

LUMINENT MORTGAGE CAPITAL INC

Form DEF 14A

April 16, 2007

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

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Luminent Mortgage Capital, Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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**April 16, 2007**

Dear Stockholder:

On behalf of the board of directors and management of Luminent Mortgage Capital, Inc., I cordially invite you to attend our 2007 annual meeting of stockholders. Our meeting will be held at 10:00 a.m., local time, on May 23, 2007 at our main offices, located at 101 California Street, Suite 1350, San Francisco, California 94111.

At our meeting, stockholders will elect two Class I directors and act upon any other matter that properly comes before our annual meeting or any adjournment or postponement of our annual meeting.

Your vote is important. Whether or not you plan to attend our annual meeting, I hope you will read the enclosed proxy statement and then complete, sign and date the enclosed proxy card and return it in the envelope provided. Please note that you may vote in person at our annual meeting even if you have previously returned the card.

Thank you for your attention to this important matter. I look forward to seeing those of you who can attend our annual meeting on May 23, 2007.

Sincerely,

Gail P. Seneca  
*Chairman of the Board and  
Chief Executive Officer*

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**LUMINENT MORTGAGE CAPITAL, INC.  
101 CALIFORNIA STREET, SUITE 1350  
SAN FRANCISCO, CA 94111  
(415) 217-4500**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To be held on May 23, 2007**

Notice is hereby given that our annual meeting of stockholders will be held at our main offices, located at 101 California Street, Suite 1350, San Francisco, California, 94111, on Wednesday, May 23, 2007, at 10:00 a.m., local time.

A proxy card, a proxy statement for our annual meeting and our Annual Report on Form 10-K for the year ended December 31, 2006 are enclosed.

The purposes of our annual meeting are:

1. to elect two Class I directors who will serve until our 2010 annual meeting of stockholders and until their successors are elected; and
2. to act upon any other matter that properly comes before our annual meeting or any adjournment or postponement of our annual meeting.

Stockholders of record at the close of business on March 28, 2007 are entitled to vote at our annual meeting and any adjournment or postponement thereof. A list of stockholders entitled to vote at our annual meeting will be available for examination at our main offices by any stockholder for any purpose germane to our annual meeting during the 10 days prior to our annual meeting, as well as at our annual meeting.

You are requested to complete, sign and date the enclosed proxy card, which is solicited on behalf of our board of directors, and to mail it promptly in the envelope provided. The proxy will not be used if you attend our annual meeting and tell us you wish to vote in person.

By Order of the Board of Directors,

Christopher J. Zyda  
*Corporate Secretary*

San Francisco, California  
April 16, 2007

**IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE US THE EXPENSE OF FURTHER REQUESTS FOR PROXIES TO ENSURE A QUORUM AT OUR MEETING. A PRE-ADDRESSED POSTAGE-PAID ENVELOPE IS PROVIDED FOR YOUR CONVENIENCE.**

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**LUMINENT MORTGAGE CAPITAL, INC.**

**PROXY STATEMENT**

This proxy statement contains information relating to the annual meeting of stockholders of Luminent Mortgage Capital, Inc. to be held on Wednesday, May 23, 2007, beginning at 10:00 a.m., at our principal executive offices at 101 California Street, Suite 1350, San Francisco, California 94111 and at any adjournment or postponement of our annual meeting. This proxy statement and the accompanying proxy are first being mailed to stockholders on or about April 16, 2007. Unless the context indicates otherwise, all references in this proxy statement to we, us or the Company refer to Luminent Mortgage Capital, Inc. and its subsidiaries.

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**ABOUT OUR ANNUAL MEETING AND VOTING**

***What is the purpose of our annual meeting?***

At our annual meeting, stockholders will be asked to elect two Class I directors. In addition, our management will report on our performance during 2006 and respond to appropriate questions from stockholders.

***Will stockholders be asked to vote on any other matters?***

As far as our board of directors and management know, stockholders will vote at our annual meeting only on the election of directors as described in this proxy statement. However, if any other matter properly comes before our annual meeting, the persons named as proxies for stockholders will vote on those matters in accordance with their judgment.

