INTEGRA LIFESCIENCES HOLDINGS CORP
Form DEF 14A
April 16, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
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 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
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311 ENTERPRISE DRIVE
PLAINSBORO, NEW JERSEY 08536
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 17, 2007

To the Stockholders of Integra LifeSciences Holdings Corporation:

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Stockholders (the Meeting) of Integra LifeSciences Holdings Corporation (the Company) will be held as, and for the purposes, set forth below:

TIME	9:00 a.m. local time on Thursday, May 17, 2007
PLACE	Holiday Inn Hotel 100 Independence Way Princeton, New Jersey 08540
ITEMS OF BUSINESS	1. To elect eight directors of the Company to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified. 2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the current fiscal year. 3. To act upon any other matters properly coming before the meeting or any adjournment or postponement thereof.
RECORD DATE	Holders of record of the Company's common stock at the close of business on March 30, 2007 are entitled to notice of, and to vote at, the Meeting and any adjournment or postponement thereof. A complete list of stockholders entitled to vote at the Meeting will be available for inspection by any stockholder for any purpose germane to the Meeting for ten days prior to the Meeting during ordinary business hours at the Company's headquarters located at 311 Enterprise Drive, Plainsboro, New Jersey.
ANNUAL REPORT	The 2006 Annual Report of Integra LifeSciences Holdings Corporation is being mailed simultaneously herewith. The Annual Report is not to be considered part of the proxy solicitation materials.
IMPORTANT	In order to avoid additional soliciting expense to the Company, please MARK, SIGN, DATE and MAIL your proxy PROMPTLY in the return envelope provided, even if you plan to attend the Meeting. If you attend the Meeting and wish to vote your shares in person, arrangements will be made for you to do so.

By order of the Board of Directors,

/s/ Richard D. Gorelick

Plainsboro, New Jersey	Richard D. Gorelick
April 16, 2007	*Senior Vice President, General Counsel and Secretary*

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INTEGRA LIFESCIENCES HOLDINGS CORPORATION
311 ENTERPRISE DRIVE
PLAINSBORO, NEW JERSEY 08536

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 17, 2007

PURPOSE OF MEETING

We are providing this Proxy Statement to holders of our common stock in connection with the solicitation by the Board of Directors of Integra LifeSciences Holdings Corporation (the Company) of proxies to be voted at the Company s 2007 Annual Meeting of Stockholders (the Meeting) and at any adjournments or postponements thereof. The Meeting will begin at 9:00 a.m. local time on Thursday, May 17, 2007 at the Holiday Inn Hotel, 100 Independence Way, Princeton, New Jersey. We are first mailing this Proxy Statement, the Notice of Annual Meeting of Stockholders and the form of proxy to stockholders of the Company on or about April 16, 2007.

At the Meeting, we will ask the stockholders of the Company to consider and vote upon:

(i) the election of eight directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualified (see Proposal 1. Election of Directors); and

(ii) the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the current fiscal year (see Proposal 2. Ratification of Independent Registered Public Accounting Firm).

We know of no other matters that will be presented for consideration at the Meeting. If any other matters are properly presented at the Meeting or any postponement or adjournment thereof, the persons named in the enclosed proxy will have authority to vote on such matters in accordance with their best judgment.

RECORD DATE

As of March 30, 2007, the record date for the Meeting, 27,320,211 shares of our common stock were outstanding. Only holders of record of our common stock as of the close of business on the record date are entitled to notice of, and to vote at, the Meeting or at any adjournment or postponement thereof.

VOTING AND REVOCABILITY OF PROXIES

Each share of our common stock entitles the holder of record thereof to one vote. Each stockholder may vote in person or by proxy on all matters that properly come before the Meeting and any adjournment or postponement thereof. The presence, in person or by proxy, of stockholders entitled to vote a majority of the shares of common stock outstanding on the record date will constitute a quorum for purposes of voting at the Meeting. Shares abstaining from voting and shares present but not voting, including broker non-votes, are counted as present for purposes of determining the existence of a quorum. Broker non-votes are shares held by a broker or nominee for which an executed proxy is received by the Company, but which are not voted as to one or more proposals because timely instructions have not been received from the beneficial owners or persons entitled to vote and the broker or nominee does not have discretionary voting power to vote such shares.

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If we fail to obtain a quorum for the Meeting or a sufficient number of votes to approve a proposal, we may adjourn the Meeting for the purpose of obtaining additional proxies or votes or for any other purpose. At any subsequent reconvening of the Meeting, all proxies will be voted in the same manner as they would have been voted at the original Meeting (except for any proxies that have theretofore effectively been revoked or withdrawn). Proxies voting against a proposal set forth herein will not be used to adjourn the Meeting to obtain additional proxies or votes with respect to such proposal.

The Board of Directors is soliciting the enclosed proxy for use in connection with the Meeting and any postponement or adjournment thereof. All properly executed proxies received prior to or at the Meeting or any postponement or adjournment thereof and not revoked in the manner described below will be voted in accordance with the instructions indicated on such proxies. For each proposal, you may vote FOR, AGAINST or ABSTAIN. If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the Board of Directors.

You may revoke your proxy by (a) delivering to the Secretary of the Company at or before the Meeting a written notice of revocation bearing a later date than the proxy, (b) duly executing a subsequent proxy relating to the same shares of common stock and delivering it to the Secretary of the Company at or before the Meeting or (c) attending the Meeting and voting in person (although attendance at the Meeting will not in and of itself constitute revocation of a proxy). Any written notice revoking a proxy should be delivered at or prior to the Meeting to: Integra LifeSciences Holdings Corporation, 311 Enterprise Drive, Plainsboro, New Jersey 08536, Attention: Senior Vice President, General Counsel and Secretary. Beneficial owners of our common stock who are not holders of record and wish to revoke their proxy should contact their bank, brokerage firm or other custodian, nominee or fiduciary to inquire about how to revoke their proxy.

We will bear all expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement. In addition to solicitation by use of the mail, proxies may be solicited by telephone, telegraph or personally by our directors, officers and employees, who will receive no extra compensation for their services. We will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy soliciting materials to beneficial owners of shares of common stock.

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PROPOSAL 1. ELECTION OF DIRECTORS

The Board of Directors has nominated eight persons for election as directors whose terms will expire at the 2008 Annual Meeting of Stockholders and when their successors are elected and qualified: Thomas J. Baltimore, Jr., Keith Bradley, Ph.D., Richard E. Caruso, Ph.D., Stuart M. Essig, Neal Moszkowski, Christian S. Schade, James M. Sullivan and Anne M. VanLent, each of whom are currently directors of the Company.

If any nominee should be unable to serve as director, an event not now anticipated, the shares of common stock represented by proxies would be voted for the election of such substitute as the Board of Directors may nominate. Set forth below is certain information with respect to the persons nominated as directors of the Company. See Principal Stockholders for information regarding the security holdings of our director nominees.

