

IPG PHOTONICS CORP
Form DEF 14A
April 15, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

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 §240.14a-12

IPG PHOTONICS CORPORATION

(Name of Registrant as Specified In Its Charter)

(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)(1) and 0-11.

Title of
each class
of
securities
to which
transaction

(1) applies:

Aggregate
number of
securities
to which
transaction

(2) 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):

Proposed
maximum
aggregate
value of
(4) transaction:

Total
fee
(5) paid:

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.

Amount
Previously
(1) Paid:

Form,
Schedule or
Registration
Statement
(2) No.:

Filing
(3) Party:

Date
(4) Filed:

Table of Contents

NOTICE OF 2008 ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholder:

We invite you to attend our 2008 annual meeting of stockholders, which is being held as follows:

Date: Tuesday, June 10, 2008
Time: 10:00 a.m., local time
Location: IPG Photonics Corporation
50 Old Webster Road
Oxford, Massachusetts 01540

At the meeting, we will ask our stockholders to:

elect nine directors, each for a one-year term;

ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2008;

approve the 2008 Employee Stock Purchase Plan; and

consider any other business properly presented at the meeting.

You may vote on these matters in person or by proxy. Whether or not you plan to attend the meeting, we ask that you promptly complete and return the enclosed proxy card in the enclosed addressed, postage-paid envelope, so that your shares will be represented and voted at the meeting in accordance with your instructions. If you attend the meeting, you may withdraw your proxy and vote your shares in person. Only stockholders of record at the close of business on April 14, 2008 may vote at the meeting.

By order of the Board of Directors,

Angelo P. Lopresti
*Vice President, General Counsel
and Secretary*

April 15, 2008

Your vote is important. There are three ways to vote your shares by proxy:

Call the toll-free number listed on your proxy card;

Visit the Internet site address listed on your proxy card; or

Complete, sign, date and return the enclosed proxy card by mail in the envelope provided.

If you choose to vote by mail, please do so promptly to ensure that your proxy arrives in sufficient time.

TABLE OF CONTENTS

PROXY STATEMENT FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 10, 2008

INFORMATION ABOUT THE MEETING

PROPOSAL 1: ELECTION OF DIRECTORS

DIRECTOR COMPENSATION

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

AUDIT COMMITTEE REPORT

PROPOSAL 3: APPROVAL OF THE 2008 EMPLOYEE STOCK PURCHASE PLAN

COMPENSATION DISCUSSION AND ANALYSIS

COMPENSATION COMMITTEE REPORT

EXECUTIVE COMPENSATION

INFORMATION ABOUT COMMON STOCK OWNERSHIP

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

OTHER INFORMATION

Table of Contents

**IPG Photonics Corporation
50 Old Webster Road
Oxford, Massachusetts 01540**

**PROXY STATEMENT FOR THE
2008 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JUNE 10, 2008**

INFORMATION ABOUT THE MEETING

The Meeting

The 2008 annual meeting of stockholders of IPG Photonics Corporation will be held at 10:00 a.m., local time, on Tuesday, June 10, 2008 at the offices of IPG Photonics Corporation, 50 Old Webster Road, Oxford, Massachusetts 01540. At the meeting, stockholders of record at the close of business on April 14, 2008 who are present or represented by proxy will have the opportunity to vote on the following matters:

the election of nine directors, each for a one-year term;

the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2008;

the approval of the 2008 Employee Stock Purchase Plan; and

any other business properly presented at the meeting.

This Proxy Solicitation

We have sent you this proxy statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the meeting (including any adjournment or postponement of the meeting).

This proxy statement summarizes information about the proposals to be considered at the meeting and other information you may find useful in determining how to vote.

The proxy card is the means by which you actually authorize another person to vote your shares at the meeting in accordance with your instructions.

We will pay the cost of soliciting proxies. Our directors, officers and employees may solicit proxies in person, by telephone or by other means. We will reimburse brokers and other nominee holders of shares for expenses they incur in forwarding proxy materials to the beneficial owners of those shares. We do not currently plan to retain the services of a proxy solicitation firm to assist us in this solicitation.

