

ALTIGEN COMMUNICATIONS INC  
Form DEF 14A  
January 06, 2005  
**SCHEDULE 14A INFORMATION**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**ALTIGEN COMMUNICATIONS, INC.**

(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:
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    - (5) Total fee paid:
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  - 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.
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    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
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## **ALTIGEN COMMUNICATIONS, INC.**

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Notice of Annual Meeting of Stockholders  
To Be Held on February 10, 2005

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To Our Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Annual Meeting) of AltiGen Communications, Inc. (AltiGen), a Delaware corporation, will be held on February 10, 2005 at 10:00 a.m., local time, at the our principal executive offices, located at 4555 Cushing Parkway, Fremont, California 94538, for the following purposes:

1. To elect one Class III director to serve for a three-year term expiring on the date on which our Annual Meeting of Stockholders is held in 2008.
2. To ratify the appointment of Deloitte & Touche LLP as our independent public accountants for the fiscal year ending September 30, 2005.
3. To transact such other business as may properly come before the Annual Meeting or at any and all adjournments or postponements thereof.

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

Only stockholders of record on the close of business on December 30, 2004 are entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

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

By Order of the Board of Directors

Philip M. McDermott  
*Chief Financial Officer and Secretary*

Fremont, California  
January 6, 2005

### **YOUR VOTE IS IMPORTANT**

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

# ALTIGEN COMMUNICATIONS, INC.

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## PROXY STATEMENT

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### General

The enclosed proxy is solicited on behalf of the Board of Directors of AltiGen Communications, Inc. (AltiGen) for use at the Annual Meeting of Stockholders to be held on February 10, 2005 at 10:00 a.m., local time (the Annual Meeting), or at any and all adjournments or postponements thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at our principal executive offices located at 4555 Cushing Parkway, Fremont, California 94538. Our telephone number is (510) 252-9712.

These proxy solicitation materials were mailed on or about January 10, 2005 to all stockholders of record entitled to vote at the Annual Meeting.

### Record Date and Voting Securities

Only stockholders of record on the close of business on December 30, 2004 are entitled to notice of and to vote at the Annual Meeting. As of December 30, 2004, 14,530,712 shares of our Common Stock were issued and outstanding. No shares of our Preferred Stock were outstanding.

### Revocability of Proxies

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

- by delivering to our secretary a written notice of revocation;
- by delivering to our secretary a duly executed proxy bearing a later date; or
- by attending the Annual Meeting and voting in person.

Your presence at the Annual Meeting in and of itself is not sufficient to revoke your proxy.

### Voting and Discretionary Voting

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

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

### Solicitation

This solicitation of proxies is made by the Board of Directors of AltiGen, and all costs associated with soliciting proxies will be borne by AltiGen. In addition, we will reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may be solicited by certain of our directors, officers and regular employees, without additional compensation, personally or by telephone, facsimile or telegram.

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

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

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

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

### **Stockholder Nominations and Proposals**

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

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

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

Stockholders wishing to present a proposal or nomination at our 2006 Annual Stockholder Meeting must submit such proposal to us by September 14, 2005 in order to be considered timely and whether or not such proposal or nomination is intended to be included in our proxy for the 2006 Annual Stockholder Meeting.

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

Pursuant to our bylaws, our Board of Directors is divided into three classes. The directors are elected to serve staggered three-year terms, such that the term of one class of directors expires each year. We currently have five directors divided among the three classes as follows: Class I Kenneth Tai and Tacheng Chester Wang; Class II Richard Black and Mike Mon Yen Tsai; and Class III Gilbert Hu. Mr. Tsai was appointed to our Board of Directors in July 2004. The current term of the Class III director expires at the Annual Meeting. One Class III director is to be elected at the Annual Meeting for a three-year term ending at the Annual Meeting in 2008 or when his successor is duly elected and qualified.

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

**Vote Required**

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

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

The names of the directors, certain information about them and their ages as of September 30, 2004 are set forth below:

Name of Director	Age	Position or office held	Director Since	Term Expires
<b>Nominee for Class III Director:</b>				
Gilbert Hu	47	President, Chief Executive Officer, Director	1994	2008
<b>Directors Whose Terms Continue:</b>				
<b>Class I</b>				
Kenneth Tai(1)(2)	54	Director	1998	2006
Tacheng Chester Wang(1)(2)	57	Director	2003	2006
<b>Class II</b>				
Richard B. Black(1)(3)	71	Director	1999	2007
Mike Mon Yen Tsai(3)	54	Director	2004	2007

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

**Nominee for Class III Director**

*Gilbert Hu.* Gilbert Hu founded Altigen in 1994 and has served as our president, chief executive officer and a director since then. Mr. Hu received a B.S. in electrical engineering from National Chiao-Tung University in Taiwan and a M.S. in electrical engineering from Arizona State University.

