

LOGICVISION INC  
Form DEF 14A  
April 17, 2002

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. )**

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 Section 240.14a-11(c) or Section 240.14a-12

**LOGICVISION, INC.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No Fee Required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
- (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 (Set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
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- Fee paid previously with preliminary materials:
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:

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(3) Filing  
Party:

(4) Date  
Filed:

Notes:

**LOGICVISION, INC.**  
**101 METRO DRIVE, THIRD FLOOR**  
**SAN JOSE, CALIFORNIA 95110**  
**(408) 453-0146**

April 17, 2002

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of LogicVision, Inc. that will be held on Tuesday, May 21, 2002, at 9:00 a.m. at the Doubletree Hotel at 2050 Gateway Place, San Jose, California.

The formal notice of the Annual Meeting and the Proxy Statement have been made a part of this invitation.

After reading the Proxy Statement, please mark, date, sign and return, at your earliest convenience, the enclosed proxy in the enclosed prepaid envelope, to ensure that your shares will be represented. **YOUR SHARES CANNOT BE VOTED UNLESS YOU SIGN, DATE AND RETURN THE ENCLOSED PROXY OR ATTEND THE ANNUAL MEETING IN PERSON.** Your vote is important, so please return your proxy promptly.

A copy of our 2001 Annual Report to Stockholders is also enclosed.

The Board of Directors and management look forward to seeing you at the meeting.

Sincerely  
yours,

Vinod K.  
Agarwal

*President and Chief Executive Officer*

**LOGICVISION, INC.**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held May 21, 2002**

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To the Stockholders of LogicVision, Inc.:

The Annual Meeting of Stockholders of LogicVision, Inc., a Delaware corporation (the Company), will be held at the Doubletree Hotel at 2050 Gateway Place, San Jose, California on Tuesday, May 21, 2002, at 9:00 a.m. Pacific Daylight Time, for the following purposes:

1. To elect directors to serve until the 2003 Annual Meeting of Stockholders or until their successors are duly elected and qualified;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent accountants;  
and
3. To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement of the Annual Meeting.

Stockholders of record as of the close of business on March 28, 2002 are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof. A complete list of stockholders entitled to vote at the Annual Meeting will be available at the Secretary's office, 101 Metro Drive, Third Floor, San Jose, California, for ten days before the meeting.

**It is important that your shares are represented at the meeting. Even if you plan to attend the meeting, we hope that you will promptly mark, sign, date and return the enclosed proxy. This will not limit your right to attend or vote at the meeting.**

By Order of  
the Board  
of  
Directors

Vinod K.  
Agarwal

*Secretary*

April 17, 2002

**LOGICVISION, INC.  
101 METRO DRIVE, THIRD FLOOR  
SAN JOSE, CALIFORNIA 95110  
(408) 453-0146**

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**PROXY STATEMENT**

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This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of LogicVision, Inc., a Delaware corporation (the Company), of proxies in the accompanying form to be used at the Annual Meeting of Stockholders of the Company to be held at the Doubletree Hotel at 2050 Gateway Place, San Jose, California, on Tuesday, May 21, 2002, at 9:00 a.m. Pacific Daylight Time, and any postponement or adjournment thereof (the Annual Meeting).

**Who Can Vote**

Stockholders of record at the close of business on March 28, 2002 (the Record Date), are entitled to vote at the Annual Meeting. As of the close of business on that date, the Company had 14,875,904 shares of common stock, \$0.0001 par value (the Common Stock), outstanding. The presence in person or by proxy of the holders of a majority of the Company's outstanding Common Stock constitutes a quorum for the transaction of business at the Annual Meeting. Each holder of Common Stock is entitled to one vote for each share held as of the Record Date.