We are mailing this proxy statement and the enclosed proxy card to stockholders for the first time on or about April 21, 2008. In this mailing, we are including a copy of our 2007 Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2007 (excluding exhibits), as filed with the Securities and Exchange Commission, or the SEC. The 2007 Annual Report to Stockholders is not to be regarded as proxy soliciting material or as a communication by means of which any solicitation is to be made.

Table of Contents

Who May Vote

Holders of record of our common stock at the close of business on April 14, 2008 are entitled to one vote per share of common stock on each proposal properly brought before the annual meeting.

A list of stockholders entitled to vote will be available at the annual meeting. In addition, you may contact our Secretary at our corporate offices, located at 50 Webster Road, Oxford, Massachusetts 01540, to make arrangements to review a copy of the stockholder list at those offices, between the hours of 9:00 a.m. and 4:30 p.m., local time, during the ten days before the date of the annual meeting.

How to Vote

You are entitled to one vote at the meeting for each share of common stock registered in your name at the close of business on April 14, 2008, the record date for the meeting. You may vote your shares at the meeting in person or by proxy.

To vote in person, you must attend the meeting, and then complete and submit the ballot provided at the meeting.

To vote by proxy, you may:

call the toll-free number listed on the accompanying proxy card;

visit the Internet site address listed on the accompanying proxy card; or

complete, sign and date the accompanying proxy card and return it in the envelope provided.

The person named as proxy on the accompanying proxy card was designated by our Board and is one of our officers. All proxies that are properly received by us prior to the meeting, and not revoked, will be voted in accordance with the instructions given in the proxy. If a choice is not specified in the proxy, the shares represented by the proxy will be voted FOR election of the director nominees listed therein, FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2008 and FOR the approval of the 2008 Employee Stock Purchase Plan. Management is not aware of any other matters that will be presented for consideration at our 2008 annual meeting of stockholders. If any other matter not mentioned in this proxy statement is brought before the meeting, the proxy holder named in the enclosed proxy will have discretionary authority to vote all proxies with respect thereto in accordance with his judgment.

If you vote by proxy, you may revoke your proxy at any time before it is exercised by taking one of the following actions:

sending written notice to our Secretary at our address set forth in the notice of meeting appearing on the cover of this proxy statement;

voting again by proxy on a later date; or

attending the meeting, notifying our Secretary that you are present, and then voting in person.

Shares Held by Brokers or Nominees

If a broker or nominee holds shares of our common stock for you in its name as record holder, then this proxy statement may have been forwarded to you with a voting instruction card, which allows you to instruct the broker or nominee how to vote your shares on the proposals described herein. To vote by proxy, you should follow the directions provided with the voting instruction card. If your shares are held by a broker and you do not provide timely voting instructions, the broker may have discretionary authority to vote your shares on matters which are considered routine. For non-routine matters, if you do not provide instructions, the broker will not vote your shares, which results in a broker non-vote. To vote your shares in person, you must obtain a properly executed legal proxy from the record holder of the shares which identifies you as an IPG Photonics Corporation stockholder and authorizes you to act on behalf of the record holder with respect to a specified number of shares.

Table of Contents**Quorum Required to Transact Business**

At the close of business on April 14, 2008, 44,227,241 shares of our common stock were outstanding. Our bylaws require that a majority of our common stock be represented, in person or by proxy, at the meeting in order to constitute the quorum we need to transact business at the meeting. We will count abstentions and broker non-votes in determining whether a quorum exists.

Multiple Stockholders Sharing the Same Address

If you and other residents at your mailing address own shares of the Company's common stock through a broker or other nominee, you may have elected to receive only one copy of this proxy statement and our 2007 Annual Report to Stockholders. If you and other residents at your mailing address own shares of the Company's common stock in your own names, you may have received only one copy of this proxy statement and our 2007 Annual Report to Stockholders unless you provided our transfer agent with contrary instructions. This practice, known as householding, is designed to reduce our printing and postage costs. You may promptly obtain an additional copy of this proxy statement, enclosed proxy card and our 2007 Annual Report to Stockholders by sending a written request to IPG Photonics Corporation, Attention: Secretary, 50 Old Webster Road, Oxford, Massachusetts 01540, or by calling our Secretary at (508) 373-1100. If you hold your shares through a broker or other nominee and wish to discontinue householding or to change your householding election, you may do so by calling 1-800-542-1061 or writing to Broadridge Investor Communication Services, Attn.: Household Department, 51 Mercedes Way, Edgewood, New York 11717.

