

CALLWAVE INC
Form DEF 14A
November 06, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ..

Check the appropriate box:

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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material Pursuant to §240.14a-12 | |

CALLWAVE, 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):

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x No fee required.

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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):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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CALLWAVE, INC.

136 West Canon Perdido Street, Suite C

Santa Barbara, CA 93101

October 31, 2006

Dear Stockholder,

We cordially invite you to attend our 2006 annual meeting of stockholders to be held at 11:00 a.m., Pacific Standard Time, on Friday, December 15, 2006 at CallWave's headquarters located at 136 W. Canon Perdido Street, Suite C, Santa Barbara, California 93101. The attached notice of annual meeting and proxy statement describe the business that we will conduct at the meeting and provide information about CallWave, Inc., that you should consider when you vote your shares.

When you have finished reading the proxy statement, please promptly vote your shares by marking, signing, dating and returning the proxy card in the enclosed prepaid envelope. If you hold your shares through a broker, then you also may be able to vote your shares on the Internet or by telephone. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting, whether or not you can attend.

Thank you for your cooperation.

Sincerely,

/s/ David F. Hofstatter
DAVID F. HOFSTATTER
President and Chief Executive Officer

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CALLWAVE, INC.

136 W. Canon Perdido Street, Suite C

Santa Barbara, CA 93101

October 31, 2006

NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS

TIME: 11:00 a.m., Pacific Standard Time

DATE: December 15, 2006

PLACE: CallWave Headquarters, 136 W. Canon Perdido Street, Suite C, Santa Barbara, California 93101

PURPOSES:

1. To elect two (2) Class II directors to serve until our 2009 Annual Meeting of Stockholders.
2. To ratify the Audit Committee's selection of Mayer Hoffman McCann P.C. as our independent auditors for the fiscal year ending June 30, 2007.
3. To amend the Certificate of Incorporation to eliminate provisions requiring the classification of the board of directors and the removal of directors only for cause and to change the terms of existing directors accordingly.
4. To transact such other business as may properly come before the Annual Meeting of Stockholders or any adjournments thereof.

WHO MAY VOTE:

You are entitled to notice of, and to vote at, the Annual Meeting of Stockholders or any adjournments thereof if you were the record owner of CallWave, Inc. common stock at the close of business on October 20, 2006. A list of stockholders of record will be available for inspection at the meeting and, during the 10 days prior to the meeting, at the above address.

By Order of the Board of Directors

/s/ David S. Trandal
DAVID S. TRANDAL
Secretary

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CALLWAVE, INC.

136 W. Canon Perdido Street, Suite C

Santa Barbara, CA 93101

PROXY STATEMENT FOR THE CALLWAVE, INC.

2006 ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION ABOUT THE ANNUAL MEETING

Why Did You Send this Proxy Statement to Me?

We sent this proxy statement and the enclosed proxy card to you because our board of directors is soliciting your proxy to vote at the 2006 annual meeting of stockholders and any adjournments of the meeting. This proxy statement summarizes the information you need to know in order to vote at the annual meeting. You do not need to attend the annual meeting to vote your shares. Instead, you may vote your shares by marking, signing, dating and returning the enclosed proxy card. If you hold your shares through a broker, then you also may be able to vote your shares either via the Internet or by telephone.

On or about November 3, 2006, we began sending this proxy statement, the attached notice of annual meeting and the enclosed proxy card to all stockholders entitled to notice of, and to vote at, the annual meeting. Only stockholders who owned our common stock at the close of business on October 20, 2006, are entitled to vote at the annual meeting. On this record date, there were 20,813,858 shares of our common stock outstanding. Our common stock is our only Class of voting stock. We are also sending along with this proxy statement our fiscal year 2006 Annual Report on Form 10-K, which includes our financial statements for the fiscal year ended June 30, 2006.

How Many Votes Do I Have?

Each share of our common stock that you own entitles you to one vote.

How Do I Vote?

You may vote in person at the meeting or by signing and mailing your proxy card. If you hold your shares through a broker, you also may be able to vote your shares on the Internet or by telephone. If applicable, detailed instructions for Internet and telephone voting are attached to your proxy.

How Do I Vote by Proxy?

Whether you plan to attend the annual meeting or not, we urge you to complete, sign and date the enclosed proxy card and to return it promptly in the envelope provided. Returning the proxy card will not affect your right to attend the annual meeting and vote at the annual meeting.