**How You Can Vote**

You may vote your shares at the Annual Meeting either in person or by proxy. To vote by proxy, you should mark, date, sign and mail the enclosed proxy in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person. The shares represented by the proxies received in response to this solicitation and not properly revoked will be voted at the Annual Meeting in accordance with the instructions therein. On the matters coming before the Annual Meeting for which a choice has been specified by a stockholder on the proxy card, the shares will be voted accordingly. If you return your proxy, but do not mark your voting preference, the individuals named as proxies will vote your shares **FOR** the election of the five nominees for director listed in this Proxy Statement and **FOR** the ratification of the appointment of the Company's independent accountants.

Registered stockholders can simplify their voting and save the Company additional expense by calling (800) 435-6710 or voting via the Internet at <http://www.eproxy.com/LGVN>. Telephone and Internet voting information is provided on the proxy card if these options are available to you. Votes submitted via the Internet or by telephone must be received by 4:00 p.m., Eastern Daylight Time, on May 20, 2002. Submitting your proxy via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting.

**Revocation of Proxies**

Stockholders can revoke their proxies at any time before they are exercised in any of three ways:

by voting in person at the Annual Meeting;

by submitting written notice of revocation to the Secretary of the Company prior to the Annual Meeting;  
or

by submitting another proxy of a later date that is properly executed.

**Required Vote**

Directors are elected by a plurality vote. The five nominees for director who receive the most votes cast in their favor will be elected to serve as directors. The other proposal submitted for stockholder approval at the Annual Meeting will be decided by the affirmative vote of the majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on such proposal. Abstentions with respect to any proposal are treated as shares present or represented and entitled to vote on that proposal and thus have the same effect as negative votes. If a broker which is the record holder of shares indicates on a proxy that it does not have discretionary authority to vote on a particular proposal as to such shares, or if shares are not voted in other circumstances in which proxy authority is defective or has been withheld with respect to a particular proposal, these non-voted shares will be counted for quorum purposes but are not deemed to be present or represented for purposes of determining whether stockholder approval of that proposal has been obtained.

This Proxy Statement and the accompanying form of proxy are being mailed to stockholders on or about April 17, 2002.

**IMPORTANT**

**Please mark, sign and date the enclosed proxy and return it at your earliest convenience in the enclosed postage-prepaid return envelope so that, whether you intend to be present at the Annual Meeting or not, your shares can be voted. This will not limit your rights to attend or vote at the Annual Meeting.**

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

The Board of Directors proposes the election of five directors of the Company to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified. There are currently six members of the Company's Board of Directors. One of the Directors, David L. Sulman, will retire from the Board of Directors effective at the time of the Annual Meeting, at which time the number of authorized Directors will be fixed at five. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, an event not currently anticipated, proxies will be voted for any nominee designated by the Board of Directors to fill the vacancy.

Biographical information concerning each of the nominees is set forth below.

<u>Name</u>	<u>Served as Director Since</u>	<u>Age</u>	<u>Principal Business Experience for the Past Five Years</u>
Vinod K. Agarwal, Ph.D.	1992	49	Dr. Agarwal founded LogicVision in 1992 and has served as our President and Chief Executive Officer since 1992. Prior to founding LogicVision, Dr. Agarwal was the Nortel/NSERC Industrial Research Chair Professor at McGill University in Montreal and served as a consultant to Nortel Networks Corporation, Hitachi, Ltd. and Eastman Kodak Company for developing their design-for-test/embedded test environment. In 1992, Dr. Agarwal was elected to be a Fellow of The Institute of Electrical and Electronics Engineers, Inc., or IEEE, for his contributions to built-in self-test and fault-tolerant computing. Dr. Agarwal is a co-inventor of several US patents on embedded test technology. He holds a BE in Electronics from Birla Institute of Technology and Science, Pilani, India, an MS in Electrical Engineering from University of Pittsburgh and a PhD in Electrical Engineering from Johns Hopkins University.
Navindra Jain, Ph.D.	1992	50	Dr. Jain has been Chairman of the Board since January 1996. In 1982, Dr. Jain co-founded Excelan Inc., a manufacturer of networking products, and was its Vice President of Engineering until it was acquired by Novell, Inc. in 1989. At Novell he served as Vice President and General Manager of the Internetworking and Network Management Divisions. In 1993 Dr. Jain resigned to pursue his personal interests, including investments in high-tech industries. Dr. Jain holds a BS in Electrical Engineering from Birla Institute of Technology and Science, Pilani, India and a PhD in Electrical Engineering from Carnegie Mellon University.

