

AMERICAN TECHNOLOGY CORP /DE/  
Form PRE 14A  
March 16, 2007

**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 § 240.14a-11(c) or § 240.14a-12

**American Technology Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:



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6. Amount Previously Paid:

7. Form, Schedule or Registration Statement No.:

8. Filing Party:

9. Date Filed:

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**AMERICAN TECHNOLOGY CORPORATION**

15378 Avenue of Science, Suite 100  
San Diego, California 92128  
(858) 676-1112

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 9, 2007**

TO THE STOCKHOLDERS OF AMERICAN TECHNOLOGY CORPORATION:

**Notice Is Hereby Given** that the Annual Meeting of Stockholders of **American Technology Corporation**, a Delaware corporation (the "Company"), will be held on Wednesday, May 9, 2007 at 2:00 p.m. local time, at our principal offices located at 15378 Avenue of Science, Suite 100, San Diego, California 92128.

1. To elect directors to serve for the ensuing year and until their successors are elected;
2. To ratify the selection of Swenson Advisors, LLP as the independent registered public accounting firm of the Company for its fiscal year ending September 30, 2007;
3. To approve amendments to the Company's 2005 Equity Incentive Plan;
4. To approve certain terms of the Company's financing that occurred in August 2006; and
5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

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

**I strongly encourage you to sign up for electronic delivery of our future annual reports and proxy materials in order to conserve natural resources and help us save costs in producing and distributing these materials.** For more information, please see "Electronic Delivery of Proxy Materials and Annual Reports" on page 2 of the Proxy Statement.

The Board of Directors has fixed the close of business on March 20, 2007, as the record date for the determination of stockholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors

/s/ Elwood G. Norris

Elwood G. Norris

Chairman of the Board

San Diego, California  
March 30, 2007

**ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR**

**REPRESENTATION AT THE MEETING. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.**

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**AMERICAN TECHNOLOGY CORPORATION**

15378 Avenue of Science, Suite 100, San Diego, California 92128  
(858) 676-1112

**PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS**

To be held May 9, 2007

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The enclosed proxy is solicited to the holders of common stock on behalf of the Board of Directors of American Technology Corporation, a Delaware corporation, for use at the Annual Meeting of Stockholders to be held on May 9, 2007, at 2:00 p.m. local time (the "Annual Meeting"), or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at our principal offices located at 15378 Avenue of Science, Suite 100, San Diego, California 92128. We intend to mail or electronically deliver this proxy statement, the accompanying proxy card and Notice of Annual Meeting on or about March 30, 2007 to all stockholders entitled to vote at the Annual Meeting.

**Solicitation**

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of our company. No additional compensation will be paid to directors, officers or other regular employees for such services.

**Voting Rights and Outstanding Shares**

We have designated a record date of March 20, 2007 for the Annual Meeting. Only stockholders of record at the close of business on the record date will be entitled to notice of and to vote at the Annual Meeting. At the close of business on the record date we had outstanding and entitled to vote [\_\_\_\_\_] shares of common stock.

Except as provided below, on all matters to be voted upon at the Annual Meeting, each holder of record of common stock on the record date will be entitled to one vote for each share held. With respect to the election of directors, stockholders may exercise cumulative voting rights, i.e., each stockholder entitled to vote for the election of directors may cast a total number of votes equal to the number of directors to be elected multiplied by the number of such stockholders shares (on an as-converted basis) and may cast such total of votes for one or more candidates in such proportions as such stockholder chooses. However, no stockholder will be entitled to cumulate votes unless the candidate's name has been placed in nomination prior to the voting and at least one stockholder has given notice at the meeting, prior to the voting, of his or her intention to cumulate votes. Unless the proxyholders are otherwise instructed, stockholders, by means of the accompanying proxy, will grant the proxyholders discretionary authority to cumulate votes.

All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions will be counted towards the tabulation of votes cast on proposals presented to the stockholders for the purposes of determining the presence of a quorum and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether a matter has been approved. If you sign your proxy card or broker voting instruction card with no instructions, your shares will be voted in accordance with the recommendations of the Board.

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## **Revocability of Proxies**

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Chairman of the Board at our principal offices, 15378 Avenue of Science, Suite 100, San Diego, California 92128, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

## **Stockholder Proposals**

The deadline for submitting a stockholder proposal for inclusion in our proxy statement and form of proxy for our 2008 annual meeting of stockholders pursuant to Rule 14a-8 of the Securities and Exchange Commission is December 1, 2007.

Our bylaws also establish an advance notice procedure with respect to certain stockholder proposals and director nominations. If a stockholder wishes to have a stockholder proposal considered at our next annual meeting, the stockholder must give timely notice of the proposal in writing to the Secretary of our company. To be timely, a stockholder's notice of the proposal must be delivered to, or mailed and received at our executive offices not earlier than February 9, 2008 and not later than March 10, 2008; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the anniversary of the scheduled date of this year's Annual Meeting, notice by the stockholder to be timely must be so received not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or, in the event we first make public announcement of the date of such annual meeting fewer than 70 days prior to the date of such annual meeting, the close of business on the 10th day following the day on which we first make public announcement of the date of such meeting.

A stockholder's notice to the Secretary must set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on our books, of the stockholder proposing such business, (iii) the class and number of shares which are beneficially owned by the stockholder, (iv) any material interest of the stockholder in such business and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Exchange Act, in his or her capacity as a proponent to a stockholder proposal.

## **Electronic Delivery of Proxy Materials and Annual Reports**

If you are a stockholder of record, you may request and consent to electronic delivery of our future proxy materials and annual reports by following the instructions on your proxy card. If your shares are held in street name, please contact your broker, bank or other nominee and ask about the availability of electronic delivery. If you select electronic delivery, we will discontinue mailing the proxy materials and annual reports to you beginning next year, and you will be sent an e-mail message notifying you of the Internet address or addresses where you may access the proxy materials and annual report. Your consent to electronic delivery will remain in effect until you revoke it.

