

PARADYNE NETWORKS INC

Form DEF 14A

April 16, 2004

Table of Contents

As filed with the Securities and Exchange Commission on April 16, 2004

## **SCHEDULE 14A**

### **(RULE 14a-101)**

#### **INFORMATION REQUIRED IN PROXY STATEMENT**

##### **SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**Paradyne Networks, Inc.**

---

(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.

(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:

---

(5) Total fee 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.

Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

(1) Amount Previously Paid:

---

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

---

(3) Filing Party:

---

(4) Date Filed:

---

**Table of Contents**

April 16, 2004

Dear Stockholder:

You are cordially invited to attend the 2004 annual meeting of stockholders of Paradyne Networks, Inc., which will be held on May 14, 2004 at 10:00 a.m., local time, at our corporate headquarters, 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773.

At the annual meeting, stockholders will be asked to vote on the following matters:

the election of two directors to serve until the 2007 annual meeting of stockholders; and

such other business as properly may come before the annual meeting or any adjournments or postponements of the annual meeting.

The above matters are described in the accompanying proxy statement. It is important that your stock be represented at the meeting regardless of the number of shares you hold and whether you plan to attend the meeting. You can submit your proxy voting instructions via the Internet, by touch-tone telephone or by marking and returning the enclosed proxy card. The method by which you vote by proxy now will not limit your right to vote at the meeting if you decide to attend in person. If you do attend and wish to vote in person, you may simply revoke your proxy at the meeting.

If you plan to attend the meeting, please let us know when you vote via the Internet or by touch-tone telephone or when you return your proxy card. If your shares are not registered in your name (i.e., they are held in street name by a bank or brokerage firm) and you would like to attend the meeting, please ask the broker, bank or other nominee holding the shares to provide you with evidence of your share ownership so that you may be admitted to the meeting. Additionally, if you are a street name stockholder who wishes to vote at the meeting, you will need to obtain a proxy form from the institution that holds your shares.

Sincerely,

/s/ Sean E. Belanger

Sean E. Belanger

*President, Chief Executive Officer*

*and Chairman of the Board*

**Table of Contents**

**Paradyne Networks, Inc.**

**8545 126<sup>th</sup> Avenue North**

**Largo, Florida 33773**

---

**NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MAY 14, 2004**

**10:00 A.M., EASTERN TIME**

---

NOTICE HEREBY IS GIVEN that the 2004 annual meeting of stockholders of Paradyne Networks, Inc. will be held at our corporate headquarters, 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773, on Friday, May 14, 2004 at 10:00 a.m., local time. The purpose of the meeting is for the stockholders to consider and vote upon:

the election of two directors to serve until the 2007 annual meeting of stockholders; and

such other business as properly may come before the annual meeting or any adjournments or postponements of the annual meeting.

Information relating to these matters is set forth in the attached proxy statement. Only stockholders of record at the close of business on April 7, 2004 are entitled to receive notice of and to vote at the annual meeting and any adjournments or postponements thereof. A list of those stockholders entitled to vote at the annual meeting will be available for inspection during normal business hours from May 4, 2004 through the time of the annual meeting on May 14, 2004 at our principal offices at 8545 126<sup>th</sup> Avenue North, Largo, Florida for any purposes germane to the meeting. The list of stockholders will also be provided and kept at the location of the annual meeting during the whole time of the meeting, and may be inspected by any stockholder who is present.

All shares represented by properly completed and submitted proxies that are not revoked before they are voted at the annual meeting will be voted in accordance with the specifications of the proxy. If no such specifications are made, proxies will be voted FOR the election of the directors nominated by the board of directors and FOR any adjournment or postponement of the annual meeting. If you attend the annual meeting, you may vote in person if you wish, even though you have previously returned your proxy or submitted your vote using the telephone or the Internet. Action may be taken on the proposals set forth above at the annual meeting specified above or any dates to which the annual meeting may be adjourned or postponed.

By order of the board of directors,

/s/ Patrick M. Murphy

Patrick M. Murphy

*Senior Vice President, Chief Financial Officer,*

*Treasurer and Secretary*

Largo, Florida

April 16, 2004

**Table of Contents**

**PROXY STATEMENT**

**TABLE OF CONTENTS**

	<u>Page</u>
<u>VOTING</u>	1
<u>General</u>	1
<u>Quorum and Vote Required</u>	1
<u>Proxies</u>	1
<u>Voting Procedures</u>	2
<u>Cost of Proxy Solicitation</u>	3
<u>STOCK OWNERSHIP</u>	3
<u>PROPOSAL ELECTION OF DIRECTORS</u>	4
<u>Nominees</u>	4
<u>Information Regarding Nominees and Continuing Directors</u>	5
<u>Meetings and Committees of the Board of Directors</u>	7
<u>Stockholder Communications with the Board of Directors</u>	8
<u>Additional Information Concerning Our Board of Directors</u>	8
<u>Director Compensation</u>	8
<u>Executive Officers</u>	8
<u>EXECUTIVE COMPENSATION</u>	10
<u>Summary of Compensation</u>	10
<u>Employment Agreements</u>	10
<u>Option Grants</u>	11
<u>Option Exercises and Fiscal Year-End Option Values</u>	12
<u>INDEPENDENT PUBLIC ACCOUNTANTS</u>	12
<u>Services and Fees of PricewaterhouseCoopers LLP During 2003</u>	12
<u>* REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS</u>	14
<u>* REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS</u>	16
<u>Introduction</u>	16
<u>Compensation Policy for Executive Officers</u>	16
<u>Chief Executive Officer's Compensation</u>	17
<u>Policy With Respect to Deductibility of Compensation Expense</u>	17
<u>Conclusion</u>	17
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	18
Table of Contents	7

Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

<u>CERTAIN TRANSACTIONS</u>	18
* <u>STOCK PERFORMANCE GRAPH</u>	20
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	20
<u>STOCKHOLDERS PROPOSALS FOR 2005 ANNUAL MEETING</u>	21
* AUDIT COMMITTEE CHARTER	Appendix A
* NOMINATING COMMITTEE CHARTER	Appendix B

\* The indicated sections do not constitute soliciting material and should be not deemed filed or incorporated by reference into any of our other filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent that we specifically incorporate any such section by reference thereon.

NOTE: We have mailed a copy of our 2003 Annual Report, which contains a copy of our 2003 Form 10-K report to the Securities and Exchange Commission, to our stockholders together with these proxy materials.



**Table of Contents**

**PARADYNE NETWORKS, INC.**

---

**PROXY STATEMENT**

---

**FOR THE 2004 ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MAY 14, 2004**

---

The board of directors of Paradyne Networks, Inc., a Delaware corporation, is furnishing this proxy statement to solicit your proxy for the voting of your shares at the 2004 annual meeting of stockholders and at any adjournments or postponements thereof. We will hold the annual meeting on Friday, May 14, 2004 at 10:00 a.m., local time, at our corporate headquarters, 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773.

We are mailing this proxy statement and the accompanying proxy card to stockholders on or about April 16, 2004.

**VOTING**

**General**

The securities that can be voted at the annual meeting consist of common stock, \$.001 par value per share. Each share of common stock entitles its holder to cast one vote on each matter submitted to the stockholders at the annual meeting.

The record date for determining the stockholders who are entitled to receive notice of and to vote at the annual meeting has been fixed by the board of directors as the close of business on April 7, 2004. On the record date, 44,860,169 shares of common stock were outstanding and eligible to be voted at the annual meeting.

**Quorum and Vote Required**

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

A majority of our shares outstanding and entitled to vote on the record date must be represented, either in person or by proxy, to constitute a quorum at the annual meeting. The proposal to elect two directors to serve until the 2007 annual meeting must be approved by a plurality of the votes represented at the annual meeting and entitled to be cast on the proposal.

As of March 31, 2004, our directors and executive officers and their affiliates beneficially owned approximately 12% of the shares of our common stock outstanding and entitled to vote.

### **Proxies**

All shares of our common stock represented by properly submitted proxies or voting instructions received before or at the annual meeting will, unless the proxies or voting instructions are revoked, be voted in accordance with the instructions indicated on those proxies or voting instructions. If no instructions are indicated on a properly submitted proxy or voting instruction, the shares will be voted FOR the election of the director nominees named in the Proposal and to approve those other matters that may properly come before the annual meeting at the discretion of the persons named in the proxy. You are urged to indicate how to vote your shares by marking the boxes on the proxy card or the voting instruction card or by following the instructions if submitting your proxy or voting instructions by telephone or the Internet.