PROPOSAL 1: ELECTION OF DIRECTORS

The first proposal on the agenda for the meeting is the election of nine persons to serve as directors, each for a one-year term that will begin at the meeting and end at our 2009 annual meeting of stockholders, or until his successor has been duly qualified and elected, or until his earlier death, resignation or removal.

Nominees for Election

The following table sets forth certain information as of March 31, 2008 regarding our incumbent directors, each of whom has been nominated by the Board of Directors for re-election at our 2008 annual meeting of stockholders.

Name	Age	Position
Valentin P. Gapontsev, Ph.D.	69	Chief Executive Officer and Chairman of the Board
Eugene Shcherbakov, Ph.D.	60	Managing Director of IPG Laser and Director
Igor Samartsev	45	Acting General Manager of NTO IRE-Polus and Director
Robert A. Blair	61	Director
Michael C. Child	53	Director
John H. Dalton	66	Director
Henry E. Gauthier	67	Director
William S. Hurley	63	Director
William F. Krupke, Ph.D.	71	Director

Valentin P. Gapontsev, Ph.D., founded IPG in 1990 and has been our Chief Executive Officer and Chairman of our Board of Directors since our inception. Prior to that time, he served as senior scientist in laser material physics and head of the laboratory at the Soviet Academy of Science's Institute of Radio Engineering and Electronics in Moscow.

He has over thirty years of academic research experience in the fields of solid state laser materials, laser spectroscopy and non-radiative energy transfer between rare earth ions and is the author of many scientific publications and several international patents. Dr. Gapontsev holds a Ph.D. in Physics from the Moscow Institute of Physics and Technology. In 2006, he was awarded the Ernst & Young®

Table of Contents

Entrepreneur of the Year Award for Industrial Products and Services in New England. He is the father of Denis Gapontsev, our Vice President-Research and Development.

Eugene Shcherbakov, Ph.D., has served as the Managing Director of IPG Laser GmbH, our German subsidiary, since August 2000 and has been a member of our Board of Directors since September 2000. Dr. Shcherbakov served as the Technical Director of IPG Laser from 1995 to August 2000. From 1983 to 1995, Dr. Shcherbakov was a senior scientist in fiber optics and head of the optical communications laboratory at the General Physics Institute, Russian Academy of Science in Moscow. Dr. Shcherbakov graduated from the Moscow Physics and Technology Institute with an M.S. in Physics. In addition, Dr. Shcherbakov attended the Russian Academy of Science in Moscow, where he received a Ph.D. in Quantum Electronics from its Lebedev Physics Institute and a Dr.Sci. degree in Laser Physics from its General Physics Institute.

Igor Samartsev has been the acting General Manager of our Russian subsidiary, NTO IRE-Polus, since 2005. He served as the Technical Director of NTO IRE-Polus from 2000 to April 2005 and, from 1993 to 2001, he was the Deputy Director of NTO IRE-Polus. Mr. Samartsev holds an M.S. in Physics from the Moscow Institute of Physics and Technology.

Robert A. Blair has served as a member of our Board of Directors since September 2000. Since January 1999, Mr. Blair has been the President of the Blair Law Firm P.C. Mr. Blair was a senior partner at the law firm of Manatt, Phelps & Phillips from 1995 to 1999. He was the managing partner of the law firm of Anderson, Hibey, Nauheim & Blair from 1981 to 1995. He is a trustee under Winkler Trusts, previously the primary sources of equity for, and owners of, real estate ventures developed by The Mark Winkler Company. Mr. Blair is managing partner of several real estate partnerships, has been a manager/principal in cellular telephone ventures and assisted in the launch of a VoIP business. Mr. Blair holds a B.A. in Mathematics from the College of William & Mary, where he previously served on its governing Board of Visitors, and a J.D. from the University of Virginia School of Law.