### **PROPOSAL ONE ELECTION OF DIRECTORS**

There are five nominees for Board positions. Each director to be elected will hold office until the next annual meeting of stockholders and until his or her successor is elected and has qualified, or until such director's earlier death, resignation or removal. Each nominee listed below is currently a director of our company. Four of the directors were elected by the stockholders at our 2006 annual meeting. One of the directors, Laura M. Clague, was elected to our

Board in February 2007, based on the recommendation of our Nominating and Governance Committee following a recommendation by our Chief Executive Officer. We encourage our Board members to attend our annual meetings of stockholders. All four nominees who were members of our the Board at the time of the 2006 annual meeting of stockholders attended the 2006 annual meeting of stockholders.

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Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the five nominees named below, subject to the discretionary power to cumulate votes. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected and management has no reason to believe that any nominee will be unable to serve.

The five candidates receiving the highest number of affirmative votes cast at the meeting will be elected directors.

**Our Board of Directors Recommends a vote IN FAVOR of each named nominee**

**Nominees**

The names of the nominees and certain information about them are set forth below:

Name	Age	Position and Offices	Director Since
Elwood G. Norris	68	Chairman and Director	1980
Thomas R. Brown	56	Director, President, Chief Executive Officer, Secretary and Interim Chief Financial Officer	2006
Daniel Hunter	57	Director	2001
Raymond C. Smith	63	Director	2006
Laura M. Clague	48	Director	2007

**Elwood G. Norris**, age 68, has been a director of our company since August 1980. Mr. Norris served as Chief Executive Officer from October 2000 until February 2003. He currently serves as Chairman of the Board, an executive position, in which he serves in a technical advisory role to our company and acts as a spokesman for our products. He served as President from August 1980 to February 1994. Mr. Norris managed our research and development activities as Chief Technology Officer through December 2000. From 1988 to November 1999, he was a director and Chairman of e.Digital Corporation, a public company engaged in electronic product development, distribution and sales. During that period, he also held various other executive officer positions at e.Digital. From August 1989 to October 1999, he served as director and held various executive officer positions with Patriot Scientific Corporation, a public company engaged in the development of microprocessor technology and in patent licensing. He is an inventor with 47 U.S. patents, primarily in the fields of electrical and acoustical engineering. He is the inventor of our HyperSonic Sound and other technologies. In April 2005, he was named as the 2005 recipient of the \$500,000 Lemelson-MIT Prize for his many inventions including HyperSonic Sound.

**Thomas R. Brown**, age 56, was appointed to our Board of Directors on March 24, 2006 and was appointed as President and Chief Executive Officer in August 2006 and Interim Chief Financial Officer in September 2006. Mr. Brown temporarily resigned from the Board on September 5, 2006 upon the commencement of his term as President and Chief Executive Officer in order for us to maintain compliance with the rules of the NASDAQ Stock Market requiring us to have a majority of independent directors. Mr. Brown was reappointed to the Board on September 22, 2006. Mr. Brown served as President of BrownThompson Executive Search, a financial executive search firm, from April 2005 to August 2006. Mr. Brown was employed by Sony Electronics, Inc. from February 1988 to September 2004. From April 2001 to September 2004, Mr. Brown was Executive Vice President and Deputy President of the Engineering and Manufacturing division of Sony Electronics, Inc., where he was responsible for supply chain operations including Information Technology, Procurement, Customer Service, North American Manufacturing Operations and Finance. From April 2000 to September 2004, Mr. Brown was concurrently the Executive Vice President and President of Information Technology Division for Sony Electronics, where he was responsible for establishing the North American personal computer manufacturing division. Mr. Brown is a member of the board of directors of Mad Catz Interactive (AMEX/TSX: MCZ), a provider of video game accessories. Mr. Brown obtained a

B.A. in Economics from Rutgers University in 1973. Mr. Brown is also a certified public accountant.

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**Daniel Hunter**, age 57, has been a director of our company since May 2001. Mr. Hunter has been a licensed certified public accountant for the past twenty-five years. He obtained his accounting degree from the University of Utah in 1975. For the past twenty years, Mr. Hunter has operated his own law offices specializing in business and tax law. He obtained his Juris Doctor degree from the University of Seattle in 1978.

**Raymond C. Smith**, age 63, has been a director of our company since March 15, 2006. Admiral Smith served 31 years in the U.S. Navy SEALs until his retirement in 2001. He held various leadership positions, most recently Director of Assessment of the Office of the Chief of Naval Operations, where he directed capability assessment for the U.S. Navy. During his service with the Navy SEALs, Admiral Smith held positions based in San Diego, California, Tampa, Florida and Newport, Rhode Island. From 2001 to 2002, Admiral Smith was Chief Operating Officer of Cathedral of Our Lady of Angels in a Los Angeles, where he supervised all business activities within the Cathedral complex. From 2003 to 2005, Admiral Smith was President of Seraphim Realty Foundation, a Los Angeles charitable organization dedicated to assisting charities with donated real estate as a means of increasing their endowments. Admiral Smith is a director of EP Global Communications, Inc. (OTCBB: EPGL), publisher of Exceptional Parent magazine and provider of other services for families of people with disabilities and special health care needs. Admiral Smith obtained a B.S. in Engineering from the U.S. Naval Academy in 1967 and an M.S. in Oceanography from the Naval Postgraduate School in 1974.