***Who is entitled to vote at our annual meeting?***

Holders of record of our common stock as of the close of business on March 28, 2007, which is the record date, are entitled to vote at our annual meeting. As of March 28, 2007, we had 47,958,510 shares of common stock outstanding. Stockholders are entitled to cast one vote per share on each matter presented for consideration at our annual meeting. If our annual meeting is adjourned or postponed, your common stock may be voted by the proxies on the new meeting date as well, unless you have revoked your proxy.

***What is a quorum for our annual meeting?***

The presence, in person or by proxy, of stockholders entitled to cast at least a majority of the votes entitled to be cast by all stockholders will constitute a quorum for the transaction of business at our annual meeting. Mellon Investor Services LLC, the independent inspector of election appointed for our annual meeting, will determine whether a quorum is present.

***How do I vote?***

If you hold your shares in your own name as a holder of record, you may vote your shares of common stock in person at our annual meeting or by returning your proxy to us in the envelope that we have provided to you. If your common stock is held by a broker, bank or other nominee, you will receive instructions from that person on how to vote your shares.

***Can I change my vote?***

Yes. If you are a stockholder of record, you can revoke your signed proxy at any time before it is voted. To revoke your proxy, you may send a written notice of revocation to our corporate secretary, Christopher J. Zyda, 101 California Street, Suite 1350, San Francisco, California 94111. You may also revoke a proxy by submitting another signed proxy with a later date or by voting in person at our annual meeting.

If you are not a stockholder of record, you may revoke or change your vote by submitting new instructions to your broker, bank, or other nominee.

***What are our board's recommendations on how to vote my shares?***

Our board of directors recommends you vote FOR the election of each of the nominees for election as Class I directors.

***What vote is required to approve the election of directors?***

The two persons receiving the highest number of FOR votes cast in person or by proxy by our stockholders at our annual meeting will be elected as Class I directors. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more nominees will not be voted with respect to the nominee or nominees indicated.



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If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendation of our board of directors, i.e., for the election of our nominees for Class I directors. If other matters are properly brought before our annual meeting, the vote required will be determined by applicable law, the rules of the New York Stock Exchange, or NYSE, and our charter and bylaws, as applicable.

**Who will count the votes?**

Representatives of Mellon Investor Services LLC, our independent inspector of elections, will count the votes.

**STOCK OWNERSHIP****How much stock do our directors and executive officers beneficially own?**

The following table sets forth as of March 28, 2007 the amount and percentage of our common stock beneficially owned by each of our directors, each of our executive officers named in the Summary Compensation Table in this proxy statement and all of our directors and executive officers as a group.

Except as otherwise noted, as of March 28, 2007 the beneficial owners named in the following table have sole voting and investment power with respect to all shares of our common stock shown below as beneficially owned by them, subject to community property laws, where applicable.

<b>Name of Individual or Identity of Group(1)</b>	<b>Shares of Common Stock Beneficially Owned</b>	<b>Percent</b>
<b>Directors:</b>		
Gail P. Seneca, Ph.D.(2)	517,527	1.1%
Leonard Auerbach, Ph.D.	31,500	*
Robert B. Goldstein	67,921	*
Bruce A. Miller, CPA	7,400	*
S. Trezevant Moore, Jr.(3)	211,000	*
Donald H. Putnam	25,000	*
Frank L. Raiter	3,850	*
Joseph E. Whitters, CPA	235,000	*
<b>Executive Officers:</b>		
Christopher J. Zyda(4)	218,916	*
Eleanor Cornfeld Melton(5)	23,483	*
Ronald Viera(6)	30,000	*
All directors and executive officers as a group (11 persons)	1,371,597	2.9%

\* less than 1%.

(1) The address of each of our officers and directors is c/o Luminent Mortgage Capital, Inc., 101 California Street, Suite 1350, San Francisco, California 94111.

- (2) Includes a total of 175,000 shares of restricted stock that vest in installments during 2008 and 2009. Ms. Seneca is also our chief executive officer.
- (3) Includes a total of 165,083 shares of restricted stock that vest in installments during 2007, 2008 and 2009.
- (4) Includes a total of 122,666 shares of restricted stock that vest in installments during 2007, 2008 and 2009. Also includes currently exercisable stock options to purchase 50,000 shares of our common stock.
- (5) Includes a total of 21,333 shares of restricted stock that vest in installments during 2007, 2008 and 2009.
- (6) Includes a total of 30,000 shares of restricted stock that vest in installments during 2007, 2008 and 2009.