If you properly fill in your proxy card and send it to us in time, then your proxyholder (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxyholder will vote your shares as recommended by our board of directors.

How Does our Board of Directors Recommend That I Vote on the Proposals?

Our board of directors recommends that you vote as follows:

FOR the election of the nominees for Class II directors;

FOR ratification of the selection of Mayer Hoffman McCann P.C. as our independent auditors for our fiscal year ending June 30, 2007; and

FOR amendment of the Certificate of Incorporation.

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If any other matter is presented for a vote of the stockholders at the annual meeting, then your proxyholder will vote your shares in accordance with his or her best judgment. At the time this proxy statement was printed, we knew of no matters that are expected to be acted upon at the annual meeting, other than those discussed in this proxy statement.

May I Revoke My Proxy?

If you give us your proxy, you may revoke it at any time before it is exercised. You may revoke your proxy in any one of the following ways:

You may send in another proxy with a later date;

If applicable, you may vote either via the Internet or by telephone at a later date;

You may notify our Secretary in writing before the annual meeting that you have revoked your proxy; or

You may vote in person at the annual meeting.

How Do I Vote in Person?

If you plan to attend the annual meeting and vote in person, then we will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or other nominee, then you must bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on October 20, 2006, the record date for voting.

What Vote is Required to Approve Each Proposal?

- | | |
|---|--|
| Proposal 1: Elect Directors | The two nominees for director who receive the most votes (also known as the plurality of votes) will be elected. |
| Proposal 2: Ratify Selection of Auditors | The affirmative vote of a majority of the outstanding shares present in person or represented by proxy and entitled to vote at the annual meeting is required to ratify the selection of our independent auditors. |
| Proposal 3: Amend Certificate of Incorporation | The affirmative vote of at least sixty-six and two-thirds percent (66 ² / ₃ %) of the outstanding shares present in person or represented by proxy and entitled to vote at the annual meeting is required to approve the amendment of our Certificate of Incorporation |

What is the Effect of Broker Non-Votes, Withholdings and Abstentions?

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Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to proposals other than the election of directors, Against votes, abstentions and broker non-votes. Abstentions will be counted toward the vote total for each proposal, and will have the same effect as Against votes. So-called broker non-votes will not be counted toward the vote total for any proposal. These rules are further explained in the following paragraphs:

Withholdings: Withholding authority to vote for a nominee for director will have no effect on the outcome of the vote.

Abstentions: Because abstentions are treated as shares present or represented and entitled to vote at the annual meeting, an abstention with respect to Proposal 2 or Proposal 3 has the same effect as a vote against the Proposal.

Broker Non-Votes: If your broker holds your shares in its name, then your broker will be entitled to vote your shares on Proposal 1 even if it does not receive instructions from you. If your broker cannot vote

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your shares on a particular matter because it does not have instructions from you or discretionary voting authority on that matter, then this is referred to as a broker non-vote. Shares subject to a broker non-vote are considered to be present and represented for purposes of establishing a quorum, but are not considered as entitled to vote on any matter for which the broker has not received instructions. Therefore, they will not be counted for purposes of determining the vote required on Proposals 2 and 3 if your broker does not have authority to vote on those matters.

Is Voting Confidential?

We will keep all the proxies, ballots and voting tabulations private. We allow only our Inspector of Election to examine these documents. We will not disclose your vote to management unless it is necessary to meet legal requirements. We will, however, forward to management any written comments you make on the proxy card or elsewhere.

What Are the Costs of Soliciting these Proxies?

We will pay all of the costs of soliciting these proxies. Solicitation of proxies will be made principally through the mail, but our officers and employees may also solicit proxies in person or by telephone, fax or email. We will pay these employees and officers no additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to the beneficial owners of the common stock and to obtain authority to execute proxies. We will then reimburse them for their expenses.

What Constitutes a Quorum for the Meeting?

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the meeting. On the record date, there were 20,813,858 shares outstanding and entitled to vote. Thus, 10,406,930 shares must be represented by stockholders present at the annual meeting in person or by proxy in order for there to be a quorum for the meeting. Votes of stockholders of record who are present at the meeting in person or by proxy, abstentions, and broker non-votes are counted for purposes of determining whether a quorum exists.