If a stockholder submits a properly executed proxy or voting instruction and the stockholder has withheld authority from voting on the election of a director to serve until the 2007 annual meeting, the common stock represented by the proxy or voting instruction will be considered present at the annual meeting for purposes of determining a quorum but will have no effect on the outcome of the nominee election.

If your shares are held in an account at a brokerage firm or bank, you should instruct them on how to vote your shares. New York Stock Exchange rules determine whether proposals presented at stockholder meetings are routine or not routine. If a

## **Table of Contents**

proposal is routine, a broker or other entity holding shares for an owner in street name may vote for the proposal without voting instructions from the owner. If a proposal is not routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when the broker or other entity is unable to vote on the proposal because the proposal is not routine and the owner does not provide any instructions. The New York Stock Exchange has informed us that the election of a director is a routine item. As to the proposal to elect directors to serve until the 2007 annual meeting, your broker or bank will have discretionary authority to vote on your behalf if you do not provide instructions on how to vote.

Our annual meeting may be adjourned or postponed in order to permit further solicitation of proxies. No proxy that withholds authority with respect to the election of directors to serve until the 2007 annual meeting will be voted in favor of any proposal to adjourn or postpone the annual meeting in order to solicit additional proxies that is submitted to the stockholders for a vote. We do not expect any matter other than approval of the election of directors to serve until the 2007 annual meeting will be brought before the annual meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless authority to do so is withheld on the proxy card.

A stockholder may revoke his or her proxy or voting instruction at any time before it is voted by:

notifying in writing the Secretary of Paradyne Networks, Inc. at 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773, if you are a stockholder of record;

notifying your brokerage firm or bank, if you hold your shares in an account at a brokerage firm or bank;

granting a subsequently dated proxy or voting instructions (by mail, through the Internet or by telephone); or

appearing in person and voting at the annual meeting if you are a holder of record.

Attendance at the annual meeting will not in and of itself constitute revocation of a proxy.

## **Voting Procedures**

Because Delaware, the state in which we are incorporated, permits electronic submission of proxies through the Internet or by telephone, instead of submitting proxies by mail on the enclosed proxy card or voting instruction card, our stockholders will have the option to submit their proxies or voting instructions electronically through the Internet or by telephone. Please note that there are separate arrangements for using the Internet or telephone depending on whether your shares are registered in our stock records in your name or in the name of the brokerage firm or bank. Stockholders should check their proxy card or the voting instruction card forwarded by their broker, bank or other holder of record to see which options are available.

The Internet and telephone procedures described below for submitting your proxy or voting instructions are designed to authenticate stockholders' identities, to allow stockholders to have their shares voted and to confirm that their instructions have been properly recorded. Stockholders submitting proxies or voting instructions via the Internet should understand that there may be costs associated with electronic submission, such as usage charges from Internet access providers and telephone companies, that would be borne by the stockholder.

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

Our holders of record may submit their proxies:

through the Internet by visiting a website established for that purpose at <http://www.eproxy.com/pdyn/> and following the instructions;

by telephone by calling the toll-free number 1-800-560-1965 in the United States or Canada on a touch-tone telephone and following the recorded instructions; or

by completing and mailing the enclosed proxy card.

Stockholders should confirm the website and toll-free number on their proxy card or voting instruction card and use that website or toll-free number if they are different from those listed above.

**Table of Contents**

You can find the results of the voting on the proposals in our Quarterly Report on Form 10-Q for the quarter ending June 30, 2004, which we will file with the Securities and Exchange Commission by August 9, 2004.

**Cost of Proxy Solicitation**

We are soliciting your proxy on behalf of the board of directors, and we will bear all of the related costs. We will reimburse brokers, fiduciaries and custodians for their costs in forwarding proxy materials to beneficial owners of common stock held in their names. Our employees also may communicate with you to solicit your proxy, but we will not pay them any additional compensation for doing so.

**STOCK OWNERSHIP**

The following table sets forth information as of March 31, 2004 regarding the beneficial ownership of our voting stock by each person known by us to own more than 5% of any class of our voting securities, each director and nominee for director, each executive officer named in the table under the caption Executive Compensation Summary Compensation, and all directors and executive officers as a group.

Pursuant to Securities and Exchange Commission rules, the number of shares of common stock beneficially owned by a specified person or group includes shares of our common stock subject to options that are presently exercisable or exercisable within 60 days after March 31, 2004. Such shares are deemed to be outstanding for the purpose of computing the percentage of the class beneficially owned by such person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the class beneficially owned by any other person or group.

The persons named in the table gave us the stock ownership information about themselves. Except as explained in the footnotes below, the named persons have sole voting and investment power with regard to the shares shown as beneficially owned by them.

	<b>Amount and Nature of</b>	
	<b>Beneficial Ownership</b>	
	<b>Total Common Stock</b>	<b>Percent of</b>
	<b>Beneficially Owned</b>	<b>Class Owned</b>
<b><u>Five Percent Stockholders</u></b>		
Bricoleur Capital Management, LLC	6,800,597	15.16%
12230 El Camino Real		
Suite 100		
San Diego, CA 92130		
Nortel Networks, Inc.	3,291,199	7.34

8200 Dixie Road

Suite 100

Brampton, ON L6T 5, Canada

**Executive Officers and Directors**

Sean E. Belanger (1)	2,540,656	5.36
Patrick M. Murphy (2)	976,799	2.13
Thomas E. Epley (3)	423,298	*
Gene F. Frantz (4)	10,000	*
Keith B. Geeslin (5)	1,642,733	3.66
William R. Stensrud (6)	363,935	*
David F. Walker (7)	10,000	*
All directors and executive officers as a group		
(7 persons) (8)	5,967,421	12.32

---

**Table of Contents**

---

- \* Represents beneficial ownership of less than 1%.
- (1) Includes 2,535,879 shares subject to options which are exercisable within 60 days of March 31, 2004.
  - (2) Includes 976,799 shares subject to options which are exercisable within 60 days of March 31, 2004.
  - (3) Includes 25,000 shares subject to options under the 1999 Non-Employee Directors Stock Option Plan, 317,485 shares held by the Thomas E. Epley Trust, 58,497 shares held by the Anderson Epley Family Trust, 11,158 shares held by the Epley Children's Trust FBO Thomas E. Epley, Jr., and 11,158 shares held by the Epley Children's Trust FBO Jacqueline E. Epley. Mr. Epley is the trustee of each of these trusts.
  - (4) Includes 10,000 shares subject to options under the 1999 Non-Employee Directors Stock Option Plan.
  - (5) Includes 21,781 shares held by Mr. Geeslin individually, 15,000 shares subject to options under the 1999 Non-Employee Directors Stock Option Plan and 1,605,952 shares beneficially owned by The Sprout Group. The 1,605,952 shares beneficially owned by The Sprout Group include 75,936 shares held by DLJ Capital Corporation (on a proprietary basis), 628,962 shares held by DLJ Capital Corporation (for the benefit of an employee deferred compensation plan), 628,962 shares held by Sprout Capital VII, L.P., 514,193 shares held by Sprout Growth II, L.P., 7,306 shares held by Sprout CEO Fund, L.P., 261,459 shares held by DLJ First ESC, L.P., 63,738 shares held by Credit Suisse First Boston (USA), Inc. (f/k/a Donaldson, Lufkin & Jenrette Inc.), 1,417 shares held by DLJ Growth Associates II, Inc. and 653 shares held by DLJ Capital Associates VII, Inc. The foregoing entities are associated with The Sprout Group. Mr. Geeslin occupies various positions of control of the entities associated with The Sprout Group. As such, he may be deemed to have voting and dispositive power over the shares beneficially owned by entities associated with The Sprout Group. However, Mr. Geeslin disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.
  - (6) Includes 353,690 shares held by the Stensrud Family Trust, 245 shares held indirectly by Mr. Stensrud's son and 10,000 shares subject to options under the 1999 Non-Employee Directors Stock Option Plan.
  - (7) Includes 10,000 shares subject to options under the 1999 Non-Employee Director Stock Option Plan.
  - (8) Includes 3,582,678 shares subject to options which are exercisable within 60 days of March 31, 2004.

**PROPOSAL**

**ELECTION OF DIRECTORS**

**Nominees**

Pursuant to our amended and restated certificate of incorporation, as amended, and bylaws the number of persons to serve on our board of directors is determined by resolution of our board of directors from time to time. The board is now comprised of six directors and is divided into three classes. The stockholders elect the directors in each class for a term of three years and until each of his successors is elected and qualified. The term of office of one class of directors expires each year at the annual meeting, and the stockholders elect a new class of directors each year at that time.

