

ALTIGEN COMMUNICATIONS INC  
Form DEF 14A  
January 12, 2009

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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

**ALTIGEN COMMUNICATIONS, 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)(1) and 0-11.
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(1) Amount Previously Paid:

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**ALTIGEN COMMUNICATIONS, INC.**

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**Notice of Annual Meeting of Stockholders  
To Be Held on February 9, 2009**

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To Our Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Annual Meeting) of AltiGen Communications, Inc. (AltiGen), a Delaware corporation, will be held on February 9, 2009 at 10:00 a.m., local time, at our principal executive offices, located at 4555 Cushing Parkway, Fremont, California 94538, for the following purposes:

1. To elect one Class I director to serve for a three-year term expiring on the date on which our Annual Meeting of Stockholders is held in 2012.
2. To ratify the appointment of Moss Adams LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2009.
3. To transact such other business as may properly come before the Annual Meeting or at any and all adjournments or postponements thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only holders of record of AltiGen common stock on the close of business on December 12, 2008 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

You are cordially invited to attend the Annual Meeting in person. To assure your representation at the Annual Meeting, you are urged to complete, sign, date and return the enclosed proxy card as promptly as possible in the self-addressed, postage-prepaid envelope enclosed for that purpose. Your shares will be voted in accordance with the instructions you give on the proxy. You can attend the Annual Meeting and vote in person even if you have returned a proxy. Please note, however, that if your shares are held in street name by a broker, bank or other nominee and you wish to attend the Annual Meeting and vote in person you must obtain a proxy issued in your name from the holder of record.

By Order of the Board of Directors

Philip M. McDermott  
*Chief Financial Officer and Secretary*

Fremont, California  
January 12, 2009

**YOUR VOTE IS IMPORTANT**

To assure your representation at the Annual Meeting, you are requested to complete, sign and date the enclosed proxy as promptly as possible and return it in the self-addressed, enclosed envelope, which requires no postage if mailed in the United States.

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**ALTIGEN COMMUNICATIONS, INC.**

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**PROXY STATEMENT**

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**Important Notice Regarding Internet Availability of Proxy Materials for the Stockholder Meeting to be Held on February 9, 2009. The Proxy Statement and Annual Report to Stockholders is/are available at [www.envisionreports.com/atgn](http://www.envisionreports.com/atgn).**

**Introduction**

The enclosed proxy is solicited on behalf of the Board of Directors (the Board) of AltiGen Communications, Inc. (AltiGen) for use at the Annual Meeting of Stockholders to be held on February 9, 2009 at 10:00 a.m., local time (the Annual Meeting), or at any and all adjournments or postponements thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at our principal executive offices located at 4555 Cushing Parkway, Fremont, California 94538. Our telephone number is (510) 252-9712.

These proxy solicitation materials were mailed on or about January 14, 2009 to all stockholders of record entitled to vote at the Annual Meeting.

**Record Date and Voting Securities**

Only stockholders of record on the close of business on December 12, 2008 are entitled to notice of and to vote at the Annual Meeting. As of December 12, 2008, 15,885,480 shares of our common stock were issued and outstanding. No shares of our preferred stock were outstanding.

**Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use:

by delivering to our secretary a written notice of revocation;

by delivering to our secretary a duly executed proxy bearing a later date; or

by attending the Annual Meeting and voting in person.

Attendance at the Annual Meeting will not, in and of itself, revoke a proxy.

**Voting and Discretionary Voting**

Properly executed proxies received prior to the meeting, and not subsequently revoked in the manner described above, will be voted in accordance with the instructions on such proxies. Where no instructions are given, proxies will be voted FOR the director nominees described herein, FOR the ratification of the auditors, and with respect to any other matter that may properly be brought before the Annual Meeting, in accordance with the judgment of the proxy holders.

You are entitled to one vote for each share of common stock held on all matters presented at the Annual Meeting. You do not have the right to cumulate votes in the election of directors. Voting instructions are included on the proxy or voting instruction card.

**Solicitation**

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This solicitation of proxies is made by the Board of Directors of AltiGen, and all costs associated with soliciting proxies will be borne by AltiGen. In addition, we will reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation

material to such beneficial owners. Proxies may be solicited by certain of our directors, officers and regular employees, without additional compensation, personally or by telephone, facsimile or telegram.