THOMAS J. BALTIMORE JR. has been a director of the Company since March 2007. He has served as President of RLJ Development, LLC, which he founded, since 2000. Prior to launching RLJ, he worked at Hilton Hotels Corporation as Vice President, Development and Finance (1999 to 2000) and Vice President, Gaming Development (1997 to 1998). From 1994 to 1996, Mr. Baltimore was Vice President, Business Development for Host Marriott Services (a spinoff entity from Host Marriott Corporation). Mr. Baltimore also worked for Marriott Corporation from 1988 to 1989 and from 1991 to 1993, holding various positions in the company, including Senior Director and Manager. Prior to his employment with Marriott, Mr. Baltimore was a staff auditor for Price Waterhouse. Mr. Baltimore is 43 years old.

KEITH BRADLEY, PH.D. has been a director of the Company since 1992. Between 1996 and 2003, he was a director of Highway Insurance plc, a London Stock Exchange corporation, and has been a consultant to a number of business, government and international organizations. Dr. Bradley was formerly a visiting professor at the Harvard Business School, Wharton and UCLA, a visiting fellow at Harvard s Center for Business and Government and a professor of international management and management strategy at the Open University and Cass London Business Schools. Dr. Bradley has taught at the London School of Economics and was the director of the School s Business Performance Group for more than six years. He received B.A., M.A. and Ph.D. degrees from British universities. Dr. Bradley is 62 years old.

RICHARD E. CARUSO, PH.D. founded the Company in 1989 and has served as the Company s Chairman since March 1992. Dr. Caruso is currently a member of The Provco Group, a venture and real estate investment company, and an advisor to Quaker BioVentures, a medical venture capital financial investor. Dr. Caruso served as the Company s Chief Executive Officer from March 1992 to December 1997 and also as the Company s President from September 1995 to December 1997. From 1969 to 1992, Dr. Caruso was a principal of LFC Financial Corporation, a project finance company, where he was also a director and Executive Vice President. Dr. Caruso is on the Board of Susquehanna University, The Baum School of Art and The Uncommon Individual Foundation (Founder). He received a B.S. degree from Susquehanna University, an M.S.B.A. degree from Bucknell University and a Ph.D. degree from the London School of Economics, University of London (United Kingdom). Dr. Caruso is 63 years old.

STUART M. ESSIG has served as President and Chief Executive Officer and as a director of the Company since December 1997. Prior to joining the Company, Mr. Essig supervised the medical technology practice at Goldman, Sachs & Co. as a managing director. Mr. Essig had ten years of experience at Goldman Sachs serving as a senior merger and acquisitions advisor to a broad range of domestic and international medical technology, pharmaceutical and biotechnology clients. Mr. Essig

received an A.B. degree from the Woodrow Wilson School of Public and International Affairs at Princeton University and an M.B.A. and a Ph.D. degree in Financial Economics from the University of Chicago, Graduate School of Business. Mr. Essig also serves as a director of St. Jude Medical Corporation, Zimmer Holdings, Inc. and ADVAMED, the Advanced Medical Technology Association. Mr. Essig is 45 years old.

NEAL MOSZKOWSKI has been a director of the Company since 2006. He previously served as a director of the Company from March 1999 to May 2005. He has been the Co-Chief Executive Officer of TowerBrook Capital Partners, LP, a private equity investment company with $2.5 billion under management, since 2005. Prior to joining TowerBrook, Mr. Moszkowski was Managing Director and Co-Head of Soros Private Equity, the private equity investment business of Soros Fund Management LLC, where he served since August 1998. From August 1993 to August 1998, Mr. Moszkowski worked for Goldman, Sachs & Co. and affiliates, where he served as Vice President and Executive Director in the Principal Investment Area. Mr. Moszkowski also currently serves as a director of Wellcare Health Plans, Inc., Bluefly, Inc., Spheris, Inc. and JetBlue Airways Corporation. Mr. Moszkowski is 41 years old.

CHRISTIAN S. SCHADE has been a director of the Company since 2006. He has been the Senior Vice President, Finance and Administration, and Chief Financial Officer of Medarex, Inc. since 2000. From 1992 to 2000, Mr. Schade was a Managing Director of Merrill Lynch & Co. Mr. Schade received an A.B. degree from Princeton University and an M.B.A. degree from the Wharton School of the University of Pennsylvania. Mr. Schade is 46 years old.

JAMES M. SULLIVAN has been a director of the Company since 1992. Since 1986, he has held several positions with Marriott International, Inc. (and its predecessor, Marriott Corp.), including Vice President of Mergers and Acquisitions, and his current position as Executive Vice President of Lodging Development. From 1983 to 1986, Mr. Sullivan was Chairman, President and Chief Executive Officer of Tenly Enterprises, Inc., a privately held company operating 105 restaurants. Prior to 1983, he held senior management positions with Marriott Corp., Harrah s Entertainment, Inc., Holiday Inns, Inc., Kentucky Fried Chicken Corp. and Heublein, Inc. He also was employed as a senior auditor with Arthur Andersen & Co. and served as a director of Classic Vacation Group, Inc. until its acquisition by Expedia, Inc. in March 2002. Mr. Sullivan received a B.S. degree in Accounting from Boston College and an M.B.A. degree from the University of Connecticut. Mr. Sullivan is 63 years old.

ANNE M. VANLENT has been a director of the Company since 2004. She has been Executive Vice President and Chief Financial Officer of Barrier Therapeutics, Inc., a publicly-traded pharmaceutical company that develops and markets prescription dermatology products, since May 2002. Prior to joining Barrier Therapeutics, Ms. VanLent served as a principal of the Technology Compass Group, LLC, a healthcare/technology consulting firm, since she founded it in October 2001. From July 1997 to October 2001, she was the Executive Vice President Portfolio Management for Sarnoff Corporation, a multidisciplinary research and development firm. From 1985 to 1993, she served as Senior Vice President and Chief Financial Officer of The Liposome Company, Inc., a publicly-traded biopharmaceutical company. Ms. VanLent also currently serves as a director of Penwest Pharmaceuticals Co., a Nasdaq-listed company. Ms. VanLent received a B.A. degree in Physics from Mount Holyoke College. Ms. VanLent is 59 years old.

Required Vote for Approval and Recommendation of the Board of Directors

Directors are to be elected by the majority of the votes cast with respect to that director in uncontested elections. Thus, the number of shares voted FOR a director must exceed the number of votes cast AGAINST that director. Under our By-Laws, any director who fails to be elected must offer to tender his or her resignation to the Board of Directors. The Corporate Governance and Nominating

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Committee would then make a recommendation to the Board of Directors whether to accept or reject the resignation, or whether other action should be taken. The Board of Directors will act on the Corporate Governance and Nominating Committee s recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. The director who tenders his or her resignation will not participate in the Board s decision. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

The Board of Directors hereby recommends that the stockholders of the Company vote FOR the election of each nominee for director.