**Laura M. Clague**, age 48, was appointed to our Board of Directors in February 2007. Ms. Clague is the executive director and corporate controller of Amylin Pharmaceuticals, Inc., a biopharmaceutical company, where she has served since 2003. From 1988 to 1999, Ms. Clague was the director of finance and accounting operations, controller and accounting manager at Sony Electronics, Inc. From 1985 to 1988, Ms. Clague served as internal audit supervisor at Cubic Corporation. From 1982 to 1985, Ms. Clague held various audit positions at KPMG, the last of which was audit supervisor. Ms. Clague is a certified public accountant, and has a B.S. in Business Administration from Menlo College.

## **BOARD AND COMMITTEE MATTERS AND CORPORATE GOVERNANCE MATTERS**

### **Corporate Governance**

We maintain a corporate governance page on our website which includes key information about our corporate governance initiatives, including our Code of Business Conduct and Ethics, our Charters for the committees of the Board of Directors, and our Whistleblower Protection Policy. The corporate governance page can be found at [www.atcsd.com](http://www.atcsd.com), by clicking on "Investors," and then on "Corporate Governance."

Our policies and practices reflect corporate governance initiatives that are designed to be compliant with the listing requirements of The NASDAQ Stock Market and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- A majority of our Board members are independent of our company and our management;
- All members of our standing Board committees—the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee—are independent;
- The independent members of our Board of Directors meet regularly without the presence of management;
- We have a clear code of business conduct and ethics that applies to our principal executive officers, our directors and all of our employees, and is monitored by our Audit Committee;



- The charters of the board committees clearly establish their respective roles and responsibilities; and
- We have a hotline available to all employees, and our Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal accounting controls, or auditing matters.

### **Board of Directors**

Our Board of Directors currently consists of five directors: Elwood G. Norris (Chairman), Thomas R. Brown, Daniel Hunter, Raymond C. Smith, and Laura M. Clague. During the fiscal year ended September 30, 2006 our Board of Directors held 16 meetings and acted by unanimous written consent 3 times. All directors attended at least 75% of the aggregate of the total number of the meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he served (in each case during the period in which he served), except for Admiral Smith.

### **Independence of the Board of Directors**

As required under the NASDAQ Stock Market listing standards, a majority of the members of a listed company's board of directors must qualify as "independent," as affirmatively determined by the board of directors.

After review of all relevant transactions or relationships between each director, or any of his family members, and us, our senior management and our independent registered public accounting firm, our Board of Directors has affirmatively determined that Mr. Hunter, Admiral Smith and Ms. Clague are independent directors within the meaning of the applicable NASDAQ listing standards.

### **Executive Sessions**

As required under NASDAQ listing standards, during the calendar year ended December 31, 2006, our independent directors met at least twice in regularly scheduled executive sessions at which only independent directors were present.

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

We have adopted a formal process by which stockholders may communicate with our Board of Directors. The Board recommends that stockholders initiate any communications with the Board in writing and send them in care of the investor relations department by mail to our principal offices, 15378 Avenue of Science, Suite 100, San Diego, CA 92128. This centralized process will assist the Board in reviewing and responding to stockholder communications in an appropriate manner. The name of any specific intended Board recipient should be noted in the communication. The Board has instructed the investor relations department to forward such correspondence only to the intended recipients; however, the Board has also instructed the investor relations department, prior to forwarding any correspondence, to review such correspondence and, in its discretion, not to forward certain items if they are deemed of a personal, illegal, commercial, offensive or frivolous nature or otherwise inappropriate for the Board's consideration. In such cases, that correspondence will be forwarded to the company's Secretary for review and possible response. This information is also contained on our website at [www.atcsd.com](http://www.atcsd.com).

### **Information Regarding the Board of Directors Committees**

During the fiscal year ended September 30, 2006, the Board had three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. The current charters for the Audit Committee, the Compensation Committee and the Nominating and Governance Committee are included as Annexes

1, 2 and 3. The charters have been adopted, and in some cases amended and restated to, among other things, reflect changes to the NASDAQ listing standards and SEC rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002. The charters can also be found on our website at [www.atcsd.com](http://www.atcsd.com).

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*Audit Committee*

Our Board of Directors has a separately designated standing Audit Committee established in accordance with Section 3(a)(58) of the Securities Exchange Act of 1934. The Audit Committee oversees our corporate accounting and financial reporting processes. Among other functions, the Audit Committee:

- evaluates the performance of and assesses the qualifications of the independent registered public accounting firm;
- engages the independent registered public accounting firm;
- determines whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm;
- confers with senior management and the independent registered public accounting firm regarding the adequacy and effectiveness of financial reporting;
- reviews and approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services;
- resolves any disagreements between management and the independent registered public accounting firm;
- considers the effectiveness of our company's internal control system, including information technology security and control;
- understands the scope of the independent registered public accounting firm's review of internal control over financial reporting, and obtains reports on significant findings and recommendations, together with management's responses;
- monitors the rotation of partners of the independent registered public accounting firm on our audit engagement team as required by law;
- oversees procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- reviews the procedures for communicating the code of business conduct and ethics to our company personnel, and for monitoring compliance therewith;
- reviews annually the Audit Committee's written charter and the committee's performance and reports the same to the Board;
- reviews the financial statements to be included in our Annual Report on Form 10-K as well as interim financial reports;
- discusses with management and the independent registered public accounting firm the results of the annual audit and the results in our quarterly financial statements; and
- reviews and approves all related party transactions on an ongoing basis.



