u>	30
<u>Salary Adjustments</u>	30
<u>401(k) PLAN</u>	30
<u>PROPOSAL 3 APPROVE THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO CHANGE OUR CORPORATE NAME TO ULTRALIFE CORPORATION</u>	31
<u>PROPOSAL 4 APPROVE THE AMENDMENT OF THE ULTRALIFE AMENDED AND RESTATED 2004 LONG-TERM INCENTIVE PLAN</u>	32
<u>Summary of Restated LTIP</u>	33
<u>Securities Act Registration</u>	36
<u>Tax Status of Restated LTIP Awards</u>	36
<u>Stock Price</u>	37
<u>Required Vote and Board of Directors' Recommendation</u>	37
<u>REPORT OF THE AUDIT AND FINANCE COMMITTEE</u>	37

<u>OTHER MATTERS</u>	38
<u>SUBMISSION OF SHAREHOLDER PROPOSALS</u>	38

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**Table of Contents**

**IMPORTANT**

REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE MEETING, WE ENCOURAGE YOU TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

**ULTRALIFE BATTERIES, INC.  
2000 Technology Parkway  
Newark, New York 14513  
(315) 332-7100**

**PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS  
JUNE 5, 2008**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

We are furnishing this proxy statement to our shareholders in connection with our Board of Directors' solicitation of proxies for use at our 2008 Annual Meeting of Shareholders (the Meeting) to be held on Thursday, June 5, 2008, at 10:30 A.M. and at any adjournments thereof. The Meeting will be held at our corporate offices, 2000 Technology Parkway, Newark, New York 14513.

The approximate date on which the enclosed form of proxy and this proxy statement are first being sent to our shareholders is May 1, 2008.

When a proxy is returned properly signed, the shares represented thereby will be voted in accordance with the shareholder's directions. If the proxy is signed and returned without choices having been specified, the shares will be voted FOR the election of each director-nominee named herein, and FOR the other proposals identified herein. If for any reason any of the nominees for election as directors shall become unavailable for election, discretionary authority may be exercised by the proxies to vote for substitute nominees proposed by our Board of Directors. A shareholder has the right to revoke a previously granted proxy at any time before it is voted by filing with the Secretary of Ultralife Batteries, Inc. (the Company) a written notice of revocation, or a duly executed later-dated proxy, or by requesting return of the proxy at the Meeting and voting in person.

We will bear the cost of soliciting proxies. In addition to the solicitation of proxies by use of the mails, some of our officers, directors and regular employees, without extra remuneration, may solicit proxies personally or by telephone, telefax or similar transmission. We will reimburse record holders for expenses in forwarding proxies and proxy soliciting material to the beneficial owners of the shares held by them.

Only shareholders of record at the close of business on April 15, 2008 are entitled to notice of, and to vote at, the Meeting. As of April 15, 2008, there were 17,390,987 shares of our Common Stock, par value \$.10 per share (Common Stock), issued and outstanding, each entitled to one vote per share at the Meeting.

**Quorum**



A majority of the outstanding shares of Common Stock, represented in person or by proxy at the Meeting, will constitute a quorum for the transaction of all business. For purposes of determining whether a quorum is present, shareholders of record who are present at the Meeting in person or by proxy and who abstain, including broker non-votes, are considered to be present at the Meeting for purposes of establishing a quorum.

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**Table of Contents**

**Vote Required**

The table below shows the vote required to approve each of the proposals described in this proxy statement, assuming the presence of a quorum:

<b>Proposal</b>	<b>Vote Required</b>
1. Election of directors	Plurality of the votes duly cast at the Meeting
2. Ratification of the selection of BDO Seidman LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008	Majority of the votes duly cast at the Meeting*
3. Approval of the amendment to our Certificate of Incorporation to change our corporate name to Ultralife Corporation	The affirmative vote of holders of a majority of the shares of our Common Stock issued and outstanding as of April 15, 2008
4. Approval of the amendment to our Amended and Restated 2004 Long-Term Incentive Plan by increasing from 1,500,000 to 2,000,000 the number of shares of our Common Stock authorized to be issued pursuant to that plan	Majority of the votes duly cast at the Meeting

\* The selection of BDO Seidman LLP is being presented to our shareholders for ratification. The Audit and Finance Committee will consider the outcome of this vote when selecting our independent registered public accounting firm for subsequent fiscal years.

