

NeuroMetrix, Inc.  
Form DEF 14A  
April 25, 2008

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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

**NEUROMETRIX, INC.**

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(Name of Registrant as Specified In Its Charter)

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

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(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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Proposed maximum aggregate value of transaction:

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- 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:

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

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(3) Filing Party:

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(4) Date Filed:

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**NeuroMetrix, Inc.**  
62 Fourth Avenue  
Waltham, Massachusetts 02451

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

To the Stockholders:

The annual meeting of stockholders of NeuroMetrix, Inc., a Delaware corporation (the "Company"), will be held on Thursday, May 22, 2008, at 8:30 a.m., local time, at the offices of Goodwin Procter LLP, Exchange Place, 53 State Street, Boston, MA 02109, for the following purposes:

1. To elect one member to the Board of Directors as a Class I director, to serve until our 2011 annual meeting of stockholders and until his successor is duly elected and qualified or until his earlier resignation or removal.
2. To approve the Company's Second Amended and Restated 2004 Stock Option and Incentive Plan to, among other things, increase the number of shares of the Company's common stock, \$0.0001 par value per share, reserved for issuance thereunder by 1,000,000 shares.
3. To ratify the selection of PricewaterhouseCoopers LLP to serve as our independent auditors for the year ending December 31, 2008.
4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Stockholders entitled to notice of and to vote at the meeting shall be determined as of the close of business on Monday, March 31, 2008, the record date fixed by the Board of Directors for such purpose.

By Order of the Board of  
Directors,  
Shai N. Gozani, M.D., Ph.D.  
*Chairman, Chief Executive Officer  
and President*

Waltham, Massachusetts  
April 25, 2008

**Stockholders are requested to sign the enclosed proxy card and  
return it in the enclosed stamped envelope by return mail.  
OR  
Stockholders may also complete a proxy via the internet or by telephone  
in accordance with the instructions listed on the proxy card.**

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April 25, 2008

**NeuroMetrix, Inc.**  
62 Fourth Avenue  
Waltham, Massachusetts 02451

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**PROXY STATEMENT**

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This proxy statement and the enclosed proxy card are being mailed to stockholders on or about April 25, 2008 and are furnished in connection with the solicitation of proxies by the Board of Directors of NeuroMetrix, Inc. for use at our 2008 annual meeting of stockholders to be held on Thursday, May 22, 2008 at 8:30 a.m., local time, at the offices of Goodwin Procter LLP, Exchange Place, 53 State Street, Boston, Massachusetts 02109, and at any adjournments or postponements thereof.

Only stockholders of record as of the close of business on March 31, 2008 will be entitled to vote at the meeting and any adjournments or postponements thereof. As of that date, 13,690,134 shares of our common stock, \$0.0001 par value per share, were issued and outstanding. Each share outstanding as of the record date will be entitled to one vote, and stockholders may vote in person or by proxy. Execution of a proxy will not in any way affect a stockholder's right to attend the meeting and vote in person, although the presence (without further action) of a stockholder at the annual meeting will not constitute revocation of a previously given proxy. Any stockholder delivering a proxy has the right to revoke it by either: (1) filing a written revocation with our Secretary at NeuroMetrix, Inc., 62 Fourth Avenue, Waltham, Massachusetts 02451; (2) submitting a new proxy by telephone, internet or proxy card after the date of the previously submitted proxy; or (3) appearing in person at the meeting and voting by ballot at the annual meeting.

An Annual Report to Stockholders, containing financial statements for the year ended December 31, 2007, is being mailed together with this proxy statement to all stockholders entitled to vote. It is anticipated that this proxy statement and the accompanying proxy will be first mailed to stockholders on or about April 25, 2008.

The representation in person or by proxy of at least a majority of all shares of common stock issued, outstanding and entitled to vote at the meeting is necessary to constitute a quorum for the transaction of business. Votes withheld from any nominee for election as director, abstentions and broker "non-votes" are counted as present or represented for purposes of determining the presence or absence of a quorum for the meeting. A "non-vote" occurs when a nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the nominee does not have discretionary voting power and has not received instructions from the beneficial owner. An automated system administered by our transfer agent tabulates the votes. The vote on each matter submitted to stockholders is tabulated separately.

Each of the persons named as proxies in the proxy is one of our officers. All properly executed proxies returned in time to be cast at the meeting will be voted. With respect to the election of a Class I director, any stockholder submitting a proxy has a right to withhold authority to vote for the nominee to the Board of Directors in the manner provided on the proxy. The stockholders also will act upon a proposal to approve the Company's Second Amended and Restated 2004 Stock Option and Incentive Plan to, among other things, increase the number of shares available for issuance thereunder and to ratify the selection of the Company's independent auditors.

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The Board of Directors knows of no other matter to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote may be properly taken, shares represented by all proxies received by the Board of Directors will be voted with respect thereto in accordance with the judgment of the persons named as proxies in the proxy.

### BOARD MATTERS AND CORPORATE GOVERNANCE

#### Board of Directors

Our amended and restated certificate of incorporation provides for a classified board of directors consisting of three staggered classes of directors (Class I, Class II and Class III). The members of each class of our Board of Directors serve for staggered three-year terms, with the terms of our Class I, Class II and Class III directors expiring upon the election and qualification of directors at the annual meetings of stockholders held in 2009, 2010 and 2011, respectively. Currently:

our Class I director is Allen J. Hinkle, M.D.;

our Class II directors are Shai N. Gozani, M.D., Ph.D. and Charles R. LaMantia; and

our Class III directors are David E. Goodman, M.D. and W. Mark Lortz.

Our Board of Directors has determined that Dr. Goodman, Dr. Hinkle, Mr. LaMantia, and Mr. Lortz are independent directors for purposes of the corporate governance rules contained in the Marketplace Rules of the National Association of Securities Dealers, Inc., or the Nasdaq rules. Our Board of Directors held twelve meetings during 2007. During the fiscal year 2007, all of our Directors, except Dr. Lord (who resigned from the board of directors on July 9, 2007), attended more than 75% of the aggregate of (i) the total number of meetings of our Board of Directors (held during the period for which he has been a director) and (ii) the total number of meetings held by any committees of our Board of Directors on which such director served.

Our Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee.

#### Board Committees and Meetings

##### *Audit Committee*

Our Board of Directors has an Audit Committee consisting of Dr. Goodman and Messrs. LaMantia and Lortz. The Audit Committee operates pursuant to a charter that was approved by our Board of Directors, a copy of which is available on our website at <http://www.neurometrix.com> under the heading "Investors" and subheading "Corporate Governance". The purposes of the Audit Committee are to, among other functions, (1) oversee our accounting and financial reporting processes and the audits of our financial statements, (2) take, or recommend that our Board of Directors take, appropriate action to oversee the qualifications, independence and performance of our independent auditors, and (3) prepare the audit committee report required to be included in our annual proxy statements. Dr. Goodman and Messrs. LaMantia and Lortz are all "independent" as that term is defined in the rules of the SEC and the applicable Nasdaq rules relating to audit committee members. Our Board of Directors has determined that Messrs. Lortz and LaMantia both qualify as "audit committee financial experts" as such term is defined in the rules of the SEC. The Audit Committee held six meetings during 2007.

##### *Compensation Committee*

Our Board of Directors has a Compensation Committee consisting of Dr. Goodman and Dr. Hinkle. Dr. Goodman and Dr. Hinkle are "independent directors" as that term is defined in the Nasdaq rules. The Compensation Committee operates pursuant to a charter that was approved by our

Board of Directors, a current copy of which is available on our website at <http://www.neurometrix.com> under the heading "Investors" and subheading "Corporate Governance". The purposes of the Compensation Committee are to, among other functions, (1) discharge our Board of Directors' responsibilities relating to compensation of our directors and executives, (2) oversee our overall compensation programs and (3) review and discuss with management the Compensation Discussion and Analysis for inclusion in our annual proxy statement. The Compensation Committee held seven meetings in 2007.

#### *Nominating Committee*

Our Board of Directors has a Nominating Committee consisting of Dr. Goodman and Mr. LaMantia. Dr. Goodman and Mr. LaMantia are both "independent directors" as that term is defined in the Nasdaq rules. The Nominating Committee operates pursuant to a charter that was approved by our Board of Directors, a current copy of which is available on our website at <http://www.neurometrix.com> under the heading "Investors" and subheading "Corporate Governance". The purposes of the Nominating Committee are to, among other functions, identify individuals qualified to become board members, consistent with criteria approved by our Board of Directors, and recommend that our Board of Directors select the director nominees for election at each annual meeting of stockholders. The Nominating Committee held one meeting in 2007.

#### **Policy Governing Director Attendance at Annual Meetings**

The Board of Directors has adopted a formal policy that all directors are expected to attend our annual meetings of stockholders in person, unless doing so is impracticable due to unavoidable conflicts. Five out of six of our directors attended the 2007 annual meeting.

#### **Policies Governing Director Nominations**

##### *Securityholder Recommendations*

The Nominating Committee's current policy with regard to the consideration of director candidates recommended by securityholders is that it will review and consider any director candidates who have been recommended by one or more of our stockholders entitled to vote in the election of directors in compliance with the procedures established from time to time by the Nominating Committee. All securityholder recommendations for director candidates must be submitted to our Secretary at 62 Fourth Avenue, Waltham, Massachusetts 02451, who will forward all recommendations to the Nominating Committee. We did not receive any securityholder recommendations for director candidates for election at the 2008 annual meeting. All securityholder recommendations for director candidates for our 2009 annual meeting of stockholders must be submitted to our Secretary on or before December 26, 2008 and must include the following information:

the name and address of record of the stockholder;

a representation that the securityholder is a record holder of our stock entitled to vote in the election of directors, or if the securityholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) of the Securities Exchange Act of 1934, as amended;

the name, age, business and residential address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five (5) full fiscal years of the proposed director candidate;

a description of the qualifications and background of the proposed director candidate which addresses the minimum qualifications and other criteria for Board membership approved by the Board from time to time;

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a description of all arrangements or understandings between the securityholder and the proposed director candidate;

the consent of the proposed director candidate (1) to be named in the proxy statement relating to our annual meeting of stockholders and (2) to serve as a director if elected at such annual meeting; and

any other information regarding the proposed director candidate that is required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission.

### *Board Membership Criteria*

The Nominating Committee has established criteria for Board membership. These criteria include the following specific, minimum qualifications that the Nominating Committee believes must be met by a Nominating Committee-recommended nominee for a position on the Board:

The nominee must have high personal and professional integrity, must have demonstrated exceptional ability and judgment, and must be expected, in the judgment of the Nominating Committee, to be highly effective, in conjunction with the other nominees to the Board, in collectively serving the interests of our company and stockholders.

In addition to the minimum qualifications for each nominee set forth above, the Nominating Committee will recommend that the Board select persons for nomination to help ensure that:

the Board will be comprised of a majority of "independent directors" in accordance with the Nasdaq rules;

each of our Audit, Compensation and Nominating Committees shall be comprised entirely of independent directors;

each member of our Audit Committee is able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement; and

at least one member of the Audit Committee has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

Finally, in addition to any other standards the Nominating Committee may deem appropriate from time to time for the overall structure and composition of the Board, the Nominating Committee, when recommending that the Board select persons for nomination, may consider whether the nominee has direct experience in the industry or in the markets in which we operate.

The Nominating Committee will recommend to the Board the nomination of the director candidates who it believes will, together with the existing Board members and other nominees, best serve our interests and the interests of our stockholders.

### *Identifying and Evaluating Nominees*

The Nominating Committee may solicit recommendations for director nominees from any or all of the following sources: non-management directors, the Chief Executive Officer, other executive officers, third-party search firms, or any other source it deems appropriate. The Nominating Committee will review and evaluate the qualifications of any proposed director candidate that it is considering or that has been recommended to it by a securityholder in compliance with the Nominating Committee's procedures for that purpose, and conduct inquiries it deems appropriate into the background of these





proposed director candidates. In identifying and evaluating proposed director candidates, the Nominating Committee may consider, in addition to the minimum qualifications and other criteria for Board membership approved by the Nominating Committee from time to time, all facts and circumstances that it deems appropriate or advisable, including, among other things, the skills of each proposed director candidate, his or her depth and breadth of business experience or other background characteristics, his or her independence and the needs of the Board. Based on these considerations, the Nominating Committee will recommend to the Board the nomination of the director candidates who it believes will, together with the existing Board members and other nominees, best serve the interests of our company and stockholders. The Nominating Committee will evaluate proposed director candidates who have been recommended by securityholders in compliance with the policies and procedures established by the Nominating Committee in the same manner as all other proposed director candidates being considered by the Nominating Committee, with no regard to the source of the initial recommendation of such proposed director candidate.

#### **Communications with the Board**

If you wish to communicate with any of our directors or the Board of Directors as a group, you may do so by writing to them at Name(s) of Director(s)/Board of Directors of NeuroMetrix, Inc., c/o Secretary, NeuroMetrix, Inc., 62 Fourth Avenue, Waltham, MA 02451.

We recommend that all correspondence be sent via certified U.S. Mail, return receipt requested. All correspondence received by the Secretary will be forwarded by the Secretary promptly to the addressee(s).