#### **Quorum; Abstentions; Broker Non-Votes**

The required quorum for the transaction of business at the Annual Meeting is a majority of the shares of common stock issued and outstanding and entitled to vote at the meeting as of the record date. All shares represented at the meeting, whether in person or by proxy, will be counted for the purpose of establishing a quorum.

While there is no definitive statutory or case law authority in Delaware as to the proper treatment of abstentions (including "withheld votes"), we believe that abstentions should be counted for purposes of determining both (i) the presence or absence of a quorum for the transaction of business and (ii) the total number of shares present and entitled to vote with respect to a proposal (other than the election of directors). In the absence of controlling precedent to the contrary, we intend to treat abstentions in this manner, which we believe to be in accordance with Delaware law. Accordingly, abstentions will have the same effect as a vote against a proposal.

Under current Delaware case law, broker non-votes (i.e., the votes of shares held of record by brokers as to which the underlying beneficial owners have given no voting instructions) are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but are not counted for purposes of determining the total number of shares present and entitled to vote with respect to a particular proposal on which the broker expressly has no instructions to vote. Accordingly, we intend to treat broker non-votes in this manner. Thus, a broker non-vote will make a quorum more readily obtainable, but will not otherwise affect the outcome of the voting on a proposal.

#### **Stockholder Nominations and Proposals**

Our Bylaws provide that nominations for the election of directors and business proposed to be brought before any stockholder meeting may be made by the Board of Directors or proxy committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of directors generally if such nomination or proposed business is properly brought before the meeting. Any stockholder may nominate one or more persons for election to the Board of Directors at a meeting or propose business to be brought before a meeting of the stockholders, or both, only if such stockholder has given timely notice in proper written form of its intent to make such nomination or nominations or to propose such business. To be timely for an upcoming annual meeting, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not less than one hundred twenty (120) calendar days prior to the date our proxy statement for the previous year's annual meeting was first mailed to stockholders, plus one year; *provided, however*, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's proxy statement, notice by the stockholder to be timely must be so received a reasonable time before the solicitation is made.

#### **Deadlines for Submission of Stockholder Proposals or Nominations**

Stockholders are entitled to present proposals for consideration at future stockholder meetings provided that they comply with the proxy rules promulgated by the Securities and Exchange Commission (SEC) and our Bylaws.

Stockholders wishing to present a proposal or nomination at our 2010 Annual Stockholder Meeting must submit such proposal to us by September 16, 2009 in order to be considered timely and whether or not such proposal or nomination is intended to be included in our proxy for the 2010 Annual Stockholder Meeting.

**PROPOSAL ONE****ELECTION OF DIRECTORS****Nominees**

Pursuant to our Bylaws, our Board of Directors is divided into three classes. The directors are elected to serve staggered three-year terms, such that the term of one class of directors expires each year. We currently have five directors divided among the three classes as follows: Class I Eric Wanger and Tacheng Chester Wang; Class II Jeremiah J. Fleming and Mike Mon Yen Tsai; and Class III Gilbert Hu. The current term of the Class I directors expires at the Annual Meeting. On January 8, 2009, the Board of Directors reduced the number of authorized directors to four effective as of the Annual Meeting and accordingly, one Class I director is to be elected at the Annual Meeting for a three-year term ending at the Annual Meeting of Stockholders in 2012 or when his successor is duly elected and qualified.

Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR the one (1) Class I nominee named below. In the event that such nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for a nominee who shall be designated by the remaining members of the Board of Directors. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of the nominees listed below and, in such event, the specific nominees to be voted for will be determined by the proxy holders. The Board is not aware of any nominees who are unable or unwilling to serve as a director.

**Vote Required**

The one Class I nominee receiving the highest number of affirmative votes of the shares entitled to be voted shall be elected to the Board of Directors.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE NOMINEE LISTED BELOW.**

Listed below is the name, age and certain information relating to the director nominee as of September 30, 2008 as well as the other incumbent directors whose terms continue.