Attending the Annual Meeting

The annual meeting will be held at 11:00 a.m., Pacific Standard Time, on December 15, 2006 at CallWave's headquarters, located at 136 W. Canon Perdido, Santa Barbara, California 93101. You need not attend the annual meeting in order to vote.

Voting

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the annual meeting in person. Most stockholders have three options for submitting their vote: (1) via the Internet (please see your proxy card for instructions) or (2) by phone (please

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see your proxy card for instructions), or (3) by mail, using the enclosed paper proxy card. When you vote via the Internet or by phone, your vote is recorded immediately. We encourage our stockholders to vote using these methods whenever possible. If you attend the annual meeting, then you also may submit your vote in person, and any previous votes that you submitted, whether by Internet, phone or mail, will be superseded by the vote that you cast at the annual meeting.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in our quarterly report on Form 10-Q for the quarter ending December 31, 2006.

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When are stockholder proposals due for next year's annual meeting?

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by July 6, 2007, to our Secretary at 136 West Canon Perdido, Suite C, Santa Barbara, California 93101. If you wish to submit a proposal that is not to be included in next year's proxy materials or nominate a director, then generally you must do so no later than the close of business on August 5, 2007, and no earlier than the close of business on July 6, 2007. If you wish to bring a matter before the stockholders at next year's annual meeting and you do not notify us before August 5, 2007, then our management will have discretionary authority to vote all shares for which it has proxies in opposition to the matter. You are also advised to review our Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

Householding of Annual Disclosure Documents

In December 2000, the Securities and Exchange Commission (SEC) adopted a rule concerning the delivery of annual disclosure documents. The rule allows us or your broker to send a single set of our annual report and proxy statement to any household at which two or more of our stockholders reside, if we or your broker believe that the stockholders are members of the same family. This practice, referred to as householding, benefits both you and us. It reduces the volume of duplicate information received at your household and helps to reduce our expenses. The rule applies to our annual reports, proxy statements and information statements. Once you receive notice from your broker or from us that communications to your address will be household, the practice will continue until you are otherwise notified or until you revoke your consent to the practice. Each stockholder will continue to receive a separate proxy card or voting instruction card.

If your household received a single set of disclosure documents this year, but you would prefer to receive your own copy, please contact our transfer agent, Mellon Investor Services, by calling their toll free number, 1-800-853-4960.

If you do not wish to participate in householding and would like to receive your own set of our annual disclosure documents in future years, follow the instructions described below. Conversely, if you share an address with another of our stockholders and together both of you would like to receive only a single set of our annual disclosure documents, follow these instructions:

If your shares are registered in your own name, please contact our transfer agent, Mellon Investor Services, and inform them of your request by calling them at 1-800-853-4960 or writing them at 400 South Hope Street, 4th Floor, Los Angeles, California 90071.

If a broker or other nominee holds your shares, please contact the broker or other nominee directly and inform them of your request. Be sure to include your name, the name of your brokerage firm and your account number.

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The following table sets forth certain information with respect to the beneficial ownership of our common stock as of October 20, 2006 for (a) the executive officers named in the Summary Compensation Table of this proxy statement, (b) each of our directors and director nominees, (c) all of our current directors and executive officers as a group and (d) each stockholder known by us to own beneficially more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. We deem shares of common stock that may be acquired by an individual or group within 60 days of October 20, 2006 pursuant to the exercise of options to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as indicated in footnotes to this table, we believe that the stockholders named in this table have sole voting and investment power with respect to all shares of common stock shown to be beneficially owned by them based on information provided to us by these stockholders. Percentage of ownership is based upon 20,813,858 shares of our common stock outstanding on October 20, 2006. Unless otherwise indicated, the address for each of the stockholders in the table below is c/o CallWave, Inc., 136 W. Canon Perdido Street, Suite C, Santa Barbara, California 93101.