#### **Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or Controller and persons performing similar functions. A current copy of the Code of Business Conduct and Ethics is available on our website at <http://www.neurometrix.com> under the heading "Investors" and subheading "Corporate Governance," and we intend to disclose on this website any amendment to, or waiver of, any provision of the Code of Business Conduct and Ethics applicable to our directors or executive officers that would otherwise be required to be disclosed under the SEC rules or, to the extent permitted, the Nasdaq rules. A current copy of the Code of Business Conduct and Ethics may also be obtained, without charge, upon written request directed to us at: NeuroMetrix, Inc., 62 Fourth Avenue, Waltham, Massachusetts 02451, Attention: Compliance Officer.

### **PROPOSAL 1: ELECTION OF DIRECTORS**

#### **Introduction**

Currently, we have one Class I director with a term expiring at our 2008 annual meeting of stockholders, Allen J. Hinkle, M.D.. Following the recommendation of our Nominating Committee, our Board of Directors has nominated and recommends that Dr. Hinkle be elected as a Class I director, to hold office until our 2011 annual meeting of stockholders and until his successor is duly elected and qualified or until his earlier resignation or removal. Dr. Hinkle has indicated his willingness to serve, if elected; however if Dr. Hinkle should become unable or unwilling to serve, the proxies will be voted for the election of a substitute nominee recommended by our Board of Directors. In addition to our one nominee for director, we currently have one vacancy on our Board of Directors, which may consist of up to six directors. As a result, there are fewer nominees for director positions than there are available positions on our Board of Directors. Proxies cannot be voted for a greater number of persons than the one named nominee.

**Vote Required**

Directors are elected by a plurality of the votes cast by stockholders entitled to vote. This means that the person receiving the highest number of "FOR" votes will be elected as a director. Votes may be cast for or withheld from the nominee. Abstentions, broker non-votes and votes that are withheld are not included in the number of votes cast and will have no effect on the outcome of the election of the nominees.

**Recommendation**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" ITS NOMINEE, ALLEN J. HINKLE, M.D. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD WILL BE VOTED "FOR" THE NOMINEE UNLESS INSTRUCTIONS TO WITHHOLD OR TO THE CONTRARY ARE GIVEN.**

**Information Regarding the Nominees, Other Directors and Executive Officers**

The following table and biographical descriptions set forth certain information with respect to the nominee for election as a Class I director at the annual meeting, each continuing director who is not standing for election and the executive officers who are not directors, based on information furnished to us by each nominee, director and executive officer as of February 1, 2008.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Shai N. Gozani, M.D., Ph.D.	44	Chairman of the Board, Chief Executive Officer and President
Gary L. Gregory	45	Chief Operating Officer
W. Bradford Smith	52	Chief Financial Officer and Secretary
Guy Daniello	63	Senior Vice President of Information Technology
Michael Williams, Ph.D.	51	Senior Vice President of Engineering
David E. Goodman, M.D.(1)(2)(3)	52	Director
Allen J. Hinkle, M.D. (2)	57	Director
Charles R. LaMantia(1)(3)	68	Director
W. Mark Lortz(1)	56	Director

- (1) Member of Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Nominating Committee

*Director Nominee for Election at the Annual Meeting*

**Allen J. Hinkle, M.D.** has served as a member of our Board of Directors since January 2006. Dr. Hinkle has served as the Chief Medical Officer and Senior Vice President for Tufts Health Plan in Massachusetts, a health insurance provider, where he is responsible for medical management programs and initiatives, since September 2004. Prior to becoming the Chief Medical Officer, Dr. Hinkle was Senior Medical Director and Vice President of Health Care Quality, Policy and Innovations at Blue Cross Blue Shield of Massachusetts, a health insurance provider, from 2001 through September 2004. From 1995 to 2001, Dr. Hinkle was the Chief Medical Officer and Senior Vice President of Quality Healthcare Management for Anthem Blue Cross Blue Shield of New Hampshire and Matthew Thornton Plan, health insurance provider organizations. Dr. Hinkle has over 30 years of experience in the healthcare field. Dr. Hinkle received a B.S. from the University of Massachusetts at Amherst and an M.D. from Albert Einstein College of Medicine in New York. He is board certified in pediatrics and anesthesiology and is an Associate Professor of Anesthesiology and Pediatrics at Dartmouth Medical

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School and Associate Professor of Medicine at Tufts University School of Medicine. He also owns several U.S. patents on medical devices.

### *Directors Whose Terms Extend Beyond the Annual Meeting*

**Shai N. Gozani, M.D., Ph.D.** founded our company in 1996 and currently serves as Chairman of our Board of Directors and as our President and Chief Executive Officer. Since founding our company in 1996, Dr. Gozani has served in a number of positions at our company including Chairman since 1996, President from 1996 to 1998 and from 2002 to the present, and Chief Executive Officer since 1997. Dr. Gozani holds a B.S. in computer science, an M.S. in Biomedical Engineering and a Ph.D. in Neurobiology, from the University of California, Berkeley. He also received an M.D. from Harvard Medical School and the Harvard-M.I.T. Division of Health Sciences at M.I.T. Prior to forming our company, Dr. Gozani completed a neurophysiology research fellowship in the laboratory of Dr. Gerald Fischbach at Harvard Medical School. Dr. Gozani has published articles in the areas of basic and clinical neurophysiology, biomedical engineering and computational chemistry.

**Charles R. LaMantia** has served as a member of our Board of Directors since November 2004. In July 1999, Mr. LaMantia retired from the position of Chief Executive Officer, Chairman, and President of Arthur D. Little, Inc, a worldwide professional service company with activities in management consulting, technology and product development, and environmental, health and safety. Mr. LaMantia served as Chief Executive Officer, and President of Arthur D. Little from July 1988 to July 1999. From October 1986 to July 1988, Mr. LaMantia held the position of President and Chief Operating Officer at Arthur D. Little. From 1981 to 1986, Mr. LaMantia served as President and Chief Executive Officer of Koch Process Systems, Inc., an integrated engineering and manufacturing company, owned by Koch Industries. From 1977 to 1981, Mr. LaMantia served as Vice President in charge of Arthur D. Little's Chemical and Metallurgical Engineering business. Mr. LaMantia currently serves on the Board of Directors of State Street Corporation. He is a member of the Advisory Board of the Carroll School of Management at Boston College. Mr. LaMantia received a B.A. B.S., M.S., and Sc.D. in chemical engineering from Columbia University and completed the Advanced Management Program of Harvard Business School. He was a Sloan Foundation Fellow, a National Science Foundation Fellow, and is a member of Phi Beta Kappa and Tau Beta Pi. He served as an officer in the United States Navy.

**David E. Goodman, M.D.** has served as a member of our Board of Directors since June 2004. Since 2006, Dr. Goodman has served as an independent consultant providing product design, regulatory and analytical consulting services to medical device and biopharmaceutical companies and also served in this capacity from 2003 to 2004 and from 2001 to 2002. From 2005 to 2006, Dr. Goodman served as President and Chief Executive Officer of BaroSense, Inc., a medical device company focused on developing minimally invasive devices for the long-term treatment of obesity. From 2004 to 2005, Dr. Goodman served as President and Chief Executive Officer of Interventional Therapeutic Solutions, Inc., an implantable drug delivery systems company. From 2002 to 2003, Dr. Goodman served as Chairman, President and Chief Executive Officer of Pherin Pharmaceuticals, a pharmaceutical discovery and development company. From 1994 to 2001, Dr. Goodman held various positions, including Chief Executive Officer, Chief Medical Officer and director, for LifeMasters Supported SelfCare, Inc., a disease management services company that Dr. Goodman founded. Dr. Goodman holds a B.A.S. in applied science and bioengineering and a M.S.E. in bioengineering from the University of Pennsylvania. He also received an M.D. from Harvard Medical School and the Harvard-M.I.T. Division of Health Sciences and Technology.

**W. Mark Lortz** has served as a member of our Board of Directors since June 2004. Since 2004, Mr. Lortz has served as an independent consultant providing services to medical device companies. Mr. Lortz served as President and Chief Executive Officer of TheraSense, Inc., a medical device company, from 1997, and as Chairman of TheraSense from 1998, until Abbott Laboratories' acquisition of TheraSense in April 2004. From 1991 to 1997, Mr. Lortz held various positions, including Group

Vice President for Worldwide Operations and International Franchise Development, Group Vice President for Worldwide Business Operations and Vice President of Operations, for LifeScan, Inc., a division of Johnson & Johnson that specializes in medical device technology. Mr. Lortz currently serves as a director of Cutera, Inc., a medical device company that designs and develops laser and other light-based aesthetic systems. Mr. Lortz holds a B.S. in Engineering Science from Iowa State University and an M.B.A. in Management from Xavier University.

*Executive Officers Who Are Not Directors*

**Gary L. Gregory** has served as our Chief Operating Officer since July 2003 and, prior to that time, as our Executive Vice President, Worldwide Sales since July 2002. From 2001 to 2002, Mr. Gregory served as Senior Vice President of Sales & Marketing for PrimeSource Healthcare, Inc., a manufacturer and distributor of specialty medical devices. From 1994 to 2001, Mr. Gregory held a number of senior roles within Johnson & Johnson and its Cordis Divisions, including Director of Strategic Marketing for its Corporate Division which represents all of its medical device businesses, Director of Sales where he co-directed its Cardiology Sales organization, and Director of Corporate Accounts where he built the Corporate Account Department and business spanning all of the Cordis Divisions. From 1989 to 1994, Mr. Gregory held a number of management positions at Baxter Healthcare within Baxter's CardioVascular Group, where he advanced from Sales to Marketing to Corporate Accounts to Sales Management. Mr. Gregory holds a B.S. in economics from the Pennsylvania State University.

**W. Bradford Smith** has served as our Chief Financial Officer since February 2005. Prior to joining NeuroMetrix, Mr. Smith was the Chief Financial Officer and Executive Vice President at Synarc, Inc., a provider of clinical trials services to the pharmaceutical and biotechnology industries, since May 2003. At Synarc, he was responsible for global financial operations, raised private equity financing from several venture capital firms and completed the acquisition of a medical imaging services company. Prior to Synarc, Mr. Smith had been the Chief Financial Officer at PatientKeeper, Inc., a company providing healthcare professionals with mobile computing solutions, from March 2000 to May 2003. At PatientKeeper, he was responsible for raising private funding with venture capital and strategic investors and helping the company develop its infrastructure to support commercial operations. Mr. Smith previously served as Chief Financial Officer at Focal, Inc. from 1993 to 2000, and led the company through several rounds of private and public equity financing including the management of its initial public offering. Previous positions held by Mr. Smith include Senior Analyst in mergers and acquisitions for Sanders Associates, a Lockheed company, and Senior Accountant for Coopers & Lybrand. Mr. Smith received his M.B.A. from the Whittemore School at the University of New Hampshire. Mr. Smith received his CPA designation in 1983 and has a B.S. in biology from Tufts University.

**Guy Daniello** has served as our Senior Vice President of Information Technology since July 2003, and, prior to that time, as our Vice President of Information Technology and Director of Information Technology since 1998. Prior to joining NeuroMetrix, Mr. Daniello was an independent software consultant, the Senior Vice President of Engineering at Shiva Corporation from 1996 to 1997, and the Chief Technology Officer & Vice President of Product Development at Gandalf Technologies from 1993 to 1996. In 1991 he founded Network Architects, a software company. Prior to starting Network Architects, he served as President and Chief Executive Officer of Datamedia Corp. and the Director of Small Systems Development at Honeywell Information Systems. Mr. Daniello holds a B.S. in business administration from Northeastern University.

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**Michael Williams, Ph.D.** has served as our Senior Vice President of Engineering since July 2003 and, prior to that time, as our Vice President of Engineering since May 2000. From March 1996 to January 2000, Dr. Williams served as Division President at Radionics, where he was responsible for all software-based products, including treatment planning and image-guided surgery. Prior to Radionics, he served as an engineer at Hughes Aircraft Space & Communications Group. Dr. Williams received a B.S. in physics and mathematics from University of Puget Sound and an M.S. and Ph.D. in Physics from Brown University.

### Directors' Compensation

The non-employee members of our Board of Directors receive annual cash compensation in the amount of \$10,000 for service as a member of our Board of Directors, which is paid following each annual meeting of our stockholders. In addition, these non-employee directors receive the sum of \$1,500 for each board or committee meeting that they attend, provided that they are not entitled to additional compensation for attending committee meetings that occur on the same day as a board meeting at which they attend. This cash compensation will be in addition to any stock options or other equity compensation that we determine to grant to our directors on a case by case basis. Dr. Gozani, the only employee member of our Board of Directors, is not separately compensated for his service on our Board of Directors.

In June 2004, we granted each of Mr. Lortz and Dr. Goodman an option to purchase 36,000 shares of our common stock at an exercise price of \$8.00 per share, equal to the price per share at our initial public offering. In November 2004, we granted Mr. LaMantia an option to purchase 36,000 shares of our common stock at an exercise price of \$9.40, equal to the closing price of our common stock on the grant date. In January 2006, we granted Dr. Hinkle an option to purchase 36,000 shares of our common stock at an exercise price of \$34.04 equal to the closing price of our common stock on the grant date. In January 2006, we granted Dr. Lord an option to purchase 36,000 shares of our common stock at an exercise price of \$27.28 per share, equal to the closing price of our common stock on the grant date. Each of these options vests 25% one year after the grant date with the remainder vesting ratably over the following three years on a quarterly basis.