The Audit Committee has the authority to retain special legal, accounting or other advisors or consultants as it deems necessary or appropriate to carry out its duties. The Audit Committee is composed of Ms. Clague (Chair) and Mr. Hunter and Admiral Smith. At the beginning of fiscal 2006, Daniel Hunter, Richard M. Wagner and David J. Carter were members of the Audit Committee, and Mr. Hunter served as Chair. In March 2006, the size of the Audit Committee was increased to four directors, and Thomas R. Brown joined the Audit Committee as an independent director and became its Chair. Mr. Wagner retired from the Board at the May 2006 annual meeting of stockholders, and the size of the Audit Committee was then reduced to three directors. Mr. Brown resigned from the Audit Committee in August 2006 upon the Board's appointment of him as President and Chief Executive Officer for a term commencing September 5, 2006, and the vacancy on the Audit Committee was filled by Admiral Smith. Mr. Carter resigned from the Board and all standing committees in February 2007, and Ms. Clague was appointed to the Audit Committee to fill the vacancy created by his resignation. Ms. Clague was also appointed as Chair of the Audit Committee. The Audit Committee met 13 times and acted by unanimous written consent 1 time during fiscal 2006.

The Board of Directors annually reviews the NASDAQ listing standards definition of independence for audit committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A) of the NASDAQ listing standards). Our Board of Directors has determined that each member of the Audit Committee is able to read and understand fundamental financial statements, including our company's balance sheet, income statement and cash flow statement. Our Board of Directors has also determined that Mr. Hunter and Ms. Clague each qualify as an "audit committee financial expert," as defined in applicable SEC rules. In making such determinations, the Board made a qualitative assessment of Mr. Hunter's, and Ms. Clague's level of knowledge and experience based on a number of factors, including each individual's formal education and experience. See "Report of the Audit Committee."

### *Compensation Committee*

The Compensation Committee assists in the implementation of, and provides recommendations with respect to, our general and specific compensation policies and practices for our company's executives. The Compensation Committee also administers our 2002 Stock Option Plan and our 2005 Equity Incentive Plan. Among other functions, the Compensation Committee:

- reviews and approves the performance goals and objectives for executive officers, including our Chief Executive Officer;
- evaluates the CEO's performances in light of those goals and objectives and recommends to the Board the CEO's compensation levels;
- recommends to the Board the compensation of executive officers other than the CEO;
- reports on executive compensation for inclusion in our company's proxy statements;
- reviews annually the Board compensation and makes related recommendations to the Board; and
- reviews annually the Compensation Committee's written charter and the committee's performance and reports the same to the Board.

The Compensation Committee has the authority to retain special legal or other advisors or consultants as it deems necessary or appropriate to carry out its duties. The Compensation Committee is composed of Mr. Hunter (Chair), Admiral Smith, and Ms. Clague. At the beginning of fiscal 2006, Richard M. Wagner, Mr. Hunter and David J. Carter were members of the Compensation Committee, and Mr. Wagner served as Chair. In March 2006, the size of the Compensation Committee was increased to four directors, and Admiral Smith joined the Compensation Committee as an independent director. Later in March 2006, the size of the Compensation Committee was increased to five directors, and Thomas R. Brown joined the Compensation Committee as an independent director. Mr. Wagner retired from the Board at the May 2006 annual meeting of stockholders, and the size of the Compensation Committee was then reduced to four directors, and Mr. Hunter became Chair of the Compensation Committee. Mr. Brown resigned from the Compensation Committee in August 2006 upon the Board's appointment of him as President and Chief Executive Officer for a term commencing September 5, 2006, and the size of the Compensation Committee was reduced to three directors. Mr. Carter resigned from the Board and all standing committees in February 2007, and Ms.

Clague was appointed to the Compensation Committee to fill the vacancy created by his resignation. The Compensation Committee held 12 meetings and acted by unanimous written consent 3 times during fiscal 2006. See "Report of the Compensation Committee."

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Each member of the Compensation Committee is independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards), an "outside director" as defined in Section 162(m) of the Internal Revenue Code and a "non-employee director" as defined in Rule 16b-3 under the Securities Exchange Act of 1934.

*Nominating and Governance Committee*

Our Board of Directors established a Nominating and Governance Committee in April 2004. The Nominating and Governance Committee identifies and recommends to the Board individuals qualified to become Board members, reviews and advises the Board with respect to corporate governance principals and policies, and oversees the annual evaluation of the Board's effectiveness. Among other functions, the Nominating and Governance Committee:

- identifies, reviews and evaluates candidates to serve on our Board of Directors;
- makes recommendations to the Board regarding the membership of the committees of our Board;
- reviews annually the Nominating and Governance Committee's written charter and the committee's performance;
- oversees an annual self-evaluation of our Board;
- reviews with the Board the requisite skills and criteria for new Board members and the composition of the Board as a whole;
- oversees a policy for considering shareholder nominees for directors and develops the procedures that must be followed by shareholders in submitting recommendations;
- evaluates director candidates recommended by the shareholders using the criteria and the principles for director selection;
- oversees a procedure for shareholders to communicate with the Board;
- considers conflicts of interest of Board members and senior management, and, to the extent a conflict constitutes a related party transaction, refers the approval of such matter to the Audit Committee;
- oversees director orientation, continuing education programs, director retirement policies and resignation of directors from the Board; and
- is responsible for corporate governance principles for our company.

The Nominating and Governance Committee has the authority to retain special legal or other advisors or consultants as it deems necessary or appropriate to carry out its duties. The Nominating and Governance Committee is currently composed of Mr. Hunter and Admiral Smith. At the beginning of fiscal 2006, David J. Carter, Mr. Hunter and Richard M. Wagner were members of the Compensation Committee, and Mr. Carter served as Chair. In March 2006, the size of the Nominating and Governance Committee was increased to four directors, and Admiral Smith joined the Nominating and Governance Committee as an independent director. Mr. Wagner retired from the Board at the May 2006 annual meeting of stockholders, and the size of the Nominating and Governance Committee was then reduced to two directors, with Mr. Carter and Admiral Smith remaining members. Mr. Carter resigned from the Board and all standing committees in February 2007. Mr. Hunter was appointed to the Nominating and Governance Committee as Chair to fill the vacancy created by Mr. Carter's resignation in March 2007. The Nominating and Governance Committee held 10 meetings and acted by unanimous written consent 1 time during fiscal 2006.