**Table of Contents*****Does any stockholder own 5% or more of our common stock?***

The table below shows each stockholder known to us to own beneficially 5% or more of our common stock.

<b>Name of Beneficial Owner(1)</b>	<b>Shares of Common Stock Beneficially Owned(1)</b>	<b>Percent</b>
DePrince, Race & Zollo, Inc.	3,678,520	7.69 %
Munder Capital Management	3,076,040	6.43

(1) As reported in a Schedule 13G filed with the Securities and Exchange Commission, or the SEC.

**PROPOSAL NO. 1****ELECTION OF DIRECTORS**

Our directors are divided into three classes serving staggered three-year terms. As a result, every year one class, including approximately one-third of our total number of directors, stands for election by our stockholders. Directors hold office until their successors are elected. Our board of directors currently consists of two Class I directors, three Class II directors and three Class III directors.

At our annual meeting, our stockholders will vote to elect two Class I directors, whose terms will expire at our annual meeting of stockholders in 2010 and upon the election of their successors.

The persons named in the enclosed proxy will vote to elect S. Trezevant Moore, Jr. and Joseph E. Whitters, CPA as Class I directors, unless you withhold authority to vote for the election of one or more of the nominees by marking your proxy to that effect. Each nominee is currently a director.

***Nominees for Election as Class I Directors***

*S. Trezevant Moore, Jr.*, age 54, is our president and chief operating officer and has been a member of our board of directors since November 2005. For five years prior to joining us in March 2005, Mr. Moore was the executive vice president of capital markets for Radian Guaranty Inc. Prior to his service at Radian, Mr. Moore held several senior level positions in the mortgage industry, including First Union National Bank from 1997 to 2000, Nationsbanc Capital Markets from 1994 to 1997, Citicorp Securities from 1989 to 1994 and First Boston from 1984 to 1989. Mr. Moore earned both his B.A. and M.B.A. degrees from the University of Pennsylvania.

*Joseph E. Whitters, CPA*, age 48, has been one of our independent directors since August 2003. Mr. Whitters has been a senior advisor to Frazier Health Care Ventures since 2006. Mr. Whitters has served on the board and chairman of the audit committee of Omnicell, a publicly-owned medication-dispensing technology company since 2003 and has served as chairman of the board and chairman of the compensation committee of Mentor Corp., a medical products company, since 2004. Mr. Whitters was with First Health Group Corp., a managed health care company, where he most recently served as an executive vice president from March 2004 until the company was sold in January 2005. He joined First Health Group Corp. as its controller in October 1986, served as its vice president, finance from August 1987 to March 2004 and its chief financial officer from March 1988 to March 2004. From 1984 through 1986, he

served as controller of United HealthCare Corp., a diversified medical services company. From 1983 to 1984, he served as manager of accounting and taxation for Overland Express, a publicly traded trucking company. From 1980 to 1983, he was a senior manager for tax matters at Peat Marwick, a public accounting firm. Mr. Whitters holds a B.A. degree in accounting from Luther College in Decorah, Iowa.

**OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR EACH OF THE ABOVE-NAMED NOMINEES. PROXIES RECEIVED WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXY.**

Certain information regarding our Class II and Class III Directors whose terms of office will continue after our annual meeting until the expiration of their respective terms is as follows:

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*Gail P. Seneca, Ph.D.*, age 54, has been the chairman of our board of directors and our chief executive officer since our formation in 2003. Ms. Seneca founded Seneca Capital Management LLC, an institutional asset management firm in 1989, which managed \$15 billion at its peak. The firm was sold to Phoenix Life Insurance Company in 2005. Ms. Seneca's investment career also includes senior positions in the asset management divisions of major east and west coast banks. Ms. Seneca was awarded a Ph.D. from New York University in 1979. She serves on numerous investment committees, ranging from that of the San Francisco Fine Arts Museum to the Pacific Gas and Electric Nuclear Decommissioning Trust.