Name	Served as Director Since	Age	Principal Business Experience for the Past Five Years
Richard C. Black	1994	33	Mr. Black has been the Managing Director of Royal Bank Capital Partners since February 2001. Mr. Black is also a Vice President with Helix Investments (Canada) Inc. and has been with Helix since May 1991. He also serves on the board of directors of Open Text Corporation, CRS Robotics Corporation and numerous private companies and on the advisory boards of Royal Bank Capital Partners and the Longitude Fund LP. Mr. Black holds an HBA from the School of Business at the University of Western Ontario.
D. James Guzy	1999	65	Mr. Guzy has served on the board of directors of Intel Corporation since 1969 and as Chairman of the Arbor Company, a limited partnership engaged in the electronics and computer industry, since 1969. Mr. Guzy also serves on the board of directors of Cirrus Logic, Inc., Micro Component Technology, Inc., Novellus Systems, Inc., Davis Selected Group of Mutual Funds, Alliance Capital Management Technology Fund and PLX Technology. Mr. Guzy holds a BS from the University of Minnesota and an MS from Stanford University.
Jon D. Tompkins	1999	61	In June 1999, Mr. Tompkins retired as Chairman of the Board of Directors of KLA-Tencor Corporation, a supplier of process diagnostic system and yield management solutions to the semiconductor and data storage industries, where he had served as Chairman from July 1998 to June 1999 and as Chief Executive Officer and a director from April 1997 to July 1998. Prior to the merger of KLA and Tencor, Mr. Tompkins served as Chief Executive Officer, President and a director of Tencor Instruments from April 1991 to April 1997 and was appointed Chairman of the Board of Directors of Tencor in November 1993. Mr. Tompkins currently serves on the board of directors of KLA-Tencor, Credence Systems Corporation, Cymer, Inc. and Electro Scientific Industries, Inc. He also served as Chairman of the Board of SEMI/SEMATECH from June 1998 to June 1999. Mr. Tompkins holds a BS in Electrical Engineering from the University of Washington and an MBA from Stanford University.

**The Board of Directors recommends a vote FOR election as director of the nominees set forth above.**

#### **Board Meetings and Committees**

The Board of Directors held five meetings during the year ended December 31, 2001. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and of the committees on which such directors serve.



***Compensation Committee***

*Number of Members:* Two

*Members:* Mr. Black (Chairman)  
Mr. Jain

*Number of Meetings:* Three

*Functions:* Develops and monitors compensation arrangements for the officers of the Company. Administers the Company's stock option plans and other compensation plans. Reviews and makes recommendations to the Board of Directors for changes in the Company's compensation and benefit plans and practices. Makes recommendations to the Board of Directors regarding the fees to be paid to members of the Board. Performs other activities and functions related to executive compensation as may be assigned from time to time by the Board of Directors.

***Audit Committee***

*Number of Members:* Three

*Members:* Mr. Black  
Mr. Guzy  
Mr. Tompkins (Chairman)

*Number of Meetings:* Four

*Functions:* Reviews the annual audited financial statements and the quarterly financial statements with management and the Company's independent accountants. Reviews the Company's internal accounting procedures and financial management practices with management and the independent accountants. Reviews major changes to the Company's auditing and accounting principles and practices as suggested by the independent accountants or management. Monitors the independent accountants' relationship with the Company. Recommends to the Board of Directors the appointment of the independent accountants and approves the fees to be paid to the independent accountants.

It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for preparing the Company's financial statements, and the independent accountants are responsible for auditing those financial statements. However, the Audit Committee does consult with management and the Company's independent accountants prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into various aspects of the Company's financial affairs.