Name of Nominee	Age	Position With the Company	Director Since	Term Expires
<b>Nominee for Class I Director:</b>				
Tacheng Chester Wang(1)(2)	61	Director	2003	2012
<b>Directors Whose Terms Continue:</b>				
<b>Class II</b>				
Mike Mon Yen Tsai(1)(3)	58	Director	2004	2010
Jeremiah J. Fleming	51	President, Chief Operating Officer and Director	2007	2010
<b>Class III</b>				
Gilbert Hu	51	Chief Executive Officer and Director	1994	2011

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- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Nominating and Corporate Governance Committee



**Nominee for Class I Director**

*Tacheng Chester Wang* has served as a member of the Board of Directors of AltiGen since October 2003. In April 2000, Mr. Wang co-founded Acorn Campus, LLC, a \$100 million incubator/venture fund, where he currently serves as a general partner. Mr. Wang is also a founding member of Acorn Angels, an investor development support conglomerate. From April 1984 to April 2000, Mr. Wang served as the Chairman of Pacific Rim Financial Corp., a real estate development company. Mr. Wang received a B.S. in Physics from Tsinghua University in Taiwan and a Ph.D. in Physics from the University of Oregon.

**Directors Whose Terms Continue**

***Class II Directors***

*Mike Mon Yen Tsai* has been a member of the Board of Directors of AltiGen since July 2004. Since September 2005, Mr. Tsai has served as the Chairman and CEO of UpperVision, Inc., a pioneer in enterprise security policy management. Since August 1995, Mr. Tsai has also served as the Chairman of Salutron, Inc., a consumer electronics company. From February 2004 to July 2004, Mr. Tsai served as the General Manager and Executive Vice President of Verisity, Ltd, an electronics design automation company. From January 1997 to February 2004, Mr. Tsai served as the President and Chief Executive Officer of Axis Systems, Inc., an electronics design automation company. Mr. Tsai is also an active investor in emerging growth companies. Mr. Tsai received a Ph.D. from University of Illinois at Urbana-Champaign in Electrical Engineering in 1978.

*Jeremiah J. Fleming* is currently President and Chief Operating Officer. Mr. Fleming has been a member of the Board of Directors of AltiGen since July 2007. For the past ten years, Mr. Fleming has served as a member of the executive management team of Interactive Intelligence, Inc. When Interactive Intelligence launched its Vonexus subsidiary in 2004 to focus on Microsoft-based IP communications solutions, Mr. Fleming was appointed President of Vonexus. In that role, he was responsible for corporate strategy, management, business development and overall financial performance. Mr. Fleming originally joined Interactive Intelligence, Inc. as Vice President of Sales in 1997 to drive the inaugural launch of the company's enterprise communications software. Following Interactive Intelligence's initial public offering in 1999, Mr. Fleming was promoted to Executive Vice President of Sales for the Americas, Europe, Middle East and Africa. Previously, he spent five years at Software Artistry Inc. in various management positions, including Vice President, Domestic Sales from January 1995 to February 1997. Mr. Fleming holds a B.A. and an M.B.A. from the University of Missouri.

***Class III Director***

*Gilbert Hu* founded AltiGen Communications, Inc. in May 1994. Mr. Hu has been Chief Executive Officer and Chairman of the Board of Directors of the Company since its inception in May 1994. Prior to AltiGen, Mr. Hu was founder, President and CEO of Centrum Communications, a pioneer in the remote networking industry, which was acquired by 3Com Corporation in early 1994. Mr. Hu has also served in technical and managerial roles at Vitalink Corporation, Convergent Technologies, and Luxcom. Mr. Hu earned an M.S. in Electrical Engineering from Arizona State University and received a B.S. in Electrical Engineering from National Chiao-Tung University in Taiwan.

**Director Nomination**

*Criteria for Board Membership.* In selecting candidates for appointment or re-election to the Board, the Nominating and Corporate Governance Committee considers the appropriate balance of experience, skills and characteristics required of the Board of Directors, and seeks to ensure that at least a majority of the directors are independent within the meaning of Rule 4200 of the Nasdaq

Marketplace Rules (the "Rules"), that members of the Company's audit committee meet the financial literacy and sophistication requirements under the Rules and at least one of them qualifies as an "audit committee financial expert" under the rules of the SEC. Nominees for director are selected on the basis of their depth and breadth of experience, integrity, ability to make independent analytical inquiries, understanding of the Company's business environment, and willingness to devote adequate time to Board duties.