INFORMATION CONCERNING MEETINGS AND CERTAIN COMMITTEES

The Board of Directors held five regularly scheduled and three special meetings during 2006. The Company s independent directors meet at least twice a year in executive session without management present. The Board of Directors has determined that all of the Company s directors, except for Mr. Essig, are independent, as defined by the applicable Nasdaq Stock Market listing standards. In making this decision with respect to Dr. Caruso, the Board of Directors considered that the Company leases certain production equipment from an entity controlled by Dr. Caruso. In making this decision with respect to Mr. Sullivan, who serves as Executive Vice President of Lodging Development of Marriott International, Inc., the Board of Directors considered that the Company makes payments to Marriott International, Inc. and its franchisees for hotel rooms and meeting facilities.

The Company has standing Audit, Nominating and Corporate Governance, and Compensation Committees of its Board of Directors. Each committee operates pursuant to a written charter. Copies of these charters are available on our website at www.integra-LS.com through the Investors Relations link under the heading Corporate Governance.

During 2006, each incumbent director attended in person or by conference telephone at least 75% of the total number of meetings of the Board of Directors and of each committee of the Board of Directors on which he or she served.

Audit Committee. The Audit Committee is comprised of Ms. VanLent (chair), Mr. Schade and Mr. Sullivan, and it met eight times in 2006. The purpose of the Audit Committee is to oversee the Company s accounting and financial reporting process and the audits of the Company s financial statements. The Board of Directors has determined that all of the members of the Audit Committee are independent within the meaning of the rules of the Securities and Exchange Commission and the applicable Nasdaq Stock Market listing standards. The Board of Directors has also determined that Ms. VanLent, Mr. Schade and Mr. Sullivan are audit committee financial experts, as defined under Item 407(d) of Regulation S-K, and that each of them are financially sophisticated in accordance with Nasdaq Stock Market listing standards.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised of Dr. Caruso (chair), Dr. Bradley and Mr. Sullivan, and it met four times in 2006. The purpose of the Nominating and Corporate Governance Committee is to assist the Board of Directors in the identification of qualified candidates to become directors, the selection of nominees for election as directors at the stockholders meeting, the selection of candidates to fill any vacancies on the Board of Directors, the development and recommendation to the Board of Directors of a set of corporate governance guidelines and principles applicable to the Company, the oversight of the evaluation of the Board of Directors and otherwise taking a leadership role in shaping the corporate governance of the Company. The Board of Directors has determined that all of the members of the Nominating and Corporate Governance Committee are independent, as defined by the applicable Nasdaq Stock Market listing standards.

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When considering a candidate for nomination as a director, the Nominating and Corporate Governance Committee may consider, among other things it deems appropriate, the candidate s personal and professional integrity, ethics and values, experience in corporate management and a general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today s business environment, experience in the Company s industry and with relevant social policy concerns, experience as a board member of another publicly held company, academic expertise in an area of the Company s operations, and practical and mature business judgment, including the ability to make independent analytical inquiries. The Nominating and Corporate Governance Committee applies the same criteria to nominees recommended by stockholders that it does to other new nominees.

Mr. Moszkowski s nomination for election to the Board of Directors was recommended by Mr. Essig. Mr. Baltimore s nomination for election to the Board of Directors was recommended by Mr. Essig and Mr. Sullivan.

The Nominating and Corporate Governance Committee will consider stockholder nominated candidates for director provided that the nominating stockholder identifies the candidate s principal occupation or employment, the number of shares of the Company s common stock beneficially owned by such candidate, a description of all arrangements or understandings between the nominating stockholder and such candidate and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, detailed biographical data, qualifications and information regarding any relationships between the candidate and the Company within the past three years, and any other information relating to such nominee that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act).

A stockholder s recommendation must also set forth the name and address, as they appear on the Company s books, of the stockholder making such recommendation, the class and number of shares of the Company s common stock beneficially owned by the stockholder and the date the stockholder acquired such shares, any material interest of the stockholder in such nomination, any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Exchange Act, in its capacity as a proponent of a stockholder proposal, and a statement from the recommending stockholder in support of the candidate, references for the candidate, and an indication of the candidate s willingness to serve, if elected. Recommendations for candidates to the Board of Directors must be submitted in writing to Integra LifeSciences Holdings Corporation, 311 Enterprise Drive, Plainsboro, New Jersey 08536, Attention: Senior Vice President, General Counsel and Secretary.

Compensation Committee. The Compensation Committee is currently comprised of Dr. Bradley (chair), Mr. Moszkowski and Mr. Schade, and it met eight times in 2006. The Compensation Committee makes decisions concerning salaries and incentive compensation, including the issuance of stock options and other equity awards, for employees and consultants of the Company. The Compensation Committee also administers the Company s 2000, 2001 and 2003 Equity Incentive Plans, the Company s 1998 and 1999 Stock Option Plans, the Company s 1993 and 1996 Incentive Stock Option and Non-Qualified Stock Option Plans and the Company s Employee Stock Purchase Plan (collectively, the Approved Plans). Each member of the Compensation Committee is an outside director as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and a non-employee director within the meaning of Rule 16b-3 under the Exchange Act. The Board of Directors has determined that each of the members of the Compensation Committee is independent, as defined by the applicable Nasdaq Stock Market listing standards.

The Compensation Committee may delegate any or all of its responsibilities, except that it shall not delegate its responsibilities regarding (i) the annual review and approval of all elements of

compensation of executive officers, (ii) the management, review and approval of annual bonus, long-term incentive compensation, stock option, employee pension and welfare benefit plans, (iii) any matters that involve executive officer compensation or (iv) any matters where it has determined such compensation is intended to comply with Section 162(m) of the Code by virtue of being approved by a committee of outside directors or is intended to be exempt from Section 16(b) under the 1934 Act pursuant to Rule 16b-3 by virtue of being approved by a committee of non-employee directors.

The Compensation Committee has delegated authority for making equity awards to employees under the Approved Plans to a Special Award Committee, consisting of Mr. Essig. The authority to grant equity to executive officers, employees who are, or could be, a covered employee within the meaning of Section 162(m) of the Code or employees whose grants would result in their receiving more than 10,000 shares of common stock during the previous 12 months, however, rests with the Compensation Committee. On an annual basis, the Compensation Committee establishes the aggregate number of awards that the Special Award Committee may make. The Compensation Committee authorized the Special Award Committee to grant a maximum of 300,000 shares of awards during the one-year period beginning May 17, 2006.

The Company s President and Chief Executive Officer provides significant input on the compensation, including annual merit adjustments and equity awards, of his direct reports and the other executive officers. As discussed below in Executive Compensation Compensation Disclosure and Analysis Annual Review of Compensation, the Compensation Committee approves the compensation of these officers, taking into consideration the recommendations of the President and Chief Executive Officer.

The Company does not regularly use compensation consultants. However, during 2006, Watson Wyatt & Company served as a consultant in connection with the establishment of the Company s management incentive compensation plan.