*Leonard Auerbach, Ph.D.*, age 60, has been one of our independent directors since March 2005. Dr. Auerbach is currently President of L, B, A & C, a consulting and investment company. Dr. Auerbach also serves as the chairman of the board of trustees of the RS Funds, formerly the Robertson Stephens and Guardian funds, a publicly-owned mutual fund complex, where he has served as a trustee since the inception of the fund group in 1987. From 2001 until 2005, he served as a director of Sequoia National Bank in San Francisco. Dr. Auerbach was founding president and chief executive officer of AIG-Centre Capital, a mortgage conduit, from 1999 to 2002 and was a general partner of Tuttle & Company, a leading industry consultant on mortgage hedging and analytics, from 1989 to 1997. From January 1998 until its sale to Greenpoint Bank in March 1999, Dr. Auerbach was a director of Headlands Mortgage. From 1973 to 1983, Dr. Auerbach served on the faculty of the Haas School of Business at the University of California, Berkeley. From 1975 to 1983, was a founding faculty member of the St. Mary's College Executive MBA Program and from 1983 to 1989 was a full professor at the Executive and Graduate MBA programs at St. Mary's College of California. He has written and lectured extensively on mortgage finance. Dr. Auerbach earned a B.A. in Mathematics from the University of Wisconsin and a Ph.D. in Management Science from the University of California, Berkeley.

*Robert B. Goldstein*, age 66, has been one of our independent directors since 2003. Mr. Goldstein has been a founding principal of CapGen Capital Advisors LLC since August 2006. CapGen is a private equity fund specializing in banks and financial services companies with offices in Washington, D.C. and New York, New York. Mr. Goldstein has been a member of the board of directors of RSGroup Holdings, Inc. since August 2003 and a member of the board of directors, audit committee and executive committees of F.N.B. Corporation, a financial holding company, as well as chairman of its compensation committee since July 2003. Mr. Goldstein is also chairman of the executive committee of Great Lakes Bancorp, having previously served as chairman of the board and chief executive officer of its predecessor, Bay View Capital Corporation, where he served from 2001 until April 2006. Since January 2007, Mr. Goldstein has also been a member of the board of directors of The BANKshares, Inc. and of its member bank, Bank Brevard, and a member of the executive network of Glencoe Capital LLC. Mr. Goldstein served as president of the Jefferson Division of Hudson United Bank in Philadelphia from 2000 to 2001, when Hudson United acquired Jeff Banks Inc., and was president of Jeff Banks Inc. from 1998 to 2000. Mr. Goldstein was chairman and chief executive officer of Regent Bancshares Corp. and Regent National Bank in Philadelphia, Pennsylvania, from 1997 to 1998, and, from 1993 to 1996, he served as president and chief executive officer of Lafayette American Bank in Connecticut. Mr. Goldstein holds a B.B.A. degree from Texas Christian University, from which he graduated magna cum laude, and also served for seven years on the faculty of Southern Methodist University's Graduate School of Banking.

*Bruce A. Miller, CPA*, age 64, has been our lead independent director since our formation in June 2003. Mr. Miller is a retired managing partner of the E&Y Kenneth Leventhal Real Estate Group, San Francisco, California, where he served from 1980 to 1999. Mr. Miller is a certified public accountant and a member of the American Institute of Certified Public Accountants. Mr. Miller is the chairman of the board of LumenIQ, Inc., president of the board of The San Francisco Food Bank and is a director of Great Circle Water (Technologies), Inc., California Center for Land Recycling and Whitney Cressman Limited. Mr. Miller is also a retired director of AMB Institutional Alliance REIT I, Inc. Mr. Miller has been an advisor to David J. Brown Real Estate Investor since 1980. Mr. Miller earned a B.A. degree from Drexel University and an M.B.A. degree from New York University.

*Donald H. Putnam*, age 55, has been one of our independent directors since August 2003. Mr. Putnam is currently the Managing Partner of Grail Partners LLC, a merchant banking firm providing advice and capital to the investment management business worldwide that he founded in 2005. From 1987 through 2004, he was

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chief executive officer of Putnam Lovell NBF Securities Inc. Putnam Lovell is a global investment banking firm Mr. Putnam founded in 1987 and sold in 2002 to National Bank Financial, the broker/dealer subsidiary of National Bank of Canada. From 1980 to 1986, Mr. Putnam held various senior positions at SEI Investments Inc., a publicly-owned investment advisory firm. From 1978 to 1980, Mr. Putnam was a senior consultant at Catalitics Corporation, a financial services company, where he devised new products and strategies for banking clients. From 1973 to 1978, Mr. Putnam held various positions in the trust and investment group of Bankers Trust Company. Mr. Putnam attended Franklin Pierce College and New York University.