*Stockholder Nominees.* The Nominating Committee will consider written proposals from stockholders for nominees for director, provided such proposals meet the requirements described herein and in our Bylaws. Any such nominations should be submitted to the Nominating Committee c/o the Secretary of the Company at our principal executive offices, located at 4555 Cushing Parkway, Fremont, California 94538, and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company's common stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of the nominee. All such items should be submitted in the time frame described in the Bylaws of the Company and under the caption, "Deadlines for Submission of Stockholder Proposal or Nominations" above.

*Process for Identifying and Evaluating Nominees.* The Nominating Committee believes the Company is well-served by its current directors. In the ordinary course, absent special circumstances or a material change in the criteria for Board membership, the Nominating Committee will renominate incumbent directors who continue to qualify for Board service and remain willing to serve as directors. If an incumbent director chooses not to stand for re-election, or if a vacancy on the Board occurs between annual stockholder meetings, the Nominating Committee will seek out potential candidates for Board appointment who meet the criteria for selection as a nominee. Director candidates will be selected based on input from members of the Board, senior management and, if the committee deems it appropriate, a third-party search firm. The Nominating Committee will evaluate each candidate's qualifications and check relevant references; in addition, such candidates will be interviewed by at least one member of the Nominating Committee. Candidates meriting serious consideration will meet with all members of the Board. Based on this input, the committee will evaluate which of the prospective candidates is qualified to serve as a director and whether the committee should recommend to the Board that this candidate be appointed to fill a current vacancy on the Board, or presented for the approval of the stockholders, as appropriate. We have not paid any fees to any third party to assist in identifying or evaluating director candidates. The Nominating Committee will use a similar process to evaluate nominees recommended by stockholders.

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

Our Board of Directors held a total of four meetings during the fiscal year ended September 30, 2008. The committees of the Board of Directors include an Audit Committee, a Compensation Committee and the Nominating Committee. During the last fiscal year, no director attended fewer than 75% of the sum of the total number of meetings of the Board of Directors and the total number of meetings of the committees upon which that director served, held subsequent to his becoming a director or his appointment to such committee. The independent directors of the Board of Directors periodically meet separately in executive sessions (i.e., without any members of management present) to discuss corporate business and governance. During the last fiscal year, one such executive session was held. While members of our Board of Directors are not required to attend our annual meeting of stockholders, they are encouraged to attend. Last year, Jeremiah J. Fleming attended our annual meeting.

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We have written charters for the Audit Committee, the Compensation Committee, and the Nominating Committee, copies of each are available on our website, free of charge, at [www.altigen.com](http://www.altigen.com). You can also obtain copies of the charters, free of charge, by writing to us at Altigen Communications, Inc., 4555 Cushing Parkway, Fremont, CA 94538.

The Audit Committee currently consists of Messrs. Tsai, Wang and Wanger. We are in the process of seeking a replacement for Mr. Wanger whose term expires as of the Annual Meeting on February 9, 2009. The Board has determined that each member of the Audit Committee is an "independent director" as defined in Rule 4200 of the Nasdaq Marketplace Rules, as may be modified or supplemented to date. Furthermore, the Board has determined that at least one member of the Audit Committee, Mr. Wang, serves as our audit committee financial expert. The Audit Committee held four meetings during the last fiscal year. The Audit Committee is responsible for retaining our independent auditors, pre-approving all audit and non-audit services provided by Altigen's auditors, reviewing and discussing with management the results and scope of audit and other services provided by the independent auditors and reviewing the accounting principles and auditing practices and procedures to be used in our financial statements. The Board of Directors adopted an amended and restated charter for the Audit Committee in July 2004.

The Compensation Committee currently consists of Messrs. Wang and Wanger. As mentioned above, we are in the process of seeking a replacement for Mr. Wanger whose term expires as of the Annual Meeting on February 9, 2009. Messrs. Wang and Wanger are each considered to be an "independent director" as defined in Rule 4200 of the Nasdaq Marketplace Rules, as may be modified or supplemented to date. The Compensation Committee met four times in the last fiscal year. The Compensation Committee reviews and makes recommendations to the Board of Directors regarding the compensation of executive officers and other managerial employees. The Compensation Committee also reviews and approves option grants.