**Directors Whose Terms Continue**

*Class I Directors*

*Kenneth Tai.* Kenneth Tai has served as a director of AltiGen since April 1998. Since March 1996, Mr. Tai has been the chairman of InveStar Capital (Taiwan), Inc., a venture capital firm. Since April 1998, Mr. Tai also has served as the chairman of Digitimes Publication, Inc., a daily electronic newspaper reporting on technology issues in Taiwan. Mr. Tai received a B.S. in electrical engineering from the National Chiao Tung University in Taiwan and an M.B.A. from Tamkang University in Taiwan.

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

*Class II Directors*

*Richard B. Black.* Richard B. Black has served as a director of AltiGen since August 1999. Since March 1999, Mr. Black has served as the vice-chairman of Oak Technology, Inc., a supplier of semiconductor products to the personal computer and consumer electronics markets. Mr. Black also served as President of Oak Technology from January 1998 to March 1999. Mr. Black serves on the board of directors of Gabelli Funds, Inc., an investment advisor and investment banking company, GSI Lumonics Inc., a manufacturer of laser scanning systems and components and Morgan Group, Inc., a public transportation services company. Mr. Black received a B.S. in engineering from Texas A&M University, an M.B.A from Harvard University and an honorary Ph.D. from Beloit College.

*Mike Mon Yen Tsai.* Mike Mon Yen Tsai has served as a director of AltiGen since July 2004. Since August 2004, Mr. Tsai has served as the chairman of Salutron, Inc., a consumer electronics company. Prior to Salutron, from February 2004 to July 2004, Mr. Tsai served as the general manager and executive vice president of Verisity, an electronics design automation company. Prior to Verisity, from January 1997 to February 2004, Mr. Tsai served as the president and chief executive officer of Axis Systems, an electronics design automation company. Mr. Tsai is also active in investing emerging companies as a Partner in Acorn Venture Partners. Mr. Tsai received a Ph.D. from University of Illinois at Urbana-Champaign in Electrical Engineering.

**Director Nomination**

*Criteria for Board Membership.* In selecting candidates for appointment or re-election to the Board, the Nominating and Corporate Governance Committee considers the appropriate balance of experience, skills and characteristics required of the Board of Directors, and seeks to ensure that at least a majority of the directors are independent under the rules of the Nasdaq Stock Market, that members of the Company's audit committee meet the financial literacy and sophistication requirements under the rules of the Nasdaq Stock Market and at least one of them qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission. Nominees for director are selected on the basis of their depth and breadth of experience, integrity, ability to make independent analytical

inquiries,

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understanding of the Company's business environment, and willingness to devote adequate time to Board duties.

*Stockholder Nominees.* The Nominating and Corporate Governance Committee will consider written proposals from stockholders for nominees for director, provided such proposals meet the requirements described herein and in our Bylaws. Any such nominations should be submitted to the Nominating and Corporate Governance Committee c/o the Secretary of the Company and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company's common stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted in the time frame described in the Bylaws of the Company and under the caption, "Stockholder Proposals for 2006 Annual Meeting above."

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

The committee will use a similar process to evaluate nominees recommended by stockholders. However, to date, the Company has not received a stockholder proposal to nominate a director.

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

Our Board of Directors held a total of four meetings during the fiscal year ended September 30, 2004. The committees of the Board of Directors include an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee. During the last fiscal year, no director attended fewer than 75% of the sum of the total number of meetings of the Board of Directors and the total number of meetings of the committees upon which that director served, held subsequent to his or her becoming a director or his or her appointment to such committee. It is the policy of the Board of Directors to have a separate meeting time for independent directors. During the last fiscal year, two executive sessions were held. While members of our Board of Directors are not required to attend our annual meeting of stockholders, they are encouraged to attend. Last year none of directors attend our annual meeting except for Gilbert Hu.