All members of the Nominating and Governance Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards).

## **Consideration of Director Nominees**

### *Director Qualifications*

The Nominating and Governance Committee believes that new candidates for director should have certain minimum qualifications, including having the knowledge, capabilities, experience and contacts that complement those currently existing within our company; ability and qualifications to provide our management with an expanded opportunity to explore ideas, concepts and creative approaches to existing and future issues, and to guide management through the challenges and complexities of building a quality company; ability to meet contemporary public company board standards with respect to general governance; stewardship, depth of review, independence, financial certification, personal integrity and responsibility to stockholders; genuine desire and availability to participate actively in the development of our future; and an orientation toward maximizing stockholder value in realistic time frames. The Committee also intends to consider for new Board members such factors as ability to contribute strategically through relevant industry background and experience, on either the vendor or the end user side; strong current industry contacts; ability and willingness to introduce and open doors to executives of potential customers and partners; current employment as the CEO of an acoustic products, media, advertising, military or government supply company larger than our company; independence from our company and current board members; and a recognizable name that would add credibility and value to our company and its stockholders. The Committee may modify these qualifications from time to time.

### *Evaluating Nominees for Director*

The Nominating and Governance Committee reviews candidates for director nominees in the context of the current composition of our Board, our operating requirements and the long-term interests of stockholders. In conducting this assessment, the Committee currently considers, among other factors, diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board and our company, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Governance Committee reviews such directors' overall service to our company during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the Committee also determines whether the nominee must be independent, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our Board of Directors. The Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to our Board of Directors by majority vote. To date, neither the Nominating and Governance Committee nor any predecessor to the Committee has paid a fee to any third party to assist in the process of identifying or evaluating director candidates. To date, neither the Nominating and Governance Committee nor any predecessor to the Committee has rejected a timely director nominee from a stockholder or group of stockholders that beneficially owned, in the aggregate, more than 5% of our voting stock.

### *Stockholder Nominations*

The Committee applies the same guidelines (described above) to stockholder nominees as applied to nominees from other sources. Any stockholder who wishes to recommend for the Nominating and Governance Committee's consideration a prospective nominee to serve on the Board of Directors may do so by giving the candidate's name and

qualifications in writing to our Chairman of the Board at the following address: 15378 Avenue of Science, Suite 100, San Diego, California 92128.

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## Code Of Business Conduct And Ethics

We have adopted a "Code of Business Conduct and Ethics," a code of ethics that applies to all employees, including our executive officers. A copy of the Code of Business Conduct and Ethics is posted on our Internet site at [www.atcsd.com](http://www.atcsd.com). In the event we make any amendments to, or grant any waivers of, a provision of the Code of Business Conduct and Ethics that applies to the principal executive officer, principal financial officer, or principal accounting officer that requires disclosure under applicable SEC rules, we intend to disclose such amendment or waiver and the reasons therefor on a Form 8-K or on our next periodic report.

## PROPOSAL TWO

### RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Swenson Advisors, LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2007. Swenson Advisors, LLP has served as our independent registered public accounting firm since July 2005 and audited our financial statements for the fiscal year ended September 30, 2006. A representative of Swenson Advisors, LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions. Stockholder ratification of the selection of Swenson Advisors, LLP is not required by our bylaws or otherwise. However, we are submitting the selection of Swenson Advisors, LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will consider whether or not to retain that firm. 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 it determines that such a change would be in the best interest of our company and our stockholders.

The affirmative vote of a majority of the votes cast at the meeting, either in person or by proxy, is required to ratify the selection of Swenson Advisors, LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders for the purpose of determining a quorum and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

### Independent Registered Public Accountants Fees

The following table presents fees billed by Swenson Advisors, LLP for professional services rendered for the fiscal years ended September 30, 2006 and 2005.

	2006	2005
Audit Fees (1)	\$ 561,630	\$ 430,500
Audit Related Fees (2)	\$ 29,800	—
Tax Fees (3)	—	—
All Other Fees (4)	—	—
<b>Total</b>	<b>\$ 591,430</b>	<b>\$ 430,500</b>

(1) Audit Fees include fees and expenses for professional services rendered in connection with the audit of our financial statements for those years, reviews of the financial

statements included in each of our quarterly reports on Form 10-Q during those years and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements. Audit fees also included the audit of management's report on the effectiveness of our company's internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

- (2) Audit Related Fees consist of fees billed for assurance related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees." Included in Audit Related Fees are fees and expenses related to reviews of registration statements and SEC filings other than Forms 10-K and 10-Q.
- (3) Tax Fees include the aggregate fees paid by us during the fiscal year indicated for professional services for tax compliance, tax advice and tax planning. No such fees were billed by Swenson Advisors for fiscal 2006 or 2005.
- (4) All Other Fees consist of fees for products and services other than the services reported above. No such fees were billed by Swenson Advisors for fiscal 2006 or 2005.