The Nominating Committee currently consists of Mr. Tsai. The Board has determined that Mr. Tsai is considered to be an "independent director" as defined in Rule 4200 of the Nasdaq Marketplace Rules, as may be modified or supplemented to date. The Nominating Committee was formed in July 2004. Prior to such time, the Company did not have a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee assists the Board in identifying qualified individuals to become directors, monitors the process to assess Board effectiveness and helps develop and implement the Company's corporate governance guidelines. The Nominating and Corporate Governance Committee also considers nominees proposed by Stockholders. The Nominating Committee met or acted by written consent once in fiscal 2008.

### **Communication between Stockholders and Directors**

Stockholders or other interested parties may communicate with any director or committee of the Board by writing to them c/o Investor Relations, Altigen Communications, Inc., 4555 Cushing Parkway, Fremont, CA 94538 or by sending an e-mail to [ir@altigen.com](mailto:ir@altigen.com) or by calling the Investor Relations department at (510) 252-9712 ext. 413. Comments or questions regarding the Company's accounting, internal controls or auditing matters will be referred to members of the Audit Committee. Comments or questions regarding the nomination of directors will be referred to members of the Nominating and Corporate Governance Committee. All appropriate communications will be compiled by our Secretary and submitted to the Board of Directors or an individual director, as appropriate, on a periodic basis.

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

The Compensation Committee during fiscal year 2008 consisted of Messrs. Wang and Wanger. No interlocking relationship existed during fiscal year 2008 between our Board of Directors or

Compensation Committee and the board of directors or compensation committee of any other company.

### Director Compensation

Each of our directors receive \$1,000 cash compensation for attending each meeting of the Board of Directors and an additional \$1,000 for each committee meeting, and are reimbursed for their reasonable and necessary expenses associated with attendance of such meetings.

#### Directors Compensation Table for the Fiscal Year Ended September 30, 2008

Name	Fees Earned or Paid in Cash(\$)	Value of Outstanding Option Awards\$(1)	Total(\$)	Option Awards during 2008(#)	Grant Date Fair Value of 2008 Option wards(\$)
Gilbert Hu	4,000	71,853	75,853	100,000	130,000
Eric Wanger	8,000	17,435	25,435	20,000	26,000
Tacheng Chester Wang	8,000	10,706	18,706	20,000	26,000
Mike Mon Yen Tsai	8,000	13,291	21,291	20,000	26,000
Jeremiah J. Fleming	4,000	223,456	227,456	100,000	130,000

(1)

The value reported in this column is the amount we expensed during 2008 for each director's option award calculated in accordance with Statement of Financial Accounting Standard No. 123, *Share-Based Compensation* ("FAS 123R").

**PROPOSAL TWO****RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed Moss Adams LLP, the Company's independent registered public accounting firm, to audit the Company's consolidated financial statements for fiscal year 2009. Moss Adams LLP has served as the Company's independent registered public accounting firm since fiscal year 2006. At the Annual Meeting, the Stockholders are being asked to ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm for fiscal year 2009. In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection. Representatives of Moss Adams LLP will be present at the Annual Meeting and will have the opportunity to respond to appropriate questions and to make a statement if they so desire.

**Vote Required**

The affirmative vote of a majority of the total number of shares present and voting, assuming that a quorum has been established, will be required to ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2009.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF MOSS ADAMS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

**Audit and Non-Audit Fees**

The following table presents fees for professional audit services rendered by Moss Adams LLP for the audit of our annual financial statements for the year ended September 30, 2008 and September 30, 2007 and fees billed for other services rendered by Moss Adams LLP during those periods.

***Audit and Non-Audit Fee:***

Moss Adams LLP	Fiscal Year Ended September 30,	
	2008	2007
	(In thousands)	
Audit Fees(1)	\$ 232	\$ 216
Audit-Related Fees(2)	32	
Tax Fees(3)	23	25
All Other Fees(4)		
<b>Total</b>	<b>\$ 287</b>	<b>\$ 214</b>

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- (1) Audit fees consist of fees relate to professional services rendered in connection with the audit of our consolidated annual financial statements, quarterly review of the interim consolidated financial statements included in our Forms 10-Q, and audit services provided in connection with other statutory and regulatory filings.
- (2) Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." These services include consultations concerning financial accounting and reporting standards.