*Frank L. Raiter*, age 59, has been one of our independent directors since March 2007. The governance and nominating committee and our board of directors acted to appoint Mr. Raiter to the board of directors upon recommendations by certain of our executive officers and our independent directors. Mr. Raiter currently serves on the board of directors of Clayton Holdings Inc. Mr. Raiter is the retired managing director of Standard & Poor's Ratings Group where he served from 1995 to 2005. Prior to his service at S&P, Mr. Raiter was the chief investment officer and treasurer of Caliber Bank in Phoenix, Arizona from April 1994 to September 1994 when Caliber was sold to Norwest Bank, and served from March 1990 to March 1994 as the assistant director, Office of Securities Transactions, of the Resolution Trust Corporation. Mr. Raiter also served as captain and company commander in the United States Marine Corps. Mr. Raiter earned a B.A. in Economics with honors from North Carolina State University and an MBA in Finance from the University of North Carolina.

**OUR BOARD OF DIRECTORS AND ITS COMMITTEES****Our Directors**

The eight current members of our board of directors are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Class</b>	<b>Current Term Expires</b>
<b>Directors and Executive Officers</b>				
		Chairman of the Board and Chief Executive Officer		
Gail P. Seneca, Ph.D.	54	Officer	II	2008
S. Trezevant Moore, Jr.	54	President and Chief Operating Officer	I	2007
<b>Independent Directors</b>				
Bruce A. Miller, CPA	64	Lead Independent Director(1)(2)	III	2009
Leonard Auerbach, Ph.D.	60	Independent Director(3)	II	2008
Robert B. Goldstein	66	Independent Director(1)(2) (3)	II	2008
Donald H. Putnam	55	Independent Director(2)(3)	III	2009
Frank L. Raiter	59	Independent Director(3)	III	2009
Joseph E. Whitters, CPA	48	Independent Director(1)	I	2007

(1) Audit Committee Member

(2) Compensation Committee Member

(3) Governance and Nominating Committee Member

Our board of directors currently consists of eight members. Under our bylaws, the number of directors may be increased or decreased by our board, but may not be fewer than one nor more than 15. Any vacancy on our board of directors, whether resulting from the resignation or removal of a director or from an increase in the size of our board of directors, may be filled only by a vote of our directors; alternately, a vacancy resulting from removal of a director may be filled by a vote of our stockholders. Six of our eight directors are independent as determined under the independence standards of the NYSE.



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Our bylaws require that a majority of the members of our board of directors must be independent directors. Our bylaws also provide that all of the members of our audit committee, our compensation committee and our governance and nominating committee must be independent directors.

As required by the rules of the NYSE, our board of directors considered the independence of each of our directors under the NYSE's standards of independence. Our board of directors affirmatively determined that Messrs. Miller, Auerbach, Goldstein, Putnam, Raiter and Whitters have no material relationship with us, either directly, or as a partner, stockholder or officer of an organization that has a material relationship with us, and are thus independent under the NYSE's independence standards.

### ***2006 Meetings***

During 2006, our board of directors held four meetings. Each member of our board of directors attended 75% or more of the meetings held by our board of directors and the committees of our board of directors on which the director served during 2006.

We have a policy that actively encourages, but does not obligate, our directors to attend our annual stockholders meetings because we believe this policy provides our stockholders with an opportunity to communicate with the members of our board of directors. Mr. Goldstein, Mr. Moore, Mr. Putnam and Mr. Whitters were unable to attend our 2006 annual meeting of stockholders.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Under Section 16(a) of the Exchange Act, our directors, executive officers and persons holding 10% or more of our common stock are required to file forms reporting their beneficial ownership of our common stock and subsequent changes in that ownership with the SEC. Such persons are also required to furnish us copies of the forms so filed. Based solely upon a review of copies of such forms filed with us, we believe that during 2006 our executive officers and directors and our stockholders owning 10% or more of our common stock complied with the Section 16(a) filing requirements on a timely basis, except that Gail P. Seneca did not report one 5,000 share purchase transaction by her husband on a timely basis.