Michael C. Child has served as a member of our Board of Directors since September 2000. Since July 1982, Mr. Child has been employed by TA Associates, Inc., a private equity investment firm, where he currently serves as a Managing Director. Mr. Child holds a B.S. in Electrical Engineering from the University of California at Davis and an M.B.A. from the Stanford University Graduate School of Business. He is on the Board of Directors of Eagle Test Systems, Inc.

John H. Dalton has served as a member of our Board of Directors since September 2000. Since 2005, he has been President of the Housing Policy Council of The Financial Services Roundtable. From September 2000 to December 2004, Mr. Dalton served as our President. He was appointed Secretary of the Navy by President Clinton in 1993 and served in that capacity until 1998. Mr. Dalton was nominated by President Carter to be President of the Government National Mortgage Association and to the Federal Home Loan Bank Board, where he served as Chairman. He is a member of the boards of directors of Fresh Del Monte Produce Inc. and eSpeed Inc. Mr. Dalton graduated with distinction from the United States Naval Academy and holds an M.B.A. from the Wharton School of Finance and Commerce of the University of Pennsylvania.

Henry E. Gauthier has served as a member of our Board of Directors since April 2006. Mr. Gauthier was President of Reliant Technologies, Inc., a manufacturer of medical laser systems, from February to May 2005 and has served as Chairman of the board of directors of Reliant Technologies since May 2005. Reliant Technologies is one of our customers. He also served as a consultant to Reliant Technologies until December 2006. See Certain Relationships and Related Party Transactions. He served as Vice Chairman of the board of directors of Coherent, Inc., a manufacturer of photonic products, from October 2002 to March 2005. He served as Chairman of the board of directors of Coherent, Inc. from February 1997 to October 2002 and was its President from 1983 to 1996. Since July 1996, Mr. Gauthier has served as a principal at Gauthier Consulting. He has been a member of the board of directors

of Alara, Inc. since 1997. Mr. Gauthier attended the United States Coast Guard Academy, San Jose State University, and the Executive Institute of the Stanford University Graduate Business School.

William S. Hurley has served as a member of our Board of Directors since April 2006. Since April 2006, he has been principal of W.S. Hurley Financial Consulting LLC, which provides supplemental chief financial

Table of Contents

officer services. From 2002 to April 2006, he was a partner with Tatum LLC, a nationwide executive services and consulting firm. He was Senior Vice President and Chief Financial Officer at Applied Science & Technology, a developer, manufacturer and supporter of semiconductor capital equipment, from 1999 until 2001. He served as Vice President and Chief Financial Officer at Cybex International, Inc., a designer, manufacturer and distributor of fitness equipment, from 1996 to 1999. From 1992 to 1995, he was Vice President-Controller and Chief Accounting Officer at BBN Corporation, formerly known as Bolt, Beranek & Newman, Inc., a high technology company. Mr. Hurley holds a B.S. in Accounting from Boston College and an M.B.A. in Finance from Columbia University Graduate School of Business. Mr. Hurley is a certified public accountant.

William F. Krupke, Ph.D., has served as a member of our Board of Directors since February 2001. Since 1999, Dr. Krupke has been President of a laser technology and applications consulting firm (now WFK Lasers, LLC). From 1972 to 1999, Dr. Krupke worked at the Lawrence Livermore National Laboratory, which provides research and development services to various U.S. government departments, serving for the last twenty of such years as Deputy Associate Director of the Laser Programs Directorate. He has over forty years of experience in the fields of solid-state lasers and innovative laser materials. Dr. Krupke holds a B.S. degree in Physics from Rensselaer Polytechnic Institute and M.A. and Ph.D. degrees in Physics from the University of California at Los Angeles.

The nine persons receiving the greatest number of votes cast will be elected as directors. We will not count votes withheld or broker non-votes when we tabulate votes cast for the election of a director. Consequently, withheld votes or broker non-votes or other failures to vote will have no effect on the election of directors.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF MESSRS. GAPONTSEV, SHCHERBAKOV, SAMARTSEV, BLAIR, CHILD, DALTON, GAUTHIER, HURLEY AND KRUPKE AS DIRECTORS.