At the annual meeting, the term of the Class II directors, Sean E. Belanger and Keith B. Geeslin, will expire. The board of directors, upon the recommendation of the Nominating Committee, has nominated these individuals for re-election at the annual meeting. The nominees have consented to serve if elected. If re-elected, Messrs. Belanger and Geeslin will each serve a three-year term that will expire at the 2007 annual meeting. If either should be unavailable to serve for any reason, which is not anticipated, the board of directors may:

designate a substitute nominee, in which case the persons named as proxies will vote the shares represented by all valid proxies for the election of such substitute nominees;

allow the vacancy to remain open until a suitable candidate is located and nominated; or





---

**Table of Contents**

adopt a resolution to decrease the authorized number of directors.

**The board of directors unanimously recommends that you vote FOR the proposal to re-elect Sean E. Belanger and Keith B. Geeslin as Class II Directors for a three-year term expiring at the 2007 annual meeting of stockholders and until each of his successors has been duly elected and qualified.**

**Information Regarding Nominees and Continuing Directors**

Listed below is the name of each of the board's nominees for election as directors, his age as of March 31, 2004, his business experience and the year he first became a director. Also listed is similar information about each of the four incumbent directors whose terms will continue following the annual meeting.

**Class II Directors Nominated to Serve Until the 2007 Annual Meeting**

Sean E. Belanger

Sean E. Belanger, age 48, has served as Chairman of the Board since October 2002. He has served as Chief Executive Officer and President since December 2000, when he also became a director. From April 2000 to December 2000 he served as Paradyne's President and Chief Operating Officer. From June 1997 to May 2000 he served as Senior Vice President of Worldwide Sales. From November 1996 to May 1997, he served as Vice President and General Manager of 3Com Corporation's Network Service Provider division. From September 1992 to November 1996, he was Vice President of Sales for Primary Access Corporation. Mr. Belanger holds a B.S. in business management from Virginia Polytechnic Institute and State University.

Keith B. Geeslin

Keith B. Geeslin, age 50, has served as a director of Paradyne since June 1996. Mr. Geeslin is a general partner of Francisco Partners, a private equity firm, where he has been employed since January 2004. He was previously employed by The Sprout Group, a venture capital firm, from July 1984 to November 2003. In addition, he is a general or limited partner in a series of investment funds associated with The Sprout Group, a division of DLJ Capital Corporation, which is a subsidiary of Credit Suisse First Boston (USA), Inc. The Sprout Group are direct and indirect equity owners in Communication Partners, L.P. Mr. Geeslin is also a director of Synaptics and several privately held companies. Mr. Geeslin received a BS degree in electrical engineering from Stanford University, an MA degree in philosophy, politics and economics from Oxford University and a MS degree in engineering and economic systems from Stanford University.

**Class I Directors to Serve Until the 2006 Annual Meeting**

Gene Frantz

Gene Frantz, age 37, has served as a director of Paradyne since August 1, 2003. Mr. Frantz is a managing partner of Texas Pacific Group, focusing on investment in technology and telecom. Prior to joining TPG in 1999, Mr. Frantz worked at Oracle Corporation, most recently leading its venture capital effort, where he was responsible for making equity investments in software and internet companies. Prior to joining Oracle Corporation, Mr. Frantz was a Vice President at Morgan Stanley

**Table of Contents**

Dean Witter & Co., specializing in technology mergers and acquisitions spanning the semiconductor, data networking, software and internet sectors. Mr. Frantz received an MBA from Stanford Business School and a BS from the University of California, Berkeley. Mr. Frantz serves on the boards of directors of MEMC Electronic Materials (WFR) and Seagate Removable Storage Solutions Holdings, both of which are public companies, and eStara, a private company.

Thomas E. Epley

Thomas E. Epley, age 63, served as the Chairman of the board of directors from August 1996 until October 2002, and remains on the board of directors. He also served as President of Paradyne from August 1996 to December 1996 and Chief Executive Officer from August 1996 to May 1997. From August 1996 to April 1997, Mr. Epley was Chief Executive Officer and President of GlobeSpan, Inc. He served as a director of GlobeSpan from August 1996 to June 16, 2001 and was chairman of the board of directors of GlobeSpan from August 1996 to March 1999. In addition, Mr. Epley has served as a director and President and Chief Executive Officer of Paradyne Credit Corp. from August 1996 to June 1999. From 1993 to 1996, he was a director of Carlton Communications. From 1991 to 1996, he served as Chairman and Chief Executive Officer of Technicolor, a provider of services and products to the entertainment industry. In 2001, Mr. Epley served as Chief Executive Officer of AMIS Corp., and from 2001 to 2003, he served as director of that corporation. He is also a limited partner in Communication Partners, L.P. Mr. Epley holds a BS degree in mechanical engineering from the University of Cincinnati and an MBA from the Kellogg School of Northwestern University.

**Class III Directors to Serve Until the 2005 Annual Meeting**

William R. Stensrud

William R. Stensrud, age 53, has served as a director of Paradyne since June 1996. Mr. Stensrud has been a general partner at the venture capital investment firm of Enterprise Partners since January 1997. From February 1997 to June 1997, he served as President and Chief Executive Officer of Rhythms NetCommunications, Inc., a network service provider. From January 1992 to July 1995, Mr. Stensrud served as President and Chief Executive Officer of Primary Access Corporation which was acquired by 3Com Corporation, and where Mr. Stensrud remained as an executive at Primary Access Corporation through March 1996. Mr. Stensrud is a director of Juniper Networks, Inc. Mr. Stensrud holds a B.S. in electrical engineering and computer science from the Massachusetts Institute of Technology.

David F. Walker

David F. Walker, age 50, has served as a director of Paradyne since July 21, 2003. Mr. Walker serves as the Director of Accounting and the Program for Social Responsibility and Corporate Reporting at the University of South Florida College of Business in St. Petersburg, Florida, a role he has held since 2002. In addition to his work at the University, Mr. Walker is a director of First Advantage Corporation and Technology Research Corporation, Inc., both public companies. Prior to joining the University, he was with Arthur Andersen LLP from

## **Table of Contents**

1975 through 2002, having been a partner in that firm from 1986 through 2002. He earned an MBA degree from the University of Chicago Graduate School of Business with concentrations in accounting, finance and marketing, and a BA from DePauw University with majors in economics and mathematics and a minor in business administration. Mr. Walker is a CPA and Certified Fraud Examiner.

### **Meetings and Committees of the Board of Directors**

The board of directors conducts its business through meetings of the full board and through its three standing committees of the board. These committees are the audit committee, the compensation committee and the nominating committee. During 2003, the board of directors held three formal meetings, the audit committee held five formal meetings and the compensation committee did not hold any formal meetings but held several informal meetings to resolve key compensation issues. The nominating committee was created by the board of directors on March 11, 2004 and, as a result, held no meetings in 2003. Each of the current directors attended at least 75% of all meetings of the full board of directors and of the committees on which he served during 2003, except for William R. Stensrud who attended less than 75% of the board and audit committee meetings during the period in which he so served.

The audit committee engages our independent accountants and reviews their audit plan, the scope and results of their audit engagement. Members also consult with the independent accountants and management with regard to our accounting methods and the adequacy of our internal accounting controls, and authorize the independent accountants' audit and nonaudit fees. The audit committee also reviews our quarterly and annual financial statements with management and the auditors prior to our filing them as part of our quarterly and annual reports to the Securities and Exchange Commission and discusses with the auditors the results of their quarterly reviews and annual audits.

The audit committee also discusses with and receives assurances from the auditors regarding their independence from the Company and management. In addition, each of the audit committee members is financially literate and has the financial management expertise required by the rules of The Nasdaq Stock Market, Inc. Further information regarding the duties of the audit committee is contained in the Audit Committee Charter, as amended and restated and attached hereto as Appendix A.

The audit committee is comprised of Thomas E. Epley, Keith B. Geeslin and David F. Walker. William R. Stensrud resigned from the audit committee on July 21, 2003. Mr. Stensrud did not resign from the Audit Committee because of a disagreement with Paradyne's operations, policies or practices. All audit committee members are independent as defined in the applicable listing standards of the NASD. Mr. Walker serves as Chairman of the audit committee and is an audit committee financial expert as that term is defined in the applicable regulations.

The compensation committee evaluates and approves the salaries and incentive compensation for our executives and makes recommendations regarding our Amended and Restated 1996 Equity Incentive Plan, 1999 Employee Stock Purchase Plan, 1999 Non-Employee Directors' Stock Option Plan, 2000 Broad-Based Stock Plan and Key Employee Stock Option Plan. Administration of these plans includes, among other things, determining which directors, officers and employees will receive awards under the plan, when the awards will be granted, the type of awards to be granted, the number of shares involved in each award, the time when any options granted will become exercisable and, subject to certain conditions, the price and duration of such options. The compensation committee is comprised of Keith B. Geeslin and William R. Stensrud.