### ***Committees of our Board of Directors***

Since our formation in 2003, our board of directors has maintained an audit committee, a compensation committee and a governance and nominating committee. Our board of directors may establish other committees from time to time.

### ***Audit Committee***

Our audit committee is currently composed of three directors: Bruce A. Miller, CPA (chairman), Robert B. Goldstein and Joseph E. Whitters, CPA. Our board of directors has determined that all three members of our audit committee satisfy the independence requirements of the NYSE. Our board of directors has also determined that:

all members of our audit committee qualify as an audit committee financial expert, as defined by the SEC, and

all members of our audit committee are financially literate, within the meaning of the NYSE rules, and independent under the audit committee independence standards under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Our audit committee acts pursuant to a written charter. Among other things, our audit committee charter calls upon our audit committee to:

oversee our accounting and financial reporting processes, including the oversight of the financial reports, financial statements and other financial information we provide to governmental and regulatory bodies, the public and others who rely thereon;

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oversee our systems of internal accounting and financial controls, including our compliance with the Sarbanes-Oxley Act;

select and evaluate the retention of our independent registered public accounting firm;

evaluate, no less frequently than annually, the qualifications and independence of our independent registered public accounting firm;

oversee the annual independent audit of our financial statements in accordance with generally accepted accounting principles in the United States consistently applied;

review our compliance with applicable legal and regulatory requirements; and

take such other actions from time to time within the scope of its charter as our committee deems necessary or appropriate or as our board of directors may request.

In 2006, our audit committee held five meetings.

***Compensation Committee***

The members of our compensation committee are Robert B. Goldstein (chairman), Bruce A. Miller, CPA, and Donald H. Putnam. Our board of directors has determined that all of our compensation committee members qualify as:

independent directors under the NYSE independence standards;

non-employee directors under Exchange Act rule 16b-3; and

outside directors under Internal Revenue Code section 162(m).

Our board of directors has delegated authority to our compensation committee to administer all of our equity incentive plans, to ensure our compensation plans are designed to recruit and retain executive officers of superior talent and create a significant relationship between compensation and benefit levels and performance, to determine the salary and bonus of our executive officers and to make salary and bonus recommendations to our board of directors regarding all other employees. Our compensation committee acts pursuant to a written charter. Among other things, our compensation committee charter calls upon our compensation committee to:

develop our overall compensation policies, and establish performance-based incentives that support and reinforce our long-term strategic goals, organizational objectives and align the interests of our executive officers with the interests of our stockholders;

review and approve goals and objectives relevant to the compensation of our chief executive officer, evaluate the performance of our chief executive officer in light of those goals and objectives and set the compensation of our chief executive officer;

consider and approve the selection, retention and compensation arrangements for our other executive officers and establish, review and approve compensation plans in which executive officers are eligible to participate;

establish from time to time the compensation of the members of our board of directors and the members of the committees of our board of directors;

monitor and make recommendations with respect to succession planning for our chief executive officer;

produce an annual report on executive compensation for inclusion in our proxy statement in accordance with applicable rules and regulations; and

such other actions from time to time within the scope of its charter as our committee deems necessary or appropriate or as our board of directors may request.

In 2006, our compensation committee held two meetings.

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***Compensation Committee Interlocks***

None of the members of our compensation committee is a current or former officer or employee of ours. During 2006, none of our executive officers served as members of the board of directors or of the compensation committee of any entity that has one or more executive officers who served on our board of directors or our compensation committee.

***Governance and Nominating Committee***

Our governance and nominating committee develops and monitors corporate governance best practices for our board of directors and nominates candidates for election to our board of directors. The members of our governance and nominating committee are Robert B. Goldstein (chairman), Leonard Auerbach, Frank L. Raiter and Donald H. Putnam. Our governance and nominating committee is composed entirely of independent directors as required by NYSE rules.