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



The Audit Committee currently consists of Messrs. Black, Wang and Tai. Each member of the Audit Committee is an independent director as defined in Rule 4200 of the National Association of Securities Dealers listing standards, as may be modified or supplemented to date. Furthermore, we have determined that Richard Black constitutes our audit committee financial expert. The Audit Committee held four meetings during the last fiscal year. The Audit Committee is responsible for the retention of the independent auditors, reviews and discusses with management the results and scope of audit and other services provided by the independent auditors and reviews the accounting principles and auditing practices and procedures to be used in our financial statements. The Board of Directors adopted an amended and restated charter for the Audit Committee in July 2004.

The Compensation Committee currently consists of Messrs. Wang and Tai. Messrs. Wang and Tai are considered independent directors as defined in Rule 4200 of the National Association of Securities Dealers listing standards, as may be modified or supplemented to date. The Compensation Committee met one time in the last fiscal year. The Compensation Committee reviews and makes recommendations to the Board of Directors regarding the compensation of executive officers and other managerial employees. The Compensation Committee also reviews and approves option grants.

The Nominating and Corporate Governance Committee consists of Messrs. Black and Tsai. Messrs. Black and Tsai are considered independent directors as defined in Rule 4200 of the National Association of Securities Dealers listing standards, as may be modified or supplemented to date. The committee was formed in July 2004. The Company did not have a nominating committee prior to such time. The committee's responsibilities include recommending to the Board of Directors nominees for possible election to the Board of Directors.

### Communications With Directors

Stockholders or other interested parties may communicate with any director or committee of the Board by writing to them c/o Investor Relations, AltiGen Communications, Inc., 4555 Cushing Parkway, Fremont, CA 94588 or by sending an e-mail to [ir@altigen.com](mailto:ir@altigen.com) or by calling the Investor Relations department at (510) 252-9712 ext. 413. Comments or questions regarding the Company's accounting, internal controls or auditing matters will be referred to members of the Audit Committee. Comments or questions regarding the nomination of directors will be referred to members of the Nominating and Corporate Governance Committee. All communications will be compiled by our Secretary and submitted to the Board of Directors or an individual director, as appropriate, on a periodic basis.

### Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee serves on or has served on the board of directors or compensation committee of another entity that has one or more members serving on our Board of Directors or Compensation Committee.

### Director Resignation

In March 2004, Wen-Huang (Simon) Chang resigned from our Board of Directors.

### Director Compensation

The directors receive \$1,000 cash compensation for attending each meeting of the Board of Directors and an additional \$1,000 for each committee meeting, and are reimbursed for their reasonable and necessary expenses associated with attendance of such meetings. In addition to the cash compensation described above, in January 2004, all non-employee directors were granted options to purchase 20,000 shares of our Common Stock at \$3.82 per share (the fair market value of our Common Stock as of the grant date) under the 1999 Stock Plan, except Mr. Tsai who was granted an option to purchase 20,000 shares of our common stock in July 2004 with an exercise price of \$2.43 per share in connection with his appointment to the Board of Directors.

## **PROPOSAL TWO**

### **RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Audit Committee has selected Deloitte & Touche LLP, independent public accountants, to audit our financial statements for the fiscal year ending September 30, 2005 and recommends that the stockholders ratify this selection. In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection. Representatives of Deloitte & Touche LLP are expected to be available at the Annual Meeting with the opportunity to make a statement if they desire to do so, and are expected to be available to respond to appropriate questions.

#### **Vote Required**

The affirmative vote of a majority of the total number of shares present and entitled to vote will be required to ratify the appointment of Deloitte & Touche LLP as the Company's independent public accountants for the fiscal year ending September 30, 2005.

### **THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT PUBLIC ACCOUNTANTS.**

#### **Audit Fees**

Deloitte & Touche LLP's fees for professional services rendered in connection with the audit of our annual financial statements and the review of our financial statements included in our quarterly reports on Form 10-Q were approximately \$205,000 and \$149,000 for the fiscal years ended September 30, 2004 and 2003, respectively.

#### **Audit-Related Fees**

We did not engage Deloitte & Touche LLP to provide services related to the performance of the audit or review of AltiGen's consolidated financial statements during the fiscal years ended September 30, 2004 and 2003.

#### **Tax Fees**

Deloitte & Touche LLP's fees for tax compliance, tax advice, and tax planning totaled approximately \$28,000 and \$26,000 for the fiscal years ended September 30, 2004 and 2003, respectively. All these fees were pre-approved by our Audit Committee.