DIRECTOR ATTENDANCE AT ANNUAL MEETINGS; SHAREHOLDER COMMUNICATIONS WITH DIRECTORS

It is our policy to encourage our directors to attend the annual meeting of stockholders. Five of our directors attended the 2006 Annual Meeting of Stockholders.

Stockholders may communicate with our Board of Directors, any of its constituent committees or any member thereof by means of a letter addressed to the Board of Directors, its constituent committees or individual directors and sent care of Integra LifeSciences Holdings Corporation, 311 Enterprise Drive, Plainsboro, NJ 08536, Attention: Senior Vice President, General Counsel and Secretary.

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PROPOSAL 2. RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of PricewaterhouseCoopers LLP served as our independent registered public accounting firm for fiscal year 2006 and has been selected by the Audit Committee to serve in the same capacity for fiscal year 2007. The stockholders will be asked to ratify this appointment at the Meeting. The ratification of our independent registered public accounting firm by the stockholders is not required by law or our By-Laws. We have traditionally submitted this matter to the stockholders and believe that it is good practice to continue to do so.

If stockholders fail to ratify the selection, the Audit Committee will reconsider whether to retain PricewaterhouseCoopers LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and its stockholders.

During fiscal year 2006, PricewaterhouseCoopers LLP not only provided audit services, but also rendered other services, including tax and acquisition-related due diligence services.

The following table sets forth the aggregate fees billed or expected to be billed by PricewaterhouseCoopers LLP and affiliated entities for audit and non-audit services (as well as all out-of-pocket costs incurred in connection with these services) and are categorized as Audit Fees, Audit-Related Fees and Tax Fees. The nature of the services provided in each such category is described following the table.

	Actual Fees (in thousands)	
	2006	2005
Audit Fees	$ 2,174	$ 1,274
Audit-Related Fees	$ 284	334
Total Audit and Audit-Related Fees	$ 2,458	$ 1,608
Tax Fees	377	499
Total Fees	$ 2,835	$ 2,107

The nature of the services provided in each of the categories listed above is described below:

Audit Fees Consists of professional services rendered for the integrated audit of the consolidated financial statements of the Company, management s assessment of internal control over financial reporting, quarterly reviews, statutory audits, consents, and assistance with and review of documents filed with the Securities and Exchange Commission.

Audit-Related Fees Consists of services related to an employee benefits plan audit, financial due diligence and accounting consultations in connection with proposed acquisitions and consultations concerning financial accounting and reporting standards.

Tax Fees Consists of tax compliance (review and preparation of corporate tax returns, assistance with tax audits, review of the tax treatment for certain expenses, extra-territorial income analysis, transfer pricing documentation for compliance purposes and tax due diligence relating to acquisitions) and state and local tax planning and consultations with respect to various domestic and international tax planning matters.

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No other fees were incurred to PricewaterhouseCoopers LLP during 2005 or 2006.

All fees described above were approved by the Audit Committee.

Pre-Approval of Audit and Non-Audit Services

Under the Audit Committee Charter, the Audit Committee must pre-approve all audit and non-audit services provided by the independent registered public accounting firm. The policy, as described below, sets forth the procedures and conditions for such pre-approval of services to be performed by the independent registered public accounting firm.

Management submits requests for approval in writing to the Audit Committee, which meets to discuss such requests and to approve or decline to approve the requests. Audit Committee pre-approval of audit and non-audit services is not required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Audit Committee regarding the Company s engagement of the independent registered public accounting firm, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service provided and such policies and procedures do not include delegation of the Audit Committee s responsibilities under the Exchange Act to the Company s management.

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals, provided such approvals are presented to the Audit Committee at a subsequent meeting. If the Audit Committee elects to establish pre-approval policies and procedures regarding non-audit services, the Audit Committee must be informed of each non-audit service provided by the independent registered public accounting firm. Audit Committee pre-approval of non-audit services (other than review and attest services) also will not be required if such services fall within available exceptions established by the Securities and Exchange Commission.

The Audit Committee has determined that the rendering of the services other than audit services by PricewaterhouseCoopers LLP is compatible with maintaining PricewaterhouseCoopers LLP s independence.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the Meeting and will be allowed to make a statement. Additionally, they will be available to respond to appropriate questions from stockholders during the Meeting.

Required Vote for Approval and Recommendation of the Board of Directors

The affirmative vote of the holders of a majority of the shares present, in person or represented by proxy, at the Meeting and entitled to vote is required to ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the current fiscal year. Abstentions will not be voted and will have the effect of a vote against this proposal. Broker non-votes will not be counted in determining the number of shares necessary for approval and will have no effect on the outcome of this proposal.

The Audit Committee of the Board of Directors has adopted a resolution approving the appointment of PricewaterhouseCoopers LLP. The Board of Directors hereby recommends that the stockholders of the Company vote FOR ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for fiscal year 2007.

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EXECUTIVE COMPENSATION

Compensation Disclosure and Analysis

Overview

This discussion supplements the more detailed information concerning executive compensation in the tables and narrative discussion that follow. We aim to provide a better understanding of our executive compensation practices and the decisions we made concerning the compensation payable to our executive officers for 2006, including the executives officers named in the Summary Compensation Table (the named executive officers) that appears in this Proxy Statement.

The Compensation Committee of our Board of Directors plays a key role in designing and administering our executive compensation program. All principal elements of compensation paid to our executive officers are subject to the Compensation Committee s approval. The report of the committee appears following this section.

Philosophy

We have designed our executive compensation program to attract, retain and motivate highly qualified executives and to align their interests with the interests of our stockholders. The ultimate goal of our program is to increase stockholder value by providing executives with appropriate incentives to achieve our business objectives. We seek to achieve this goal through a program that rewards executives for performance, as measured by both financial and non-financial factors, and includes major compensation components that are linked to increases in recognized measures of stockholder value. Our use of equity-based awards that vest over time also encourages our talented executives to remain in our employ. Executive officers are required to enter into non-competition or other restrictive covenants with us, a practice that we believe limits the possibility of losing them to our closest competitors. We also encourage executives to act as equity owners through the stock ownership guidelines described later in this discussion.

In the last two years, we have taken the following actions with respect to compensation arrangements, including those with named executive officers:

- Adopting a management incentive compensation plan to provide for annual cash incentive awards if certain performance goals are met;
- Entering into employment agreements with Executive Vice Presidents that provide for target cash bonus payments to be paid, based upon the satisfaction of certain performance objectives;
- Moving from granting stock options with vesting over time to granting restricted stock and performance stock with cliff vesting ; and
- Amending the employment agreement with our President and Chief Executive Officer to provide change-in-control protections.

As discussed below, we believe that the above actions support our compensation objectives.