Name and address of Beneficial Owner	Shares Issuable	Shares of Common Stock	
	Pursuant to	Beneficially Owned	
	Options/Warrants		
	Exercisable Within 60		
	Days of October 20,		
	2006	Number	Percent
Stockholders owning approximately 5% or more			
Insight Venture Associates IV, LLC (1)	0	3,029,996	14.6%
New Millennium Partners, and affiliated entities (2)	0	1,215,091	5.8%
Wheatley Partners, and affiliated entities (3)	0	1,327,264	6.4%
Directors and Executive Officers			
Peter V. Sperling (4)	37,218	3,882,849	18.7%
Jerry Murdock (1) (5)	37,218	3,067,214	14.7%
David F. Hofstatter	230,000	1,850,682	8.9%
David S. Trandal	12,750	701,947	3.4%
C. Stephen Cordial	33,333	33,333	0.2%
Mark Stubbs	0	0	0.0%
Colin Kelley	120,456	130,906	0.6%
David A. Giannini	128,250	128,250	0.6%
Jeffrey O. Henley	73,218	73,218	0.4%
Joshua Fraser	52,833	52,833	0.3%
Raj Raithatha	0	0	0.0%
Osmo Hautanen	0	0	0.0%
Executive officers and directors as a group (12 persons)	725,276	9,921,232	47.7%

- (1) Stock ownership is based on Schedule 13G Amendment No. 1 filed with the SEC on February 10, 2006. This report indicates that (i) 2,395,490 shares are held by Insight Venture Partners IV, LP; (ii) 320,256 shares are held by Insight Venture Partners (Cayman Investors) IV, LP; (iii) 295,217 shares are held by Insight Venture Partners IV Fund B, LP; and (iv) 19,033 shares are held by Insight Venture Partners IV (Fund B), LP (together with Insight Venture Partners IV Fund, LP, Insight Venture Partners (Co-Investors) IV, LP, and Insight Venture Partners IV (Fund B), LP, or the Insight Funds). Insight Ventures Associates IV, LLC is located at 680 Fifth Avenue, New York, New York 10019. Mr. Murdock, a director of our company, may be deemed to beneficially own the shares held by the Insight Funds because he is the designated managing member of Insight Associates, the general partner of the Insight Funds and, therefore, has voting and dispositive power over such shares. The foregoing is not an admission by Insight Associates

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- or Mr. Murdock that such persons are the beneficial owners of the shares held by the Insight Funds. Mr. Murdock disclaims beneficial ownership of the shares and options held by the Insight Funds, except to the extent of his pecuniary interest therein.
- (2) Stock ownership is based on Schedule 13G filed with the SEC on February 14, 2005. This report indicates that (i) 375,000 shares are held by New Millennium Partners CallWave, LP; (ii) 584,422 shares held by New Millennium Partners II, LP; and (iii) 255,669 shares held by New Millennium Partners II (Non-Q), LP. New Millennium Partners is located at 222 Columbus Avenue, Suite 412, San Francisco, California 94133.
- (3) Stock ownership is based on Schedule 13G Amendment No. 1 filed with the SEC on February 6, 2006. This report indicates that: (i) 169,999 shares held by Barry Rubenstein; (ii) 401,971 shares held by Wheatley Partners III, LP; (iii) 134,579 shares held by Woodland Venture Fund; (iv) 114,783 shares held by Wheatley Partners, LP; (v) 121,668 shares held by Woodland Partners; (vi) 109,579 shares held by Seneca Ventures; (vii) 87,966 shares held by Wheatley Associates III, LP; (viii) 85,971 shares held by Wheatley Foreign Partners III, LP; (ix) 59,912 shares held by Wheatley Partners II, LP; (x) 31,112 shares held by Brookwood Partners; and (xi) 9,724 shares held by Wheatley Foreign Partners, LP. Mr. Rubenstein disclaims beneficial ownership of the shares and warrants held by the affiliated entities listed above, except to the extent of his pecuniary interest therein.
- (4) Includes: (i) 3,037,003 shares; (ii) 808,628 shares held by the John G. Sperling, 1994 Irrevocable Trust; and (iii) 37,218 shares issuable upon the exercise of options that are exercisable within 60 days of October 20, 2006.
- (5) Includes 37,218 shares of common stock subject to outstanding options which are exercisable within 60 days of October 20, 2006.

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Our Bylaws provide that our business is to be managed under the direction of our board of directors. Our board of directors is divided into three Classes for purposes of election. One Class is elected at each annual meeting of stockholders to serve for a three-year term. Our board of directors currently consists of seven (7) members, classified into three Classes as follows: (1) Mr. Henley and Mr. Raithatha are the Class I directors with a term ending at the 2008 annual meeting of stockholders; (2) Mr. Trandal and Mr. Hautanen are the Class II directors with a term ending at the 2006 annual meeting of stockholders; and (3) Mr. Sperling, Mr. Hofstatter and Mr. Murdock are the Class III directors with a term ending at the 2007 annual meeting of stockholders.