### **Director Compensation**

Except as otherwise described below, the Company has not paid any cash compensation to members of the Board of Directors for their services as directors.

We reimburse directors for reasonable expenses in connection with attendance at meetings of the Board of Directors and committee meetings. Under our 2000 Stock Incentive Plan, Directors who are not employees also receive an initial grant of an option to purchase 7,500 shares of Common Stock at the fair market value of the Common Stock on the date of grant, which vests in three annual installments on each of the first three anniversaries of the date of grant. On the first business day following each regular annual meeting of the Company's stockholders after appointment or election to the Board, each non-employee director shall receive an option to purchase 4,000 shares of Common Stock at the fair market value of the Common Stock on the date of grant, which shall vest in full on the first anniversary of the date of grant.

### **Compensation Committee Interlocks and Insider Participation**

Richard C. Black and Navindra Jain serve as members of the Compensation Committee. No interlocking relationship exists between our board of directors or compensation committee and the board of directors or compensation committee of any other entity, nor has any interlocking relationship existed in the past.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of March 28, 2002 as to shares of the Common Stock beneficially owned by: (i) each person who is known by the Company to own beneficially more than 5% of its Common Stock, (ii) each of the Company's current directors, (iii) each of the Company's nominees for director, (iii) each of the Company's executive officers named under Executive Compensation Summary Compensation Table, and (iv) all directors and executive officers of the Company as a group. Ownership information is based upon information furnished by the respective individuals or entities, as the case may be. Unless otherwise noted below, the address of each beneficial owner is c/o LogicVision, Inc., 101 Metro Drive, Third Floor, San Jose, California, 95110. The percentage of common stock beneficially owned is based on 14,875,904 shares outstanding as of March 28, 2002. In addition, shares issuable pursuant to options or warrants which may be exercised within 60 days of March 28, 2002 are deemed to be issued and outstanding and have been treated as outstanding in calculating the percentage ownership of those individuals possessing such interest, but not for any other individuals. Thus, the number of shares considered to be outstanding for the purposes of this table may vary depending on the individual's particular circumstances.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Right to Acquire Beneficial Ownership within 60 days of March 28, 2002	Total	Percentage of Common Stock Beneficially Owned
Directors and Named Executive Officers:				
Vinod K. Agarwal	500,000	585,000	1,085,000	7.0%
Navindra Jain	766,941	7,500	774,441	5.2
Richard C. Black(2)	1,699,759	7,500	1,707,259	11.5
D. James Guzy(3)	79,412	20,588	100,000	*
David L. Sulman(4)				*
Jon D. Tompkins	7,500	35,249	42,749	*
John H. Barnet	12,500	97,500	110,000	*
Michael C. Howells	244,000	73,437	317,437	2.1
Mukesh J. Mowji		35,000	35,000	*
Dale S. Olstinske		107,000	107,000	*
5% Stockholders:				
Helix (PEI) Inc.(2)(5)	1,692,009		1,692,009	11.4
Teradyne, Inc.(6)	588,235	263,507	851,742	5.6
Citicorp(7)	710,768	120,863	831,631	5.5
All Directors and Executive Officers as a group (11 persons)	3,310,112	1,032,836	4,342,948	27.3%

\* Less than  
1%.

- (1) To the Company's knowledge, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the notes to this table.
- (2) Includes 1,692,009 shares held by Helix (PEI) Inc. Mr. Black, a Vice President of Helix Investments (Canada) Inc., Helix (PEI)'s corporate parent, disclaims beneficial ownership of the shares held by Helix (PEI), except to the extent of his pecuniary interest therein.
- (3) Includes 79,412 shares held by the Arbor Company and 20,588 shares subject to warrants held by the Arbor Company. Mr. Guzy is the Chairman of the Arbor Company.
- (4) Mr. Sulman, a member of our Board of Directors since July 1999, will continue as a Director until the Annual Meeting, but will retire from our Board of Directors effective at the time of the Annual Meeting. Mr. Sulman was a Senior Vice President of Teradyne, Inc. until his retirement in 2001.
- (5) Helix (PEI) Inc. is a wholly-owned subsidiary of Helix Investments (Canada) Inc. Based on information provided by Helix Investments (Canada), the following persons exercise voting and/or dispositive power with respect to the shares held by Helix Investments (Canada): Chris Anderson, May Anis, Don Armour,