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Role of Executive Officers in Compensation Process

Our President and Chief Executive Officer provides significant input on the compensation, including annual merit adjustments and equity awards, of his direct reports and the other named executive officers. As discussed below under Annual Review of Compensation, the Compensation Committee approves the compensation of these officers, taking into consideration the recommendations of our President and Chief Executive Officer.

Compensation Consultants

We do not regularly use compensation consultants. However, during 2006 Watson Wyatt & Company served as a consultant in connection with the establishment of our management incentive compensation plan.

Benchmarking

Our Compensation Committee considers the compensation practices of other companies in our industry. This consideration generally occurs in connection with our entering into employment or severance agreements with executive officers, rather than on an annual basis. Over the past several years, the list of these companies has included Advanced Medical Optics, Inc., Advanced Neuromodulation Systems, ArthroCare Corporation, Biosite Incorporated, Bio-Rad Laboratories, ConMed Corporation, CooperVision, Inc., Cyberonics, Inc., Cytyc Corporation, Dade Behring, Inc., Edwards Lifesciences Corporation, Haemonetics Corporation, Hologic, Inc., Inamed Corporation, Intermagnetics General Corporation, Medicis Pharmaceutical Corporation, Mentor Corporation, PolyMedica Corporation, PSS World Medical, Inc., Respironics, Inc., Viasys Healthcare, Inc. and Steris Corporation. We do not target our executives base salaries at a specific percentile of market salaries.

Elements of Compensation

There are three major elements of our executive compensation program: base salary, annual cash incentives in the form of bonus and/or incentive compensation plan payments and long-term equity-based incentives in the form of stock options, restricted stock, performance stock and other forms of equity. The Compensation Committee reviews these elements of compensation on an annual basis.

Base Salaries

We use base salary as a recruiting and retention tool, and to recognize individual performance and responsibility through merit and promotional increases. Historically, we typically paid base salaries of executives at below the 50th percentile of salaries for comparable positions or responsibilities at other medical device companies, based on the data obtained from the published salary survey sources and these companies proxy statements. This decision was based, in part, upon the size of company, our historical lack of cash and our desire to use our available cash for acquisitions. In addition, we wanted to link managerial compensation to our stock performance and, as a growing company, to attract people with an entrepreneurial spirit and a long-term objective. However, we have consciously moved our compensation program towards a greater percentage of cash compensation to become more competitive with larger companies and companies in our geographic region. The Compensation Committee reviews base salaries annually, but it does not automatically increase them if the Compensation Committee believes that other elements of compensation are more appropriate in light of our stated objectives. We consider market factors, individual performance, responsibilities and experience when considering merit or promotion-related increases.

Annual Cash Incentives

Because our company has grown and become recognized as a market leader, we need to pay competitively to retain our top executives and attract new ones. Accordingly, we have determined that we need to provide a greater percentage of cash compensation. To move our compensation program towards providing a greater percentage of cash compensation, in 2006 we introduced cash bonuses and adopted the Integra LifeSciences Holdings Corporation Management Incentive Compensation Plan (the MICP). These forms of compensation create annual incentive opportunities tied to objectives that are designed to help us achieve our short-term plans to grow the business and increase stockholder value.

Cash Bonuses. A target bonus accomplishes the goal of creating annual incentives, and we believe that this form of compensation is comparable to what other companies offer. The employment agreements that we entered into with our President and Chief Executive Officer (Mr. Essig), our Executive Vice Presidents (Ms. Bellantoni, Mr. Carlozzi and Mr. Henneman) and our former Senior Vice President, Finance (Mr. Holtz) provide (or, in the case of Mr. Holtz, provided) for annual cash bonuses equal to a targeted percentage of base salary. The targeted amounts are 100% for Mr. Essig, 40% for our Executive Vice Presidents and 30% for Mr. Holtz. As discussed below under " Annual Review of Compensation, the amount of the bonus that we will pay is based upon the satisfaction of performance objectives and is determined by the Compensation Committee, in its sole discretion. As discussed below, prior to 2006 Mr. Essig waived his right to receive an annual cash bonus.

Our President and Chief Executive Officer and our Executive Vice Presidents do not participate in the MICP because their employment agreements, which were all entered into prior to the adoption of the MICP, provide for targeted cash bonuses. We believe that paying these executive officers a targeted bonus based on qualitative objectives, as opposed to quantitative measures under the MICP, allows the Compensation Committee to have flexibility to judge the performance of these officers on a number of factors, such as leadership, the accomplishment of goals that were set during the year after the MICP performance goals are set and compliance.

Management Incentive Compensation Plan. In August 2006, we adopted the MICP. The purpose of the MICP is to offer incentive compensation to key employees below the level of Executive Vice President by rewarding the achievement of corporate goals and specifically measured individual goals which are consistent with and support our overall corporate goals. Under the MICP, these key employees are eligible for an annual cash incentive award.

The Compensation Committee is charged with establishing the performance goals in making award opportunities to executive officers under the MICP. The Compensation Committee is responsible for establishing these performance goals and the amount of the target awards prior to the beginning of each year after a review of the factors it believes will be most important to our business over the coming year. The target award will be equal to a percentage of the officer s base salary. The amount of the awards to be paid is conditioned upon our achievement of those targets. We may not make any payments if we fail to achieve a performance level of at least 90% of the target performance goal. We may increase the award by as much as 50% above the target award upon the approval of the Compensation Committee or, in the case of employees who are not executive officers, the MICP administrator (our Senior Vice President, Human Resources) based on the extent to which the level of achievement of the performance goals exceeds the target level for that performance period.

The MICP allows the Compensation Committee or the MICP administrator to select EBITDA and/or sales as the performance measures. In addition, performance measures may relate to the participant s attainment of other performance goals that are specified for such participant and may be weighted as to corporate and individual goals. However, we have not yet used individual performance goals under the MICP for our executive officers. Target performance goals are set at levels that are

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achievable in the opinion of the Compensation Committee, but at levels high enough so that the achievement of these levels would benefit the Company. For the second half of 2006, the first performance period in which the MICP was in effect, the performance measure was adjusted EBITDA (defined as net income before interest, taxes, depreciation and amortization, as adjusted, in the discretion of the Compensation Committee, to account for any items that do not reflect our core operating performance).

Employees who participate in the MICP are entitled to receive cash bonuses in addition to their MICP payments. These additional bonuses are, however, reserved for extraordinary performance and may be granted in the sole discretion of the President and Chief Executive Officer, except that all such awards to executive officers require approval of the Compensation Committee. There is no limit on the amount of such bonuses. The amount of MICP payments that these employees receive is taken into account in determining these bonus payments. For 2006, no executive officer who participated in the MICP received a non-MICP bonus in excess of $3,000.

Long-Term Equity-Based Incentives

We use stock options, restricted stock, performance stock and other equity equivalents to provide long-term incentives. These awards help us retain executives and align their interests with stockholders by setting multi-year vesting requirements and subjecting a significant portion of the compensation value to increases in the value of our stock. Existing ownership levels are not a factor in award determination because we do not want to discourage executives and other employees from holding significant amounts of our stock if they so choose.