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### Audit Committee Pre-Approval Policies and Procedures

All audit and non-audit services are pre-approved by the Audit Committee, which considers, among other things, the possible effect of the performance of such services on the registered public accounting firm's independence. The Audit Committee pre-approves the annual engagement of the principal independent registered public accounting firm, including the performance of the annual audit and quarterly reviews for the subsequent fiscal year, and pre-approves specific engagements for tax services performed by such firm. The Audit Committee has also established pre-approval policies and procedures for certain enumerated audit and audit related services performed pursuant to the annual engagement agreement, including such firm's attendance at and participation at board and committee meetings; services of such firm associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings, such as comfort letters and consents; such firm's assistance in responding to any SEC comments letters; and consultations with such firm as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, Public Company Accounting Oversight Board (PCAOB), Financial Accounting Standards Board (FASB), or other regulatory or standard-setting bodies. The Audit Committee is informed of each service performed pursuant to its pre-approval policies and procedures.

The Audit Committee has considered the role of Swenson Advisors, LLP in providing services to us for the fiscal year ended September 30, 2006 and has concluded that such services are compatible with such firm's independence.

### Our Board of Directors recommends a vote IN FAVOR of Proposal Two

#### ADDITIONAL INFORMATION

#### Management

Set forth below is information regarding our executive officers. All executive officers serve at the pleasure of the Board of Directors.

Name	Age	Position
Elwood G. Norris*	67	Chairman of the Board
Thomas R. Brown*	56	President, Chief Executive Officer, Secretary and Interim Financial Officer
Karen Jordan	36	Chief Accounting Officer
James Croft, III	53	Senior Vice President, Research and Development

\* Biographical information about Elwood G. Norris and Thomas R. Brown is set forth under Proposal One above.

**Karen Jordan**, age 36, joined our company in November 2005 as Director of Finance, and in December 2005 was appointed as Chief Accounting Officer. From July 2003 to November 2005, Ms. Jordan was a self-employed bankruptcy executive, managing the Estates of LCS Management, Inc. and LCS West, Inc. From January 2001 to July 2003, Ms. Jordan was Corporate Controller with LifeCare Solutions, Inc., a provider of integrated home healthcare products and services. From June 1996 to January 2001, Ms. Jordan held various positions with Quidel Corporation, a developer and manufacturer of diagnostic tests for detection of a variety of medical conditions and illnesses. At the time Ms. Jordan left Quidel Corporation, she held the position of Assistant Controller. Ms. Jordan is a Fellow Chartered Accountant in Ireland. Ms. Jordan received her Associate Chartered Accountant license from the Institute of Chartered Accountants in Ireland in 1993.



**James Croft, III**, age 53, joined our company in October 1997 as Vice President of Engineering. In December 2000, he was appointed Chief Technology Officer. As part of our March 2003 reorganization, Mr. Croft was appointed Senior Vice President of Research and Development. In August 2005, he was appointed as Chief Technology Officer and Vice President of Development. From October 1992 to October 1997 he was an executive with Carver Corporation, then a publicly traded high-end audio supplier. He was appointed Vice President of Marketing and Product Development for Carver Corporation in March 1993 and Vice President Research and Development in February 1995. From 1990 through October 1992 Mr. Croft held various positions at Dahlquist, Inc., a loudspeaker manufacturer, including Vice President of Research and Development. Mr. Croft is also a member of the board of directors of Definitive Audio, Inc., a Seattle audio specialty retailer that he co-founded in 1975 and managed until 1985.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of our common stock as of February 16, 2007 by: (i) each director; (ii) each of the named executive officers reflected in the Summary Compensation Table; (iii) all our executive officers and directors as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock.

Title of Class	Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership (1)	Percent of Class (1)
Common Stock	Elwood G. Norris 15378 Avenue of Science Ste. 100 San Diego, California 92128	4,048,015 (2)	13.3%
Common Stock	Thomas R. Brown 15378 Avenue of Science Ste. 100 San Diego, California 92128	105,834 (3)	*
Common Stock	Austin W. Marx and David M. Greehouse 527 Madison Avenue, Ste. 2600 New York, NY 10022	4,825,920 (4)	15.4%
Common Stock	Laura M. Clague 15378 Avenue of Science Ste. 100 San Diego, California 92128	—	—
Common Stock	Daniel Hunter 15378 Avenue of Science Ste. 100 San Diego, California 92128	157,875 (5)	*
Common Stock	Raymond C. Smith 15378 Avenue of Science Ste. 100 San Diego, California 92128	30,500 (6)	*
Common Stock	James Croft, III 15378 Avenue of Science Ste. 100	129,009 (7)	*

San Diego, California 92128

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<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount &amp; Nature of Beneficial Ownership (1)</b>	<b>Percent of Class (1)</b>
Common Stock	Karen Jordan 15378 Avenue of Science Ste. 100 San Diego, California 92128	26,042 (6)	*
Common Stock	Kalani Jones 15378 Avenue of Science Ste. 100 San Diego, California 92128	— (8)	—
Common Stock	John R. Zavoli 15378 Avenue of Science Ste. 100 San Diego, California 92128	— (8)	—
Common Stock	Bruce Gray 15378 Avenue of Science Ste. 100 San Diego, California 92128	— (8)	—
Common Stock	Alan J. Ballard 15378 Avenue of Science Ste. 100 San Diego, California 92128	— (8)	—
All directors & executive officers as a group (7 persons)		4,497,275 (9)	14.7%

\* Less than 1%.