**Abstentions**

Shares that abstain from voting on one or more proposals to be acted on at the Meeting are considered to be present for the purpose of determining whether a quorum exists and are entitled to vote on all proposals properly brought before the Meeting.

Abstentions will have no effect on the election of directors; however, abstentions will have the effect of voting against the proposals to ratify the selection of our independent registered public accountant, to approve the amendment to the Certificate of Incorporation to change our corporate name to Ultralife Corporation and to approve the amendment to our Amended and Restated 2004 Long-Term Incentive Plan ( Restated LTIP ) because abstentions are deemed to be present and entitled to vote but do not count toward the affirmative vote required to approve the proposals.

**Broker Non-Votes**

If you own your shares through a broker and do not provide your broker with specific voting instructions, your broker will have the discretion under the rules governing brokers who have record ownership of shares that they hold in street name for their clients to vote your shares on routine matters but not otherwise. As a result, your broker may exercise discretion to vote your shares with respect to the election of directors, the ratification of the selection of our independent registered public accountant and the amendment to the Certificate of Incorporation to change our corporate name to Ultralife Corporation because these are considered routine matters. Your broker will not have the authority to exercise discretion to vote your shares with respect to the proposal to amend the Restated LTIP because it is not considered to be a routine matter.

A broker non-vote occurs when shares held by a broker are not voted on a non-routine proposal because the broker has not received voting instructions from the beneficial owner and the broker lacks discretionary authority to vote the shares in the absence of such instructions.

Shares subject to broker non-votes are considered to be present for the purpose of determining whether a quorum exists and thus count towards satisfying the quorum requirement, but they will not be counted for the purpose of determining the number of shares voting on the proposal to approve the amendment to the Restated LTIP and thus will have no effect on the outcome of this proposal.

**Table of Contents**

**CORPORATE GOVERNANCE**

**General**

Pursuant to the General Corporation Law of the State of Delaware, the state under which we were organized, and our By-laws, our business, property and affairs are managed by or under the direction of our Board of Directors. Members of the Board of Directors are kept informed of Company business through discussions with our Chief Executive Officer and other corporate officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. Our Board of Directors has four standing committees: an Audit and Finance Committee, a Governance Committee, a Compensation and Management Committee and a Mergers and Acquisitions Committee. During 2007, our Board of Directors held 12 meetings and the committees of our Board of Directors held a total of 23 meetings.

Our Board of Directors has determined that all of our directors (other than Mr. Kavazanjian, who serves as our President and Chief Executive Officer) are independent for purposes of the listing standards of the Nasdaq Stock Market. Ms. Barron, our non-executive Chair of the Board of Directors, serves as a non-voting ex-officio member of all Board committees.

Each director attended at least 75% of the aggregate of: (1) the total number of meetings of the Board; and (2) the total number of meetings held by all committees of the Board on which he or she served.

Our Board of Directors has adopted a charter for each of the four standing committees that addresses the composition and function of each committee and has also adopted Corporate Governance Principles that address the composition and function of the Board of Directors. These charters and Corporate Governance Principles are available on our website at [www.ultralifebatteries.com](http://www.ultralifebatteries.com) under the heading Investor Relations.

Our Board of Directors has determined that all of the directors who serve on these committees are independent for purposes of the listing standards of the Nasdaq Stock Market, and that the members of the Audit and Finance Committee are also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Board of Directors based these determinations primarily on a review of the responses of the directors to questions regarding employment, compensation history, affiliations and family and other relationships, and on follow-up discussions.