We grant equity to employees in three situations: (1) upon their hiring or entering into new employment agreements, (2) in connection with annual performance reviews (as compensation for the year for which performance is reviewed) and (3) from time to time, to award employees who have accomplished projects that benefit our company.

With one exception, we have historically used stock options with six-year terms that vested over a period of four years to provide incentives to members of management. Under the terms of Mr. Essig s employment agreements, we have granted restricted units to Mr. Essig at the time he entered into new employment agreements and have made annual stock option grants with 10-year terms to him. In 2005 we began granting restricted stock with a three-year cliff vesting in addition to options, and in 2006, we ceased granting options, except for Mr. Essig s annual option grant (which is required under his employment agreement) and for compensation of our Board of Directors. The three-year cliff vesting provides that no shares shall vest until the third anniversary of the grant, at which time all shares will vest. Restricted stock ties the value of employees equity compensation to our long-term performance. By granting restricted stock instead of stock options we are able to issue less equity and conserve the amount of equity available under our equity incentive plans. In addition, stock options no longer receive favorable accounting treatment. Thus, we lost the benefit that stock options previously provided. Finally, the three-year cliff vesting provides an effective retention tool.

In 2006, we granted performance stock to our Executive Vice Presidents in connection with entering into employment agreements with them. In April 2007, we granted performance stock to two of these officers in connection with the equity grants relating to their 2006 performance. The decision to grant performance stock was based on the reasons described above relating to the use of restricted stock, as well to provide for a minimum baseline level of performance and to satisfy the requirements of performance-based compensation under Section 162(m) of the Internal Revenue Code.

Shares of restricted stock generally vest on the third anniversary of the date of grant, subject to continued employment. If the performance condition is met, shares of our outstanding performance stock are deliverable on the third anniversary of the date of grant, subject to continued employment. The

performance condition used for our outstanding performance stock is that our revenues during any year of the three-year performance period exceed revenues during the year prior to the performance period.

The Compensation Committee has delegated authority for making equity awards to employees under our equity plans to a Special Award Committee, consisting of Mr. Essig. The authority to grant equity to executive officers, employees who are, or could be, a covered employee within the meaning of Section 162(m) of the Internal Revenue Code, or persons whose grants would result in their receiving more than 10,000 shares of common stock during the previous 12 months, however, rests with the Compensation Committee. On an annual basis, the Compensation Committee establishes the aggregate number of awards that the Special Award Committee may make during the year.

We require all executive officers and substantially all U.S.-based employees to sign a non-competition agreement, or an employment or severance agreement with non-competition provisions, as a condition of receiving an equity award.

Perquisites

We provide our executive officers with very few perquisites and other benefits not generally available to other employees. We have provided relocation assistance, including reimbursement of temporary housing and moving expenses, for certain executive officers upon their hiring. We also provide management-level employees with a corporate credit card not available to all employees and provide Mr. Essig with an annual medical examination and an airport club membership.

Annual Review of Compensation

We make the key decisions regarding executive officer compensation (salary increases, equity grants and, beginning with fiscal 2006, bonus and MICP payments) in connection with our annual performance review process. The decisions regarding Mr. Essig s compensation generally occur at the Compensation Committee meeting held each December. For fiscal 2006, we completed our review process for other executive officers in March 2007. We anticipate that we will adhere to a similar timetable for annual reviews in future years. Because we consider annual equity grants as compensation for the officer s performance after the conclusion of the year being reviewed, we will not make grants to officers other than Mr. Essig until the following year. Thus, such grants will not appear in the Summary Compensation Table for the year in which cash compensation is reported.

Each year, Mr. Essig provides a list of performance objectives to the Board of Directors. These objectives cover financial and organization matters. The financial measures include revenue, gross margin, earnings and similar metrics. At the end of each year, Mr. Essig provides a self-evaluation of his performance, which the Compensation Committee reviews and discusses with Mr. Essig to determine Mr. Essig s annual salary increase, bonus and stock option grant. Mr. Essig s targets and objectives are purposely set to be aggressive and ambitious. As a result, the objectives are not meant to be a check-the-box chart pursuant to which we will award Mr. Essig a certain percentage of his contractually obligated salary increase, equity award and bonus based upon a percentage of the objectives achieved. Rather, they are meant to guide the members of the Compensation Committee as to what compensation awards Mr. Essig has earned based upon his overall performance.

Messrs. Carlozzi and Henneman provide performance objectives, and Ms. Bellantoni began providing performance objectives in 2007. The objectives relate to the officer s areas of responsibility and include achieving the year s operating plan performance levels. Ms. Bellantoni was not asked to provide written performance objectives for 2006, her first year with the Company, because her primary performance objective for 2006 was the restructuring of the Finance Department. At the end of each year, Mr. Essig reviews the performance of these officers, which includes evaluating whether they satisfied their performance objectives, and makes recommendations to the Compensation Committee regarding

their salary increases, bonuses and equity awards. Mr. Essig also evaluates the performance of the other executive officers with their supervisors and makes similar recommendation to the Compensation Committee. The Compensation Committee then considers Mr. Essig s recommendations in making its compensation determinations for these officers.

Mr. Essig s employment agreement provides that (1) we increase Mr. Essig s salary by a minimum of $50,000 each year during the term of the agreement, (2) Mr. Essig be eligible for a cash bonus that shall not be less than 100% of his base salary and (3) we award Mr. Essig an annual grant of between 100,000 and 200,000 stock options. The compensation we have paid to Mr. Essig has demonstrated a connection between these three provisions. We have increased Mr. Essig s salary by the minimum amount during each year of his agreement. Prior to 2006, Mr. Essig has waived his right to a cash bonus because of our limited historical cash flow. However, we have awarded Mr. Essig the maximum amount of 200,000 stock options each year of his employment agreement due, in part, to our decisions regarding Mr. Essig s salary increase and Mr. Essig s decision to waive his right to a cash bonus.

Historically, we have not used specific guidelines in making equity grants to our other executive officers. However, we have made equity grants with the objective of compensating our executive officers in a competitive manner necessary to retain their services and have considered the cash compensation that we pay to executive officers in setting the size of equity grants. As we continue to make bonus and MICP payments to our executive officers, the amount of annual equity awards that we grant may decrease as a percentage of total compensation from historical levels.

Equity Grant Practices

Equity grant decisions are made without regard to anticipated earnings or other major announcements by the Company. Historically, the Compensation Committee has approved option grants to Mr. Essig at its December meeting and generally approved the annual stock option or other equity-based grants to other management-level employees at a meeting held in the last quarter of the year. The Compensation Committee, however, approved the year-end restricted stock awards for 2006 on March 15, 2007 by written consent after our annual review process was completed. We expect this timetable to continue.