In addition to the compensation described above, we also reimburse all non-employee directors for their reasonable out-of-pocket expenses incurred in attending meetings of our board of directors or any committees thereof.

The following table shows compensation information with respect to services rendered to us in all capacities during the fiscal years ended December 31, 2007 for each member of the Board of Directors.

**Director Compensation Table 2007**

Name(7)	Fees Earned or Paid in Cash (\$)	Option Awards \$(1)	Total Compensation (\$)
David E. Goodman, M.D.	\$ 47,500	\$ 41,690(2)	\$ 89,190
Allen J. Hinkle, M.D.	\$ 38,500	\$ 148,280(3)	\$ 186,780
Charles R. LaMantia	\$ 44,500	\$ 48,392(4)	\$ 92,892
W. Mark Lortz	\$ 43,000	\$ 41,690(5)	\$ 84,690
Jonathan T. Lord, M.D.	\$ 3,000	\$ 59,491(6)	\$ 62,491

- (1) Based on the dollar amount recognized for financial statement reporting purposes with respect to the year ended December 31, 2007 in accordance with SFAS 123R, disregarding the estimate of forfeitures but adjusted for forfeitures of unvested shares. The assumptions we used for calculating

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the grant date fair values are set forth in note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

- (2) On June 21, 2004, we granted Dr. Goodman an option to purchase 36,000 shares of our common stock at an exercise price of \$8.00 per share (the fair market value on the date of the grant). The grant date fair value of that option is \$165,276. Dr. Goodman had options to purchase 31,000 shares of our common stock outstanding as of December 31, 2007.
- (3) On January 15, 2006, we granted Dr. Hinkle an option to purchase 36,000 shares of our common stock at an exercise price of \$34.04 per share (the fair market value on the date of the grant). The grant date fair value of that option is \$593,524. Dr. Hinkle had options to purchase 36,000 shares of our common stock outstanding as of December 31, 2007.
- (4) On November 16, 2004, we granted Mr. LaMantia an option to purchase 36,000 shares of our common stock at an exercise price of \$9.40 per share (the fair market value on the date of the grant). The grant date fair value of that option is \$193,702. Mr. LaMantia had options to purchase 31,000 shares of our common stock outstanding as of December 31, 2007.
- (5) On June 21, 2004, we granted Mr. Lortz an option to purchase 36,000 shares of our common stock at an exercise price of \$8.00 per share (the fair market value on the date of the grant). The grant date fair value of that option is \$165,276. Mr. Lortz had options to purchase 36,000 shares of our common stock outstanding as of December 31, 2007.
- (6) Dr. Lord was a member of our Board of Directors from January 1, 2007 through his resignation from the Board of Directors on July 9, 2007. Upon his resignation, Dr. Lord forfeited unvested options to purchase 22,500 shares of our common stock at an exercise price of \$27.28 per share that had been granted in January 2006. Dr. Lord did not exercise any of his vested options and he had no outstanding options as of December 31, 2007.

### COMPENSATION DISCUSSION AND ANALYSIS

#### Compensation Discussion and Analysis

We provide what we believe is a competitive total compensation package to our executive management team through a combination of base salary, annual cash incentive compensation, long-term equity incentive compensation and benefits programs.

We place significant emphasis on pay for performance-based incentive compensation, which is designed to reward our executives based on the achievement of predetermined company and individual goals. This Compensation Discussion and Analysis explains our compensation objectives, policies and practices with respect to our Chief Executive Officer, Chief Financial Officer and the other three most highly-compensated executive officers as determined in accordance with applicable SEC rules, who are collectively referred to as our named executive officers or, in this "Compensation Discussion and Analysis" section, our executives. Our named executive officers are as follows: Shai N. Gozani, M.D., Ph.D., Chairman of the Board, Chief Executive Officer and President; Gary L. Gregory, Chief Operating Officer; W. Bradford Smith, Chief Financial Officer; Guy Daniello, Senior Vice President of Information Technology; and Michael Williams, Ph.D., Senior Vice President of Engineering.

#### *Objectives of Our Executive Compensation Programs*

Our compensation programs for our named executive officers are designed to achieve the following objectives:

Attract and retain talented and experienced executives;

Motivate and reward executives whose knowledge, skills and performance are critical to our success;

Provide a competitive compensation package which is weighted heavily towards pay for performance, and in which a significant portion of total compensation is determined by company and individual results;

Ensure fairness among the executive management team by recognizing the contributions each executive makes to our success; and

Motivate our executives to manage our business to meet our short- and long-term objectives, and reward them for meeting these objectives.

### ***Our Compensation Committee***

The Compensation Committee oversees the development of our compensation plans and policies for executive officers. The Compensation Committee, which is comprised of two non-employee, independent directors, determines the compensation of our executive officers and administers and makes recommendations and awards under our stock option plans. In order to assist us in determining the amount of executive compensation to pay and the programs to consider implementing, we engaged the services of AON/Radford, a nationally recognized consulting firm. Specifically, AON/Radford was engaged by the Compensation Committee to provide a competitive total direct compensation review of our executive officers against market practices and make recommendations for pay levels for each component of our executive compensation.

AON/Radford provided competitive market compensation data based on a survey of 150 companies in the life sciences, medical device and biotechnology industry with 50 to 150 employees. As described in greater detail below, each executive officer position was reviewed based on data from this survey of similarly sized life sciences companies.

At the request of the Compensation Committee, AON/Radford also provided data regarding market practices for severance and change-in-control provisions applicable to executive officers.

### **Our Executive Compensation Programs**

#### ***Base Salary***

We pay our executive officers a base salary, which we review and determine annually. We believe that a competitive base salary is a necessary element of any compensation program that is designed to attract and retain talented and experienced executives. We also believe that attractive base salaries can motivate and reward executives for their overall performance. Although base salaries are established in part based on the individual experience, skills and expected contributions during the coming year of our executive officers and our executive officers performance during the prior year, we do not view base salaries as primarily serving our objective of paying for performance.

Our executive officers' base salaries reflect the initial base salaries that we negotiated with each of our executive officers at the time of his initial employment or promotion and our subsequent adjustments to these amounts to reflect market increases, the stage of development of our company, our executive officers' performance and increased experience, any changes in our executives' roles and responsibilities and other factors. The initial base salaries that we negotiated with our executive officers were based on our understanding of the market at the time, the individual experience and skills of, and expected contribution from, each executive officer, the roles and responsibilities of the executive officer, the base salaries of our existing executive officers and other factors.

In 2007, we increased the base salaries of our named executive officers as follows: Dr. Gozani's base salary increased from \$262,500 to \$275,625 per year, Mr. Gregory's base salary increased from

\$246,750 to \$259,088 per year, Dr. Williams' base salary increased from \$198,450 to \$208,373 per year, Mr. Daniello's base salary increased from \$190,181 to \$199,690 per year and Mr. Smith's base salary increased from \$231,000 to \$242,550 per year. The base salaries of our named executive officers, including Dr. Gozani's, reflect 5% increases.

Based on the competitive market compensation data prepared by AON/Radford, the base salaries of our named executive officers vary considerably with respect to the percentile of similarly sized life sciences companies for the comparable position to which they are aligned, although in all cases they are below the 50<sup>th</sup> percentile. Dr. Gozani's base salary is significantly below the 25<sup>th</sup> percentile, Mr. Gregory's base salary is approximately at the 25<sup>th</sup> percentile, Mr. Smith's base salary is approximately at the 25<sup>th</sup> percentile, Mr. Daniello's base salary is approximately at the 25<sup>th</sup> percentile and Mr. Williams' base salary is slightly below the 50<sup>th</sup> percentile. These base salary levels, in part, reflect our greater emphasis on long-term equity incentive compensation. Additionally, given the challenges to our business that began to emerge in late 2006 and early 2007, we decided not to approve significant increases in the base salaries of any of our named executive officers to move them all to a more consistent level.

#### *Annual Cash Incentive Compensation*

Consistent with our emphasis on pay for performance incentive compensation programs, our executives are eligible to receive annual cash incentive compensation based on their performance. The primary objective of our annual cash incentive compensation is to motivate and reward our named executive officers for meeting our short-term objectives using a pay for performance-based program. Historically, we have primarily based this annual cash incentive compensation on the achievement of predetermined performance goals established by us, including financial measures, product development objectives, the achievement of strategic objectives and individualized objectives for each executive officer, while also reserving a portion of each executive's annual cash incentive compensation to be paid at our discretion based on our subjective assessment of the executive's overall performance. We have historically maintained this discretionary portion of the annual cash incentive compensation in order to motivate our executive officers' overall performance and their performance relating to matters that are not that specifically addressed in predetermined performance goals, as we do not believe that every important aspect of executive performance is capable of being specifically quantified in a predetermined objective performance goal. The discretionary portion of the annual cash incentive compensation has enabled us to take into account, among other things, the impact of events outside of our control that occur after we have established the executive officers' performance goals for the year and require our executives to focus their attention on different or other strategic objectives.

We establish the target amount of our annual cash incentive compensation at a level that represents a significant portion of our executive officer's currently paid out cash compensation. In establishing these levels, in addition to considering the incentives that we want to provide to our executives, we also consider the compensation levels for comparable positions based on market data, our historical practices and any contractual commitments that we have relating to executive officer compensation.

The established targets for annual cash incentive compensation for each of our executive officers for 2007 were as follows: Dr. Gozani 50% of base salary; Mr. Gregory 50% of base salary; Mr. Smith 30% of base salary; Mr. Daniello 25% of base salary; and Dr. Williams 25% of base salary. These percentages were the same as in prior years and, for Dr. Gozani, Mr. Gregory and Mr. Smith, were equal to the target amounts that we had contractually committed to in their employment agreements. In 2007, our Chief Executive Officer developed, and the Compensation Committee considered, recommendations for specific performance goals for himself and each of the other executive officers, but these performance goals were never formally approved by the Compensation Committee as the basis for the determination of cash incentive compensation for 2007.



In light of the challenges to our business that began to emerge in late 2006 and early 2007 and continued throughout the year, we decided not to link our executive officers' cash incentive compensation to specific performance goals, but rather to make them discretionary. Based on the Compensation Committee's overall assessment of our performance in 2007, including an assessment of revenues, operating results, reimbursement developments, product development milestones and strategic positioning of our company, we did not pay any cash incentive compensation to Dr. Gozani, Mr. Gregory or Mr. Smith for 2007. Based primarily upon the achievement of certain product development milestones and certain other business milestones during the first three quarters of 2007, we paid cash incentive compensation of \$28,456 to Mr. Daniello and \$25,005 to Dr. Williams. The Compensation Committee decided that we should not pay any cash incentive compensation to Mr. Daniello or Dr. Williams for the fourth quarter of 2007 and for year-end 2007 as a result of the Compensation Committee's overall assessment of our performance in 2007.

#### *Long-Term Incentive Compensation*

We grant long-term equity incentive awards in the form of stock options to executives as part of our total compensation package. Consistent with our emphasis on pay for performance-based incentive compensation, these awards represent a significant portion of total executive compensation. We use long-term equity incentive awards in order to align the interests of our executives and our stockholders by providing our executives with strong incentives to increase stockholder value and a significant reward for doing so. Based on the stage of our development and the incentives we are trying to provide to our executives, we have chosen to use stock options, which derive value exclusively from increases in stockholder value, as opposed to restricted stock or other forms of equity awards. Our decisions regarding the amount and type of long-term equity incentive compensation and relative weighting of these awards among total executive compensation have also been based on our understanding of market practices of similarly situated companies and our negotiations with our executives in connection with their initial employment or promotion by us.

Stock option awards provide our executive officers with the right to purchase shares of our common stock at a fixed exercise price typically for a period of up to ten years, subject to continued employment with us. Stock options are earned on the basis of continued service to us and generally vest over four years, beginning with one-fourth vesting one year after the date of grant, then pro-rata vesting quarterly thereafter. Currently, stock option awards are made pursuant to our Amended and Restated 2004 Stock Option and Incentive Plan. See also "Employment Agreements and Potential Payments Upon Termination or Change-in-Control" for a discussion of the change-in-control provisions related to stock options.

The exercise price of each stock option granted under our Amended and Restated 2004 Stock Option and Incentive Plan must be equal to or above the fair market value of our common stock on the grant date.

We have granted all of our stock options to executives as incentive stock options under Section 422 of the Internal Revenue Code of 1986 ("the Code"), subject to the volume limitations contained in the Code. Generally, for stock options that do not qualify as incentive stock options, we are entitled to a tax deduction in the year in which the stock options are exercised equal to the spread between the exercise price and the fair market value of the stock for which the stock option was exercised. The holders of the stock options are generally taxed on this same amount in the year of exercise. For stock options that qualify as incentive stock options, we do not receive a tax deduction, unless there is a disqualifying disposition at the time of sale by the officer and the holder of the stock option may receive more favorable tax treatment than he or she would for a non-qualified stock option. In 2007, most of the stock options we granted constituted nonqualified stock options, as a result of the Code limitations described above.

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Historically, we have made grants to our executive officers on a periodic, but not necessarily annual, basis. Beginning in 2007, we decided to make equity incentive awards to each of our executive officers on a regular annual basis, which we believe is more consistent with the practices of most public life sciences companies.