**Committees of the Board of Directors**

***Audit and Finance Committee***

The current members of the Audit and Finance Committee are Paula H.J. Cholmondeley (Chair), Carole Lewis Anderson and Anthony J. Cavanna. This committee selects our independent registered public accounting firm and has oversight responsibility for reviewing the scope and results of the independent registered public accounting firm's annual examination of our financial statements and the quality and integrity of those financial statements, the qualifications and independence of the independent registered public accounting firm, meeting with our financial management and the independent registered public accounting firm to review matters relating to internal accounting controls, our accounting practices and procedures and other matters relating to our financial condition. The Audit and Finance Committee met nine times during 2007.

Our Board of Directors has determined that each of the members of the Audit and Finance Committee is financially literate in accordance with the listing standards of the Nasdaq Stock Market. In addition, our Board of Directors has determined that both Ms. Cholmondeley and Mr. Cavanna qualify as an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K.

***Governance Committee***

The current members of the Governance Committee are Carole Lewis Anderson (Chair), Paula H.J. Cholmondeley, Daniel W. Christman and Ranjit C. Singh. This committee reviews the performance and compensation of our directors, makes recommendations to our Board of Directors for membership and committee

## **Table of Contents**

assignments and for the compensation of our directors, and manages the annual evaluation of the performance of our Chief Executive Officer. The Governance Committee met six times during 2007.

The Governance Committee identifies potential nominees for directors based on recommendations received by directors or from shareholders as described below. Based on the information provided to the Governance Committee, it will make an initial determination whether to conduct a full evaluation of a candidate. As part of the full evaluation process, the committee may conduct interviews, obtain additional background information and conduct reference checks of candidates. The committee may also ask the candidate to meet with management and other members of our Board of Directors. In evaluating a candidate, the Board of Directors, with the assistance of the Governance Committee, takes into account a variety of factors as described in our Corporate Governance Principles.

### ***Compensation and Management Committee***

The current members of the Compensation and Management Committee are Daniel W. Christman (Chair), Anthony J. Cavanna, Ranjit C. Singh and Bradford T. Whitmore. The Compensation and Management Committee has general responsibility for determining the remuneration of officers elected by the Board of Directors, granting stock options and restricted stock and otherwise administering our equity compensation plans, and approving and administering any other compensation plans or agreements. Our Restated LTIP is administered by the Compensation and Management Committee. The Compensation and Management Committee met five times during 2007.

### ***Mergers and Acquisitions Committee***

The current members of the Mergers and Acquisitions Committee are Ranjit C. Singh (Chair), Carole Lewis Anderson, Anthony J. Cavanna and Bradford T. Whitmore. The Mergers and Acquisitions Committee is responsible for identifying and evaluating acquisition opportunities. The Mergers and Acquisitions Committee met three times during 2007.

### **Shareholder Recommendations for Director Nominations**

As noted above, the Governance Committee considers and establishes procedures regarding recommendations for nomination to our Board of Directors, including nominations submitted by shareholders. Such recommendations, if any, should be sent to Corporate Secretary, Ultralife Batteries, Inc., 2000 Technology Parkway, Newark, New York 14513. Any recommendations submitted to the Corporate Secretary should be in writing and should include any supporting material the shareholder considers appropriate in support of that recommendation, but must include the information that would be required under the rules of the Securities and Exchange Commission (SEC) in a proxy statement soliciting proxies for the election of such candidate and a signed consent of the candidate to serve as a director of the Company, if elected. The Governance Committee evaluates all potential candidates in the same manner, regardless of the source of the recommendation.

Based on the information provided to the Governance Committee, it will make an initial determination whether to conduct a full evaluation of a candidate. The Governance Committee considers the composition and size of the existing Board of Directors, along with other factors, in making its determination to conduct a full evaluation of a candidate. As part of the full evaluation process, the Governance Committee may conduct interviews, obtain additional background information and conduct reference checks of candidates. The Governance Committee may also ask the candidate to meet with management and other members of our Board of Directors. In evaluating a candidate, the Board of Directors, with the assistance of the Governance Committee, takes into account a variety of factors as described in our Corporate Governance Principles.