Corporate Governance

Corporate Governance Guidelines. Our Board has adopted Corporate Governance Guidelines (the Governance Guidelines) that outline, among other matters, the role and functions of the Board, the responsibilities of various Board committees and the mission of the Board. These Governance Guidelines are available, along with other important corporate governance materials, on our website at www.ipgphotonics.com. We will also provide an electronic or paper copy of these Governance Guidelines, free of charge, upon request made to our Secretary at the address listed on the cover of this proxy statement.

The Governance Guidelines provide, among other things, that:

a majority of our Board of Directors must be independent;

an independent director presides over executive sessions of independent directors;

the Board appoints all members of the Board committees;

the Audit, Compensation, and Nominating and Corporate Governance Committees consist solely of independent directors;

the independent directors meet periodically in executive sessions without the presence of the non-independent directors or members of our management;

directors may not serve on the boards of more than three other public companies; and

evaluations of the Board and committees are to be conducted annually.

The Board regularly reviews changing legal and regulatory requirements, evolving best practices and other developments. The Board may modify the Governance Guidelines and its other corporate governance policies and practices from time to time, as appropriate.

Table of Contents

Director Nominations. The Nominating and Corporate Governance Committee of the Board considers candidates for director nominees proposed by directors and stockholders. This Committee may retain recruiting professionals to assist in identifying and evaluating candidates for director nominees. As set forth in our Governance Guidelines, the Board seeks members from diverse professional backgrounds with a reputation for integrity who do not have professional commitments that might unreasonably interfere with the demands and duties of a board member. Candidates for director are reviewed in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of the Company's stockholders. In conducting this assessment, the Board considers diversity, age, skills and such other factors as it deems appropriate given the current needs of the Board and the Company to maintain a balance of knowledge, experience and capability. Candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements, and must be over 21 years of age and possess the highest personal integrity and ethics. The Committee also considers whether the nominee must be independent for Nasdaq purposes.

All members of the Board may interview the final candidates. The Nominating and Corporate Governance Committee has adopted a policy under which it will consider nominations by stockholders. The same identifying and evaluating procedures apply to all candidates for director nomination, including candidates submitted by stockholders. The Nominating and Corporate Governance Committee evaluates and interviews potential board candidates.

Director Independence. IPG follows director independence rules under Nasdaq listing standards and SEC rules. Also, our Governance Guidelines require that a majority of our Board of Directors satisfy the independence rules of the Nasdaq Global Market and the SEC. Our Nominating and Corporate Governance Committee has determined that Messrs. Blair, Child, Dalton, Gauthier and Hurley and Dr. Krupke are independent as defined by Nasdaq Rule 4200(a)(15). Our Nominating and Corporate Governance Committee has determined that no such member has a relationship that would interfere with the exercise of independent judgment in carrying out his responsibilities as a director.

Executive Sessions. Our independent directors meet privately, without management present, at least four times during the year. These private sessions are generally held in conjunction with the regular quarterly Board meetings. Other private meetings are held as often as deemed necessary by the independent directors. The Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee meet without management present from time to time as they deem necessary.

Presiding Independent Director. In accordance with our Governance Guidelines, an independent director is selected at each meeting of the Board of Directors to preside over executive private meetings of the independent directors. The presiding independent director acts as a liaison between the independent directors and our Chief Executive Officer and communicates to him with respect to matters discussed at executive sessions and agenda items for the Board. The position of presiding independent director rotates at each meeting based upon date of first election to the Board.

Director Meetings. It has been the practice of our Board to hold at least four regular meetings each year. Our Board of Directors met in person or by telephone nine times and acted by unanimous written consent once in 2007. All of our directors attended at least 75% of the aggregate of the total number of meetings held by the Board of Directors and committees on which they served in 2007 except for Mr. Samartsev, who attended 56% of Board meetings.

Policy Regarding Board Attendance. In accordance with our Governance Guidelines, our directors are expected to prepare for, attend and actively participate in meetings of the Board of Directors and meetings of committees on which they serve. Our directors are expected to spend the time needed at each meeting and to meet as frequently as necessary to properly discharge their responsibilities. We encourage members of our Board to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so. Two of our directors attended our 2007 annual meeting of stockholders.