On October 20, 2006, our board of directors accepted the recommendation of our Corporate Governance and Nominating Committee and voted to nominate Mr. Trandal and Mr. Hautanen for reelection as Class II directors at the annual meeting of stockholders for a term of three years to serve until our 2009 annual meeting of stockholders, and until their respective successors have been elected and qualified.

Set forth below are the names of the persons nominated as directors and directors whose terms do not expire this year, their ages as of October 31, 2006, their offices in the Company, if any, their principal occupations or employment for the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

Name	Age	Position with the Company
Peter V. Sperling (2) (3)	46	Chairman and Director
David F. Hofstatter	46	President, Chief Executive Officer, and Director
David S. Trandal	48	Vice President of Operations, Secretary, and Director
Jerry Murdock (2) (3)	48	Director
Raj Raithatha (1) (3)	44	Director
Osmo A. Hautanen (1) (2)	52	Director
Jeffrey O. Henley (1)	61	Director

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

Peter V. Sperling is a co-founder and has been our chairman since December 1999. Since 1998, Mr. Sperling has served as senior vice president of Apollo Group, Inc., the parent company of the University of Phoenix. Mr. Sperling also serves on the board of directors of Apollo Group, Inc. Mr. Sperling is also the chairman and a founder of Communication Services, Inc., a communications tower developer. Mr. Sperling received a bachelor of arts degree in economics from the University of California, Santa Barbara, and a masters of business administration degree from the University of Phoenix.

David F. Hofstatter is a co-founder and has served as a director since our inception. Mr. Hofstatter served as our acting chief executive officer from November 2002 through November 2003 and was named chief executive officer in November 2003. He has served as our president from March 2000 to November 2003 and previously served as our executive vice president from January 1999 to March 2000. Mr. Hofstatter received a bachelor of arts degree in economics from the University of California, Santa Barbara.

David S. Trandal is a co-founder and has served as our vice president of operations, secretary and a director since our inception. Mr. Trandal has also served as president of Liberty Telecom, LLC, our wholly-owned subsidiary, since March 1999. Mr. Trandal received a bachelor of science degree in engineering from the University of Arizona and a masters of science degree in engineering from Stanford University.

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Jerry Murdock has served as a director since February 2004. Since January 1996, Mr. Murdock has been a managing director of Insight Venture Partners and affiliates. Mr. Murdock is a member of the board of directors of Quest Software, an enterprise software company. Mr. Murdock received a bachelor of arts degree in political science from San Diego State University.

Raj Raithatha was elected as a director on October 2, 2006. Mr. Raithatha previously served as Chief Executive Officer of Versatel International NV, a provider of fixed and mobile telephony products. Prior to being named Chief Executive Officer of Versatel, Mr. Raithatha served as the company's Chief Financial Officer. Prior to joining Versatel, Mr. Raithatha served as the European Chief Financial Officer for ACC Corporation, a provider of long distance switched and private line telecommunications services. Mr. Raithatha holds a degree in economics and mathematics from the University of Cardiff, Wales, and is a Qualified Chartered Accountant.

Osmo A. Hautanen was elected as a director on October 2, 2006. Mr. Hautanen currently serves as the Chief Executive Officer of Magnolia Broadband, Inc., a fables semiconductor-design company for the cellular communications industry. Prior to joining Magnolia, Mr. Hautanen served as the Chief Executive Officer of Fenix, LLC, and Formus Communications. Mr. Hautanen holds a Bachelor of Science in Control Engineering from the Technical College of Varkaus (Finland), as well as an MBA in international business from Georgia State University.

Jeffrey O. Henley has served as a director since June 2004. Since January 2004, Mr. Henley has served as chairman of Oracle Corporation, a software company. From May 1991 to July 2004, Mr. Henley served as the chief financial officer and executive vice president of Oracle Corporation. Mr. Henley received a bachelor of arts degree in economics from the University of California, Santa Barbara, and a masters of business administration in finance from the University of California, Los Angeles.