In 2007, we made stock option grants to each of our executive officers as follows: 50,400 shares to Dr. Gozani, 60,600 shares to Mr. Gregory, 44,400 shares to Mr. Smith, 38,400 shares to Dr. Williams and 38,400 shares to Mr. Daniello. These stock option grants were made on March 27, 2007 and were exercisable at \$9.52 per share, equal to the closing price of our common stock on the NASDAQ Global Market on that day. Each of the stock option grants vests 25% one year after the grant date with the remainder vesting ratably over the remaining three years on a quarterly basis.

The amount of shares granted to each executive officer during 2007 was primarily determined based on competitive market compensation data of similarly-sized life sciences companies provided by AON/Radford in November 2006, with an adjustment made as a result of the decline in the market of our common stock between November 2006 and March 2007. The value of the stock option grants made to each of our executive officers, other than Dr. Gozani, was primarily based on the 75<sup>th</sup> percentile of long term equity incentive awards granted by similarly sized life sciences companies for each of the executive officer positions. In addition, the stock option grants of Mr. Gregory and Mr. Smith were increased above the 75<sup>th</sup> percentile by approximately 12% and 17%, respectively, as a result of the critical roles that each of Messrs. Gregory and Smith was expected to play in our future success and the Compensation Committee's subjective assessment of their performance. The stock option grants made to Mr. Daniello and Dr. Williams were also adjusted slightly from the 75<sup>th</sup> percentile in order to provide equivalent grants to each of these executive officers. The stock option grant made to Dr. Gozani was primarily based on the 50<sup>th</sup> percentile of long term equity incentive awards granted by similarly sized life sciences companies for the comparable position. Dr. Gozani's stock option grant was based on this lower percentile primarily as a result of his existing equity holdings, including the unvested portion of the stock option to purchase 375,000 shares of common stock that was made on June 21, 2004. In determining the actual stock option grants to each executive officer, we also made an adjustment as a result of the decline in the market price of our common stock from approximately \$17.00 per share in November 2006, when the competitive market compensation data prepared by AON/Radford was provided, to \$9.52 per share on March 27, 2007, the date of grant. Because of the decline in value of our common stock, we would have been required to grant stock options for a significant larger number of shares in order to provide each of our executive officers with the same value. We decided to limit the increase in the number of shares that we would be required to grant as a result of this decline in stock price to 20%. As a result of this limit, the value of the stock options that we granted was reduced by approximately 32%.

In 2007, we adopted an equity award grant policy in order to formalize our approach regarding the timing and pricing of equity awards made to the named executive officers and all other employees. Under this policy, equity awards will only be made to existing employees on an annual basis or in connection with a promotion or other extraordinary event. The amount of annual awards will be determined at a pre-scheduled meeting of our Compensation Committee that is expected to be held within 45 days after the third trading day following our release of our financial results for the prior year. Stock options granted as part of annual awards will either be denominated in shares or dollars, will have an exercise price per share equal to the closing price of our common stock on the date of the meeting at which they were approved and, if denominated in dollars, will be for the number of shares determined using the formula approved by our Compensation Committee at the time of the grants.

*Post-Employment Benefits.* All of our named executive officers, Dr. Gozani, Mr. Gregory, Mr. Smith, Mr. Daniello and Dr. Williams, have employment agreements that provide them with severance payments and benefits in the event we terminate their employment without cause or the executive officer terminates their employment for good reason. We believe that because the severance

level is negotiated up front, it makes it easier for us to terminate executives without the need for protracted negotiations over severance. Our employment agreements with Mr. Daniello and Dr. Williams were entered into in February 2008. The severance terms contained in the employment agreements with Mr. Daniello and Dr. Williams are substantially similar to those contained in our employment agreement with Mr. Smith, who was our most recently hired executive officer. We decided to offer these terms to Mr. Daniello and Dr. Williams in order to provide greater standardization of the severance benefits offered to our executive officers. Additionally, our decision to offer these terms was also based on our belief that the terms being offered were consistent with or less generous than those being offered to executive officers in similar positions at similarly sized life sciences companies and, accordingly, would not be providing excessive levels of compensation to our executive officers in the event of their termination. This belief was based, in part, on a presentation provided to the Compensation Committee in November 2006 by AON/Radford regarding market practices for executive severance for similar types of companies.

See "Executive Compensation Employment Agreements and Potential Payments upon Termination or Change-in-Control" for the definition of cause and good reason under the employment agreements.

In the event of a change in control, under the terms of the Company's 2004 Stock Option and Equity Incentive Plan and the 1998 Stock Option Plan, all stock options held by the named executive officers become fully vested unless the stock options are replaced by like options by the acquiring company.

*Other Benefits Programs.*

We believe in creating a cooperative environment in which all employees are committed to us and motivated to meet our business objectives. To that end, there are no additional significant benefits or perquisites that are available to the named executive officers that are not also available to all of our employees. Our employee benefits include a 401(k) profit sharing plan, disability insurance and optional health and dental. The optional health benefit requires cost sharing for all employees, including executive officers, and the dental is fully paid by any employee that elects the coverage.

*Deductibility of Executive Compensation Expenses*

In general, under Section 162(m) of the Code, we cannot deduct, for federal income tax purposes, compensation in excess of \$1,000,000 paid to certain executive officers. This deduction limitation does not apply, however, to compensation that constitutes "qualified performance-based compensation" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder. The Compensation Committee has considered the limitations on deductions imposed by Section 162(m) of the Code, and it is the Compensation Committee's present intention that, for so long as it is consistent with its overall compensation objective, substantially all executive compensation will not be subject to the deduction limitations of Section 162(m) of the Code.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted by the  
Compensation Committee:  
David E. Goodman, M.D.  
Allen Hinkle, M.D.

## COMPENSATION OF EXECUTIVE OFFICERS

## Summary of Executive Compensation

The following table shows compensation information with respect to services rendered to us in all capacities during the fiscal years ended December 31, 2007 and 2006 for (i) the individual who served as the Chief Executive Officer for the fiscal year ended December 31, 2007, (ii) the individual who served as the Chief Financial Officer for the fiscal year ended December 31, 2007, and (iii) each of the three other most highly compensated executive officers who were serving as executive officers at December 31, 2007 and whose aggregate salary and bonus exceeded \$100,000 in the fiscal year ended December 31, 2007 (we refer to these individuals, collectively with the Chief Executive Officer and the Chief Financial Officer, as the "named executive officers"):

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonuses	Non-Equity Incentive Plan Compensation (\$)	Option Awards (1)(\$)	All Other Compensation (\$)	Total (\$)
Shai N. Gozani, M.D. Ph.D. Chairman of the Board, Chief Executive Officer and President	2007	\$ 275,625	\$	\$	\$ 487,437	\$ 7,200(2)	\$ 770,262
	2006	\$ 262,500	\$	\$ 65,625	\$ 428,933	\$ 7,200	\$ 764,258
Gary L. Gregory Chief Operating Officer	2007	\$ 259,088	\$	\$	\$ 255,298(4)	\$ 7,200(2)	\$ 521,586
	2006	\$ 246,750	\$	\$ 115,663	\$ 251,241	\$ 7,200	\$ 620,854
W. Bradford Smith Chief Financial Officer and Secretary	2007	\$ 242,550	\$	\$	\$ 361,508	\$	\$ 604,058
	2006	\$ 231,000	\$	\$ 34,650	\$ 307,191	\$	\$ 572,841
Guy Daniello Senior Vice President of Information Technology	2007	\$ 199,690	\$ 28,456	\$	\$ 143,449(3)	\$	\$ 371,595
	2006	\$ 190,181	\$	\$ 47,307	\$ 50,487	\$	\$ 287,975
Michael Williams, Ph.D. Senior Vice President of Engineering	2007	\$ 208,373	\$ 25,005	\$	\$ 160,062	\$	\$ 393,440
	2006	\$ 198,450	\$ 34,734	\$	\$ 135,332	\$	\$ 368,516

(1)

Based on the dollar amount recognized for financial statement reporting purposes with respect to the year ended December 31, 2007 in accordance with SFAS 123R, disregarding the estimate of forfeitures. The assumptions we used for calculating the grant date fair values are set forth in note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

(2) Represents automobile allowance.

- (3) Includes \$4,059 of stock-based compensation resulting from the modification of a stock option agreement in which 1,250 stock options were modified to a per share exercise price of \$4.48 from a per share exercise price of \$2.25. The option modification was to avoid application of Section 409A of the Internal Revenue Code of 1986 ("the Code").
- (4) Includes \$3,726 of stock-based compensation resulting from the modification of a stock option agreement in which 2,167 stock options were modified to a per share exercise price of \$4.48 from a per share exercise price of \$2.25. The option modification was to avoid application of Section 409A of the Code.

The following table sets forth information concerning the stock option grants made to each of the named executive officers during the year ended December 31, 2007.

**Grants of Plan-Based Awards 2007**

<b>Name</b>	<b>Grant Date</b>	<b>All Other Option Awards: Number of securities underlying options (#)</b>	<b>Exercise or Base Price of Option Awards (\$ / share)</b>	<b>Grant date fair value of stock and option awards (1)</b>
Shai N. Gozani, M.D. Ph.D.	3/27/07	50,400	\$ 9.52	\$ 294,160
Gary L. Gregory	3/27/07	60,600	\$ 9.52	\$ 353,692
W. Bradford Smith	3/27/07	44,400	\$ 9.52	\$ 259,141
Guy Daniello	3/27/07	38,400	\$ 9.52	\$ 224,122
Michael Williams, Ph.D.	3/27/07	38,400	\$ 9.52	\$ 224,122

- (1) The grant date fair value of options granted is equal to the fair value of the options on the grant date used to determine the compensation expense associated with the grant in the our financial statements and has been calculated using the Black-Scholes option model. See the notes to the financial statements contained in our Annual Report on Form 10-K for the assumptions used.

**Discussion of Summary Compensation and Grants of Plan-Based Awards Tables**

Our executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the Grants of Plan Based Awards Table was paid or awarded, are described above under "Compensation Discussion and Analysis." In 2006, we established predetermined performance goals for the annual cash incentive compensation, and the cash compensation paid upon the achievement of these predetermined performance goals are reported as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table. The terms of employment agreements that we have entered into with our executives are described below under "Employment Agreements and Potential Payments Upon Termination or Change-in-Control."

***Annual Cash Incentive Compensation***

We have established target annual cash incentive compensation for each of our named executive officers as a percentage of that executive's base salary, as follows: Dr. Gozani 50%; Mr. Gregory 50%; Mr. Smith 30%; Dr. Williams 25%; and Mr. Daniello 25%. The cash incentive compensation paid upon the achievement of these predetermined performance goals are reported as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table. In 2007, we did not have approved performance goals for our annual cash incentive compensation and the bonuses that were paid were discretionary.

**2007 Stock Option Grants**

In 2007, we granted stock options to our named executive officers under our Amended and Restated 2004 Stock Option and Incentive Plan, as described above. Each stock option granted has a term of ten years and vests over four years with 25% of the total award vesting after one year and the remainder vesting in equal quarterly installments thereafter. Generally, to the extent vested, each stock option is exercisable during the term of the option while the grantee is employed by us and for a period of three months thereafter, unless such termination is upon death or disability, in which the grantee may continue to exercise the option for a period of 12 months, or for cause, in which case the option terminates immediately. Vesting of this stock option is also subject to acceleration in some certain circumstances in connection with a change-in-control as described below in " Employment Agreements and Potential Payments Upon Termination or Change-in-Control."

The table below sets forth information with respect to our named executive officers concerning the outstanding equity awards as of December 31, 2007.

**Outstanding Equity Awards at Fiscal Year-End 2007**

	Option Awards		Option Exercise Price (\$)	Option Expiration Date	
	Number of Securities Underlying Unexercised Options				
	(#) Exercisable	(#) Unexercisable			
Shai N. Gozani, M.D., Ph.D.	(1)	328,125	46,875 \$	8.00	6/21/14
	(2)	0	50,400 \$	9.52	3/27/17
Gary L. Gregory	(3)	54,687	7,813 \$	8.00	6/21/14
	(4)	5,5000	0 \$	2.25	1/01/13
	(5)	13,125	16,875 \$	30.10	1/04/16
	(6)	2,167	0 \$	4.48	6/05/13
	(7)	0	60,600 \$	9.52	3/27/17
W. Bradford Smith	(20)	47,625	44,375 \$	9.90	2/14/15
	(21)	13,125	16,875 \$	30.10	1/04/16
	(22)	0	44,400 \$	9.52	3/27/17
Guy Daniello	(8)	3,750	0 \$	2.25	10/13/12
	(9)	1,358	0 \$	2.25	1/01/13
	(10)	1,250	0 \$	4.48	6/05/13
	(11)	10,937	14,063 \$	30.10	1/04/16
	(12)	0	38,400 \$	9.52	3/27/17
Michael Williams, Ph.D.	(13)	2,276	0 \$	2.25	1/01/13
	(14)	187	0 \$	2.25	1/15/12
	(15)	7,500	3,750 \$	2.25	9/18/13
	(16)	625	0 \$	2.25	6/05/13
	(17)	1,875	0 \$	4.48	6/05/13
	(18)	10,937	14,063 \$	30.10	1/04/16
	(19)	0	38,400 \$	9.52	3/27/17

- (1) Reflects the unexercised portion of a stock option for 375,000 shares of common stock that was granted on June 21, 2004. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.