#### **All Other Fees**

We did not engage Deloitte & Touche LLP to provide advice regarding financial information systems design and implementation during the fiscal years ended September 30, 2004 and 2003.

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

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

**EXECUTIVE COMPENSATION**

The following table sets forth the compensation earned for services rendered to AltiGen in all capacities for the three most recently completed fiscal years by our Chief Executive Officer; the four other executive officers and one other individual who would have been Named Executive Officers but for the fact he was not an executive officer of AltiGen as of September 30, 2004, based on salary and bonus earned or paid to him during the fiscal year ended September 30, 2004. These individuals are referred to as the Named Executive Officers here and elsewhere in this proxy statement.

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation Awards Securities Underlying Options
		Salary (\$)	Bonus (\$)	
Gilbert Hu President and Chief Executive Officer	2004	\$ 150,000	\$ 89,069	80,000
	2003	146,250	(1) 65,089	80,000
	2002	138,750	(1) 85,572	30,000
Philip McDermott Chief Financial Officer	2004	150,000	56,474	60,000
	2003	150,000	44,418	60,000
	2002	150,000	42,410	
Shirley Tsy-Yi Sun Vice President of Research & Development	2004	146,000		40,000
	2003	142,350	(1)	40,000
	2002	135,050	(1)	29,200
Simon Chouldjian Vice President of Hardware Engineering	2004	95,333	(2)	24,000
	2003	85,800	(1)(2)	20,000
	2002	94,600	(1)(2)	10,000
Michael Plumer Vice President of Sales	2004	95,000	112,968	25,000
	2003	92,625	(1) 73,877	25,000
	2002	87,875	(1) 76,610	29,000
Brian K. Armstrong Eastern Region Sales Director	2004	80,000	106,552	21,000
	2003	77,500	86,016	21,000
	2002	70,000	89,763	

(1) Certain salaries for the 2002 fiscal year and the 2003 fiscal year reflect a temporary 10% reduction from Jan 1, 2002 to December 31, 2002 in lieu of an option to purchase our Common Stock at \$0.93 per share (the fair market value as of the grant date).

(2) Mr. Chouldjian's salaries for the 2002, the 2003 and the 2004 fiscal years are prorated to reflect his transition to a less than 40-hour work week beginning in January 1, 2002 to July 31, 2004.

**Option Grants in Last Fiscal Year**

The following table sets forth certain information with respect to stock options granted to the Named Executive Officers in fiscal year 2004. The figures representing percentages of total options granted are based on an aggregate of 808,000 options granted by AltiGen during the fiscal year ended September 30, 2004 to employees, including the Named Executive Officers.

Also shown below is the potential realizable value over the term of the option. In accordance with the rules of the SEC, we based the calculation of the potential realizable value on the term of the option at its time of grant, and have assumed that:

- the value of AltiGen's stock at the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option; and
- the option is exercised and sold on the last day of its term for the appreciated stock price.

These amounts are based on 5% and 10% assumed rates of appreciation and do not represent our estimate of future stock prices. Actual gains, if any, on stock option exercises will be dependent on the future performance of our Common Stock. The gains shown are net of the option exercise price but do not include deductions for taxes and other expenses payable upon the exercise of the option or for sale of underlying shares of Common Stock. Unless otherwise indicated, the options in this table were granted under the 1999 Stock Plan, have 10-year terms, and vest over a period of four years. Twenty-five percent (25%) of the shares subject to each option will vest on the first anniversary of the vesting start date, and 1/48<sup>th</sup> of the shares subject to each option will vest each month thereafter. All of the options have exercise prices equal to the fair market value of our Common Stock on the date of grant.

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees In Fiscal Year 2004	Exercise Price Per Share (\$/share)	Expiration Date(1)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term (\$)	
					5%	10%
Gilbert Hu	80,000	9.90 %	\$ 3.82	1/5/14	\$ 192,190	\$ 487,048
Philip McDermott	60,000	7.43 %	\$ 3.82	1/5/14	144,143	365,286
Shirley Tsyr-Yi Sun	40,000	4.95 %	\$ 3.82	1/5/14	96,095	243,524
Simon Chouldjian	24,000	2.97 %	\$ 3.82	1/5/14	57,657	146,114
Michael Plumer	25,000	3.09 %	\$ 3.82	1/5/14	60,059	152,202
Brian K. Armstrong	21,000	2.60 %	\$ 3.82	1/5/14	50,450	127,850

(1) The options may terminate before their expiration dates if the optionee's status as a service provider is terminated.