Our board of directors has reviewed the qualifications of each of its members and determined that all members of the Audit Committee, as well as the following named directors, are independent, as such term is defined under the listing standards of Nasdaq:

Peter V. Sperling

Jerry Murdock

Raj Raithatha

Osmo A. Hautanen

Jeffrey O. Henley

Committees of the Board of Directors and Meetings

Meeting Attendance. During the fiscal year ended June 30, 2006 there were six meetings of our board of directors, and the various committees of the board met a total of 11 times. No director attended fewer than 75% of the total number of meetings of the board and of committees of the board on which he served during fiscal 2006, with the exception of Mr. Murdock, who did not attend five of the Audit Committee meetings. We currently do not have a formal policy regarding director attendance at our annual meetings of stockholders. However, it is expected that a majority of the directors will be in attendance.

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Audit Committee. Our Audit Committee currently has three members, Messrs. Raithatha (Chairman), Hautanen, and Henley. The board has determined that all members of our Audit Committee are independent, as such term is defined for purposes of Nasdaq's listing standards. The purpose of our Audit Committee is to oversee our accounting, reporting and financial practices, our compliance with legal and regulatory requirements applicable to auditing and the performance of the independent auditors and our Chief Financial Officer. Specific responsibilities of our Audit Committee include:

appointing, compensating, and overseeing the work of any independent auditors engaged for the purpose of preparing or issuing an audit report;

pre-approving all audit and permissible non-audit services to be provided by the independent auditors;

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considering the adequacy of our internal accounting controls and audit procedures;

pre-approving all audit and permissible non-audit services to be performed by the independent registered public accounting firm, as required by applicable laws;

overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

reviewing with management and our independent registered public accounting firm any earnings announcements and other public announcements regarding our results of operations; and

preparing the report that the SEC requires in our annual proxy statement.

The Audit Committee held nine meetings during fiscal 2006.

Compensation Committee. Our Compensation Committee currently has three members, Messrs. Sperling (Chairman), Hautanen and Murdock. The purpose of our Compensation Committee is to assist our board of directors in determining the compensation of our executive officers, directors and employees. Specific responsibilities of our Compensation Committee include:

reviewing and determining the compensation of our chief executive officer;

administering our stock incentive and other equity-based plans; and

reviewing and making recommendations to our board with respect to incentive compensation and equity plans.

Please also see the report of the Compensation Committee set forth elsewhere in this proxy statement. The committee held two meetings during fiscal 2006.

Corporate Governance and Nominating Committee. Our Corporate Governance and Nominating Committee has three members, Messrs. Sperling (Chairman), Murdock and Raithatha. The purpose of our Corporate Governance and Nominating Committee is to assist our board of directors by identifying individuals qualified to become members of our board of directors and to develop our corporate governance principals. Specific responsibilities of our Corporate Governance and Nominating Committee include:

identifying, evaluating and recommending nominees to our board of directors and committees of our board of directors;

conducting searches for appropriate directors;

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evaluating the performance of our board of directors and of individual directors.

In order to nominate a candidate to be considered for election as a director at the 2006 Annual Meeting of Stockholders using the procedures set forth in our Bylaws, a stockholder must follow the procedures described in [When are stockholder proposals due for next year's annual meeting?](#) If a stockholder wishes simply to propose a candidate for consideration as a nominee by the nominating and corporate governance committee, it should submit any pertinent information regarding the candidate to the Nominating Committee by mail at 136 W. Canon Perdido Street, Suite C, Santa Barbara, CA 93101. The committee did not hold any formal meeting during fiscal 2006. The committee did take action after the end of the fiscal year to make recommendations to the board for the nomination of Class II directors for election at the annual meeting of stockholders.

A copy of the Corporate Governance and Nominating Committee's written charter is publicly available on the Company's website at www.callwave.com.

Table of Contents**Compensation Committee Interlocks and Insider Participation**

None of our executive officers serves as a member of the board of directors or Compensation Committee of any entity that has one or more executive officers who serve on our board of directors or Compensation Committee.

Stockholder Communications to the Board

Generally, stockholders who have questions or concerns should contact our Chief Financial Officer at 805-690-4035. Any stockholder who wishes to address questions regarding our business directly with our board of directors, any board committee or any individual director, should direct such questions or other communications in writing to the Chief Financial Officer, CallWave, Inc., 136 West Canon Perdido Street, Suite C, Santa Barbara, California 93101.