Our governance and nominating committee operates pursuant to a written charter. Among other things, our governance and nominating committee charter calls upon our governance and nominating committee to:

develop and recommend to our board of directors policies and processes designed to provide for effective and efficient corporate governance, including but not limited to, policies for evaluation of the members of our board of directors and its chairperson; election and consideration for reelection of the members of our board of directors and succession planning for the chairman and other members of our board of directors;

have responsibility for board education, including new director orientation;

prepare an initial draft of our annual goals and objectives for review by our board of directors;

evaluate the size and composition of our board of directors, develop criteria for membership on our board of directors and determine the independence under applicable laws of existing and prospective members of our board of directors;

seek and evaluate qualified individuals to become our directors; and

take such other actions from time to time within the scope of its charter as our committee deems necessary or appropriate or as our board of directors may request.

In 2006, our governance and nominating committee held one meeting.

***Nominations by Stockholders***

Our governance and nominating committee will consider nominees recommended by stockholders. Any nominations should be submitted in writing to the chairman of our governance and nominating committee at our principal business address. The submission must include:

the nominating stockholder's name, address and telephone number and a statement of the number of shares of our stock the nominating stockholder beneficially owned during the year preceding the date of nomination;

the nominee's name, address and telephone number; and

a statement of the nominee's qualifications for board membership.

The written materials must be submitted within the time permitted for submission of a stockholder proposal for inclusion in our proxy statement for our annual meeting. Our governance and nominating committee will evaluate prospective nominees suggested by stockholders in the same manner and utilizing the same criteria as any other prospective nominee identified by any other source. In general, the criteria and processes that our governance and nominating committee follows are described below. In connection with this year's annual meeting of stockholders, we did not receive any director nomination from stockholders beneficially owning 5% or more of our common stock. For information regarding nominations or stockholder proposals from stockholders, see "Other Matters - Stockholder Proposals for Our 2008 Annual Meeting."

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***Criteria for Evaluating Potential Nominees to the Board***

Our governance and nominating committee follows the following criteria for evaluating potential nominees to our board of directors and the nomination of current directors for reelection.

*Minimum Criteria.* Any prospective board candidate must meet the following minimum criteria:

reputation of integrity, strong moral character and adherence to high ethical standards;

holds or has held a generally recognized position of leadership in the community and/or chosen field of endeavor, and has demonstrated high levels of accomplishment;

demonstrated business acumen and experience, and ability to exercise sound business judgment and common sense in matters that relate to our current and long-term objectives;

ability to understand our financial statements and related financial information;

commitment to understand our business, industry and strategic objectives;

commitment and ability to attend and participate in meetings of our board of directors and board committees;

ability to fulfill the responsibilities as one of our directors in light of the candidate's other obligations, including obligations to the other boards on which the candidate serves;

willingness to represent and act in the interests of all of our stockholders rather than the interests of a particular group;

good health and an ability to serve;

for prospective non-employee directors, independence under SEC and NYSE rules, and the absence of any material conflict of interest or legal impediment to, or restriction on, the nominee serving as one of our directors; and

willingness to accept a nomination to serve as one of our directors.

*Other Factors.* Our governance and nominating committee also considers the following factors in connection with its evaluation of each prospective director nominee:

whether the prospective nominee will foster a diversity of skills and experiences;

whether the nominee possesses the requisite education, training and experience to qualify as financially literate or as an audit committee financial expert under applicable SEC and NYSE rules;

for directors standing for re-election, the incumbent director's performance during his or her term, including the number of meetings attended, level of participation and overall contribution to us; and

the composition of our board and whether the prospective nominee will add to or complement our board's existing strengths.

***Process for Selecting Nominees to Our Board***

Our governance and nominating committee uses the following process for selecting nominees to recommend to our board of directors.

Our committee initiates the process by preparing a slate of potential candidates who, based on their biographical information and other information available to our committee, appear to meet the criteria specified above and/or who have specific qualities, skills or experience being sought by our committee. Potential candidates may be considered based on informal input from our board of directors, management and/or stockholders or may come to our committee's attention from the following other sources:

*Outside Advisors.* Our committee may engage a third-party search firm or other advisors to assist in identifying prospective nominees.



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*Stockholder Suggestions.* As described above, our committee will consider nominees suggested b