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- (2) Reflects the unexercised portion of a stock option for 50,400 shares of common stock that was granted on March 27, 2007. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (3) Reflects the unexercised portion of a stock option for 62,500 shares of common stock that was granted on June 21, 2004. The option vests/vested 25% on the first anniversary of the vest start date and then 1/16th each quarter thereafter until fully vested.
- (4) Reflects the unexercised portion of a stock option for 22,000 shares of common stock that was granted on January 1, 2003. The option vests/vested 25% on the first, second, third and fourth anniversaries of the grant date.
- (5) Reflects the unexercised portion of a stock option for 30,000 shares of common stock that was granted on January 4, 2006. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (6) Reflects the unexercised portion of a stock option for 2,167 shares of common stock that was granted on granted on April 8, 2004 and modified on September 6, 2006. These options are a result of a modification to a stock option agreement in which 2,167 stock options were modified to a per share exercise price of \$4.48 from a per share exercise price of \$2.25. The option modification was to avoid application of Section 409A of the Code. The options vests/vested 28% on the first anniversary of the grant date and then 2.4% each month for the next 30 months.
- (7) Reflects the unexercised portion of a stock option for 60,600 shares of common stock that was granted on March 27, 2007. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (8) Reflects the unexercised portion of a stock option for 15,000 shares of common stock that was granted on October 13, 2002. The option vests/vested 25% on the first, second, third and fourth anniversaries of the grant date.
- (9) Reflects the unexercised portion of a stock option for 2,715 shares of common stock that was granted on January 1, 2003. The option vests/vested 25% on the first, second, third and fourth anniversaries of the grant date.
- (10) Reflects the unexercised portion of a stock option for 1,250 shares of common stock that was granted on granted on April 8, 2004 and modified on September 6, 2006. These options are the result of a modification to a stock option agreement in which 1,250 stock options were modified to a per share exercise price of \$4.48 from a per share exercise price of \$2.25. The option modification was to avoid the application of Section 409A of the Code. The option vests/vested 25% on the first, second, third and fourth anniversaries of the vest start date of June 5, 2003.
- (11) Reflects the unexercised portion of a stock option for 25,000 shares of common stock that was granted on January 4, 2006. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (12) Reflects the unexercised portion of a stock option for 38,400 shares of common stock that was granted on March 27, 2007. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (13) Reflects the unexercised portion of a stock option for 4,550 shares of common stock that was granted on January 1, 2003. The option vests/vested 25% on the first, second, third and fourth anniversaries of the grant date.
- (14) Reflects the unexercised portion of a stock option for 187 shares of common stock that was granted on April 8, 2004. The option vests/vested equally over 36 months starting on January 15, 2002.



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- (15) Reflects the unexercised portion of a stock option for 15,000 shares of common stock that was granted on September 18, 2003. The option vests/vested 25% on the first, second, third and fourth anniversaries of the grant date.
- (16) Reflects the unexercised portion of a stock option for 625 shares of common stock that was granted on April 8, 2004. The option vests/vested 25% on the first, second, third and fourth anniversaries of the vest start date of June 5, 2003.
- (17) Reflects the unexercised portion of a stock option for 1,875 shares of common stock that was granted on April 8, 2004 and modified on September 6, 2006. These options are a result of a modification to a stock option agreement in which 1,875 stock options were modified to a per share exercise price of \$4.48 from a per share exercise price of \$2.25. The option modification was to avoid application of Section 409A of the Code. The option vests/vested 25% on the first, second, third and fourth anniversaries of the vest start date of June 5, 2003.
- (18) Reflects the unexercised portion of a stock option for 25,000 shares of common stock that was granted on January 4, 2006. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (19) Reflects the unexercised portion of a stock option for 38,400 shares of common stock that was granted on March 27, 2007. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (20) Reflects the unexercised portion of a stock option for 142,000 shares of common stock that was granted on February 14, 2005. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (21) Reflects the unexercised portion of a stock option for 30,000 shares of common stock that was granted on January 4, 2006. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.
- (22) Reflects the unexercised portion of a stock option for 44,400 shares of common stock that was granted on March 27, 2007. The option vests/vested 25% on the first anniversary of the grant date and then 1/16th each quarter thereafter until fully vested.

### **Employment Agreements and Potential Payments upon Termination or Change-in-Control**

#### **Shai N. Gozani, M.D., Ph.D.**

We entered into an employment agreement with Dr. Gozani, effective as of June 21, 2004. Under the terms of the employment agreement, Dr. Gozani is to be paid an annual base salary determined by the Compensation Committee but not less than \$250,000. Dr. Gozani's salary for 2007 was \$275,625. Dr. Gozani is also eligible to receive an annual cash performance bonus of up to 50% of his annual salary if certain performance objectives, determined by Dr. Gozani and our Compensation Committee, are met. In addition, pursuant to this employment agreement, on June 21, 2004, we granted Dr. Gozani stock options to purchase 375,000 shares of common stock at an exercise price of \$8.00 per share, equal to the price per share at our initial public offering. This stock option has a term of ten years from the grant date and vests over four years from the grant date with 25% of the total award vesting after one year and the remainder vesting ratably over the following three years on a quarterly basis.

The employment agreement may be terminated by us with or without cause or by Dr. Gozani. Under the terms of the employment agreement, if (1) we terminate Dr. Gozani for any reason other than willful non-performance of his duties under the employment agreement, intentional fraud or dishonesty with respect to our business or conviction of a felony, which we refer to as a termination without cause, or (2) Dr. Gozani resigns as a result of a reduction in his responsibilities with us, reduction in his status with us, reduction of his salary, relocation of our corporate offices more than 35

miles from their current location or breach by us of the employment agreement, which we refer to as a termination for good reason, Dr. Gozani will be entitled to his full base salary at his then-current annual rate of pay, plus benefits and applicable bonus payments, through the date of his termination. In addition, in the event of such a termination, we will continue to pay Dr. Gozani his then-current annual base salary for one year following the termination and Dr. Gozani will be entitled to acceleration of one year of vesting under the option granted pursuant to his employment agreement. Additionally, Dr. Gozani will be entitled to his full annual cash performance bonus in the year that any of the following sale transactions occurs:

a sale of substantially all of our assets;

a merger or combination with another entity, unless the merger or combination does not result in a change in ownership of our voting securities of more than 50%; or

the sale or transfer of more than 50% of our voting securities.

Additionally, upon the occurrence of a sale transaction, Dr. Gozani will be entitled to acceleration of vesting for 25% of the option granted pursuant to his employment agreement. If a sale transaction occurs within nine months after a termination without cause or for good reason or the termination of Dr. Gozani's employment as a result of his death or disability, this stock option will become fully vested as to the total award.

The following table quantifies the estimated payments that would be made to Dr. Gozani in the event of any termination or change-in-control of the Company. This table assumes that the applicable event occurred as of December 31, 2007. The following table also assumes that all stock options are continued, assumed or replaced in a sale event, as described in our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan, which would result in no acceleration of vesting. If the stock options were terminated in connection with a sale event, the vesting of all stock options granted under our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan would fully accelerate.

Payments and Benefits	Termination Without Cause or for Good Reason	Change-in-Control following Termination(1)	Change-in-Control(2)
Cash Severance	\$ 275,625(5)	\$	\$
Bonus(3)	\$	\$	\$ 137,813
Stock Options(4)	\$ 56,250	\$ 56,250	\$ 56,250
Total	\$ 331,875	\$ 56,250	\$ 194,063

- (1) Assumes that a sale transaction under Dr. Gozani's employment agreement as such term is described above occurred on December 31, 2007 and that such sale transaction occurred within nine months after the effective date of a termination due to death or disability, termination without cause or termination for good reason. Also assumes that the vesting of Dr. Gozani's options did not accelerate upon his prior termination.
- (2) Change-in-control refers to a sale transaction under Dr. Gozani's employment agreement as such term is described above.
- (3) As described above, Dr. Gozani's full bonus is payable in any year in which a sale transaction occurs.
- (4) Calculated based on the spread between the exercise price of the options accelerated upon the occurrence of the relevant event and the closing stock price of our common stock on the Nasdaq Global Market on December 31, 2007 of \$9.20.
- (5) Represents twelve months of salary based on Dr. Gozani's salary during 2007 of \$275,625.



**Gary L. Gregory**

We entered into a letter agreement with Mr. Gregory effective July 1, 2002, which provides for our employment of Mr. Gregory on an at-will basis. Under the letter agreement, Mr. Gregory's initial annual salary was \$200,000, subject to subsequent increases in the discretion of our Chief Executive Officer or our Board of Directors. Mr. Gregory's salary for 2007 was \$259,088. Under the letter agreement, Mr. Gregory also is eligible to receive annual incentive cash compensation of up to 50% of his annual salary, if certain performance objectives, determined by our Compensation Committee, primarily related to quarterly and annual sales revenue targets, are met. Pursuant to this letter agreement, we granted Mr. Gregory a stock option to purchase 110,000 shares of common stock at a price of \$2.25 per share. This stock option has a term of ten years and vested over three and one-half years following its grant. This stock option has been fully exercised. Under the terms of the letter agreement, if (1) we terminate Mr. Gregory's employment for any reason other than willful misconduct, which we refer to as a termination without cause, or (2) Mr. Gregory resigns as a result of our material breach of the terms of the letter agreement, which we refer to as a termination for good reason, then Mr. Gregory will be entitled to receive his base salary, car allowance and continuation of health benefits for a period of nine months from the date of the termination, subject to Mr. Gregory executing a release agreement with us. Additionally, in the event of a termination without cause or for good reason, Mr. Gregory will be entitled to the acceleration of nine months of vesting under certain stock options granted to Mr. Gregory, subject to Mr. Gregory executing a release agreement with us. Additionally, in the event of a change-in-control which results in a termination of Mr. Gregory without cause or for good reason, which includes Mr. Gregory's resignation as a result of a required relocation to a worksite more than 50 miles from our worksite prior to the change-in-control, Mr. Gregory will be entitled to receive his base salary, car allowance and continuation of health benefits for a period of nine months from the date of the termination of employment and certain stock options granted to Mr. Gregory will vest in full, subject to Mr. Gregory executing a release agreement with us. Under Mr. Gregory's letter agreement, a change-in-control is defined as a consolidation or merger in which we are not the surviving corporation or which results in the acquisition of substantially all of our outstanding shares by a single person or a group of persons or entities acting in concert or the sale or transfer of substantially all of our assets.

The following table quantifies the estimated payments that would be made to Mr. Gregory in the event of any termination or change-in-control of the Company. This table assumes that the applicable event occurred as of December 31, 2007. The following table also assumes that all stock options are continued, assumed or replaced in a sale event, as described in our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan, which would result in no acceleration of vesting. If the stock options were terminated in connection with a sale event, the vesting of all stock options granted under our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan would fully accelerate.

<b>Payments and Benefits</b>	<b>Termination Without Cause or for Good Reason</b>	<b>Termination Without Cause or for Good Reason upon Change-in-Control</b>
Cash Severance	\$ 194,316(1)	\$ 194,316(1)
Stock Options(2)	\$ 9,376(3)	\$ 9,376(3)
Health Care Benefits	\$ 8,830(4)	\$ 8,830(4)
Other Perquisites	\$ 5,400(5)	\$ 5,400(5)
<b>Total</b>	<b>\$ 217,922</b>	<b>\$ 217,922</b>

(1) Represents nine months of salary based on Mr. Gregory's salary during 2007 of \$259,088.

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- (2) Calculated based on the spread between the exercise price of the options accelerated upon the occurrence of the relevant event and the closing stock price of our common stock on the Nasdaq Global Market on December 31, 2007 of \$9.20.
- (3) Represents accelerated vesting of options to purchase 7,813 shares of common stock at an exercise price of \$8.00 per share.
- (4) Represents the cost of nine months of continued medical insurance, using the same assumptions used for financial reporting purposes.
- (5) Represents nine months of Mr. Gregory's car allowance.

### **W. Bradford Smith**

We entered into a letter agreement with Mr. Smith on February 7, 2005, which provides for our employment of Mr. Smith, as our Chief Financial Officer, on an at-will basis beginning on February 14, 2005. Under the letter agreement, Mr. Smith's initial annual salary was \$220,000, subject to periodic review and adjustment at our discretion. Mr. Smith's salary for 2007 was \$242,550. Under the letter agreement, Mr. Smith will be also eligible to receive an annual cash performance bonus of up to 30% of his annual salary, if certain performance objectives, determined by Mr. Smith and us, are met.

Pursuant to the letter agreement, on February 14, 2005, we also granted Mr. Smith stock options to purchase 142,000 shares of common stock at a price equal to the closing price of our common stock on the date Mr. Smith's employment with us commenced, which was \$9.90 per share. This stock option has a term of ten years from the grant date and vests over four years with 25% of the total award vesting one year after the commencement of Mr. Smith's employment with us and the remainder vesting ratably over the following three years on a quarterly basis.

Under the terms of the letter agreement, if (1) we terminate Mr. Smith's employment without cause or (2) Mr. Smith resigns as a result of our material breach of the terms of the letter agreement, which we refer to as a termination for good reason, then Mr. Smith will be entitled to receive his base salary and continuation of health benefits for a period of nine months from the date of such termination of Mr. Smith, subject to Mr. Smith executing a release agreement with us. Additionally, in the event of a termination of Mr. Smith without cause or for good reason, Mr. Smith will be entitled to the acceleration of nine months of vesting under the option granted pursuant to his letter agreement.