#### Aggregate Option Exercises in Last Fiscal Year

The following table summarizes the value of options held at September 30, 2004 by our Named Executive Officers. The value of unexercised in-the-money options at September 30, 2004 figures in the last two right-hand columns are based on the difference between \$2.51, which is the closing price of our Common Stock as quoted on the Nasdaq SmallCap Market as of the close of business on September 30, 2004, and each option's per-share exercise price, multiplied by the number of shares issued upon exercise of the option.

#### Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at September 30, 2004 (#)		Value of Unexercised In-the-Money Options at September 30, 2004 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Gilbert Hu			170,000	60,000	\$ 242,400	\$ 111,600
Philip McDermott	14,000	\$ 44,800	79,166	40,834	93,657	76,493
Shirley Tsyr-Yi Sun			149,562	28,958	214,883	53,997
Simon Chouldjian			90,996	12,918	162,244	24,298
Michael Plumer			79,831	21,042	123,341	39,474
Brian K. Armstrong			24,709	14,291	37,975	26,015



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

Notwithstanding anything to the contrary set forth in any of AltiGen's previous filings under the Securities Act of 1933, as amended or the Securities and Exchange Act of 1934, as amended that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Compensation Committee report on executive compensation shall not be incorporated by reference into any such filings, nor shall such report be incorporated by reference into any future filings.

Established in June 1999, the Compensation Committee is charged with the responsibility of reviewing all aspects of AltiGen's executive compensation programs and administering AltiGen's stock option plans. The Compensation met four times in the fiscal year ended September 30, 2004.

**Compensation Philosophy**

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

**Compensation Plans**

The following are the key components of AltiGen's executive officer compensation:

*Base Compensation.* The Compensation Committee establishes base salaries for executive officers based on its review of base salaries of executive officers in companies of comparable size and in similar industries.

*Bonus.* AltiGen's executive bonus plan provides for incentive compensation to some but not all of its executive officers and other key employees and will be determined by a percentage of AltiGen's revenue or accounts receivable collected. Individual performance is measured based on goals related to each person's function within the organization.

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

**Compensation of Chief Executive Officer**

*Base Salary:* Mr. Hu's annual salary was \$150,000 for 2004.

*Annual Incentive (Bonus):* Mr. Hu's cash bonus for 2004 of \$89,069 was determined by the performance of AltiGen.

*Long-Term Incentive Awards:* In January 2004, Mr. Hu was granted stock options of 80,000 shares of our Common Stock at a price of \$3.82 per share, which was the fair market value of our Common Stock on the date of grant. Twenty-five percent (25%) of the shares subject to the option will vest on the first

anniversary of the vesting start date, and 1/48<sup>th</sup> of the shares subject to the option will vest each month after. The option becomes fully exercisable four years from the date of grant and will expire ten years after the date of grant. In determining the amount of stock to grant Mr. Hu, the Compensation Committee considered, without placing specific weight on any one factor, the performance of AltiGen and relative total stockholder return, the value of such awards granted to other chief executive officers in the Nasdaq Telecommunications Index and in similar industries, and the number of stock options and common stock units granted in prior years.

**Tax Deductability of Executive Compensation**

The Compensation Committee has considered the impact of Internal Revenue Code Section 162(m). Section 162(m) does not allow any publicly held corporation to deduct individual compensation exceeding \$1 million in a taxable year for certain employees of the company. There is an exception to this rule under Section 162(m)(4)(c) for certain performance-based compensation. The Compensation Committee believes that the total compensation paid by AltiGen will not affect the tax deductions available to it with respect to the compensation of any of its executive officers.

The Compensation Committee  
Kenneth Tai  
Tacheng Chester Wang

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

The following is the report of the Audit Committee with respect to the AltiGen's audited financial statements for the fiscal year ended September 30, 2004. The information contained in this report shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that AltiGen specifically incorporates such information by reference into such filing.