The nominating committee identifies individuals qualified to serve on the board and recommends that the board select a slate of director nominees for election by the stockholders of the Company at the annual meeting of the stockholders of the Company. In identifying these individuals, the nominating committee considers such factors as independence and no conflict of interest that would interfere with performance as a director, character and integrity, financial literacy, level of education and business experience, sufficient time to devote to board matters and a commitment to represent the long-term interests of our stockholders. The committee also seeks to ensure that the composition of the board at

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

all times adheres to the independence requirements of the Nasdaq National Market and reflects a variety of complementary experiences and backgrounds, particularly in the areas of management and leadership, sufficient to provide sound and prudent guidance with respect to the operations and interests of the Company. The nominating committee also considers nominees recommended by stockholders and the manner in which the committee evaluates a potential nominee does not differ based on which of the different sources

## **Table of Contents**

indicated above recommended the candidate. For a description of requirements regarding stockholder nominations and other proposals, see Stockholders Proposals For 2005 Annual Meeting. The nominating committee is comprised of David F. Walker and William R. Stensrud, both of whom are independent as defined in the applicable listing standards of the NASD. Further information regarding the duties of the nominating committee is contained in the Nominating Committee Charter, attached hereto as Appendix B.

## **Stockholder Communications with the Board of Directors**

The board of directors accepts communications sent to them (or to specified individual directors) by stockholders of the Company. Stockholders may communicate with the board of directors (or with specified individual directors) by writing to them c/o Secretary, 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773. All written communications received in such manner from stockholders of the Company shall be forwarded to the members of the board of directors to whom the communication is directed or, if the communication is not directed to any particular member(s) of the board of directors, the communication shall be forwarded to all members of the board of directors.

## **Additional Information Concerning Our Board of Directors**

Following the 2004 annual meeting of stockholders, provided that Messrs. Belanger and Geeslin are re-elected to the board, the board of directors has determined that a majority of the directors will be independent as required by the recently amended Nasdaq rules. The board has affirmatively determined by resolution that directors (or nominees) Epley, Frantz, Geeslin, Stensrud and Walker are independent within the meaning of the Nasdaq rules. The board has also affirmatively determined by resolution that it encourages all directors to attend each annual meeting of stockholders, particularly those directors who are up for election at any such meeting.

## **Director Compensation**

Upon the commencement of their service as directors, we grant each of our non-employee directors an option to purchase 10,000 shares of common stock under our 1999 Non-Employee Directors Stock Option Plan. For each year they continue to serve and attend at least 75% of the regularly scheduled meetings of the board of directors and the committees of which they are a member during that year, we grant each director an additional option to purchase 5,000 shares of common stock. Options granted under the 1999 Non-Employee Director Stock Option Plan upon the commencement of service as a director may, at the discretion of the board of directors, be fully vested on the grant date or be vested as to 50% of the shares with the remaining 50% vesting on the first anniversary of the grant date. No option granted under the 1999 Non-Employee Director Stock Option Plan may have a term in excess of ten years from the date on which it was granted. The exercise price of options granted under the 1999 Non-Employee Director Stock Option Plan will equal the fair market value of the common stock on the date of grant.

As of March 31, 2004, 140,000 options to purchase common stock had been granted pursuant to the 1999 Non-Employee Director Stock Option Plan, of which options to acquire 70,000 shares were outstanding on such date.

Since July 15, 1999, our non-employee directors have received cash compensation of \$1,500 for participation in each meeting of the board of directors and \$750 for participation in committee meetings which are held on days other than those on which the board of directors meet. The compensation committee met informally several times when needed during the 2003 year. Each compensation committee member was paid \$1,500 for his participation in those informal meetings. In addition to the above, David F. Walker, Chairman of the audit committee earns a fee of \$5,000 per quarter. We incurred directors' fees of \$36,250 in 2003.

We do not compensate those directors who are also our employees for their service as directors.

**Executive Officers**

Our executive officers serve at the discretion of the board of directors and are comprised of Sean E. Belanger, who is identified above and the following officer:

*Patrick M. Murphy*, age 47, has served as Senior Vice President, Chief Financial Officer and Treasurer since August 1996 and Secretary since August 2000. He also has served as a director and Chief Executive Officer of Paradyne Credit Corp. since July 2001, and Vice President, Chief Financial Officer and Treasurer from August 1996 to July 2001. From August 1996 to

**Table of Contents**

July 1998 he served as Vice President, Treasurer and Chief Financial Officer of GlobeSpan, Inc. From January 1987 to August 1996, he served as Chief Financial Officer of Continental Broadcasting, Ltd., a television and radio broadcast company. Mr. Murphy holds a B.S./B.A. in finance from John Carroll University and is a certified public accountant.

**Table of Contents****EXECUTIVE COMPENSATION****Summary of Compensation**

The following table summarizes the compensation paid or accrued by us in each of the fiscal years ended December 31, 2001, 2002 and 2003 with regard to Sean E. Belanger and Patrick M. Murphy, our executive officers as of December 31, 2003 whose annual compensation and bonus was \$100,000 or more for 2003. The table also provides compensation information for Michael Ward, our former Senior Vice President Sales and World Wide Service, who left the Company in September 2003. Mr. Ward would have been a named executive officer but for the fact that he was not serving as an executive officer at December 31, 2003. We refer to these executives, including Michael Ward, as the named executive officers in this proxy statement. For further information, see Employment Agreements below.

**Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Fiscal Year</b>	<b>Annual Compensation (1)</b>		<b>Long-Term Compensation Awards</b>	
		<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Securities</b>	<b>All Other Compensation (\$)</b>
				<b>Underlying Options (#)</b>	
Sean E. Belanger	2003	\$ 278,954	\$ 194,820	424,700	\$ 4,995(2)
Chairman of the Board,	2002	280,052	125,400	424,739	5,724(2)
	2001	301,473	244,450	24,739	3,397(2)
President, Chief Executive Officer; Director					
Patrick M. Murphy	2003	190,502	105,917	143,300	379(3)
Senior Vice President, Chief Financial Officer, Treasurer and Secretary	2002	191,510	58,520	168,333	536(3)
	2001	206,280	174,360	16,926	281(3)
Michael Ward	2003	147,898	42,713	0	150,164(5)
Senior Vice President Sales and World Wide Service (4)	2002	186,171	75,500	550,000	438(6)

(1) In accordance with the rules of the Securities and Exchange Commission, the compensation described in this table does not include medical, group life insurance or other benefits which are available generally to all salaried employees of Paradyne and other perquisites and personal benefits received which do not exceed the lesser of \$50,000 or 10% of any officer's salary and bonus disclosed in this table.

(2)



## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

- Mr. Belanger received life insurance benefits of \$682, \$764 and \$454 in 2003, 2002 and 2001, respectively, and membership dues benefits of \$4,313, \$4,960 and \$2,943 in 2003, 2002 and 2001, respectively.
- (3) Mr. Murphy received life insurance benefits during 2003, 2002 and 2001.
  - (4) Mr. Ward left the Company in September 2003.
  - (5) Mr. Ward received severance payments of \$149,995 and life insurance benefits of \$169 during 2003.
  - (6) Mr. Ward received life insurance benefits during 2002.

### **Employment Agreements**

Under employment agreements with Messrs. Belanger and Murphy, dated as of December 8, 2000, Mr. Belanger serves as President and Chief Executive Officer, and Mr. Murphy serves as Senior Vice President, Chief Financial Officer, Treasurer and Secretary. Each of the agreements has a term of one year with automatic daily extensions. Under the agreement, each officer is entitled to an annual base salary (currently \$330,000 in the case of Mr. Belanger and \$225,810 in the case of Mr. Murphy) and an annual performance bonus opportunity (currently \$150,000 in the case of Mr. Belanger and \$70,000 in the case of Mr.