If a sale transaction occurs, Mr. Smith will be entitled to acceleration of vesting for 25% of the total award granted pursuant to his letter agreement. The following will be considered sale transactions under Mr. Smith's option agreement:

a sale of substantially all of our assets;

a merger or combination with another entity, unless the merger or combination does not result in a change in ownership our voting securities of more than 50%; or

the sale or transfer of more than 50% of our voting securities.

The following table quantifies the estimated payments that would be made to Mr. Smith in the event of any termination or change-in-control of the Company. This table assumes that the applicable event occurred as of December 31, 2007. The following table also assumes that all stock options are continued, assumed or replaced in a sale event, as described in our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan, which would result in no acceleration of vesting. If the stock options were terminated in connection with a sale event, the vesting of all stock

options granted under our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan would fully accelerate.

Payments and Benefits	Termination Without Cause or for Good Reason	Change-in-Control(1)
Cash Severance	\$ 181,913(2)	\$
Stock Options(3)	\$	\$
Health Care Benefits	\$	(4)
<b>Total</b>	<b>\$ 181,913</b>	<b>\$</b>

- (1) Change-in-control refers to a sale transaction under Mr. Smith's letter agreement, as such term is described above.
- (2) Represents nine months of salary based on Mr. Smith's salary during 2007 of \$242,550.
- (3) Calculated based on the spread between the exercise price of the options accelerated upon the occurrence of the relevant event and the closing stock price of our common stock on the Nasdaq Global Market on December 31, 2007 of \$9.20.
- (4) Mr. Smith is eligible to continue to receive health benefits for a period of nine months from the date of a termination without cause or for good reason. However, Mr. Smith does not currently participate in our medical insurance program.

#### Guy Daniello

We entered into a letter agreement with Mr. Daniello in February 2008, which provides for our employment of Mr. Daniello, as our Senior Vice President of Information Technology, on an at-will basis. Under the letter agreement, Mr. Daniello's annual salary was \$199,690, which was his salary for 2007, subject to periodic review and adjustment at our discretion. Under the letter agreement, Mr. Daniello will be also eligible to receive an annual cash performance bonus of up to 25% of his annual salary.

Under the terms of the letter agreement, if (1) we terminate Mr. Daniello's employment without cause or (2) Mr. Daniello resigns as a result of our material breach of the terms of the letter agreement, which we refer to as a termination for good reason, then Mr. Daniello will be entitled to receive his base salary and continuation of health benefits for a period of nine months from the date of such termination of Mr. Daniello, subject to Mr. Daniello executing a release agreement with us. Additionally, in the event of a termination of Mr. Daniello without cause or for good reason, Mr. Daniello will be entitled to the acceleration of nine months of vesting under any option grants made subsequent to the date of his letter agreement.

The following table quantifies the estimated payments that would be made to Mr. Daniello in the event of any termination or change-in-control of the Company. This table assumes that the applicable event occurred as of December 31, 2007 and assumes that Mr. Daniello's letter agreement had been entered into prior to December 31, 2007. The following table also assumes that all stock options are continued, assumed or replaced in a sale event, as described in our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan, which would result in no acceleration of vesting. If the stock options were terminated in connection with a sale event, the vesting of all stock

options granted under our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan would fully accelerate.

Payments and Benefits	Termination Without Cause or for Good Reason
Cash Severance	\$ 149,768(1)
Stock Options(2)	\$
Health Care Benefits	\$ 10,280(3)
Total	\$ 160,048

- (1) Represents nine months of salary based on Mr. Daniello's salary during 2007 of \$199,690.
- (2) None of Mr. Daniello's stock options would have been accelerated in connection with a termination without cause or for good reason because none of Mr. Daniello's stock options outstanding as of December 31, 2007 were granted after the date of his letter agreement.
- (3) Represents the cost of nine months of continued medical insurance, using the same assumptions used for financial reporting purposes.

**Michael Williams, Ph.D.**

We entered into a letter agreement with Dr. Williams in February 2008, which provides for our employment of Dr. Williams, as our Senior Vice President of Engineering, on an at-will basis. Under the letter agreement, Dr. Williams' annual salary was \$208,373, which was his salary for 2007, subject to periodic review and adjustment at our discretion. Under the letter agreement, Dr. Williams will be also eligible to receive an annual cash performance bonus of up to 25% of his annual salary.

Under the terms of the letter agreement, if (1) we terminate Dr. Williams' employment without cause or (2) Dr. Williams resigns as a result of our material breach of the terms of the letter agreement, which we refer to as a termination for good reason, then Dr. Williams will be entitled to receive his base salary and continuation of health benefits for a period of nine months from the date of such termination of Dr. Williams, subject to Dr. Williams executing a release agreement with us. Additionally, in the event of a termination of Dr. Williams without cause or for good reason, Dr. Williams will be entitled to the acceleration of nine months of vesting under any option grants made subsequent to the date of his letter agreement.

The following table quantifies the estimated payments that would be made to Dr. Williams in the event of any termination or change-in-control of the Company. This table assumes that the applicable event occurred as of December 31, 2007 and assumes that Dr. Williams' letter agreement had been entered into prior to December 31, 2007. The following table also assumes that all stock options are continued, assumed or replaced in a sale event, as described in our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan, which would result in no acceleration of vesting. If the stock options were terminated in connection with a sale event, the vesting of all stock

options granted under our Amended and Restated 2004 Stock Option and Incentive Plan and 1998 Equity Incentive Plan would fully accelerate.

Payments and Benefits	Termination Without Cause or for Good Reason
Cash Severance	\$ 156,280(1)
Stock Options(2)	\$
Health Care Benefits	\$ 8,830(3)
<b>Total</b>	<b>\$ 165,110</b>

- (1) Represents nine months of salary based on Dr. Williams' salary during 2007 of \$208,373.
- (2) None of Dr. Williams' stock options would have been accelerated in connection with a termination without cause or for good reason because none of Dr. Williams' stock options outstanding as of December 31, 2007 were granted after the date of his letter agreement.
- (3) Represents the cost of nine months of continued medical insurance, using the same assumptions used for financial reporting purposes.

The amounts described in the tables above do not include payments and benefits to the extent they have been earned prior to the termination of employment or change-in-control or are provided on a non-discriminatory basis to salaried employees upon termination of employment. These include:

- Accrued salary, bonus and vacation pay;
- Distribution of plan balances under our 401(k) plan;
- Life insurance proceeds in the event of death; and
- Disability insurance payouts in the event of disability.

Dr. Gozani, Mr. Gregory, Mr. Smith, Mr. Daniello and Dr. Williams have each entered into a confidentiality and non-competition agreement with us, which provides for protection of our confidential information, assignment to us of intellectual property developed by the executive officer and non-compete and non-solicitation obligations that are effective during, and for 12 months following termination of, the executive officer's employment.

Under our 1998 Equity Incentive Plan and our Amended and Restated 2004 Stock Option and Incentive Plan, vesting of the stock options granted thereunder fully accelerates in connection with certain sale events, as described therein, unless such stock options are continued, assumed or replaced in the transaction constituting such sale event.

**Executive and Director Compensation Process**

The Compensation Committee of our board of directors has the authority to determine all compensation payable to our executive officers. Our Chief Executive Officer makes recommendations to the Compensation Committee regarding the compensation of all executive officers, other than his own, but the Compensation Committee is ultimately responsible for approving this compensation. As noted above, in 2007, the Compensation Committee engaged AON/Radford to assist in the determination of executive compensation.

Our board of directors has the authority to approve all compensation payable to our directors, although the Compensation Committee is responsible for making recommendations to our board regarding this compensation. Additionally, our Chief Executive Officer may also make recommendations or assist the Compensation Committee in making recommendations regarding director compensation.





**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Compensation Committee during 2007 included Dr. Goodman, Mr. Lortz and Dr. Hinkle. Mr. Hinkle was appointed to the Compensation Committee during 2007 taking the place of Mr. Lortz. None of our executive officers serves as a member of the Board of Directors or Compensation Committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee. None of the persons who are or were members of our Compensation Committee in 2007 have ever been employed by us.

**PRINCIPAL AND MANAGEMENT STOCKHOLDERS**

The following table sets forth certain information concerning beneficial ownership as of January 31, 2008 of our common stock by:

each of our directors and nominees for director;

each of our named executive officers; and

all of our directors, nominees for director and executive officers as a group.

For each person known by us to beneficially own 5% or more of our common stock, we have provided information as of March 28, 2008.

The number of common shares "beneficially owned" by each stockholder is determined under rules issued by the SEC regarding the beneficial ownership of securities. This information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership of common stock includes (1) any shares as to which the person or entity has sole or shared voting power or investment power and (2) any shares as to which the person or entity has the right to acquire beneficial ownership within 60 days after January 31, 2008, including any shares that could be purchased by the exercise of options or warrants on or within 60 days after January 31, 2008. Each stockholder's percentage ownership is based on 13,690,134 shares of our common stock outstanding as of January 31, 2008 plus the number of shares of common stock that may be acquired by such stockholder upon exercise of options that are exercisable on or within 60 days after January 31, 2008.

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Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under community property laws.

Name and Address(1) of Beneficial Owner	Amount and Nature of Beneficial Ownership			Percent of Class of Total
	Common Stock	Options(2)	Total	
<b>Directors and Executive Officers</b>				
Shai N. Gozani, M.D., Ph.D.	463,288	364,162	827,450	5.9%
Gary L. Gregory	32,833	96,410	129,243	*
Guy Daniello	9,827	28,457	38,284	*
Michael Williams, Ph.D.	526	34,562	35,088	*
W. Bradford Smith		82,599	82,599	*
David E. Goodman, M.D.		28,750	28,750	*
Allen Hinkle, M.D.		18,000	18,000	*
Charles R. LaMantia		24,250	24,250	*
W. Mark Lortz		33,750	33,750	*
<b>All Directors and Executive Officers as a group (9 persons)(3)</b>	<b>506,474</b>	<b>710,940</b>	<b>1,217,414</b>	<b>8.5%</b>

### Beneficial Owner of 5% or More Other than Directors and Executive Officers

JPMorgan Chase & Co(4)	841,184		841,184	6.1%
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\*

Represents less than 1% of the outstanding shares of common stock.

(1) Unless otherwise indicated, the address of each stockholder is c/o NeuroMetrix, Inc., 62 Fourth Avenue, Waltham, Massachusetts 02451.

(2) Includes all options that are exercisable on or within 60 days from January 31, 2008 by the beneficial owner.

(3) See notes (1) (2) above.

(4) JPMorgan Chase & Co. reported sole voting power with respect to 798,284 shares and sole investment power with respect to 841,184 shares. The address of JPMorgan Chase & Co. is 270 Park Avenue, New York, NY 10017. Information regarding JP Morgan Chase & Co. is based solely on a Schedule 13G filed by this entity with the SEC on January 29, 2008.

## TRANSACTIONS WITH RELATED PERSONS

The Audit Committee conducts an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis, and the approval of the Audit Committee is required for all such transactions. The term "related party transactions" shall refer to transactions required to be disclosed by the Company pursuant to Item 404 of Regulation S-K promulgated by the SEC.

Our policy with respect to related party transactions can be found in our Audit Committee Charter. The Audit Committee relies on management to identify related party transactions and bring them to the attention of the Audit Committee.



**AUDIT COMMITTEE REPORT**

The undersigned members of the Audit Committee of the Board of Directors submit this report in connection with the committee's review of the financial reports for the fiscal year ended December 31, 2007 as follows:

1. The Audit Committee has reviewed and discussed with management the audited financial statements for the Company for the fiscal year ended December 31, 2007.
2. The Audit Committee has discussed with representatives of PricewaterhouseCoopers LLP the matters required to be discussed with them under the provisions of Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, au section 380), as adopted by the Public Company Accountancy Oversight Board in Rule 3200T, and may be modified or supplemented.
3. The Audit Committee has received the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), as modified or supplemented, and has discussed with PricewaterhouseCoopers LLP the auditors' independence from the Company and management.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the SEC.

Respectfully submitted by the Audit  
Committee:

David E. Goodman, M.D.  
Charles R. LaMantia  
W. Mark Lortz

**PROPOSAL 2: APPROVAL OF SECOND AMENDED AND RESTATED  
2004 STOCK OPTION AND INCENTIVE PLAN**

**Introduction**

The Company's Amended and Restated 2004 Stock Option and Incentive Plan (the "2004 Plan") currently authorizes the grant of stock options and other stock-based awards to officers, employees, non-employee directors, consultants and prospective employees of the Company and its subsidiaries. Currently, 1,946,022 shares of common stock are reserved for issuance pursuant to awards granted under the 2004 Plan. As of April 2, 2008, 108,306 shares were available for grant under the 2004 Plan. On April 10 2008, the Board of Directors approved amendments to the 2004 Plan, subject to stockholder approval, to, among other things, (1) increase the aggregate number of shares authorized for issuance under the 2004 Plan by 1,000,000 shares to 2,946,022 shares of common stock, (2) permit the Company to grant cash-based awards that qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), (3) amend the performance criteria and performance cycle applicable to awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, as described below, and (4) provide that the minimum vesting requirements applicable to restricted stock awards and deferred stock awards only apply to grants to employees.