### **Annual Meeting Attendance**

Our policy is that all of the directors, absent special circumstances, should attend the Company's Annual Meeting of Shareholders. A regular meeting of the Board of Directors is typically scheduled in conjunction with the Annual Meeting of Shareholders. All directors, including Mr. Whitmore who was nominated for the first time, attended last year's Annual Meeting of Shareholders.

**Table of Contents****Executive Sessions**

Our Corporate Governance Principles require our Board of Directors to meet in executive session regularly by requiring our independent directors to have at least four regularly-scheduled meetings per year without any management present. Our Board of Directors met in executive session eight times during 2007. In addition, our standing committees meet in executive session on a regular basis.

**Communicating with the Board of Directors**

Shareholders interested in communicating directly with our Board of Directors as a group may do so in writing to the Company's Corporate Secretary, Ultralife Batteries, Inc., 2000 Technology Parkway, Newark, New York 14513. The Corporate Secretary will review all such correspondence and forward to our Board of Directors a summary of that correspondence and copies of any correspondence that, in his opinion, deals with the functions of the Board of Directors or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board of Directors and request copies of any such correspondence. Any concerns relating to accounting, internal controls or auditing matters will be brought to the attention of the Audit and Finance Committee and handled in accordance with the procedures established by the Audit and Finance Committee with respect to such matters.

**Code of Ethics**

We have a Code of Ethics applicable to all employees, including the Principal Executive Officer and the Principal Financial Officer, and, to the extent it applies to their activities, all members of the Board of Directors. Our Code of Ethics incorporates the elements of a code of ethics specified in Item 406 of Regulation S-K and also complies with the Nasdaq Stock Market requirements for a code of conduct. Shareholders can find a link to this Code of Ethics on the Company's website at [www.ultralifebatteries.com](http://www.ultralifebatteries.com) under the heading Investor Relations. We intend to post amendments to or waivers (whether expressed or implied) from the Code of Ethics (to the extent applicable to the Principal Executive Officer or Principal Financial Officer) at the same location on our website as the Code of Ethics.

**PROPOSAL 1****ELECTION OF DIRECTORS**

Our Board of Directors currently has eight directors, all of whom have been nominated to serve for an additional one year term. If elected, each director standing for election shall serve until the next annual meeting of shareholders and until his or her successor shall have been elected and qualified. The names of, and certain information with respect to, the persons nominated for election as directors are presented below.

<b>Name</b>	<b>Age</b>	<b>Present Principal Occupation and Employment History</b>
<b>Carole Lewis Anderson</b>	63	Ms. Anderson has been a director of the Company since June 2006 and is a co-founder and principal of Suburban Capital Markets, Inc., a commercial real estate finance company. Prior to her affiliation with Suburban, Ms. Anderson was President and Chief Executive Officer of MNC Investment Bank and Managing Director for Merger and Acquisition Services. Prior



to joining MNC Investment Bank, Ms. Anderson served for two years as Senior Vice President for Corporate Development of Hasbro Inc. and as President of its Infant Products Division. Prior to that, she was Managing Director, Mergers and Acquisitions at Paine Webber Inc. Ms. Anderson is a member of the Editorial Board of *Southeast Real Estate Business*.