*See below for footnote disclosure.*

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as otherwise indicated below, this table is based on information supplied by officers, directors and principal stockholders. The inclusion in this table of such shares does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of, or receives the economic benefit of, such shares. Percentage of class is based on 30,093,227 shares of common stock outstanding on February 16, 2007. Except as otherwise stated below, each of the named persons has sole voting and investment power with respect to the shares shown (subject to community property laws).
- (2) Includes 3,825,515 shares held by a family trust for which Mr. Norris serves as trustee, 37,500 shares issuable upon exercise of a warrant held by such trust, and 185,000 shares issuable upon the exercise of outstanding stock options within 60 days of February 16, 2007.
- (3) Includes 95,834 issuable upon exercise of outstanding stock options within 60 days of February 16, 2007.
- (4) Beneficial joint ownership by Mr. Marx and Mr. Greenhouse is based solely on information as of December 31, 2006 as set forth in Schedule 13G/A filed on February 14, 2007. Consists of 3,586,163 shares and 1,179,117 warrants to purchase 1,239,757 shares held by the following entities: 1,574,806 shares and 537,319 warrants to purchase 565,196 shares owned by Special Situations Fund III QP, L.P., 137,082 shares and

46,872 warrants to purchase 49,315 shares owned by Special Situations Fund III, L.P., 550,640 shares and 177,871 warrants to purchase 190,605 shares owned by Special Situations Private Equity Fund, L.P., 183,435 shares and 57,729 warrants to purchase 60,155 shares owned by Special Situations Technology Fund, L.P., and 1,140,200 shares and 359,326 warrants to purchase 374,486 shares owned by Special Situations Technology Fund II, L.P. MGP Advisors Limited Partnership, or MGP, is the general partner of the Special Situations Fund III, L.P. and the Special Situations Fund III QP, L.P. and AWM Investment Company, Inc., or AWM, is the general partner of MGP. SST Advisers, L.L.C., or SSTA, is the general partner of the Special Situations Technology Fund, L.P. and Special Situations Technology Fund II, L.P. MG Advisers, L.L.C., or MG, is the general partner of the Special Situations Private Equity Fund, L.P. AWM is the investment adviser to Special Situations Fund III QP, L.P., Special Situations Technology Fund, L.P., Special Situations Technology Fund II, L.P. and Special Situations Private Equity Fund, L.P. Austin W. Marx and David M. Greenhouse are the principal owners of MGP, AWM, SSTA and MG, and are principally responsible for the selection, acquisition, voting and disposition of the portfolio securities by each investment adviser on behalf of its fund. Both Messrs. Marx and Greenhouse share voting and dispositive power with respect to shares held by these stockholders.

- (5) Includes 62,000 shares held by spouse, 6,000 shares held by Profit Sharing Trust and 89,875 shares issuable upon the exercise of outstanding stock options within 60 days of February 16, 2007.
- (6) Consists of shares issuable upon exercise of outstanding stock options within 60 days of February 16, 2007.
- (7) Includes 124,959 shares issuable upon the exercise of outstanding stock options within 60 days of February 16, 2007.
- (8) We have no information on ownership by these former executive officers.
- (9) Includes 522,210 shares issuable upon exercise of outstanding stock options within 60 days of February 16, 2007 and 37,500 shares issuable upon exercise of warrants.

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

Section 16(a) of the Exchange Act requires our officers, directors and persons who own more than 10% of any class of our securities registered under Section 12(g) of the Exchange Act to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of copies of such reports furnished to us and written representations that no other reports were required during the fiscal year ended September 30, 2006, we believe that all persons subject to the reporting requirements pursuant to Section 16(a) filed the required reports on a timely basis with the SEC except that Mr. Norris reported a September 20, 2006 exercise of a warrant on Form 4 late on October 3, 2006.

## **EXECUTIVE COMPENSATION**

### **Compensation of Directors**

In June 2005, upon recommendation of the Compensation Committee, our Board of Directors approved a director compensation plan. Under the plan, each of our non-employee directors was paid a fee of \$1,000 per month, payable quarterly in arrears. No additional amounts were payable for committee participation.

The Compensation Committee awarded options to Admiral Smith, Mr. Brown and Ms. Clague upon joining the Board of Directors as non-employee directors in March 2006, March 2006 and February 2007. Each option was granted under our 2005 Equity Incentive Plan, is exercisable for 50,000 shares of our common stock, has an exercise price equal to the closing price of our common stock reported on the date of grant, has a five year term and vests quarterly over four years, subject to continued service and other conditions. The exercise price for Admiral Smith's option is \$3.32 per share, for Mr. Brown's option is \$3.65 per share, and for Ms. Clague's option is \$4.42 per share.

In February 2007, the Compensation Committee recommended to the Board, and the Board approved, one-time awards of \$5,000 to be made to Mr. Hunter, Admiral Smith and David J. Carter in recognition of their service during management changes and the voluntary review of our historical stock option and stock grants.

In February 2007, the Compensation Committee awarded to incumbent directors Mr. Hunter and Admiral Smith non-statutory options under our 2005 Equity Incentive Plan exercisable for 54,000 shares of our common stock, with an exercise price equal to the closing price of our common stock on the date of grant (which was \$4.37). Such options were vested as to one third of the shares upon grant, and quarterly thereafter through the second anniversary of the date of grant, subject to continuing service to our company.

### **Summary Compensation Table**

Set forth below is information concerning the compensation of each person who served as our Principal Executive Officer and our two other most highly compensated executive officers, other than those who served as Principal Executive Officers, that were serving at September 30, 2006 (representing all of our executive officers serving at that date who earned over \$100,000 in salary and bonus for the fiscal year ending on that date and who did not serve as Principal Executive Officer), and two additional individuals that served as executive officers during the fiscal year ended September 30, 2006 but were no longer serving at September 30, 2006. We refer to each of such persons as a "named executive officer".

## Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Other Annual Compensation	Long Term Compensation Awards Securities	All Other Compensation
		Salary	Bonus	Underlying Options (#)			
Elwood G. Norris, Chairman	2006	\$ 203,846	—	—	100,000	—	
	2005	\$ 200,272	—	—	70,000	—	
	2004	\$ 200,000	—	—	—	-\$ 1,385(1)	
Thomas R. Brown (2) President, Chief Executive Officer and Interim Financial Officer	2006	\$ 22,070	—	—	250,000	\$ 58,500(2)	
John R. Zavoli (3) Former President and Chief Operating Officer	2006	\$ 206,468	—	—	100,000	\$ 136,601(3)	
Kalani Jones (4) Former President and Chief Operating Officer	2006	\$ 38,413	—	—	—	87,293(4)	
	2005	\$ 199,241	—	—	52,500	\$ —	
	2004	\$ 179,808	\$ 50,000(5)	—	125,000	\$ 1,636(1)	
James Croft, III Senior Vice President, Research and Development	2006	\$ 168,173	—	—	—	-\$ 6,514(6)	
	2005	\$ 201,383	—	—	10,000	\$ 18,895(6)	
	2004	\$ 126,690	—	—	—	-\$ 17,572(6)	
Karen Jordan Chief Accounting Officer	2006	\$ 126,538	—	—	30,000	\$ 1,575(1)	
Bruce Gray (7) Vice President, Commercial Products Group	2006	\$ 223,166	—	—	—	-\$ 92,213(7)	
	2005	\$ 107,692	—	—	100,000	—	
Alan J. Ballard (8) Former Vice President - Government and Military Group	2006	\$ 169,573	—	—	—	-\$ 91,346(8)	

(1) Represents matching 401(k) contributions.

(2) Salary includes \$3,000 of director fees for the period prior to being appointed as an executive officer. All other compensation includes \$58,500 paid to BrownThompson Executive Search, an executive search firm controlled by Mr. Brown, for services

provided prior to Mr. Brown's appointment to the board.

- (3) Mr. Zavoli's employment with our company terminated August 17, 2006. Salary includes \$2,000 of post-employment director fees. All other compensation includes severance of \$125,000, post-employment medical payments of \$7,648 and matching 401(k) contributions of \$1,953. See "Employment Arrangements" below for more information.
- (4) Mr. Jones resigned from our company effective October 17, 2005. All other compensation includes severance of \$82,500, post-employment medical payments of \$4,666 and matching 401(k) contributions of \$127. See "Employment Arrangements" below for more information.
- (5) Represents bonus for fiscal 2004 paid in fiscal 2005.
- (6) Includes royalty payments of \$4,080, \$18,895 and \$16,246 for fiscal 2006, 2005 and 2004 respectively. Balance represents matching 401(k) contributions.
- (7) Mr. Gray's employment with our company terminated September 19, 2006. Sales commissions of \$31,796 are included with salary. All other compensation includes severance of \$90,000 and matching 401(k) contributions of \$2,213. See "Employment Arrangements" below for more information.
- (8) Mr. Ballard's employment with our company terminated May 16, 2006. Sales commissions of \$58,562 are included with salary. All other compensation includes severance of \$90,000 and matching 401(k) contributions of \$1,346.

No named executive officer received any form of non-cash compensation from us in the fiscal years ended September 30, 2006, 2005, or 2004, or currently receives any such compensation, in excess of 10% of the total amount of annual salary and bonus reported for the named executive officer above. No named executive officer received a restricted stock award, a stock appreciation right or a long-term incentive plan payout in the fiscal years ended September 30, 2006, 2005, or 2004.

### OPTION GRANTS

The following table shows further information on grants of stock options in fiscal 2006 to the named executive officers reflected in the Summary Compensation Table.

#### Option Grants for Fiscal Year Ended September 30, 2006

Name	Individual Grants		Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)	
	Number of Shares of Common Stock Underlying Options Granted (1)	Percent of Total Options Granted to Employees in Fiscal Year			5%	10%
Elwood G. Norris	100,000	7.4%	\$ 4.29	5/03/2011	\$ 68,750	\$ 199,099
Thomas R. Brown	50,000	3.7%	\$ 3.65	3/24/2011	\$ 50,421	\$ 111,418
Karen Jordan	200,000	14.9%	\$ 3.33	9/05/2011	\$ 184,004	\$ 406,600
John R. Zavoli	30,000	2.2%	\$ 4.77	11/21/2010	\$ 39,539	\$ 87,364
(2)	100,000	7.4%	\$ 4.78	11/01/2009	\$ 132,063	\$ 291,824

- (1) All options granted under our 2005 Equity Incentive Plan and were granted at an exercise price equal to the fair market value on the date of grant, except the option to Mr. Norris, which was granted at an exercise price equal to 110% of the fair market value on the date of grant. Options vest as to 1/4 of the shares on the first anniversary of the date of grant and as to 1/16<sup>th</sup> of the shares each quarter thereafter, subject to continuing service to our company.
- (2) Mr. Zavoli's employment with our company terminated August 17, 2006. None of the shares subject to such grant vested.
- (3) Potential gains are net of exercise price, but before taxes associated with exercise. These amounts represent certain assumed rates of appreciation only, in accordance with the SEC's rules. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock, overall market conditions and the option holder's continued employment through the vesting period. The amounts reflected in this table may not necessarily be achieved.

#### Stock Option Exercises and Holdings

The following table shows the information on each exercise of options during fiscal 2006 and unexercised options and the value of options held at September 30, 2006 by each of the named executive officers reflected in the Summary Compensation Table.

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

Name	Shares Acquired on Exercise	Value Realized	Number of Shares of Common Stock Underlying Unexercised Options Held at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<b>Elwood G.</b>		\$ 40,000				
<b>Norris</b>	50,000	(2)	126,250	143,750	\$ 36,660	—
<b>Thomas R.</b>						
<b>Brown</b>	—	—	—	250,000	—	\$ 106,500
<b>James Croft, III</b>	17,000	\$ 16,400				
		(3)				