Of the total number of shares authorized for issuance, no more than 825,000 shares may be issued in the form of unrestricted stock awards, restricted stock awards or deferred stock awards (excluding, for purposes of this limitation, any awards granted in lieu of cash compensation or fees). This limitation was not changed by the amendments to the 2004 Plan. A copy of the 2004 Plan, as amended

and restated to reflect these amendments (the "Amended 2004 Plan"), is attached as Appendix A to this Proxy Statement and incorporated herein by reference.

The amendments to the 2004 Plan were designed to enhance the flexibility of the Compensation Committee in granting stock options and other awards to our officers, employees, non-employee directors, consultants and prospective employees and to ensure that the Company can continue to grant stock options and other awards to such persons at levels determined to be appropriate by the Compensation Committee. We believe that stock options and other stock-based awards are a critical part of the compensation package offered to new, existing and key employees and is an important tool in our ability to attract and retain talented personnel. Accordingly, we are seeking stockholder approval of the Amended 2004 Plan. In the event that the Amended 2004 Plan is not approved by stockholders, the 2004 Plan will continue in effect without the amendments described above.

Based solely on the closing price of the Company's common stock as reported on the NASDAQ Global Market on April 2, 2008, the maximum aggregate market value of the additional 1,000,000 shares being reserved hereunder that could potentially be issued under the Amended 2004 Plan is approximately **\$1,990,000**. The shares issued by the Company under the Amended 2004 Plan will be authorized but unissued shares.

#### **Vote Required**

The Amended 2004 Plan will be approved upon the affirmative vote of a majority of the votes properly cast for and against such matter. Abstentions and broker non-votes are not included in the number of votes cast for and against a matter and therefore have no effect on the vote on such matter.

#### **Recommendation**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE AMENDED 2004 PLAN. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD WILL BE VOTED "FOR" THE APPROVAL OF THE AMENDED 2004 PLAN UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.**

#### **Summary of the Amended 2004 Plan**

The following description of certain material features of the Amended 2004 Plan is intended to be a summary only. This summary is qualified in its entirety by the full text of the Amended 2004 Plan that is attached hereto as Appendix A.

*Shares Available.* The maximum number of shares authorized for issuance under the Amended 2004 Plan is 2,946,022 shares of common stock, which is an increase of 1,000,000 shares from the number of shares currently authorized for issuance under the 2004 Plan. Of the total number of shares authorized for issuance, no more than 825,000 shares may be issued in the form of unrestricted stock awards, restricted stock awards or deferred stock awards (excluding, for purposes of this limitation, any awards granted in lieu of cash compensation or fees). The shares underlying any awards that are forfeited, canceled or are otherwise terminated (other than by exercise) under the Amended 2004 Plan will be added back to the shares authorized for issuance under the Amended 2004 Plan. Shares tendered or held back upon exercise of an option or settlement of an award to cover the exercise price or tax withholding are not available for future issuance under the Amended 2004 Plan. In addition, upon exercise of stock appreciation rights, the gross number of shares exercised shall be deducted from the total number of shares remaining available for issuance under the Amended 2004 Plan.

*Types of Awards.* The Amended 2004 Plan permits us to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, unrestricted stock awards, cash-based awards and dividend equivalent rights.

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*Plan Administration.* The Amended 2004 Plan will be administered by the Compensation Committee of the Board of Directors. The administrator of the Amended 2004 Plan has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of the Amended 2004 Plan. The administrator may delegate to the Chief Executive Officer the authority to grant awards to employees, other than our executive officers, provided that the administrator includes a limitation as to the number of shares that may be awarded and provides specific guidelines regarding such awards.

*Eligibility and Limitations on Grants.* All full-time and part-time officers, employees, non-employee directors and other key persons are eligible to participate in the Amended 2004 Plan, subject to the discretion of the administrator. Approximately 150 people are currently eligible to participate in the Amended 2004 Plan.

*Performance-Based Compensation.* To ensure that certain awards granted under the Amended 2004 Plan, including awards of cash, restricted stock and deferred stock, to a "Covered Employee" (as defined in the Code) qualify as "performance-based compensation" under Section 162(m) of the Code, the Amended 2004 Plan provides that the Compensation Committee may require that the vesting of such awards be conditioned on the satisfaction of performance criteria including (1) return on equity, assets, capital or investment; (2) pre-tax or after-tax profit levels; (3) cash flow, funds from operations or similar measure; (4) total shareholder return; (5) changes in the market price of the Stock; (6) revenues, sales or market share; (7) net income (loss) or earnings per share; (8) computer support availability; (9) expense margins or operating efficiency (including budgeted spending limits) or (10) project development milestones, any of which may relate to the Company or any subsidiary, division, operating unit or business segment of the Company, or any combination of the foregoing, and may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group and, for financial measures, may be based on numbers calculated in accordance with U.S. generally accepted accounting principles or on an as adjusted basis. The Compensation Committee will select the particular performance criteria within 90 days following the commencement of a performance cycle, and each performance cycle must be at least three months long. Subject to adjustments for stock splits and similar events, the maximum award of restricted stock or deferred stock (or combination thereof) granted to any one individual that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code will not exceed 825,000 shares for any performance cycle or \$1,000,000 in the case of a performance-based award that is a cash based award, and options or stock appreciation rights with respect to no more than 825,000 shares may be granted to any one individual during any calendar year period.

*Stock Options.* The exercise price of stock options awarded under the Amended 2004 Plan may not be less than the fair market value of the common stock on the date of the option grant. The term of each stock option may not exceed 10 years from the date of grant. The administrator will determine at what time or times each option may be exercised and, subject to the provisions of the Amended 2004 Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised.

To qualify as incentive stock options, stock options must meet additional federal tax requirements, including a \$100,000 limit on the value of shares subject to incentive stock options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large stockholders.

*Stock Appreciation Rights.* The administrator may award a stock appreciation right independently of a stock option. The administrator may award stock appreciation rights subject to such conditions and restrictions as the administrator may determine, provided that the exercise price may not be less than the fair market value of the common stock on the date of grant and no stock appreciation right may be

exercisable more than 10 years after the date of grant. Additionally, all stock appreciation rights are exercisable during the participant's lifetime only by the participant or the participant's legal representative.

*Restricted Stock.* The administrator may award shares to participants subject to such conditions and restrictions as the administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified restricted period. However, in the event these awards to employees have a performance-based goal, the restriction period will be at least one year, and in the event these awards to employees have a time-based restriction, the restriction period will be at least three years.

*Deferred Stock.* The administrator may award phantom stock units to participants subject to such conditions and restrictions as the administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with the Company through a specified restricted period. However, in the event these awards to employees have a performance-based goal, the restriction period will be at least one year, and in the event these awards to employees have a time-based restriction, the restriction period will be at least three years. At the end of the deferral period, the participants shall be paid, to the extent vested, in shares.

*Unrestricted Stock.* The administrator may grant shares (at par value or for a purchase price determined by the administrator) that are free from any restrictions under the Amended 2004 Plan. Unrestricted stock may be issued to participants in recognition of past services or other valid consideration, and may be issued in lieu of cash compensation to be paid to such individuals.

*Cash-Based Awards.* Each cash-based award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the administrator. Payment, if any, with respect to a cash-based award may be made in cash or in shares of common stock, as the administrator determines.

*Dividend Equivalent Rights.* The administrator may award dividend equivalent rights under the Amended 2004 Plan subject to such conditions and restrictions as the administrator may determine, provided that dividend equivalent rights may only be granted in tandem with restricted stock awards, deferred stock awards or unrestricted stock awards. Dividend equivalents credited to the holder may be paid currently or may be deemed to be reinvested in additional shares of stock, which may thereafter accrue additional equivalents.

*Tax Withholding.* Participants in the Amended 2004 Plan are responsible for the payment of any federal, state or local taxes that the Company is required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the administrator, participants may elect to have the minimum tax withholding obligations satisfied either by authorizing the Company to withhold shares to be issued pursuant to an option exercise or other award, or by transferring to the Company shares having a value equal to the amount of such taxes.

*Change of Control Provisions.* In the event of a merger, sale or dissolution of the Company, or a similar "sale event," (as defined in the Amended 2004 Plan) all outstanding awards under the Amended 2004 Plan, unless otherwise provided for in a particular award, will terminate unless the parties to the transaction, in their discretion, provide for assumption, continuation or appropriate substitutions or adjustments of these awards. In the event that the outstanding awards under the Amended 2004 Plan terminate in connection with a sale event, all stock options and stock appreciation rights granted under the Amended 2004 Plan will automatically become fully exercisable and all other awards granted under the Amended 2004 Plan will become fully vested and non-forfeitable as of the effective time of the sale event, except as may be otherwise provided in the relevant award agreement, and each holder of an option or a stock appreciation right will be permitted to exercise such award for a specified period prior to the consummation of the sale event. The administrator may also provide for a cash payment with respect to outstanding options and stock appreciation rights in exchange for the cancellation of such awards.



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*Term.* No awards may be granted under the Amended 2004 Plan after the 10-year anniversary of the date that the Amended 2004 Plan is approved by stockholders and no incentive stock option may be granted after the 10-year anniversary of the date that the Amended 2004 Plan was approved by the Board of Directors.

*Amendments.* The Amended 2004 Plan may not be amended without stockholder approval to the extent required by the Nasdaq rules or necessary to ensure that incentive stock options qualify as such under the Code and compensation earned under awards qualifies as performance-based compensation under the Code. Generally, under the Nasdaq rules, all material amendments to the Amended 2004 Plan will be subject to approval by our stockholders including (1) any material increase in the number of shares to be issued under the Amended 2004 Plan; (2) any material increase in benefits to participants under the Amended 2004 Plan, including any material change to: (i) permit a repricing (or decrease in exercise price) of outstanding stock options, (ii) reduce the price at which shares of common stock or stock options may be offered, or (iii) extend the duration of the Amended 2004 Plan; (3) any material expansion of the class of participants eligible to participate in the Amended 2004 Plan; and (4) any expansion in the types of awards provided under the Amended 2004 Plan. Otherwise, the Board of Directors may amend or discontinue the Amended 2004 Plan at any time, provided that no such amendment may adversely affect the rights under any outstanding award without the holder's consent.

*Repricing.* Other than in the event of a necessary adjustment in connection with a change in our stock or a merger or similar transaction, the administrator may not "reprice" or otherwise reduce the exercise price of outstanding stock options or stock appreciation rights.

*Effective Date of the Amended 2004 Plan.* On April 10, 2008, the Board of Directors approved the Amended 2004 Plan, subject to stockholder approval. The Amended Plan will become effective on the date it is approved by the stockholders. If the Amended 2004 Plan is not approved by the stockholders, the 2004 Plan will continue in effect without the amendments made in the Amended 2004 Plan, and awards may be granted thereunder in accordance with its terms.

### New Plan Benefits

No grants have been issued with respect to the additional shares to be reserved for issuance under the Amended 2004 Plan. The number of shares that may be granted to the Company's Chief Executive Officer, executive officers, non-employee directors and non-executive officers under the Amended 2004 Plan is not determinable at this time, as such grants are subject to the discretion of the Compensation Committee. The following table provides information with respect to the number of shares granted under the 2004 Plan for the fiscal year ended December 31, 2007 to our executive officers, non-executive officer directors and employees. Information about the number of shares granted to our Chief Executive Officer and other named executive officers can be found herein under the heading "Compensation of Executive Officers Grants of Plan-Based Awards 2007."

<b>Name and Position</b>	<b>Number of Shares Underlying Stock Options</b>
All executive officers as a group	232,300
All non-executive officer directors	
Employees as a group (excluding executive officers)	674,400

### Tax Aspects Under the Code

The following is a summary of the principal federal income tax consequences of certain transactions under the Amended 2004 Plan. It does not describe all federal tax consequences under the Amended 2004 Plan, nor does it describe state or local tax consequences.

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*Incentive Options.* No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (1) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (2) there will be no deduction for the Company for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a "disqualifying disposition"), generally (1) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares at exercise (or, if less, the amount realized on a sale of such shares) over the option price thereof, and (2) the Company will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares.

If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above (e.g., if the holding periods described above are not satisfied), the option is treated as a non-qualified option. In addition, an incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

*Non-Qualified Options.* No income is realized by the optionee at the time the option is granted. Generally (1) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise, and the Company receives a tax deduction for the same amount, and (2) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

*Parachute Payments.* The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as "parachute payments" as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

*Limitation on the Company's Deductions.* As a result of Section 162(m) of the Code, the Company's deduction for certain awards under the Amended 2004 Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation in excess of \$1 million a year (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code). The Amended 2004 Plan is structured to allow grants to qualify as performance-based compensation.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information as of December 31, 2007 regarding the number of securities to be issued upon exercise, and the weighted average exercise price, of outstanding options, warrants and rights under our equity compensation plans and the number of securities available for future issuance under our equity compensation plans.

**Equity Compensation Plan Information as of December 31, 2007**

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	1,848,892	\$ 11.92	898,313(2)
Totals	1,848,892	\$ 11.92	898,313

(1) Includes information related to our Amended and Restated 1996 Stock Option/Restricted Stock Plan, Amended and Restated 1998 Equity Incentive Plan, Amended and Restated Amended and Restated 2004 Stock Option and Incentive Plan and 2004 Employee Stock Purchase Plan.