Established in June 1999, the Audit Committee makes recommendations to the Board of Directors regarding the selection of independent auditors, reviews and discusses with management the results and scope of audit and other services provided by the independent auditors and reviews the accounting principles and auditing practices and procedures to be used in AltiGen's financial statements. Each member of the Audit Committee is an independent director as defined in Rule 4200 of the National Association of Securities Dealers listing standards, as may be modified or supplemented to date. Furthermore, we have determined that Richard Black constitutes our audit committee financial expert.

**Audited Financial Statements**

The Audit Committee has reviewed and discussed with management the audited financial statements prepared for the fiscal year ended September 30, 2004. In addition, the Audit Committee discussed the audited financials with Deloitte & Touche LLP, AltiGen's independent auditors for the last fiscal year, including such items required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards) requirements. The Audit Committee has also received a letter and other written disclosures from Deloitte & Touche LLP required by Independence Standards Board Standard No.1 (Independence Discussions with Audit Committees) and has discussed with Deloitte and Touche LLP, the independence of AltiGen's independent accountants.

Based on the review and discussions described above, as well as such other matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited financial statements for the last fiscal year be included in AltiGen's Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

The Audit Committee  
Richard B. Black  
Kenneth Tai  
Tacheng Chester Wang



**STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total stockholder return data for the our stock for the period beginning October 4, 1999 (the date on which our stock was first publicly traded on The Nasdaq National Market) and ending on September 30, 2004 to the cumulative return over such period of (i) The Nasdaq National Market Composite Index and (ii) the Nasdaq Telecomm Index. The graph assumes that \$100 was invested on October 4, 1999 in our Common Stock and in each of the comparative indices, assuming the reinvestment of any dividends. The graph further assumes that such amount was initially invested in our Common Stock at a per share price of \$10, the price at which we first offered such stock to the public on the date of our initial public offering. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	Cumulative Total Return					
	10/99	9/00	9/01	9/02	9/03	9/04
AltiGen Communications, Inc	100.00	41.88	8.50	4.60	29.90	25.10
Nasdaq Stock Market	100.00	161.85	55.96	48.56	57.64	62.12
Nasdaq Telecommunications Index	100.00	119.71	32.20	24.83	47.52	48.92

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of shares of our Common Stock as of December 30, 2004. The table shows ownership by:

- each person or entity known to us to beneficially own five percent (5%) or more of the shares of our outstanding stock;
- each of our directors;
- each of our Named Executive Officers;
- each nominee for director, if such person is not currently a director or executive officer; and
- all of our directors, executive officers, and director nominees as a group.

This information is based on information received from or on behalf of the named individuals. The column entitled "Options" consists of shares of common stock subject to options exercisable or currently exercisable within 60 days of December 30, 2004, which are deemed to be outstanding for the purpose of computing the percentage ownership of the person holding the options. As of December 30, 2004, AltiGen had 14,530,712 shares outstanding.

Unless otherwise indicated, the principal address of each of the stockholders below is: c/o AltiGen Communications, Inc., 4555 Cushing Parkway, Fremont, California 94538. Except as otherwise indicated in the footnotes to this table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of our Common Stock beneficially owned by them.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Options	Percentage of Shares Beneficially Owned
<b>Directors and Executive Officers</b>			
Gilbert Hu(1)	1,427,217	311,665	11.7 %
Kenneth Tai(2)	900,389	46,822	6.5 %
Shirley Tsyr-Yi Sun	12,552	259,820	1.8 %
Philip McDermott	7,871	240,205	1.7 %
Simon Chouldjian	4,900	167,612	1.2 %
Michael Plumer	12,443	123,363	*
Richard B. Black	5,000	46,822	*
Brian K. Armstrong		13,001	*
Tacheng Chester Wang		6,250	*
Mike Mon Yen Tsai(3)			*
All directors and executive officers as a group (10 persons)	2,370,372	1,215,560	22.8 %

\* Less than 1%

(1) Includes 11,978 shares registered in the name of Mr. Hu's wife May Kuei-Rong Hu, 60,000 shares registered in the name of Mr. Hu's daughter, Michelle Hu, and 99,841 shares registered in the name of Mr. Hu's daughter, Stephanie Hu.

(2) Includes shares held by the following affiliated entities: 598,927 shares registered in the name of InveStar Burgeon Venture Capital, Inc.; 99,821 shares registered in the name of InveStar Dayspring Venture Group, Inc.; 99,821 shares registered in the name of InveStar Excelsus Venture Capital (Int'l) Inc., LDC; and 99,820 shares registered in the name of Forefront Venture Partners, L.P. Mr. Tai is a general partner of all of the above entities and disclaims beneficial ownership of the securities held by the entities except for his proportional interest in the entities.