The grant date of Mr. Essig s annual stock option grant under his current employment agreement, entered into in July 2004, has been the date the award was approved. The grant date for awards to other executive officers is either the date of the required approval or, for administrative convenience, the first business day of the month following the required approval. For example, of the Compensation Committee designated April 1, 2007 as the grant date for the restricted stock and performance stock awards that the Compensation Committee approved on March 15, 2007. As we have moved from granting options to granting restricted stock and performance stock, we expect grants to executive officers, other than stock option grants to Mr. Essig, to be made on the first business day of the month following Compensation Committee approval. The Special Award Committee approves and makes equity grants on the first business day of the month. We make equity grants to members of our Board of Directors on the date of our annual meeting of stockholders. Because directors may elect to receive their annual retainer in the form of cash, restricted stock or stock options, we postponed the grant date on one occasion when our trading window was closed on the date of the annual meeting.

The exercise price of stock options is equal to the closing price of our common stock on the Nasdaq Global Select Market on the date of grant. The Compensation Committee or Special Award Committee, as applicable, may set a higher exercise price for options granted to employees based outside the United States if counsel advises that it is necessary or advisable to do so under the applicable country s law. This practice with respect to setting stock option exercise prices is consistent with the

terms of our equity incentive plans. The terms of these plans require that the exercise price of options granted under the plans be not less than the fair market value of our common stock on the date of grant. The plans define fair market value as the closing prices of our common stock on the Nasdaq Global Select Market on the date of grant.

Post-Employment Arrangements

We have entered into employment agreements with our President and Chief Executive Officer and our Executive Vice Presidents. We also entered into an employment agreement with Mr. Holtz, who left the Company on December 31, 2006. The employment agreements provide for payments in the event that the executive is terminated by us other than for cause and in the event that the executive terminates his or her employment for good reason and provides for additional payments in the event the executive s employment is terminated under these circumstances following a change in control.

Mr. Holtz s employment agreement contained similar provisions to that of our Executive Vice Presidents. Under Mr. Holtz s employment agreement, however, the definition of good reason included the Company s appointing a Chief Financial Officer, with Mr. Holtz no longer being responsible for the Company s Finance Department, and the Company and Mr. Holtz not mutually agreeing to an amended job title and/or responsibilities for Mr. Holtz by the 30th day before the agreement s December 31, 2006 expiration date. This provision was included in order to facilitate an orderly transition of his responsibilities following the hiring of a Chief Financial Officer.

In 2006, we began replacing the employment agreements that we had entered into with Senior Vice Presidents with severance agreements that provide for payment to the officer under fewer scenarios than provided for under the employment agreements. In January 2007, we entered into a severance agreement with Ms. O Grady that replaced the employment agreement that we had entered into with her in 2003. Ms. O Grady s severance agreement provides for a payment in the event that, following a change in control, we terminate her employment other than for cause or she terminates her employment with us for good reason. Our movement from employment agreements to severance agreements reflects our philosophy that it is in the best interest of our stockholders to limit the number of employees who receive termination payments outside of a change in control event. As a result of this change, the only executive officers who have employment agreements that provide for termination payments outside of a change in control are our President and Chief Executive Officer and our three Executive Vice Presidents, and only a limited number of U.S.-based employees are parties to agreements that provide for such payments.

In 2006, we amended Mr. Essig s employment agreement to provide for change-in-control benefits. Mr. Essig s employment agreement entered into in 2004 provided that on a change in control all stock options will vest and become exercisable through their original expiration date and all restricted unit shares will vest and be distributed on the date of the change in control. Mr. Essig s employment agreement also provided for a full gross-up payment to cover excise taxes under Section 280G of the Internal Revenue Code. However, there were no special severance benefits that are payable to him in connection with a change in control until this amendment. We included change-in-control benefits in the employment agreement we entered into with our Executive Vice Presidents in late 2005 and early 2006, and our Compensation Committee determined that is was appropriate to amend Mr. Essig s employment agreement to provide these benefits.

The amendment provides Mr. Essig with change-in-control benefits that are in addition to the benefits provided currently in the initial agreement. Specifically, if within 18 months following a change in control (i) we terminate Mr. Essig s employment for a reason other than death, disability or cause, (ii) Mr. Essig terminates his employment for good reason or (iii) we do not review Mr. Essig s employment agreement after a change in control, Mr. Essig will be entitled to additional severance benefits.

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These agreements are further described in the section entitled Executive Compensation Potential Payments under Termination or Change in Control.

2006 Named Executive Officer Compensation

Base Salaries

In December 2005 and early 2006, the Compensation Committee approved the following base salaries for the named executive officers for 2006:

Name	2006 Base Salary	Percentage Increase from 2005
Stuart M. Essig	$500,000	11.1%
John B. Henneman, III	$420,000	5.0%
Gerard S. Carlozzi	$400,000	14.3%
Maureen B. Bellantoni	$300,000	N/A
David B. Holtz	$250,000	8.7%
Judith O Grady	$230,000	7.0%

The salaries payable to Messrs. Henneman, Carlozzi and Holtz and Ms. Bellantoni were provided for in the employment agreements they entered into in December 2005 and, in the case of Ms. Bellantoni, January 2006. The increase in Mr. Essig s salary from $450,000 to $500,000 was the minimum required under his employment agreement. The percentage increase in Ms. O Grady s salary was in line with that of our other Senior Vice Presidents.

Management Incentive Compensation Plan Awards and Payments

For the second half of 2006, the first performance period in which the MICP was in effect, the performance objective under the MICP for Mr. Holtz and Ms. O Grady, the named executive officers who participate in the MICP, was a specified amount of adjusted EBITDA. Adjusted EBITDA was defined as net income before interest, taxes, depreciation and amortization, as adjusted, in the discretion of the Compensation Committee, to account for any items that do not reflect our core operating performance. For this performance period, the Compensation Committee determined that these items consisted of charges relating to SFAS 123(R), in-process research and development, inventory purchase accounting, our September 2006 exchange offer and employee severance. We expect the adjusting items to differ for each performance period. The target awards under the MICP were 16.25% of base salary for each of Mr. Holtz and Ms. O Grady. The Compensation Committee determined that we achieved 104% of the performance goal. Under the terms of the MICP, employees were able to receive up to 110% of the target award. The Compensation Committee approved a payment to Ms. O Grady of $41,112, or 110% of the target award, the maximum allowed. This amount is set forth in the Non-Equity Incentive Plan Compensation column to the Summary Compensation Table in this Proxy Statement. Mr. Holtz did not receive any MICP payment as a result of his employment terminating prior to the March 2007 payment date, but he received a severance payment, as described below.

Annual Bonus Payments

Mr. Essig s employment agreement provides that he shall be eligible for a cash bonus that shall not be less than 100% of his base salary. Although prior to 2006 Mr. Essig waived his right to this bonus because of our limited cash flow, in 2006, Mr. Essig received the target $500,000 bonus based upon our performance and strong cash-flow position.