Richard C. Black, Bob Brooks, Tullio Cedraschi, James Dent, Hugh Hallward, Michael Koerner, David Lank, Jack Lawrence, Douglas Ross, Stephen J. Sadler, Benjamin Webster and Jim Wooder. Mr. Black is a Vice President of Helix Investments (Canada). The address for Helix (PEI) Inc. is 46 Robin Hood Road, Toronto, Canada M9A 2W8.

- (6) Teradyne, Inc. is a publicly held corporation. The address for Teradyne is 321 Harrison Avenue, Boston, MA 02118.
- (7) According to a Schedule 13G dated February 13, 2002 filed jointly by Citicorp, Citigroup Holdings Company and Citigroup Inc., Citicorp and Citigroup Holdings Company have shared voting and dispositive power for 830,554 shares, while Citigroup Inc. has shared voting and dispositive power for 831,631 shares. The address of the principal office of each of Citicorp and Citigroup Inc. is 399 Park Avenue, New York, New York, 10043; the address of the principal office of Citigroup Holdings Company is One Rodney Square, Wilmington, DE 19801.

**EXECUTIVE COMPENSATION**

The following table summarizes compensation for services rendered in all capacities to the Company for the three fiscal years ended December 31, 2001 for our Chief Executive Officer and our four other most highly compensated executive officers as of December 31, 2001.

**Summary Compensation Table**

<b>Name and Position</b>	<b>Year</b>	<b>Annual Compensation</b>		<b>Long-Term Compensation</b>
		<b>Salary</b>	<b>Bonus</b>	<b>Securities Underlying Options</b>
Vinod K. Agarwal	2001	\$ 240,000	\$ 75,000	
Chief Executive Officer and President	2000	240,898	98,102	150,000
	1999	239,000	50,000	75,000
John H. Barnet	2001	210,000	30,000	
Vice President of Finance and Chief Financial Officer	2000	180,000	60,000	25,000
	1999	163,333		122,500
Michael C. Howells	2001	189,136	28,000	
Vice President of Engineering	2000	173,211	50,000	70,000
	1999	165,000	30,000	37,500
Mukesh J. Mowji(1)	2001	278,116(2)		50,000
Vice President of Manufacturing Business	2000	70,833(2)	50,000	94,000
Dale S. Olstinske	2001	307,816(2)		50,000
Vice President of Sales	2000	298,251(2)	15,000	20,000
	1999	204,628(2)	10,000	

(1) Mr. Mowji joined LogicVision in August 2000.

(2) Includes sales commissions.

**Stock Options**

The following tables set forth certain information with respect to stock options granted to and exercised by the individuals named in the Summary Compensation Table during the fiscal year ended December 31, 2001, and the number and value of the options held by each individual as of December 31, 2001. The exercise price is equal to 100% of the fair market value of our Common Stock on the date of grant. The options have a term of 10 years, subject to earlier termination in certain events related to termination of employment.

**Option Grants in 2001**

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (1)	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	5%	10%
Vinod K. Agarwal						
John H. Barnet						
Michael C. Howells						
Mukesh J. Mowji(2)	50,000	12.3%	\$ 6.00	8/18/11	\$ 433,003	\$ 867,184
Dale S. Olstinske(3)	50,000	12.3	6.00	8/18/11	433,003	867,184

- (1) The 5% and 10% assumed rates of appreciation are suggested by the rules of the Securities and Exchange Commission and do not represent our estimate or projection of our future Common Stock price. There can be no assurance that any of the values reflected in the table will be achieved.
- (2) The options vest as to 12,500 shares every six months beginning on July 1, 2002.
- (3) The options vest as to 12,500 shares every six months beginning on October 1, 2002.