**Table of Contents**

Murphy). Under a broad-based salary reduction program, these annual salaries were reduced in 2002 to \$278,954 in the case of Mr. Belanger and \$190,502 in the case of Mr. Murphy. Pursuant to the employment agreements, each officer also is entitled to participate in all incentive, savings, retirement and welfare plans provided by Paradyne to its senior executive officers generally. Pursuant to the employment agreements, the executives are granted stock options to acquire shares of Paradyne common stock (1,200,000 shares in the case of Mr. Belanger and 430,000 shares in the case of Mr. Murphy) at an exercise price equal to the fair market value of the underlying shares on the date of grant. The options vest in equal monthly installments over a 36-month period, provided that, upon the earlier occurrence of a change in control, the options will vest immediately as to a portion of the shares (those that would have vested in the next 12 months with respect to Mr. Belanger, and one-half of the unvested options in the case of Mr. Murphy), and as to another portion of the shares if the officer's employment is terminated under certain conditions within one year after the change in control (those that would have vested in the 24 months after the change in control with respect to Mr. Belanger, and the remainder of the unvested shares with respect to Mr. Murphy). In addition, pursuant to the employment agreement, all of the officer's other options that were outstanding on December 8, 2000 were amended to provide that upon the officer's termination of employment due to death, disability or retirement, or termination without cause or voluntary resignation for any reason, such options will remain exercisable for twelve months. We or the officer may terminate the agreement at any time for any reason. If we terminate the officer's employment without cause or if he resigns for good reason, he will receive (i) a prorated target annual bonus for the year of termination, (ii) a severance payment equal to one year's salary, and (iii) reimbursement for the cost of twelve months of continued health insurance coverage under COBRA. Each of the employment agreements provides for a limitation of severance and other benefits to the extent necessary to avoid the imposition of a golden parachute excise tax, but only if such limitation would result in a more favorable after-tax result for the officer. The employment agreements contain covenants against the disclosure of confidential information or the solicitation of Paradyne's customers or employees for a period of six months after the officer's termination of employment.

**Option Grants**

The following table provides information with regard to stock option grants to the named executive officers pursuant to the Amended and Restated 1996 Equity Incentive Plan, or the 1996 Plan, and the 2000 Broad-Based Plan, or the Broad-Based Plan, during 2003. Options expire ten years from the date of grant and become exercisable at the rate of 2.78% for vesting after three years.

**Option Grants in the Last Fiscal Year**

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year (1)	Exercise of Base Price (\$/SH)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%(\$)	10%(\$)
Sean E. Belanger	424,700	23.76%	\$ 1.64	08/10/2013	\$ 438,030	\$ 1,110,054
Patrick M. Murphy	143,300	8.02%	1.64	08/10/2013	147,798	374,549
Michael Ward						

- (1) Options to purchase a total of 1,787,342 shares of common stock were granted to employees in fiscal 2003 under our 1996 Plan and Broad-Based Plan.

Amounts reported in the last two columns represent hypothetical amounts that may be realized upon exercise of options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation of the common stock over the term of the options. The numbers shown in these two columns are calculated based on Securities and Exchange Commission rules and do not reflect our estimate of future stock price growth. Actual gains, if any, on stock option exercises and common stock holdings depend on the timing of such exercises and

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

the future performance of the common stock. We do not guarantee that the rates of appreciation assumed in these two columns can be achieved or that the amounts reflected will be received by the named executive officers. The two columns do not take into account any appreciation of the price of the common stock from the date of grant to the current date.

**Table of Contents****Option Exercises and Fiscal Year-End Option Values**

The following table sets forth information regarding (1) the number of shares of common stock received upon exercise of options by the named executive officers during 2003, (2) the net value realized upon such exercise, (3) the number of unexercised options held at December 31, 2003 and (4) the aggregate dollar value of unexercised options held at December 31, 2003. The net value realized upon exercise is equal to the difference between the option exercise price and the fair market value of our common stock at the date of exercise or at fiscal year end. The closing sale price of our common stock on the Nasdaq National Market on December 31, 2003 was \$3.44 per share.

**Aggregated Option Exercises in the Last Fiscal Year and Fiscal Year-End Option Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at	Value of Unexercised In-The-Money
			December 31, 2003 (#)	Options at December 31, 2003 (\$)
			Exercisable/Unexercisable	Exercisable/Unexercisable
Sean E. Belanger	125,000	\$ 375,625	699,556 / 2,297,122	\$ 941,015 / \$2,462,659
Patrick M. Murphy	62,702	188,420	243,902 / 896,955	333,275 / 854,884
Michael Ward	56,250	78,281	150,000 /	/

**INDEPENDENT PUBLIC ACCOUNTANTS**

The board of directors has appointed the firm of PricewaterhouseCoopers LLP to serve as independent auditors of the Company for the fiscal year ending December 31, 2004. PricewaterhouseCoopers LLP has served as our independent auditors since 1996.

Representatives of PricewaterhouseCoopers will be present at the annual meeting, where they will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

**Services and Fees and Expenses of PricewaterhouseCoopers LLP During 2003**

*Audit Fees.* PricewaterhouseCoopers LLP's fees were \$207,000 and \$217,000, and its expenses were approximately \$7500 and \$7400 in connection with its audit of our annual financial statements for 2002 and 2003, respectively, and its reviews of our quarterly financial statements included in our three Quarterly Reports on Form 10-Q that we filed with the Securities and Exchange Commission during 2002 and 2003, respectively.

*Audit-Related Fees.* We did not incur any fees from PricewaterhouseCoopers LLP for assurance and related services that were reasonably related to the performance of its audit or review of our financial statements and are not reported under *Audit Fees* for 2002 and 2003, respectively.

*Tax Fees.* We did not incur any fees from PricewaterhouseCoopers LLP for professional services rendered by it for tax compliance, tax advice and tax planning.

*All Other Fees.* PricewaterhouseCoopers LLP's fees were \$79,675 and \$1,400 for all other products and services that they rendered to us in 2002 and 2003, respectively. A substantial portion of the fees for these services relates to services traditionally provided by auditors, including consulting regarding FASB and Securities and Exchange Commission pronouncements and other Securities and Exchange Commission related work and filings.

The audit committee has determined that the provision by PricewaterhouseCoopers LLP of non-audit services to us in 2003 is compatible with PricewaterhouseCoopers LLP's maintaining its independence.

The audit committee pre-approves all audit and non-audit services performed by the Company's independent auditors and all related fees to assure that the provision of such services does not impair the auditor's independence. Under the audit committee policy, the independent auditors are prohibited from performing any non-audit services in contravention of SEC rules. The audit committee may delegate its pre-approval authority to one or more of its members, but not to management.

**Table of Contents**

The member or members to whom such authority is delegated shall report any pre-approval decisions to the full audit committee at its next scheduled meeting. In 2003, the audit committee approved the Company's fee arrangement with PricewaterhouseCoopers LLP prior to the start of the annual audit. The percentage of fees paid to PricewaterhouseCoopers LLP for the services described above under "All Other Fees" that was pre-approved was 100% in 2003 and 0% in 2002.

**Table of Contents**

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The audit committee oversees the Company's financial reporting process on behalf of the board of directors. The audit committee operates under a written charter adopted by the board of directors, as amended and restated on April 2, 2004. This report reviews the actions taken by the audit committee with regard to the Company's financial reporting process during 2003 and particularly with regard to the Company's audited consolidated financial statements as of December 31, 2003 and 2002 and for the three years in the period ended December 31, 2003.

The audit committee is comprised of Thomas E. Epley, Keith B. Geeslin and David F. Walker. William R. Stensrud resigned from the audit committee on July 21, 2003. All audit committee members are independent as defined in the applicable listing standards of the NASD. As further required by such rules, each of the committee members is financially literate and has financial management expertise. Mr. Walker serves as Chairman of the audit committee and is an audit committee financial expert as that term is defined in the applicable regulations.

The Company's management has the primary responsibility for the Company's financial statements and reporting process, including the systems of internal controls. The Company's independent auditors are responsible for performing an independent audit of the company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The committee's responsibility is to monitor and oversee these processes and to recommend annually to the board of directors the accountants to serve as the Company's independent auditors for the coming year.

The audit committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to fulfill its oversight responsibilities under the audit committee's charter. To carry out its responsibilities, the audit committee met five times during 2003.

In fulfilling its oversight responsibilities, the audit committee reviewed with management the audited financial statements to be included in the Company's Annual Report on Form 10-K for 2003, including a discussion of the quality (rather than just the acceptability) of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The audit committee also reviewed with the Company's independent auditors, PricewaterhouseCoopers LLP, their judgments as to the quality (rather than just the acceptability) of the Company's accounting principles and such other matters as are required to be discussed with the audit committee under Statement on Auditing Standards No. 61, *Communication with Audit Committees*. In addition, the audit committee discussed with PricewaterhouseCoopers LLP their independence from management and the Company, including the matters in the written disclosures required of PricewaterhouseCoopers LLP by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The audit committee also considered whether the provision of services during 2003 by PricewaterhouseCoopers LLP that were unrelated to their audit of the financial statements referred to above and to their reviews of the Company's interim financial statements during 2003 is compatible with maintaining PricewaterhouseCoopers LLP's independence.