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A target bonus of 40% of base salary is provided in the employment agreements to which Ms. Bellantoni, Mr. Carlozzi and Mr. Henneman are parties. The Compensation Committee awarded each of these officers the target bonus of 40%: $120,000 for Ms. Bellantoni; $160,000 for Mr. Carlozzi; and $168,000 for Mr. Henneman. These awards were made based upon the Compensation Committee s determination that Ms. Bellantoni, Mr. Carlozzi and Mr. Henneman had substantially met their performance objectives.

Although Ms. O Grady received an MICP payment, the Compensation Committee awarded Ms. O Grady a bonus of $3,000 for her 2006 performance.

Equity Awards

Equity awards made in reflecting 2006 compensation consist of awards made in connection with our entering into new employment agreement with certain named executive officers and awards made for the performance of the named executive officers in 2006.

Equity Awards Made Pursuant to Employment Agreements. In December 2005, Mr. Holtz received a grant of performance stock having a grant date value equal to $240,098 in connection with entering into his employment agreement. The terms of the grant provided that Mr. Holtz would receive the shares of common stock underlying this grant on December 31, 2006. Because this grant was made in 2005, it does not appear in the Grants Of Plan Based Awards table.

In January 2006, Messrs. Carlozzi and Henneman each received a grant of performance stock having a grant date value equal to $3,531,000 in connection with entering into their new employment agreements and Ms. Bellantoni received a grant of performance stock having a grant date value equal to $358,200 in connection with entering into her employment agreement. The performance goal of the performance stock was that our sales in any calendar year during the performance period of January 1, 2006 and ending December 31, 2008, shall be greater than consolidated sales in calendar year 2005. These officers will receive the shares of common stock underlying their grant on December 31, 2008 if the performance goal were met. On January 3, 2006, Ms. O Grady received a grant of restricted stock having a grant date value equal to $88,275 for her 2005 performance.

Equity Awards Made for 2006 Performance. Mr. Essig s employment agreement provides that we shall award him an annual grant of between 100,000 and 200,000 stock options. In December 2006, we granted 200,000 stock options to Mr. Essig. Our grant of the maximum amount was due, in part, as a result of our making no more than the annual salary increase to Mr. Essig.

In April 2007, we granted restricted stock having a grant date value equal to $200,000 to Ms. Bellantoni and restricted stock having a grant date value equal to $165,450 to Ms. O Grady for their 2006 performance. We granted performance stock having a grant date value equal to $200,000 to each of Mr. Carlozzi and Mr. Henneman for their 2006 performance. Because these grants were made in 2007, they do not appear in the Summary Compensation Table or the Grants Of Plan Based Awards table.

During 2006, we granted Ms. O Grady restricted stock having a grant date value equal to $50,000 and granted Mr. Holtz restricted stock having a grant date value equal to $10,000. These grants were made following the completion of their work on projects that were of value to the Company. Mr. Holtz s grant was forfeited as a result of Mr. Holtz leaving the Company prior to the vesting of the restricted stock.

Severance Payment

In November 2006, Mr. Holtz provided notice that he was terminating his employment with the Company for good reason under his employment agreement as a result of the Company and Mr. Holtz not mutually agreeing to an amended job title and/or responsibilities for Mr. Holtz. Mr. Holtz s last day

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of employment was December 31, 2006. Under his employment agreement, Mr. Holtz received a payment of $325,000, the sum of his annual base salary and target bonus, and received a payment for accrued personal time. These amounts are set forth in the All Other Compensation column of the Summary Compensation Table.

Compensation Decisions Effective for 2007

Base Salaries

In December 2006, for Mr. Essig, and March 2007, for all others, the Compensation Committee approved the following base salaries for the named executive officers, other than Mr. Holtz whose employment ended on December 31, 2006:

Name	2007 Base Salary	Percentage Increase from 2006
Stuart M. Essig	$550,000	10.0%
John B. Henneman, III	$420,000	
Gerard S. Carlozzi	$420,000	5.0%
Maureen B. Bellantoni	$325,000	8.3%
Judith O Grady	$235,000	2.1%

The increase in Mr. Essig s salary from $500,000 to $550,000 was the minimum required under his employment agreement. The Compensation Committee determined that Mr. Henneman s salary should not be increased because the current level was appropriate.

MICP Awards

In March 2007, we modified the target MICP awards by changing that percentage of an employee s base salary that can be received under the MICP. We increased the percentage of salaries that Senior Vice Presidents, including Ms. O Grady, are eligible to receive from 16.25% to 30%. We also increased the percentage of salaries that other executive officers are eligible to receive. As a result of these increases, we intend to decrease the amount of equity grants that will be made to executive officers who participate in the MICP.

Stock Ownership Guidelines for Executive Officers

Our executive officers must meet the stock ownership guidelines the Board of Directors has established in order to align their interests more closely with those of our stockholders. The Nominating and Corporate Governance Committee oversees compliance with these guidelines and periodically reviews the guidelines. The guidelines require executive officers, including the other named executive officers, to own shares with a value equal to the executive s base salary. Vested shares of restricted stock and vested restricted stock units may be included to determine whether the required ownership interest has been met. Directors and executive officers have five years from the later of February 23, 2006 and the date of their election or appointment as directors or officers to attain this ownership threshold. We have approved procedures by which every executive officer must obtain clearance prior to selling any shares of our common stock, in part to ensure no officer falls out of compliance with the stock ownership guidelines.

In addition, our policies prohibit our employees from selling our stock short or otherwise speculating that our stock will decline through the use of derivative securities. Such derivative transactions include writing uncovered call options or the purchase of put options. Buying our

securities on margin is also prohibited. In addition, our policies also prohibit the frequent buying and selling of our stock to capture short-term profits.

Tax Considerations

Section 162(m). Section 162(m) of the Internal Revenue Code can limit the deductibility of compensation paid to the named executive officers to $1,000,000 per year unless the compensation qualifies as performance-based. The Compensation Committee s policy is to take into account Section 162(m) in establishing compensation of our executives. However, the deductibility of some types of compensation payments can depend upon the timing of the vesting or an executive s exercise of previously granted awards. Interpretations of and changes in applicable tax laws and regulations as well as other factors beyond our control also can affect deductibility of compensation. For these and other reasons, the Compensation Committee has determined that it will not necessarily seek to limit executive compensation to that sum which is deductible under Section 162(m) of the Code. For example, the restricted units granted to Mr. Essig in 2004 had a value in excess of $1,000,000, and the sum of Mr. Essig s 2007 salary and target bonus will exceed $1,000,000.

Our equity incentive plans contain performance-based conditions and have previously been approved by stockholders to ensure deductibility of payments under those plans under Section 162(m). We will continue to monitor developments and assess alternatives for preserving the deductibility of compensation payments and benefits to the extent reasonably practicable, consistent with our compensation policies and what we believe is in the best interests of our stockholders.

Section 409A. In 2006, we reviewed the effect that Section 409A to the Internal Revenue C