Stock Ownership Guidelines. The Board adopted stock ownership guidelines in 2007 to more closely align the interests of our directors and executive officers with those of our stockholders. The guidelines

Table of Contents

provide that (i) non-employee directors should maintain an investment in our stock that is at least equal to five times their annual cash Board retainer (excluding committee retainers); (ii) the Chief Executive Officer should maintain an investment in our stock that is at least equal to five times his annual salary; and (iii) other executive officers should maintain an investment that is at least equal to two times their annual salaries. In each case, the investment levels phase in over time and the investment levels are to be achieved no later than five years following the director's or executive's initial election or appointment or December 12, 2011, whichever occurs later. All directors and executive officers are currently in compliance with our stock ownership guidelines.

Shareholder Communications. Stockholders wishing to write to the Board or a specified director or a committee of the Board should send correspondence to IPG Photonics Corporation, attention Secretary, 50 Old Webster Road, Oxford, Massachusetts 01540. All written communications received in such manner from stockholders of the Company shall be forwarded to the members or committee of the Board to whom the communication is directed or, if the communication is not directed to any particular member(s) or committee of the Board, the communication shall be forwarded to all members of the Board.

Corporate Responsibility

Code of Business Conduct. We have adopted a code of business conduct that applies to all of our directors and employees, including our Chief Executive Officer, Chief Financial Officer and other executive officers. Our code of business conduct includes provisions covering conflicts of interest, business gifts and entertainment, outside activities, compliance with laws and regulations, insider trading practices, antitrust laws, payments to government personnel, bribes or kickbacks, corporate record keeping and accounting records. The code of business conduct is posted on our website at www.ipgphotonics.com.

Procedures for Submitting Complaints Regarding Accounting and Auditing Matters. Our Audit Committee has adopted procedures for the treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential and anonymous submission by our directors, officers and employees of concerns regarding questionable accounting, internal accounting controls or auditing matters. These procedures are posted on our website at www.ipgphotonics.com.

Committees of the Board

Our Board has three separate standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each committee operates under a written charter adopted by the Board. Copies of the charters of all standing committees are available on our website at www.ipgphotonics.com. We will also provide electronic or paper copies of the standing committee charters free of charge, upon request made to our Secretary.

Audit Committee. The current members of our Audit Committee are Mr. Hurley, who serves as Chairman, Mr. Child and Mr. Gauthier, each of whom is independent for Audit Committee purposes under the applicable rules of the Nasdaq Global Market and the SEC. The Nominating and Corporate Governance Committee has determined that Mr. Hurley qualifies as an audit committee financial expert, as defined under the Securities Exchange Act of 1934 and the applicable rules of the Nasdaq Global Market. The Audit Committee met in person or by telephone ten times in 2007. The Audit Committee, among other things:

appoints, approves the fees of, and assesses the independence of our independent registered public accounting firm;

reviews the Audit Committee charter annually and recommends any necessary amendments to such charter to our Board;

oversees the work of our independent registered public accounting firm, which includes the receipt and consideration of certain reports from the independent registered public accounting firm;

resolves disagreements between management and our independent registered public accounting firm;

Table of Contents

pre-approves auditing and permissible non-audit services, and the terms of such services, to be provided by our independent registered public accounting firm;

reviews and discusses with management and our independent registered public accounting firm our annual and quarterly financial statements and related disclosures;

coordinates the oversight of our internal and external controls over financial reporting, disclosure controls and procedures and code of business conduct and ethics;

establishes, reviews and updates our code of business conduct and ethics;

establishes procedures for the receipt of accounting-related complaints and concerns;

meets independently with our independent registered public accounting firm and management;

prepares the Audit Committee report required by SEC rules to be included in our proxy statements; and

performs any other activities consistent with its charter, the Company's bylaws, and governing law, as the Board deems necessary or appropriate.

Compensation Committee. The current members of our Compensation Committee are Mr. Blair, who serves as Chairman, Mr. Child and Mr. Gauthier, each of whom is an independent director. The Compensation Committee met in person or by telephone five times in 2007. The Compensation Committee, among other things:

annually reviews and approves base salary and incentive compensation for our Chief Executive Officer, other officers and key executives;

reviews and approves corporate goals and objectives relevant to compensation of our Chief Executive Officer, other officers and key executives;

evaluates the performance of our Chief Executive Officer in light of our corporate goals and objectives and determines the compensation of our Chief Executive Officer;

periodically reviews compensation practices, procedures and policies throughout the Company; and

reviews and recommends to the Board compensation for members of the Board.