**Table of Contents**

Name	Age	Present Principal Occupation and Employment History
<b>Patricia C. Barron</b>	65	Ms. Barron, who is currently retired, has been a director of the Company since December 2000 and has served as Chair of the Board of Directors since June 2007. Ms. Barron serves as a director of Quaker Chemical Corporation, Teleflex Incorporated and United Services Automobile Association, an insurance mutual corporation. She also serves on a number of non-profit organizations, with a focus on education and health. Ms. Barron had a 28-year career in business. She was an Associate at McKinsey and Company and then moved to Xerox Corporation where she became a corporate officer and held the positions of Vice President of Business Operation Support, President of Engineering Systems and President of Office Document Products. Most recently she has been a Clinical Associate Professor at the Leonard N. Stern School of Business of New York University, where she focused on issues of corporate governance and leadership.
<b>Anthony J. Cavanna</b>	68	Mr. Cavanna, who is currently retired, has been a director of the Company since December 2003. From August 2005 to August 2007, he returned from retirement to serve as the Chief Executive Officer and Chairman of the Board of Directors of Trex Company, Inc., the nation's largest manufacturer of alternative decking products. Prior to his retirement in 2003, he served as the Executive Vice President, Chief Financial Officer and director of Trex Company, Inc. and its predecessor company Trex Company, LLC. Before forming Trex Company, LLC in 1996 by leading a management buyout from Mobil Chemical Company, Mr. Cavanna spent 33 years with Mobil and held a variety of positions, including Group Vice President, Vice President-Planning and Finance, Vice President of Mobil Chemical and General Manager of its Films Division Worldwide, President and General Manager of Mobil Plastics Europe and Vice President-Planning and Supply of the Films Division.
<b>Daniel W. Christman</b>	64	Mr. Christman was appointed to the Board of Directors in August 2001. He is currently Senior Vice President International Affairs for the U.S. Chamber of Commerce, a position he has held since June 2003, and was previously the Executive Director of the Kimsey Foundation in Washington, D.C. Prior to that, he was Superintendent for the U.S. Military Academy at West Point, New York from June 1996 until July 2001. He currently serves as a director of United Services Automobile Association, an insurance mutual corporation and Entegris, Inc., a semi-conductor equipment manufacturer.

**Table of Contents**

<b>Name</b>	<b>Age</b>	<b>Present Principal Occupation and Employment History</b>
<b>Paula H.J. Cholmondeley</b>	61	Ms. Cholmondeley has been a director of the Company since June 2004. She is currently an independent strategy consultant with accounting expertise. From 2000 to 2004, she was Vice President and General Manager, Specialty Products of Sappi Fine Paper, North America. She has occupied management positions in Owens Corning, the Faxon Company and Blue Cross Blue Shield of Greater Philadelphia. Ms. Cholmondeley is a former certified public accountant and our Sarbanes-Oxley audit committee financial expert and currently serves on the Board of Directors of Dentsply International, Inc., Minerals Technology Inc., Albany International Corp., Terex Corporation and as an independent trustee of Nationwide Mutual Funds.
<b>John D. Kavazanjian</b>	57	Mr. Kavazanjian was elected as the Company's President and Chief Executive Officer effective July 12, 1999 and as a director on August 25, 1999. Prior to joining the Company, Mr. Kavazanjian worked for Xerox Corporation from 1994 in several capacities, most recently as Corporate Vice President, Chief Technology Officer, Document Services Group. From 1992 until 1994, he was the Senior Vice President, Operations for Kendal Square Research Corporation, a high performance computer manufacturer. From 1991 to 1992, he was the Chief Operating Officer for Network Computing, Inc. Mr. Kavazanjian also serves on the Board of Directors of ViaHealth of Wayne Foundation.
<b>Ranjit C. Singh</b>	55	Mr. Singh has been a director of the Company since August 2000, and served as Chairman of the Board from December 2001 to June 2007. Mr. Singh is currently President and Chief Executive Officer of Aptara, Inc. (formerly known as Tech Books), a content outsourcing services company, a position he has held since February 2003. From February 2002 to February 2003, Mr. Singh served as President and Chief Executive Officer of Reliacast Inc., a video streaming software and services company. Prior to that, he was President and Chief Operating Officer of ContentGuard, which develops and markets digital property rights software. Before joining ContentGuard earlier in 2000, Mr. Singh worked for Xerox as a corporate Senior Vice President in various assignments related to software businesses. Mr. Singh joined Xerox in 1997, having come from Citibank where he was Vice President of Global Distributed Computing. Prior to that, he was a principal at two start-up companies and also held executive positions at Data General and Digital Equipment Corporation. Since January 2005, Mr. Singh has served on the Board of Directors of Authentidate Holding Corp.
<b>Bradford T. Whitmore</b>	50	Mr. Whitmore has been a director of the Company since June 2007. He is Managing Partner of Grace Brothers, Ltd., an

investment firm which holds approximately 26.2% of the outstanding shares of our Common Stock. Within the past five years, Mr. Whitmore has served as a director of Sunterra Corp. and Ladish Co. as well as several non-public companies and not-for-profit organizations.