- (3) Tax fees consist of fees related to professional services rendered for tax compliance and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance and tax planning. Moss Adams LLP's tax fees were approximately \$23,000 and \$25,000 for fiscal year 2008 and 2007, respectively.
- (4) All other fees consist of fees for products and services other than the services reported above. During fiscal 2008 and 2007, Moss Adams LLP did not provide any services other than as described above.

#### **Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval generally is provided for up to one (1) year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval. The Audit Committee may delegate pre-approval authority to one or more of its members. Such member must report any decisions to the Audit Committee at the next scheduled meeting.

#### **COMPENSATION DISCUSSION AND ANALYSIS**

##### **Overview**

The Compensation Committee acts on behalf of the board of directors and, by extension, the stockholders of the Company to establish, implement and continually monitor adherence with the Company's compensation philosophy. The Compensation Committee ensures that the total compensation paid to the Company's executive officers is competitive and consistent with the Company's compensation philosophy and the Compensation Committee's charter, a copy of which may be obtained on the Company's website at [www.altigen.com](http://www.altigen.com). The Compensation Committee relies upon management and may consider outside compensation consultants to provide information and recommendations to establish specific compensation packages for executives.

##### **Philosophy and Objectives**

AltiGen's executive compensation policies are designed to attract and retain qualified executives who will contribute to its long-term success, to reward executives for achieving AltiGen's financial goals, and to align executive compensation and stockholder interests through equity-based plans. The Compensation Committee believes that strong financial performance, on a sustained basis, is the most certain avenue through which AltiGen can positively affect long-term stockholder return. Furthermore, the Compensation Committee believes that, in order to attract and retain the most qualified executives in the industry, AltiGen's compensation policies must be competitive with other companies of comparable size and in similar industries and must reinforce strategic performance objectives through the use of incentive compensation programs. In order to provide incentives to executive officers, a portion of their annual compensation is paid as a bonus. The amount of the bonus for each person is determined on the basis of several indicators of corporate performance as outlined below.

##### **Role of Executive Officers in Compensation Decisions**

The Compensation Committee makes all compensation decisions for the named executive officers and approves recommendations regarding equity awards to all employees.

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The Chief Executive Officer annually reviews the performance of each other executive officer. The Compensation Committee reviews the performance of the Chief Executive Officer. The Compensation Committee decisions are based in part, on these annual performance reviews, including with respect to salary adjustments, annual bonus amounts and annual stock option grants. The Compensation Committee can exercise its discretion to modify any recommendations of the Chief Executive Officer.

### **Setting Executive Compensation**

Based on the foregoing goals, the Compensation Committee has structured the Company's overall executive compensation in order to make the Company competitive from a compensation standpoint when compared to its peers and to reward strong performance. In order to aid the Compensation Committee in obtaining its objectives, the Compensation Committee relies upon management and may engage an outside human resources consulting firm to provide it with information and recommendations with respect to compensation matters. The Compensation Committee also considers the Company's overall performance as well as the individual performance of its executive officers when determining cash bonuses and salary adjustments.

In making compensation decisions, the Compensation Committee gathers and analyzes data and suggestions, including data on the compensation peer group of publicly-traded and privately-held technology companies. This peer group consists of companies against which the Compensation Committee believes the Company must compete for talent and for stockholder investment.

While AltiGen typically competes with many larger companies for executive talent, the Compensation Committee maintains total compensation at levels appropriate for a company of its size. The Compensation Committee believes that the potential for increase in the value of the equity of the equity underlying the Company's stock option grants creates a powerful incentive for its employees when compared to the awards issued by larger companies.

### **2008 Executive Compensation Components**

For the 2008 fiscal year, the principal components of compensation for named executive officers were:

Base salary;

Cash bonus;

Stock option grants;

Retirement and other benefits; and

Perquisites and other benefits.