Nominating and Corporate Governance Committee. The current members of our Nominating and Corporate Governance Committee are Dr. Krupke, who serves as Chairman, Mr. Blair, Mr. Dalton and Mr. Hurley, each of whom is an independent director. Mr. Dalton joined the Committee in March 2008. The Nominating and Corporate Governance Committee met in person or by telephone six times in 2007. The Nominating and Corporate Governance Committee, among other things:

develops and recommends to the Board criteria for board membership;

recommends to the Board changes that the Committee believes to be desirable with regard to the appropriate size, functions and needs of the Board;

identifies and evaluates director candidates, including nominees recommended by our stockholders;

identifies individuals qualified to fill vacancies on any committee of the Board;

reviews procedures for stockholders to submit recommendations for director candidates;

recommends to the Board the persons to be nominated for election as directors and to each of the Board's committees;

reviews the performance of the Committee and evaluates its charter periodically;

develops and recommends to the Board a set of corporate governance guidelines; and

reviews and approves related party transactions.

Table of Contents**Compensation Committee Interlocks and Insider Participation**

None of our executive officers serves as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee.

DIRECTOR COMPENSATION

The following table summarizes the compensation of each of our non-employee directors for the fiscal year ended December 31, 2007:

Name	Fees Earned	Option	Total (\$)
	or Paid in Cash (\$)	Awards (\$)(1)	
Robert A. Blair(2)	50,000	21,562	71,562
Michael H. Child(2)(3)		21,562	21,562
John H. Dalton(2)	30,000	21,562	51,562
Henry E. Gauthier(2)	47,590	26,419	74,009
William S. Hurley(2)	55,000	26,419	81,419
William F. Krupke(2)	40,000	18,026	58,026

- (1) Valuation based on the dollar amount of option grants recognized for financial statement reporting purposes pursuant to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)), with respect to 2007. The assumptions that we used with respect to the valuation of option grants are set forth in Note 2 to our Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on March 13, 2008. Each director was granted options to purchase 6,667 shares on June 12, 2007 at an exercise price of \$20.32 per share that vest over four years. The grant date fair value of each such option award issued in 2007 is \$87,938.
- (2) As of December 31, 2007, Mr. Blair owned options to purchase 28,334 shares, 6,666 of which were vested; Mr. Child owned options to purchase 100,002 shares, of which 78,334 were vested; Mr. Dalton owned options to purchase 33,334 shares, of which 11,666 were vested; Mr. Gauthier owned options to purchase 21,667 shares, of which 5,000 were vested; Mr. Hurley owned options to purchase 26,677 shares, 10,000 of which were vested; and Dr. Krupke owned options to purchase 33,334 shares, of which 11,166 were vested.
- (3) Mr. Child waived his cash compensation for 2007 and prior years.

Director Compensation Plan

Our non-employee director compensation plan provides for both cash and equity compensation for our non-employee directors. The principal features of the non-employee director compensation plan are described below. The Board determines director compensation based upon the review and recommendation of the Compensation Committee. The Board adopted the non-employee director compensation plan described below in June 2006 after consideration of an independent director compensation survey and consideration of independent director compensation at several publicly

held companies in our industry or with which the directors were familiar that were comparable in size to the Company. In 2006, management gathered director compensation information for comparable companies and developed preliminary recommendations for consideration by the Compensation Committee and the Board.

In 2007, the Compensation Committee engaged Radford Surveys + Consulting, a unit of Aon Consulting (Radford), an independent compensation consultant, to provide a comprehensive review on compensation for membership on the Board and its committees and to make recommendations from time to time to the Board with regard to such compensation matters. Based upon the compensation assessment practices relative to our peers and other market data provided by Radford, the Board determined not to change director compensation in 2007.

Table of Contents

We also reimburse directors for all reasonable out-of-pocket expenses incurred for attending Board and committee meetings. Non-employee directors do not receive any additional payments or perquisites. Directors who are also our employees receive no additional compensation for their service as directors.