**Aggregate Option Exercises in Last Fiscal Year and 2001 Year End Option Values**

Name	Shares Acquired on Exercise (#)	Value Realized (1)	Number of Securities Underlying Unexercised Options at December 31, 2001 (#)	Value of Unexercised In-the-Money Options at December 31, 2001 (2)
			Exercisable/Unexercisable	Exercisable/Unexercisable
Vinod K. Agarwal		\$	570,000/155,000	\$6,761,000/\$1,363,250
John H. Barnet			91,250/43,750	921,838/480,813
Michael C. Howells			62,687/57,313	642,886/528,114
Mukesh J. Mowji			26,000/118,000	237,900/959,700
Dale S. Olstinske			86,500/83,500	976,375/691,125

- (1) Calculated on the basis of the fair market value of the underlying securities at the exercise date minus the exercise price.
- (2) Calculated on the basis of the fair market value of the underlying securities at December 31, 2001 (\$12.75 per share) minus the exercise price.

**REPORT OF THE COMPENSATION COMMITTEE  
OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION**

The Compensation Committee is comprised of two non-employee directors. The Compensation Committee is responsible for developing and monitoring compensation arrangements for the executive officers of the Company, administering the Company's stock option plans and other compensation plans and performing other activities and functions related to executive compensation as may be assigned from time to time by the Board of Directors.

**Compensation Philosophy and Objectives**

The Compensation Committee believes that compensation of the Company's executive officers should encourage creation of stockholder value and achievement of strategic corporate objectives. It is the Compensation Committee's philosophy to align the interests of the Company's stockholders and management by integrating compensation with the Company's annual and long-term corporate and financial objectives. In order to attract and retain the most qualified personnel, the Company intends to offer a total compensation package competitive with companies in the semiconductor test and design industries, taking into account relative company size, performance and geographic location as well as individual responsibilities and performance. The components of executive officer compensation consist of base salary, bonus and stock options, which are discussed separately below.

The Company generally intends to qualify executive compensation for deductibility under section 162(m) of the Internal Revenue Code, which provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation is limited to no more than \$1 million per year. The Company does not expect that the compensation to be paid to any of its executive officers for fiscal 2002 will exceed the \$1 million limit.

**Executive Officer Base Salary**

The Compensation Committee reviews salaries recommended by the Chief Executive Officer for executive officers other than the Chief Executive Officer. The Compensation Committee sets the salary level of each executive officer on a case by case basis, taking into account the individual's level of responsibilities and performance. The Compensation Committee also considers market information and the base salaries and other incentives paid to executive officers of other similarly sized companies within its industry. The Chief Executive Officer is involved in final decisions on base salary adjustments for executives other than the Chief Executive Officer.

**Executive Officer Bonuses**

The Compensation Committee believes that a portion of executive officer compensation should be contingent upon the Company's performance and an individual's contribution to the Company's success in meeting corporate and financial objectives. Bonuses paid for fiscal 2001 were determined on a case by case basis. The Compensation Committee evaluated each executive officer individually to determine the bonus for the fiscal year, which was based on individual and corporate performance criteria.

**Stock Option Grants**

The Compensation Committee administers the Company's 2000 Stock Incentive Plan for executive officers, employees, consultants and outside directors, under which it grants options to purchase the Company's Common Stock with an exercise price equal to the fair market value of a share of the Common Stock on the date of grant. The Compensation Committee believes that providing executive officers who have responsibility for the

management and growth of the Company with an opportunity to increase their ownership of Company stock aligns the interests of the Company's executive officers with those of its stockholders. Accordingly, the Compensation Committee when reviewing executive officer compensation also considers stock option grants as appropriate. At its discretion, from time to time the Compensation Committee may also grant options based on individual and corporate achievements. The Compensation Committee determines the number of shares underlying each stock option grant based upon