Additionally, the audit committee discussed with the Company's independent auditors the overall scope and plan for their audits. The audit committee met with the independent auditors, with and without any management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

**Table of Contents**

In reliance on the reviews and discussions referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for 2003 for filing with the Securities and Exchange Commission.

**Audit Committee:**

Thomas E. Epley

Keith B. Geeslin

David F. Walker

April 2, 2004



**Table of Contents**

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

**Introduction**

The compensation committee is responsible for developing the Company's executive compensation policies and advising the board of directors with respect to these policies. This report reviews the compensation committee's policies generally with respect to the compensation of all executive officers as a group for 2003.

The members of the compensation committee are Keith B. Geeslin and William R. Stensrud. None of the committee members is or has been an officer or employee of the Company or any of its subsidiaries.

**Compensation Policy for Executive Officers**

The executive compensation program for 2003 was designed to attract and retain a highly qualified and motivated management team, reward individual performance and link the interests of the senior executives directly with those of the stockholders. The 2003 compensation program, like those in prior years, is comprised of base salary, annual bonuses and long-term incentive pay in the form of stock options. This program applies to all key management personnel, including the Chief Executive Officer. All of the executives also are eligible for other employee benefits, including life, health, disability and dental insurance and the Company's retirement savings plan and employee stock purchase plan.

*Base Salary.* The compensation committee set the base salaries of top management for 2003 after reviewing salary levels for comparable executive positions in the telecommunications industry. The compensation committee set salaries at levels competitive with the base salaries of similarly situated executives at companies of similar size and revenue levels in the telecommunications industry.

*Annual Bonuses.* The compensation committee based annual cash bonuses for executive officers in 2003 on the Company's financial performance targets. The compensation committee established the target bonus amounts after reviewing similar information presented in independent surveys. The compensation committee's review ranged from broad-based overviews of the entire telecommunications industry to information regarding entities more similar to the Company in revenues. Based on such comparative information, the compensation committee used median as a guide for setting average and target bonus amounts for the Company's top management positions. The compensation committee generally uses the achievement of equipment revenue and the attainment of earnings targets as its two principal performance measurements. Additionally, the compensation committee may use its discretion to adjust the annual bonus payment based on an executive satisfying key deliverables. During 2003, we continued our close monitoring of expenses and our tight management of cash usage. Bonuses for the 2003 fiscal year were paid out based on attainment of preset revenue and net income goals.

*Stock Options.* Stock options are granted periodically under the 1996 Plan to the executive officers. Options granted to executive officers in 2003 have an exercise price equal to the fair market value of the underlying stock on the date of grant, expire ten years from the date of grant and vest in equal monthly installments over thirty-six months beginning one month from the date of grant. In granting options, the board reviews the amount of options granted to executives at other comparable companies in the telecommunications industry, the awards granted to other employees within the Company, the individual's position at the Company, options granted to the individual in prior years and his role in helping the Company achieve its goals. For more information about the options granted and exercised by the Company's named executive officers in 2003 and year-end stock option values, see Executive Compensation Option Grants and Aggregated Option Exercises in the Last Fiscal Year

and Fiscal Year-End Option Values.

## **Table of Contents**

### **Chief Executive Officer's Compensation**

Mr. Belanger became the Company's Chief Executive Officer in December 2000. Mr. Belanger received a base salary of \$278,954 in 2003. Based on the Company's financial performance in 2003, Mr. Belanger earned an annual incentive bonus of \$119,820. Due to salary reductions instituted by the Company in 2001, Mr. Belanger received this base salary in 2003, despite the fact that his employment agreement with the Company provides for \$330,000 in annual base salary. See "Employment Agreements" under "Executive Compensation." Mr. Belanger received 424,700 stock option grants during 2003. Mr. Belanger's total compensation for 2003 is provided in detail in the Summary Compensation Table under "Executive Compensation."

### **Policy With Respect to Deductibility of Compensation Expense**

Section 162(m) of the Internal Revenue Code limits the tax deduction that the Company may take with respect to the compensation of certain executive officers, unless the compensation is "performance based" as defined in the Code. The 1996 Plan is designed to comply with Section 162(m) of the Code so that the grant of options and other awards under the 1996 Plan, including those that are conditioned on performance goals, will be excluded from the calculation of annual compensation and will be fully deductible by the Company. No awards other than stock options have been granted to date under the 1996 Plan that are conditioned on performance goals. The Broad-Based Plan does not comply with Section 162(m) of the Code and, therefore, grants to executive officers under the Broad-Based Plan may not be fully deductible by the Company.

### **Conclusion**

The executive compensation program is designed to closely link pay with performance and the creation of stockholder value. If the Company achieves average financial performance levels, its executives will be compensated at "median levels" for comparable companies. If the Company's performance is exceptionally higher than the targeted levels, executive compensation will exceed such "median levels." The compensation committee believes that the program has been and will continue to be successful in supporting the Company's financial growth and other business objectives.

### **Compensation Committee:**

Keith B. Geeslin

William R. Stensrud

April 2, 2004

**Table of Contents**

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The compensation committee consists of Keith B. Geeslin and William R. Stensrud. No interlocking relationships existed during 2003 nor presently exist between any member of the Company's compensation committee and any member of the compensation committee of any other company.

**CERTAIN TRANSACTIONS**

In July 1996, Communication Partners, L.P., a limited partnership controlled by Texas Pacific Group, acquired our business as well as the businesses of Paradyne Credit Corp. and GlobeSpan, Inc. as part of a divestiture by Lucent Technologies Inc. As of May 1999, Communication Partners, L.P. owned approximately 97.1% of our outstanding common stock and approximately 83.2% of the outstanding capital stock of GlobeSpan. In May 1999, Communication Partners, L.P. distributed its Paradyne shares and its GlobeSpan shares to its general and limited partners. Communication Partners, L.P. continues to own 100% of the capital stock of Paradyne Credit Corp.

Mr. Murphy our Senior Vice President, Chief Financial Officer, Treasurer and Secretary is a director and the Chief Executive Officer of Paradyne Credit Corp.

Messrs. Epley and Stensrud, two of our directors, either directly or through various investment partnerships and corporations, are limited partners of Communication Partners, L.P. Mr. Frantz is a managing partner in Texas Pacific Group, a limited partner in Communications Partners, L.P. Communications Partners, L.P. and Texas Pacific Group sold all of their interests in Paradyne shares in January 2004.

**Transactions With Paradyne Credit Corp.**

As part of the divestiture by Lucent, we entered into an intercompany services agreement with Paradyne Credit Corp., our equipment leasing affiliate, under which we agreed to provide:

general management consulting and services administration, including rental contract servicing administration and remarketing services;

administrative services, including risk management, financial and cash management, tax management and accounting services;

human resources, staffing and legal services; and

operational services, including facilities management, office communications, telecommunication systems, systems management and other services.

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

In exchange for these services, Paradyne Credit Corp. pays us a monthly service fee equal to the sum of: (i) all direct costs incurred by us to provide services to Paradyne Credit Corp., (ii) all indirect costs incurred by us to provide services to Paradyne Credit Corp. and (iii) a 5% mark up on all charges. Paradyne Credit Corp. may terminate this agreement upon 60 days notice, and we may terminate this agreement upon 180 days notice.

Additionally, we provided maintenance services to Paradyne Credit Corp. customers for their leased data communications equipment. Paradyne Credit Corp. pays us a monthly amount of \$5,000 plus time and materials for providing these services.

For the year ended December 31, 2003, we charged Paradyne Credit Corp. approximately \$250,000 for providing all of the above services.

### **Transactions with Nortel Networks Inc.**

As a result of our March 5, 2002 acquisition of Elastic Networks, Inc., Nortel Networks Inc. became a greater than 5% owner of our common stock. Elastic Networks had a distribution agreement with Nortel that has continued after the acquisition. Under this distribution agreement, we supply Nortel's customers with access product. Although Elastic Networks

## **Table of Contents**

paid an agency fee of 7.5% of sales to specified customers under the distribution agreement, this agency fee was terminated in connection with the acquisition. During 2003, Paradyne's total business transactions with Nortel were approximately \$30,000.

## **Limitations On Directors and Executive Officers Liability and Indemnification**

Our bylaws and certificate of incorporation provide for indemnification and limitation of liability of our directors and executive officers. In addition, we have entered into indemnification agreements with Messrs. Belanger, Epley, Geeslin, Murphy, Stensrud, Frantz and Walker. Under the agreements, we agreed to reimburse and indemnify each individual for civil or criminal proceedings or governmental investigations relating to his actions as a director or officer, except if such conduct was committed in bad faith or was a breach of his duty of loyalty to us.