Our Certificate of Incorporation limits the personal liability of our directors for breaches by them of their fiduciary duties. Our Certificate of Incorporation requires us to indemnify our directors to the fullest extent permitted by the Delaware General Corporation Law. We have also entered into indemnification agreements with all of our directors and we have purchased directors and officers liability insurance.

Cash Compensation

Our non-employee directors have the right to receive the annual retainers from us set forth in the table below. Directors do not receive separate fees for attending meetings of the Board, committees or stockholders.

	Amount
Board Retainer	\$ 30,000
Audit Committee Retainers	
Chair	\$ 20,000
Non-Chair	\$ 10,000
Compensation Committee Retainers	
Chair	\$ 15,000
Non-Chair	\$ 7,500
Nominating and Corporate Governance Committee Retainers	
Chair	\$ 10,000
Non-Chair	\$ 5,000

Equity Compensation

Pursuant to our non-employee director compensation plan that we adopted in 2006, non-employee directors continuing in office after each annual meeting of stockholders receive, effective following the meeting, a grant of stock options to purchase 6,667 shares of our common stock vesting in four equal annual installments. Upon initial election to the Board, each new non-employee director receives a grant of stock options to purchase 20,000 shares of our common stock vesting in four equal annual installments. The exercise price of each of these stock options was not less than the fair market value of our common stock on the date of grant. The non-employee director compensation plan provides that, with respect to options granted after the adoption of the plan, any director who retires after at least eight years of service on the Board will be entitled to full vesting of all options then held by such director. Our non-employee directors stock option plan is described under Executive Compensation 2000 Incentive Compensation Plan, 2006 Incentive Compensation Plan and Non-Employee Directors Stock Plan.

**PROPOSAL 2: RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP currently serves as our independent registered public accounting firm and audited our consolidated financial statements for the year ended December 31, 2007. Our Audit Committee has appointed Deloitte & Touche LLP to serve as our independent registered public accounting firm for 2008, and to conduct an integrated audit of our consolidated financial statements for the year ending December 31, 2008 and of our internal control over financial reporting as of December 31, 2008.

Our Audit Committee is responsible for selecting and appointing our independent registered public accounting firm, and this appointment is not required to be ratified by our stockholders. However, our Audit Committee has recommended that the Board of Directors submit this matter to the stockholders as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider whether to retain Deloitte & Touche LLP, and may retain that firm or another without re-submitting the matter

Table of Contents

to our stockholders. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

In order to pass, this proposal must receive a majority of the votes cast. We will count abstentions but not broker non-votes when we tabulate votes cast and, as a result, an abstention with respect to this proposal will have the same effect as a vote against the proposal.

We expect that representatives of Deloitte & Touche LLP will attend the meeting, will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2008.

Fees Paid to Deloitte & Touche LLP

The fees for services provided by Deloitte & Touche LLP, member firm of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte & Touche), to the Company in the last two fiscal years were as follows:

Fee Category	Fees	
	2007	2006
Audit fees	\$ 974,354	\$ 1,033,375
Tax fees		\$ 20,671
Total Fees	\$ 974,354	\$ 1,054,046

Audit fees. These fees comprise fees for professional services rendered in connection with the audit of the Company's consolidated financial statements that are customary under auditing standards generally accepted in the United States. Audit fees also include fees for consents and reviews related to SEC filings and quarterly services with respect to the preparation of our unaudited quarterly financial statements. During 2006, the audit fees related to various audit services associated with the initial public offering of our common stock in December 2006 (the IPO) totaled \$0.8 million.

Tax fees. Fees for tax services consisted of fees for tax compliance services and tax planning and advice services.

Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute and obtain government approval for amounts to be included in tax filings and consisted of (i) federal, state and local income tax return assistance, (ii) sales and use, property and other tax return assistance and (iii) assistance with tax audits and appeals.

Tax planning and advice are services rendered with respect to proposed transactions or that alter a transaction to obtain a particular tax result. Such services consisted of tax advice related to (i) certain internal legal restructuring actions and other intra-group restructuring actions, (ii) transfer pricing and (