(3) Mr. Tsai began serving on our Board of Directors in July 2004 and currently does not own, or have, within 60 days of December 30, 2004, the right to acquire shares of our Common Stock.

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## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Employment Contract with Philip McDermott**

In June 1999, we entered into an employment agreement with Philip McDermott, our chief financial officer. Mr. McDermott holds options for 371,871 shares of our Common Stock as of December 30, 2004. The agreement provides that, in the event of a change of control of AltiGen immediately after which Mr. McDermott no longer holds the title and responsibilities of chief financial officer (or a position of similar title and responsibilities), all of his options immediately will vest and become exercisable.

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

Section 16(a) of the Securities Exchange Act of 1934 requires AltiGen's executive officers, directors and persons who own more than 10% of AltiGen's common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These persons are required to provide AltiGen with copies of all Section 16(a) forms that they file. Based solely on AltiGen's review of these forms and written representations from the executive officers and directors, AltiGen believes that all Section 16(a) filing requirements were met during fiscal year 2004, except that a late Form 3 was filed on behalf of Mike Mon Yen Tsai who was appointed to our Board of Directors in July 2004. The Form 3 was related to Mr. Tsai's appointment to our Board of Directors and an option to purchase 20,000 shares of our common stock granted at the same time. This form was filed upon discovery that such report was not timely filed.

**OTHER MATTERS**

We do not know of any other matters to be submitted to the Annual Meeting. If any other matters properly come before the Annual Meeting, or at any and all adjournments or postponements thereof, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as the Board of Directors may recommend.

BY ORDER OF THE BOARD OF DIRECTORS

Philip M. McDermott  
*Chief Financial Officer and Secretary*

Dated: January 6, 2005

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**PROXY**

**ALTIGEN COMMUNICATIONS, INC.**

**2005 ANNUAL MEETING OF STOCKHOLDERS**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned stockholder of AltiGen Communications, Inc., a Delaware corporation, hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement and hereby appoints Gilbert Hu and Philip McDermott, or either of them, as attorneys-in-fact, each with full power, on behalf and in the name of the undersigned, to represent the undersigned at the 2005 Annual Meeting of Stockholders of AltiGen Communications, Inc. to be held on February 10, 2005, at 10:00 am. local time, at the Company's principal executive offices, located at 4555 Cushing Parkway, Fremont, California 94538, and at any postponement or adjournment thereof, and to vote all shares of common stock which the undersigned would be entitled to vote if then and there personally present, on the matters set forth on the reverse side and in their discretion, upon such other matter or matters which may properly come before the meeting and any adjournment thereof.

**This proxy will be voted as directed or, if no contrary direction is indicated, will be voted FOR the election of the specified nominee as director, FOR the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm, and as said proxies deem advisable on such other matters as may properly come before the meeting.**

**SEE REVERSE SIDE**

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**

**SEE REVERSE SIDE**

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**THIS PROXY WILL BE VOTED AS DIRECTED, OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED FOR THE ELECTION OF THE SPECIFIED NOMINEE AS DIRECTOR, FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, AND AS SAID PROXIES DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY COME BEFORE THIS MEETING.**

		THE NOMINEE	
		FOR ALL	WITHHELD FROM THE NOMINEE
1. To elect one (1) director to serve a term of three years and hold office until his respective successor has been elected and qualified or until his earlier resignation or removal.		<input type="radio"/>	<input type="radio"/>
Nominee: Gilbert Hu			
		<input type="radio"/>	<input type="radio"/>
2. To ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2005.	FOR	AGAINST	ABSTAIN
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

In their discretion, upon such other matter or matters as may properly come before the meeting and any postponement or adjournment thereof.

This proxy should be marked, dated, signed by the stockholder(s) exactly as his or her name appears hereon, and returned promptly in the enclosed envelope. Persons signing in a fiduciary capacity should so indicate. If shares are held by joint tenants or as community property, both should sign.

Signature:

Date:

Signature:

Date:

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON YOU ARE URGED TO  
SIGN AND PROMPTLY  
MAIL THIS PROXY IN THE RETURN ENVELOPE SO THAT YOUR STOCK MAY BE  
REPRESENTED AT THE MEETING.**