On December 7, 2000, in connection with the class action lawsuits described under Item 3: Legal Proceedings of our Form 10-K, we agreed, consistent with our bylaws, certificate of incorporation and the above-mentioned indemnity agreements, to reimburse Messrs. Epley, May and Murphy, each of whom is a defendant in the lawsuits, for the costs associated with defending themselves against these claims. As of March 31, 2004, we have not made any payments to Messrs. Epley, May and Murphy.

## **Other Director or Five Percent Stockholder Relationships**

As of December 31, 2003, Texas Pacific Group beneficially owned 24.69% of our common stock and also beneficially owned convertible preferred stock representing ownership of 18% of Zhone Technologies, Inc., a company with whom we have a distribution agreement. This convertible preferred stock is convertible to common stock on a one-to-one exchange ratio at the earlier of an election to convert by the Texas Pacific Group or upon an initial public offering of Zhone. Pursuant to this distribution agreement, we purchase Zhone's IMACS system and have exclusive rights to distribute it under our private label as the Acculink Access Controller. For the year ended December 31, 2003, we made total payments to Zhone for purchases of IMACS of approximately \$1.1 million. As of March 31, 2004, Texas Pacific Group does not beneficially own any of our common stock.

**Table of Contents****STOCK PERFORMANCE GRAPH**

The following stock performance graph and accompanying table compare the stockholders' cumulative return on the common stock from July 16, 1999 to December 31, 2003 with the cumulative total return of the S&P 500 Index (U.S.) and the Nasdaq Telecom Index over the same period. The comparative data assumes that \$100.00 was invested on the date of our initial public offering, July 16, 1999, in the common stock and in each of the indices referred to above and that any dividends were reinvested. The stock price performance shown in the table set forth below is not necessarily indicative of future stock price performance.

	<u>July 1999</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
PARADYNE NETWORKS, INC.	\$ 100.00	\$ 160.29	\$ 10.66	\$ 22.94	\$ 7.53	\$ 20.24
S&P 500 INDEX	\$ 100.00	\$ 107.71	\$ 97.90	\$ 86.27	\$ 67.20	\$ 78.88
NASDAQ TELECOM INDEX	\$ 100.00	\$ 136.44	\$ 62.30	\$ 31.84	\$ 14.69	\$ 26.42

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such forms furnished to the Company, or written representations that no Forms 5 were required, we believe that during 2003 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten-percent beneficial owners were complied with.

**Table of Contents**

**STOCKHOLDERS PROPOSALS FOR 2005 ANNUAL MEETING**

Under Securities and Exchange Commission rules, proposals of stockholders that are intended to be presented by such stockholders at our 2005 annual meeting and that stockholders desire to have included in our proxy statement and form of proxy for the 2005 annual meeting must be submitted to us in writing no later than December 17, 2004, which is 120 calendar days prior to the anniversary of the mailing date of this proxy statement, and must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the proxy materials.

If a stockholder wishes to present a proposal at our 2005 annual meeting, and the proposal is not intended to be included in our proxy statement relating to that meeting, the stockholder must deliver written notice of the proposal to Paradyne not less than 90 days nor more than 120 days before the first anniversary of the prior year's meeting. Assuming that our 2005 annual meeting is held on schedule, we must receive this notice no earlier than January 14, 2005 and no later than February 13, 2005. If a stockholder gives notice of a proposal after this deadline, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the meeting. The requirements for submitting such proposals are set forth in our bylaws.

All director nominations and other proposals of stockholders with regard to the 2005 annual meeting should be submitted not less than 90 days nor more than 120 days before the first anniversary of the prior year's meeting by certified mail, return receipt requested, to Paradyne Networks, Inc., 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773, Attention: Nominating Committee c/o Patrick M. Murphy, Senior Vice President, Chief Financial Officer, Treasurer and Secretary.

By order of the board of directors,

/s/ Patrick M. Murphy

Patrick M. Murphy

*Senior Vice President, Chief Financial Officer,*

*Treasurer and Secretary*

Largo, Florida

April 16, 2004



**Table of Contents**

**APPENDIX A**

**AUDIT COMMITTEE CHARTER**

**As Amended and Restated on April 2, 2004**

**PURPOSE**

The Audit Committee (the "Committee") is appointed by the Board of Directors to assist the Board of Directors in overseeing (1) the accounting and financial reporting processes of the Company, (2) the audits of the financial statements of the Company, and (3) other activities within its authority and responsibilities as stated below.

In furtherance of this purpose, the Committee shall maintain direct communication among the Company's independent auditors and Company management (including the head of internal audit, if any) and the Board of Directors. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and has the authority to retain at the Company's expense outside legal, accounting or other advisors to advise the Committee and to receive appropriate funding, as determined by the Committee, from the Company for the payment of the compensation of such advisors. The independent auditors shall report directly to the Committee and are ultimately accountable to the Committee and the Board of Directors.

The Committee's job is one of oversight and it recognizes that the Company's management is responsible for preparing the Company's financial statements and that the outside auditors are responsible for auditing those financial statements. Additionally, the Committee recognizes that financial management, as well as the independent auditors, have more time and more detailed information about the Company than do Committee members; consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditors' work.

**COMPOSITION OF THE COMMITTEE**

The Committee shall be composed of at least three members, who shall be independent directors meeting the requirements of the NASDAQ National Market (the "NASDAQ") listing standards and the rules of the Securities and Exchange Commission (the SEC), and appointed by the Board of Directors. No member of the Committee may, other than in his or her capacity as a member of the Committee, the Board of Directors or any other Board committee, accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any subsidiary, nor may any member of the Committee be an affiliated person of the Company or any subsidiary. Furthermore, each member must not have participated in the preparation of the financial statements of the Company (or any subsidiary of the Company) at any time during the three years prior to appointment on the Committee. Additionally, the members of the Committee must be able to read and understand fundamental financial statements. In addition, at least one member of the committee shall be an audit committee financial expert within the meaning set forth by the rules of the SEC. The audit committee financial expert must have past employment experience in finance or accounting, a professional certification in accounting, or any other comparable experience or background, as required by the NASDAQ listing standards.

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

The Chairman of the Committee shall be designated by the Board of Directors. In the absence of the Chairman, the members of the Committee may designate a chairman by majority vote. The Board of Directors may, at any time, remove one or more directors as members of the Committee.

### **AUTHORITY AND RESPONSIBILITIES**

The Committee shall:

At least annually, review and reassess the adequacy of this Charter and evaluate the performance of the Committee and report the results thereof to the Board of Directors.

## Table of Contents

In consultation with corporate management, the independent auditors and the internal auditors, if any, consider the integrity of the Company's financial reporting processes and controls.

Annually obtain and review a report from the independent auditors, which shall be delivered prior to and within 90 days of the filing of the audit report with the SEC, which sets forth:

- All critical accounting policies, estimates, judgments and practices used by the Company,
- All alternative accounting treatments of financial information within GAAP related to material items that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the accounting firm, and
- Other material written communication between the accounting firm and management, such as any management letter or schedule of unadjusted differences.

Directly appoint, retain, compensate, evaluate, and oversee the Company's independent auditors. Based on its evaluation, the Committee will make recommendations to the Board annually regarding the firm of certified public accountants to be employed by the Company as its independent auditors for the ensuing year. Oversee and confirm the regular rotation of the lead audit partner of the independent auditors.

Review, or the Chairperson of the Committee shall review, with management and the independent auditors the Company's unaudited quarterly financial statements and any changes in accounting policy that have occurred during the interim period prior to their filing or distribution. The Committee shall discuss with management and the independent auditors the audited financial statements and make a recommendation to management as to whether such audited financial statements should be included in the Company's Annual Report on Form 10-K for the last fiscal year to be filed with the SEC.

Pre-approve, to the extent required by applicable law, all audit and non-audit engagements and the related fees and terms with the independent auditors. In accordance with applicable law, the Committee may delegate this authority to one or more designated members of the Committee; provided that any such decision made pursuant to the foregoing delegation of authority shall be presented to the Committee at its next regularly-scheduled meeting. The Committee shall disclose its pre-approval policies and procedures for any audit and non-audit services. Furthermore, the Committee's approval of any non-audit service by the independent auditor shall be disclosed in the Company's periodic reports.

Satisfy itself as to the professional competency of the head of internal audit, if any, and the adequacy of his staff in discharging the responsibility of the office. Review with management the appointment and replacement of the head of internal audit, if any.

If applicable, review annually the Company's internal auditing program and significant reports with the head of internal audit, if any, and corporate management's response and follow-up to those reports.

Review with the independent auditors, on completion of the annual audit, their experience, any difficulties encountered, any restrictions on their work, cooperation received, significant disagreements with corporate management, their findings and their recommendations. Oversee the resolution of any disagreements between management and the independent auditors. Discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 61.