Our Board of Directors has unanimously approved the above-named nominees for directors. Our Board of Directors recommends a vote **FOR** all of these nominees.

7

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**Table of Contents****DIRECTORS COMPENSATION**

We use a combination of cash compensation and stock-based incentive compensation to attract and retain qualified candidates to serve on our Board of Directors. In 2006, we retained an executive compensation consultant to conduct a survey of certain of our peer group companies to ascertain whether our overall executive compensation was appropriate and balanced. Our practice will be to resurvey every two to three years unless we perceive that there has been a major change in the Company or the market which would warrant a more frequent survey. At the direction of our Governance Committee, management undertook a review of director compensation at those same peer group companies and provided their conclusions to our Governance Committee. In setting director compensation, we consider the amount of time that directors spend fulfilling their duties to the Company, the skill-level required by the Company of members of our Board of Directors, and, based on an independent review by our external compensation consultant, of the compensation paid to directors in similar sized organizations in our industry. After reviewing the information provided, our Board of Directors approved a new director compensation program in 2006 that became effective July 1, 2007. It remains designed to deliver annual director compensation at approximately the median of companies in similar industries and of similar size. The compensation program was changed only to reflect any change in the value of the shares granted as restricted stock awards so that the aggregate dollar value of the award remained unchanged from the prior year. The cash component of director compensation also remained the same.

**Directors Cash Compensation**

Each non-employee director received during 2007 a \$3,000 quarterly retainer, and the Chair of the Board received a \$5,000 quarterly retainer. Each non-employee director also received \$1,000 for each Board meeting attended; subject, however, to the provision that the meeting compensation was reduced by 50% if the director participated by conference call. Each non-employee director also received \$750 for each meeting of one of the four standing committee meetings attended, whether in person or by telephone. The Chair of the Audit and Finance Committee received a \$1,250 quarterly retainer, the Chairs of the Governance Committee and the Compensation and Management Committee received a \$625 quarterly retainer and the Chair of the Mergers and Acquisitions Committee received a \$250 quarterly retainer. For Board and committee service during 2007, we paid our directors an aggregate \$206,750.

**Directors Stock-Based Incentive Compensation**

At their meeting on June 6, 2007, the Board of Directors reaffirmed the compensation policy that was adopted on June 8, 2006, including the equity compensation policy for directors, whereby each director will receive an annual award of shares of the Company's Common Stock that are subject to forfeiture restrictions that lapse over time (Restricted Stock). For the July 2007 award of Restricted Stock, the Board determined that the aggregate value of the award for each non-employee director should remain at \$40,000 and that the aggregate value of the award for the Board Chair should remain at \$66,000. To determine the number of shares of Restricted Stock to award based on this valuation, the \$40,000 and \$66,000 award values were divided by the closing price of the Common Stock on July 2, 2007, which was \$10.57. Specifically, on July 2, 2007, each incumbent non-employee director received 3,784 shares of Restricted Stock and the Chair of the Board of Directors received an additional 2,460 shares of Restricted Stock. The forfeiture restrictions applicable to the shares of Restricted Stock issued to all directors other than the Board Chair lapsed with respect to 946 of the shares on each of August 15, 2007, November 15, 2007 and February 15, 2008 and will lapse with respect to a further 946 shares on May 15, 2008. The forfeiture restrictions applicable to the shares of Restricted Stock issued to the Board Chair lapsed with respect to 1,561 of the shares on each of August 15, 2007, November 15, 2007 and February 15, 2008 and will lapse with respect to a further 1,561 shares on May 15, 2008.