#### *Base Salary*

The Committee regularly reviews each executive officer's base salary. The Compensation Committee believes that executive salaries must be sufficiently competitive to attract and retain key executives. Base pay and annual increases are determined (A) primarily through an analysis of each individual's salary and total target compensation relative to salaries for similar positions within AltiGen and at peer companies, and (B) to a lesser extent, through a subjective analysis of each individual's contributions to AltiGen's success.

Salary levels are typically considered annually as part of the Company's performance review process. Stock price performance has not been a factor in determining annual base salary compensation because the price of the Company's common stock is subject to a variety of factors outside our control.

*Cash Bonus*

AltiGen's executive bonus plan provides for incentive compensation to some but not all of its executive officers and other key employees and will be determined by a percentage of AltiGen's revenue or accounts receivable collected. Individual performance is measured based on goals related to each person's function within the organization. Bonuses generally are awarded to executives if AltiGen meets or exceeds prescribed revenue and accounts receivable objectives. If AltiGen fails to meet these objectives, awards may be significantly reduced or even eliminated if minimum thresholds are not achieved. Conversely, if AltiGen overachieves these objectives, awards may be significantly increased above target thresholds. In 2008, the Compensation Committee established a total 2008 target incentive bonus amount ("Target Bonus") for three of AltiGen's executive officers (including the CEO). The Target Bonus ranged from 0.44% to 0.88% of each participating executive's base salary. The Compensation Committee used AltiGen's historical data to determine and award bonuses. Bonus pay ranges from monthly to quarterly. Bonus targets are established annually.

*Long-Term Incentive Compensation*

AltiGen's option plans provide for long-term incentive compensation for employees of AltiGen, including executive officers. These awards give employees an equity interest in AltiGen, thereby aligning the interests of executive officers and stockholders and providing incentives to maximize stockholder value.

*Stock Option Grants*

Grants under our stock option plans enable the Company to:

Enhance the link between the creation of stockholder value and long-term executive incentive compensation;

Provide an opportunity for increased equity ownership by executives; and

Maintain competitive levels of total compensation.

Stock option awards are granted at the Compensation Committees' meetings throughout the year, and are determined in its sole discretion. The Compensation Committee considers recommendations by management with respect to grants to newly hired or promoted executives at the first meeting following such employee's hire or promotion, as the case may be.

Options are awarded at the closing price of the Company's common stock on the date of the grant. The Compensation Committee has never granted options with an exercise price that is less than the closing price of the Company's common stock on the grant date.

The options generally vest over multiple years and have a per share exercise price equal to the fair market value of AltiGen's stock on the grant date. The number of options the Compensation Committee grants to each officer and each option's vesting schedule are determined based on a variety of factors, including (1) the executive's position at AltiGen, (2) his or her individual performance, and (3) other factors, including independent equity compensation survey data.

Vesting ceases upon termination of employment, and the vested stock options may generally be exercised for three months following the date of termination. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights and the right to receive dividends or dividend equivalents.



*Retirement and Other Benefits*

All employees in the United States, including the executive officers, are eligible to participate in the Company's 401(k) plan, medical and dental insurance, employee stock purchase plan, as well as the Company's life and disability insurance policy.

*Profit Sharing Plan*

The Company also maintains a profit-sharing plan. The employee profit sharing plan has been established to share with each employee the rewards of a profitable company. The profit sharing pool will consist of approximately ten percent (10%) of our quarterly profit from operations before taxes.

*Perquisites and Other Personal Benefits*

The Company does not provide perquisites and other personal benefits.

*Compensation of the CEO*

The Compensation Committee determines the CEO's compensation following criteria similar to those used to determine the compensation for our other executive officers. Our CEO is the person most responsible for the Company's overall performance and as such a greater portion of his potential compensation is tied to the Company's financial performance.

**Accounting Implications**

*Deductibility of Executive Compensation*

Under Section 162(m) of the Internal Revenue Code of 1986, as amended ("IRC"), AltiGen generally receives a federal income tax deduction for compensation paid to any of its named executive officers only if the compensation is less than \$1 million during any fiscal year or is "performance-based" under IRC Section 162(m). AltiGen's executive bonus plan and stock option plans permit the Compensation Committee to pay compensation that is "performance-based" and thus fully tax-deductible by AltiGen.