Receive from the independent auditors a formal written statement delineating all relationships between the auditor and the Company, consistent with Independence Standards Board Standard 1. The Committee shall engage in a dialogue with the independent auditors

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor. Furthermore, the Committee shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the independent auditors.

**Table of Contents**

Review the application of significant regulatory, accounting and auditing initiatives, including new pronouncements, as well as off-balance sheet structures on the Company's financial statements.

Review and assess the adequacy of internal accounting procedures and controls, and any programs that the Company has instituted to correct any control deficiencies noted by the independent auditors in their annual review or the head of internal audit in his periodic review, if any. Discuss with management the results of the foregoing reviews, including significant items and potential ways to improve the accounting procedures and controls.

Oversee implementation, testing and subsequent ongoing monitoring of documentation of internal controls pursuant to Section 404 of the Sarbanes Oxley Act of 2002.

Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters as highlighted in the Company's Code of Ethics.

Advise the Board of Directors with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Ethics.

Establish clear hiring policies for current or former employees of the independent auditors.

Report annually to the Board of Directors, after the close of each fiscal year but prior to the Company's annual meeting of stockholders, as well as on any other occasion, any issues that arise with respect to the quality or integrity of the Company's publicly reported financial statements, the Company's compliance with legal or regulatory financial disclosure requirements, the performance and independence of the independent auditors, the performance of the internal audit function or whatever it deems appropriate concerning the activities of the Committee.

Annually prepare a report to stockholders from the audit committee as required by the Company for inclusion in the Company's proxy statement for its annual meeting of stockholders.

Review and approve any related party transactions (as defined by the Nasdaq listing standards) involving the Company.

When appropriate, form and delegate authority to subcommittees or individual members of the Committee.

Perform any other activities consistent with this Charter, the Company's bylaws, and governing law as the Committee or the Board of Directors deems necessary or appropriate.

**COMMITTEE MEETINGS**

The Committee shall meet at least four times per year. Minutes of each of these meetings shall be kept and the Chief Financial Officer will function as the management liaison officer to this Committee. The Committee shall periodically meet privately (without management) in executive session with the independent auditors to discuss any matters the Committee or the independent auditors believe should be discussed.



**Table of Contents**

**APPENDIX B**

**NOMINATING COMMITTEE CHARTER**

**As Adopted on March 11, 2004**

**PURPOSE AND RESPONSIBILITIES**

The Nominating Committee (the "Committee") is intended to assist the Board of Directors of Paradyne Networks, Inc. (the "Company") in fulfilling its oversight responsibilities under the Nasdaq National Market ("Nasdaq") listing standards and Delaware law. As such, the Committee shall be responsible for identifying individuals qualified to serve on the Board of Directors, consistent with criteria approved by the Board of Directors, and to recommend that the Board of Directors select a slate of director nominees for election by the stockholders of the Company at the annual meeting of the stockholders of the Company, in accordance with the Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws and with Delaware law.

**COMPOSITION OF THE COMMITTEE**

The members of the Committee shall be independent directors under the Nasdaq requirements and shall be appointed by the Board of Directors. The then-current members of the Committee shall make recommendations for future appointments to the Committee, but the final appointment decision shall rest with the Board of Directors. The Chairman of the Committee shall be designated by the Board of Directors. In the absence of the Chairman, the members of the Committee may designate a chairman by majority vote. The Board of Directors may, at any time, remove one or more directors as members of the Committee and may fill any vacancy on the Committee. The Committee may form and delegate authority to subcommittees when appropriate.

**NOMINATING FUNCTION OF THE COMMITTEE**

At least annually, the Committee shall review with the Board of Directors the appropriate skills and characteristics required of Board of Directors members. The full Board of Directors shall remain responsible for selecting nominees and recommending them for election by the stockholders. The Committee is responsible for developing and implementing the screening process necessary to identify qualified candidates. As a part of its screening process, the Committee shall:

evaluate a candidate's independence from the Company's management and other principal service providers, and the effect of any relationships that might impair independence, *e.g.*, business, financial or family relationships with the Company's management or other service providers; and

## Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

consider candidates proposed by an executive officer, by any director or by any stockholder, in accordance with procedures established by the Committee from time to time.

The Committee may determine, from time to time, the advisability of retaining any search firm or consultant to assist in the identification and evaluation of candidates for membership on the Board of Directors. The Committee has the sole authority to retain, at Company expense, and terminate any such search firm or consultant, including sole authority to approve the fees to be paid to such firm or consultant and all other retention terms.

On an annual basis, the Committee shall evaluate the membership of the committees of the Board of Directors. The Committee shall provide to the full Board of Directors the results of its evaluation, together with the Committee's recommendation as to committee membership during the upcoming year, for consideration by the Board of Directors in connection with the annual committee appointment process. In the event of a vacancy on any of the committees of the Board of Directors, the Committee shall provide its recommendation regarding a replacement committee member to the full Board of Directors.



**Table of Contents**

**Other Activities**

The Committee shall perform any other activities consistent with this charter, the Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws and governing law as the Committee or the Board of Directors deems appropriate.

**COMMITTEE MEETINGS**

The Committee shall meet at least once per year. Other meetings may be held at the discretion of the Chairman of the Committee. Minutes of each of these meetings shall be kept.

**Table of Contents**

**PARADYNE NETWORKS, INC.**

**ANNUAL MEETING OF STOCKHOLDERS**

**FRIDAY, MAY 14, 2004**

**10:00 A.M.**

**8545 126TH AVENUE NORTH**

**LARGO, FLORIDA**

**Paradyne Networks, Inc.**

**c/o Shareowner Services<sup>SM</sup>**

**P.O. Box 64873**

**St. Paul, MN 55164**

**proxy**

**REVOCABLE PROXY**

**COMMON STOCK**

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS FOR THE 2004 ANNUAL MEETING OF STOCKHOLDERS. IF YOU CHOOSE TO SUBMIT YOUR PROXY VOTING INSTRUCTIONS VIA THE**

**INTERNET OR BY TOUCH-TONE TELEPHONE, THEN DO NOT RETURN THIS PROXY CARD.**

The undersigned stockholder of Paradyne Networks, Inc., a Delaware corporation ( Paradyne ), hereby acknowledges receipt of the Notice of 2004 Annual Meeting of Stockholders and the related proxy statement and hereby appoints Sean E. Belanger and Patrick M. Murphy, and each of them, proxies, with full power of substitution and resubstitution, for and in the name of the undersigned, to vote all shares of Paradyne common stock which the undersigned held of record on April 7, 2004, at the 2004 Annual Meeting of Stockholders to be held on May 14, 2004 at 10:00 a.m. local time, at 8545 126<sup>th</sup> Avenue North, Largo, Florida 33773, and at any adjournments or postponements thereof.

*See reverse for voting instructions*

**Table of Contents**

**COMPANY #**

**There are three ways to vote your Proxy**

**Your telephone or Internet vote authorizes the proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK <<< EASY <<< IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 1:00 p.m. (ET) on May 13, 2004. Please have your proxy card and the last four digits of your Social Security Number available. Follow the simple instructions the voice provides you.

**VOTE BY INTERNET <http://www.eproxy.com/pdyn/> QUICK <<< EASY <<< IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 1:00 p.m. (ET) on May 13, 2004. Please have your proxy card and the last four digits of your Social Security Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or return it to **Paradyne Networks, Inc.**, c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Paul, MN 55164-0873.

**If you vote by Phone or Internet, please do not mail your Proxy Card**

*Please detach here*

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE LISTED PROPOSAL.

1. Election of Class II directors for a three-year term expiring at the 2007 annual meeting of stockholders and	01 Sean E. Belanger. 02 Keith B. Geeslin	Vote For the nominees (except as marked)	Vote WITHHELD from the nominees
--	---	--	------------------------------------

Edgar Filing: PARADYNE NETWORKS INC - Form DEF 14A

until their successors have been duly elected and qualified.

(Instructions: To withhold authority to vote for any indicated

nominee, write the number(s) of the nominee(s) in the box

provided to the right.)

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the annual meeting or any adjournments or postponements thereof.

**THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTON IS GIVEN, WILL BE VOTED FOR THE PROPOSAL**

Address Change?

Mark Box

..

Attending Meeting? Mark Box

..

Indicate changes below:

Date \_\_\_\_\_

**Signature(s) in Box**

Please sign exactly as your name appears on this proxy card. When shares are held jointly, both must sign. When signing as attorney-in-fact, executor, administrator, personal representative, trustee, guardian or similar capacity, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person. Where applicable, indicate your official position or representative capacity.