The Board of Directors moved to a Restricted Stock award in June 2006 in order to improve the Company's annual equity burn rate. Equity burn rate analysis is a measure of dilution that shows how rapidly a company is using its shares reserved for equity compensation plans. This analysis is frequently used by institutional investors to determine whether they should support or reject equity compensation proposals submitted to a company's

**Table of Contents**

shareholders for approval. To calculate a company's equity burn rate percentage, the sum of the total number of shares represented by stock options granted in a fiscal year, plus two times the total number of shares of restricted stock or other stock awards awarded in that year, is divided by the gross number of shares outstanding at the end of that year. The Company has previously committed to maintaining an average annual equity burn rate for the fiscal years ending December 31, 2006, 2007 and 2008 not exceeding 2.93% per year. This equity burn rate of 2.93% corresponds to the current mean plus one standard deviation of the Standard & Poor's Global Industry Classification Standards peer group pertinent to the Company and is slightly lower than the Company's average annual equity burn rate of 3.12% for the fiscal years ended December 31, 2003, 2004 and 2005. The Company's burn rates for the fiscal years ended December 31, 2006 and 2007 were 4.95% and 2.39%, respectively.

Directors also have share ownership guidelines which require them to hold shares at least equal in value to the amount of their annual cash retainer. Directors have three years to achieve the required holdings. Furthermore, until the required shareholding guidelines are met, directors are required to hold at least 50% of all vested after-tax shares and 50% of shares received on exercise of stock options. Currently, all of our directors meet the share ownership guidelines.

**Director Summary Compensation Table**

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2007.

Name (1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(2)	Option Awards (\$)	Total (\$)
<b>Carole Lewis Anderson</b>	29,500	40,499	0	69,999
<b>Patricia C. Barron</b>	32,000	55,381	0	87,381
<b>Anthony J. Cavanna</b>	31,750	40,499	0	72,249
<b>Paula H.J. Cholmondeley</b>	36,250	40,499	0	76,749
<b>Daniel W. Christman</b>	30,000	40,499	0	70,499
<b>Ranjit C. Singh</b>	33,250	52,244	0	85,494
<b>Bradford T. Whitmore</b>	14,000	22,891	0	36,891
<b>Total</b>	206,750	292,512	0	499,262

(1) Bradford T. Whitmore began his term as a director on June 6, 2007 following his election by the shareholders to the Board of Directors at the 2007 Annual Meeting of Shareholders. John D. Kavazanjian is ineligible to receive compensation for his service as a director because he is an employee of the Company, serving as the Company's President and Chief Executive Officer.

(2) The amounts set forth in this column reflect shares of restricted stock granted during 2007. The amounts listed are equal to the compensation cost recognized during 2007 for financial statement purposes in accordance with Statement of Financial Accounting Standards, No. 123 (Revised 2004), Share-Based Payment (FAS 123(R)). Additional information related to the calculation of the compensation cost is set forth in Note 8 to our audited financial statements included in our 2007 Annual Report on Form 10-K. The number of restricted shares granted

in 2007, and the grant date fair value of those grants, determined in accordance with FAS 123(R), is set forth below.

<b><u>Name</u></b>	<b>Grant Date</b>	<b>Shares (#)</b>	<b>Grant Date Fair Value (\$)</b>
Carole Lewis Anderson	7/2/2007	3,784	39,997
Patricia C. Barron	7/2/2007	6,244	65,999
Anthony J. Cavanna	7/2/2007	3,784	39,997
Paula H.J. Cholmondeley	7/2/2007	3,784	39,997
Daniel W. Christman	7/2/2007	3,784	39,997
Ranjit C. Singh	7/2/2007	3,784	39,997
Bradford T. Whitmore	7/2/2007	3,784	39,997



**Table of Contents**

**PROPOSAL 2**

**RATIFY THE SELECTION OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The firm of BDO Seidman LLP, independent registered public accountants, served as the independent registered public accounting firm of the Company in connection with the audit of the Company's financial statements for 2006 and 2007.

The firm of PricewaterhouseCoopers LLP, independent registered public accountants, served as the independent registered public accounting firm of the Company in connection with the audit of the Company's financial statements for 2005.

On June 8, 2006, with the approval of the Company's Audit and Finance Committ