The Compensation Committee currently intends to continue seeking a tax deduction for all of AltiGen's executive compensation, to the extent we determine it is in the best interests of AltiGen. The Compensation Committee believes that the total compensation paid by AltiGen will not affect the tax deductions available to it with respect to the compensation of any of its executive officers.

*Accounting for Stock-Based Compensation*

Beginning on October 1, 2005, the Company began accounting for stock-based payments in accordance with the requirements of SFAS 123(R).

**Compensation of Executive Officers**

The following table sets forth the compensation paid by AltiGen during the past fiscal year to (i) the chief executive officer, (ii) the chief financial officer, and (iii) each of the three most highly compensated executive officers (or such lesser number of executive officers as AltiGen may have) of AltiGen not serving as chief executive officer and (iv) up to an additional two individuals that would have been included under item (iii) but for the fact that the individuals were not serving as executive officers as of the end of AltiGen's fiscal year, all of whom are collectively referred to as the "Named Officers."

**Summary Compensation Table for the Fiscal Year Ended September 30, 2008**

Name and Principal Position	Fiscal Year	Salary(\$)	Bonus(\$)	Option Awards (\$)(1)	Non-Equity	All Other	Total(\$)
					Incentive Plan Compensation (\$)(2)	Compensation (\$)	
Gilbert Hu	2008	187,000	121,027	71,853			379,880
Chairman of the Board and Chief Executive Officer	2007	150,000	103,122	50,264	764		304,150
Jeremiah J. Fleming	2006	150,000	98,426	90,147	1,840		340,413
President, Chief Operating Officer and Director	2008	187,500	163,214	223,456			574,170
	2007	75,000	54,591	108,061			237,652
	2006						
Philip M. McDermott	2008	187,500	79,227	64,690			331,417
Chief Financial Officer	2007	150,000	62,199	37,698	764		250,661
	2006	150,000	64,278	67,610	1,840		283,728

- (1) The amounts shown in this column represent the share-based compensation expense the Company recognized, in our Consolidated Statement of Operations for fiscal years 2008, 2007 and 2006, in conformity with SFAS 123(R). The amounts shown here do not represent actual payments received by the Named Officer. Instead, the amounts shown are the aggregate expense recognized for financial statement reporting purposes in 2008, as determined pursuant to SFAS 123R.
- (2) Incentive compensation includes profit sharing paid to the above Named Officers. The employee profit sharing plan has been established to share with each employee the rewards of a profitable company. The profit sharing pool will consist of approximately ten percent (10%) of AltiGen's quarterly profit from operations before taxes.

**Stock Options Granted in 2008 Fiscal Year**

The following table sets forth certain information with respect to stock options granted to the Named Officer and directors in fiscal year 2008.

**Grants of Plan-Based Awards**

Name	Grant Date	Number of Securities Underlying Options Granted(#)(1)	Exercise Price Per Share (\$/share)
Gilbert Hu	11/15/07	100,000	1.30
Jeremiah J. Fleming	11/15/07	100,000	1.30
Philip McDermott	11/15/07	100,000	1.30
Eric Wanger	11/15/07	20,000	1.30
Tacheng Chester Wang	11/15/07	20,000	1.30
Mike Mon Yen Tsai	11/15/07	20,000	1.30

- (1) Each of these options was granted pursuant to the Company's 1999 Stock Option Plan. All such options vest over a four-year period, subject to continued employment with the Company. The exercise price of each option set forth above was the closing price of our

stock on the Nasdaq Capital Market on the grant date.

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**Outstanding Equity Awards at September 30, 2008**

The following table summarizes the value of options held at September 30, 2008 by our Named Officers. The value of unexercised in-the-money options at September 30, 2008 figures are based on the difference between \$0.99, which is the closing price of our common stock as quoted on the Nasdaq Capital Market as of the close of business on September 30, 2008, and each option's per-share exercise price, multiplied by the number of shares issued upon exercise of the option.

Name	Option Awards				
	Number of Securities		Option Exercise Price(\$)	Option Expiration Date	
	Underlying Unexercised Options(1)	Exercisable			Unexercisable
Gilbert Hu		80,000		0.780	07/23/2011
		80,000		0.600	11/11/2012
		30,000		0.930	11/18/2012
Jeremiah J. Fleming					
Philip McDermott					