Compensation of Directors

During the fiscal year ended June 30, 2006, non-employee directors received an annual fee of \$25,000, payable in equal quarterly installments, plus a fee of \$1,000 for each meeting of the board of directors attended in person, or \$500 for each board meeting they attend via teleconference. The chairman of the Audit Committee receives \$5,000 in annual cash compensation, the chairman of the Compensation Committee and the chairman of the Corporate Governance and Nominating Committee each receives \$3,000 annually. Each non-employee board member will also receive \$500 for each committee meeting that member attends. We reimburse our non-employee directors for reasonable and actual travel and lodging expenses of attending in person meetings of the board and of committees. We also grant to each of our non-employee directors an annual nonqualified stock option, vesting over a two-year period, to purchase a number of shares representing one-tenth of one percent, or 0.1%, of our fully-diluted outstanding shares. For the fiscal year ended June 30, 2006, that number represented 23,227 shares of our common stock per director.

Executive Officers

The following table sets forth certain information regarding our executive officers who are not also directors. We do not have employment agreements with all executive officers.

Name	Age	Position with the Company
Mark Stubbs	35	Chief Financial Officer
C. Stephen Cordial	55	Senior Vice President for Business Strategy
Colin Kelley	42	Chief Technology Officer
David A. Giannini	41	Vice President of Engineering
Joshua Fraser	34	Vice President of Business Development

Mark Stubbs was appointed to serve as Chief Financial Officer of the Company effective June 5, 2006. Prior to joining CallWave, Mr. Stubbs served as Vice President and Chief Financial Officer at Sound ID, a privately-held consumer technology company. Prior to joining Sound ID, Mr. Stubbs was with Somera Communications (Nasdaq: SMRA), a leading global provider of telecommunications services and equipment. At

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Somera, Mr. Stubbs held numerous senior management positions including Director of Global Finance, Vice President and Managing Director of the EMEA (Europe, Middle East & Africa) region and Vice President of Supply Chain Management. Mr. Stubbs has also held financial positions at Kinko's, a leading global provider of document solutions. Mr. Stubbs is also a certified public accountant and received both his Bachelor's Degree in Finance and Master's Degree in Business Administration from California Polytechnic State University, San Luis Obispo.

C. Stephen Cordial initially served as our interim Chief Financial Officer from May 31, 2005 to August 15, 2005 when he was named chief financial officer. Mr. Cordial was appointed to the position of Senior Vice

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President for Business Strategy on June 5, 2006. Before joining CallWave, Mr. Cordial served as vice president and chief financial officer for Somera Communications, Inc., a leading global provider of telecommunications network asset management solutions. His career includes more than 20 years of operating and financial management experience in the telecommunications and semiconductor industries. He was chief financial officer of Xylan Corporation, later acquired by Alcatel, and PMC-Sierra, Inc., and earlier held management positions at Texas Instruments Incorporated. Mr. Cordial earned his bachelor degree from Stanford University and his masters in business administration from Santa Clara University.

Colin D. Kelley has served as our chief technology officer since December 2000. From March 2000 to November 2000, Mr. Kelley also served as our engineering director. Prior to joining us, Mr. Kelley served as staff scientist for Unisys/Pulsepoint, a communications technology company, from January 1996 to March 2000. Mr. Kelley received a bachelor of science degree in electrical engineering and computer science from Villanova University.

David A. Giannini has served as our vice president of engineering since December 2000. From April 2000 to December 2000, Mr. Giannini also held the position of engineering director. From June 1986 to April 2000, Mr. Giannini served as technical manager for Digital Sound Company, a digital signal processing technology company. Mr. Giannini received a bachelor of science degree and a masters of science degree, both in computer science, from the University of California, Santa Barbara.

Joshua Fraser is Vice President, Business Development at CallWave and is responsible for bringing innovative on demand personal communication solutions to service providers. Prior to joining CallWave in April, 2004, Mr. Fraser was with Student Advantage, Inc., a marketing and transaction services provider to higher education and operator of the nation's largest student membership program. Mr. Fraser held a number of senior management positions at Student Advantage including VP, Business Development and General Manager. Prior to Student Advantage, Mr. Fraser held Business Development and Financial Planning roles at ESPN.com. Mr. Fraser started his career with Coopers & Lybrand's Financial Advisory Services as an Analyst. Mr. Fraser graduated from Villanova University with a degree in Finance.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth summary information concerning the total compensation awarded to or earned during the fiscal years ended June 30, 2006 and 2005 by our chief executive officer and by each of our four other most highly compensated executive officers whose total annual salary and bonus exceeded \$100,000. We refer to these persons elsewhere in this proxy s