(2) As of December 31, 2007, there were 611,906 shares available for future grant under the Amended and Restated Amended and Restated 2004 Stock Option and Incentive Plan. There are also 286,407 common shares authorized and available for issuance under our 2004 Employee Stock Purchase Plan included in the total number of securities available for future issuance. No new stock grants or awards will be made under the Amended and Restated 1996 Stock Option/Restricted Stock Plan or the Amended and Restated 1998 Equity Incentive Plan. As of April 2, 2008, there were approximately 108,306 shares available for future grant under the Amended and Restated 2004 Stock Option and Incentive Plan.

**PROPOSAL 3: RATIFICATION OF SELECTION OF AUDITORS****Introduction**

The Audit Committee of the Board of Directors has selected the firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, to serve as our auditors for the year ending December 31, 2008. It is expected that a representative of PricewaterhouseCoopers, LLP will be present at the annual meeting with the opportunity to make a statement, if so desired, and will be available to respond to appropriate questions.

**Vote Required**

The selection of our independent auditors for the year ending December 31, 2008 will be ratified upon the affirmative vote of a majority of the votes properly cast for and against such matter. Abstentions and broker non-votes are not included in the number of votes cast for and against a matter and therefore have no effect on the vote on such matter. The ratification of this selection by our stockholders is not required under the laws of the State of Delaware, where we are incorporated, but the results of this vote will be considered by the Audit Committee in selecting auditors for future years.

**Recommendation**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP TO SERVE AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2008. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD WILL BE VOTED "FOR" THE RATIFICATION UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.**

## ACCOUNTING FEES

Aggregate fees for professional services rendered by PricewaterhouseCoopers LLP for the years ended December 31, 2007 and December 31, 2006 are as follows:

### *Audit Fees*

The audit fees billed by PricewaterhouseCoopers LLP for professional services rendered for the 2007 audit of our annual financial statements and the review of the financial statements included in our quarterly reports on Form 10-Q totaled \$616,300. The aggregate fees billed to us by PricewaterhouseCoopers LLP for professional services rendered for the 2006 audit of our annual financial statements and the review of the financial statements included in our quarterly reports on Form 10-Q totaled \$569,700.

### *Audit-Related Fees*

There were no audit-related fees billed by PricewaterhouseCoopers LLP in 2007 and 2006.

### *Tax Fees*

The total fees billed by PricewaterhouseCoopers LLP for tax services were approximately \$198,200 in 2007 and \$0 in 2006. These fees were for services related to (a) tax compliance, including sales and use taxes, (b) tax planning and (c) requests for rulings or technical advice from tax authorities.

### *All Other Fees*

Fees billed by PricewaterhouseCoopers LLP for services other than audit or tax-related services were \$6,500 in 2007 and \$1,500 in 2006 and represented fees for review of the Proxy Statement and for a software package used to review new accounting pronouncements.

### *Pre-Approval Policies and Procedures*

Under the Audit Committee's charter, the Audit Committee is authorized to delegate to one or more of its members the authority to pre-approve audit and non-audit services. The Audit Committee has not delegated its pre-approval authority. The Audit Committee approved all audit and non-audit services provided to us by PricewaterhouseCoopers LLP during the 2007 and 2006 fiscal years.

## STOCKHOLDER PROPOSALS

Any stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in our proxy statement and form of proxy for our 2009 annual meeting must be received by us on or before December 26, 2008 in order to be considered for inclusion in our proxy statement and form of proxy. Such proposals must also comply with the requirements as to form and substance established by the SEC if such proposals are to be included in the proxy statement and form of proxy. Any such proposal should be mailed to: NeuroMetrix, Inc., 62 Fourth Avenue, Waltham, Massachusetts 02451, Attention: Secretary.

Stockholder proposals to be presented at our 2009 annual meeting, other than stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in our proxy statement and form of proxy for our 2009 annual meeting, must be received in writing at our principal executive office not earlier than January 22, 2009, nor later than February 21, 2009, unless our 2009 annual meeting of stockholders is scheduled to take place before April 23, 2009 or after July 22, 2009. Our by-laws state that the stockholder must provide timely written notice of such nomination or proposal and supporting documentation. A stockholder's notice will be timely if received by us at our principal executive office not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding

annual meeting (the "Anniversary Date"); provided, however, that in the event the annual meeting is scheduled to be held on a date more than 30 days before the Anniversary Date or more than 60 days after the Anniversary Date, a stockholder's notice shall be timely if received by us at its principal executive office not later than the close of business on the later of (1) the 90th day prior to the scheduled date of such annual meeting or (2) the 10th day following the day on which public announcement of the date of such annual meeting is first made by us. In the event that the number of directors to be elected to our Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by us at least 85 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice will also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is delivered to us at our principal executive offices not later than the close of business on the 10th day following the day on which such public announcement is first made by us. Proxies solicited by our Board of Directors will confer discretionary voting authority with respect to these proposals, subject to SEC rules and regulations governing the exercise of this authority. Any such proposals shall be mailed to: NeuroMetrix, Inc., 62 Fourth Avenue, Waltham, Massachusetts 02451, Attn.: Secretary.

#### **EXPENSES AND SOLICITATION**

The cost of solicitation of proxies will be borne by us, and in addition to soliciting stockholders by mail through its regular employees, we may request banks, brokers and other custodians, nominees and fiduciaries to solicit their customers who have stock of our company registered in the names of a nominee and, if so, we will reimburse such banks, brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs. Solicitation by our officers and employees may also be made of some stockholders in person or by mail, telephone, telegraph, e-mail or other form of electronic communication following the original solicitation. We may retain a proxy solicitation firm to assist in the solicitation of proxies. We will bear all reasonable solicitation fees and expenses if we retain such a proxy solicitation firm.

#### **MULTIPLE STOCKHOLDERS SHARING THE SAME ADDRESS**

Owners of common stock in street name may receive a notice from their broker or bank stating that only one annual report or proxy statement will be delivered to multiple security holders sharing an address. This practice, known as "householding," is designed to reduce printing and postage costs. However, if any stockholder residing at such an address wishes to receive a separate annual report or proxy statement, the Company will promptly deliver a separate copy to any stockholder upon written or oral request to the Company's investor relations department at NeuroMetrix, Inc, 62 Fourth Avenue, Waltham, MA 02109 or by telephone at (781) 890-9989 or by e-mail at [neurometrix.ir@neurometrix.com](mailto:neurometrix.ir@neurometrix.com).

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and holders of more than 10% of our common stock (collectively, "Reporting Persons") to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Such Reporting Persons are required by regulations of the SEC to furnish us with copies of all such filings. With the exceptions noted below, to our knowledge, based solely upon our review of the copies of the filings furnished to us with respect to the year ended December 31, 2007 and written representations from certain Reporting Persons, we believe that all Reporting Persons complied with all Section 16(a) filing requirements in the year ended December 31, 2007. Integral Capital Partners VII, L.P. and Integral Capital Partners VIII, L.P. each filed a late Form 3 and a late Form 4. Jonathan T. Lord, M.D. did not file a Form 5.

**Appendix A Second Amended and Restated 2004 Stock Option and Incentive Plan**

**NEUROMETRIX, INC.**

**SECOND AMENDED AND RESTATED**

**2004 STOCK OPTION AND INCENTIVE PLAN**

**GENERAL PURPOSE OF THE PLAN; DEFINITIONS**

The name of the plan is the NeuroMetrix, Inc. Second Amended and Restated 2004 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and other key persons (including consultants and prospective employees) of NeuroMetrix, Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

*"Act"* means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

*"Administrator"* is defined in Section 2(a).

*"Award"* or *"Awards,"* except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Deferred Stock Awards, Restricted Stock Awards, Unrestricted Stock Awards and Dividend Equivalent Rights.

*"Board"* means the Board of Directors of the Company.

*"Cash-Based Award"* means an Award entitling the recipient to receive a cash-denominated payment.

*"Code"* means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

*"Committee"* means the Compensation Committee of the Board or a similar committee performing the functions of the Compensation Committee and that is comprised of not less than two Non-Employee Directors who are independent.

*"Covered Employee"* means an employee who is a "Covered Employee" within the meaning of Section 162(m) of the Code.

*"Deferred Stock Award"* means Awards granted pursuant to Section 8.

*"Dividend Equivalent Right"* means Awards granted pursuant to Section 12.

*"Effective Date"* means the date on which the Plan is approved by stockholders as set forth in Section 19.

*"Exchange Act"* means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

*"Fair Market Value"* of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is traded on a

national securities exchange the Fair Market Value of the Stock will equal the closing sales price as reported on the principal exchange or market for the Stock on such date. If there is no trading on such date, the determination shall be made by reference to the last date preceding such date for which there was trading.

*"Incentive Stock Option"* means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

*"Non-Employee Director"* means a member of the Board who is not also an employee of the Company or any Subsidiary.

*"Non-Qualified Stock Option"* means any Stock Option that is not an Incentive Stock Option.

*"Option"* or *"Stock Option"* means any option to purchase shares of Stock granted pursuant to Section 5.

*"Performance Cycle"* means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more performance criteria will be measured for the purpose of determining a grantee's right to and the payment of a Restricted Stock Award or Deferred Stock Award. Each such period shall not be less than three months.

*"Restricted Stock Award"* means Awards granted pursuant to Section 7.

*"Section 409A"* means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

*"Stock"* means the Common Stock, par value \$0.0001 per share, of the Company, subject to adjustments pursuant to Section 3.

*"Stock Appreciation Right"* means any Award granted pursuant to Section 6.

*"Subsidiary"* means any corporation or other entity (other than the Company) in which the Company has a controlling interest, either directly or indirectly.

*"Unrestricted Stock Award"* means any Award granted pursuant to Section 9.

#### **ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS**

*Committee.* The Plan shall be administered by the Compensation Committee (the "Administrator").

*Powers of Administrator.* The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

to select the individuals to whom Awards may from time to time be granted;

to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Deferred Stock Awards, Unrestricted Stock Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

to determine the number of shares of Stock to be covered by any Award;

to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the form of written instruments evidencing the Awards;



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to accelerate at any time the exercisability or vesting of all or any portion of any Award;

subject to the provisions of Section 5(a)(ii), to extend at any time the period in which Stock Options may be exercised; and

at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

*Delegation of Authority to Grant Awards.* The Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards, to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act or "covered employees" within the meaning of Section 162(m) of the Code. Any such delegation by the Administrator shall include a limitation as to the amount of Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price of any Stock Option or Stock Appreciation Right, the conversion ratio or price of other Awards and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

*Indemnification.* Neither the Board nor the Committee, nor any member of either or any delegatee thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Committee (and any delegatee thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's organizational documents or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

### **STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION**

*Stock Issuable.* Subject to adjustment as provided in Section 3(b), the maximum number of shares of Stock reserved and available for issuance under the Plan shall be 2,946,022 shares of Stock, which number includes the 825,000 shares originally reserved under the Plan, plus 121,022 shares added pursuant to an evergreen provision in 2004 and 2005, plus 1,000,000 shares added to the Plan in 2006 and 1,000,000 shares added to the Plan in 2008;(1) provided that not more than 825,000 shares shall be issued in the form of Unrestricted Stock Awards, Restricted Stock Awards or Deferred Stock Awards (excluding for purposes of such 825,000 share limitation, the shares of Stock underlying any Awards granted in lieu of cash compensation or fees). For purposes of this limitation, the shares of Stock underlying any Awards that are forfeited, canceled or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding shall not be available for future issuance under the Plan. In addition, upon exercise of Stock Appreciation Rights, the gross number of shares exercised shall be deducted from the total

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(1) The number of shares reserved and available for issuance under the Plan as well as all other share numbers in the Plan have been adjusted to reflect the one-for-four reverse stock split of the Stock on July 15, 2004.

number of shares remaining available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 825,000 shares of Stock may be granted to any one individual grantee during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company.

*Changes in Stock.* Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for a different number or kind of securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Unrestricted Stock Awards, Restricted Stock Awards or Deferred Stock Awards, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-based Award, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, (v) the number of Stock Options automatically granted to Non-Employee Directors, and (vi) the price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

The Administrator shall also adjust the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration material changes in accounting practices or principles, extraordinary dividends, acquisitions or dispositions of stock or property or any other event if it is determined by the Administrator that such adjustment is appropriate to avoid distortion in the operation of the Plan, provided that no such adjustment shall be made in the case of an Incentive Stock Option, without the consent of the grantee, if it would constitute a modification, extension or renewal of the Option within the meaning of Section 424(h) of the Code.

*Mergers and Other Transactions.* In the case of and subject to the consummation of (i) the dissolution or liquidation of the Company, (ii) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (iii) a merger, reorganization or consolidation in which the outstanding shares of Stock are converted into or exchanged for a different kind of securities of the successor entity and the holders of the Company's outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the successor entity immediately upon completion of such transaction, or (iv) the sale of all of the Stock of the Company to an unrelated person or entity (in each case, a "Sale Event"), the Plan and all outstanding Awards granted hereunder shall terminate, unless provision is made in connection with the Sale Event in the sole discretion of the parties thereto for the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. In the event of such

termination, all Options and Stock Appreciation Rights that are not exercisable immediately prior to the effective time of the Sale Event shall become fully exercisable as of the effective time of the Sale Event and all other Awards shall become fully vested and nonforfeitable as of the effective time of the Sale Event, except as the Administrator may otherwise specify with respect to particular Awards in the relevant Award documentation, and each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights held by such grantee, including those that will become exercisable upon the consummation of the Sale Event; provided, however, that the exercise of Options and Stock Appreciation Rights not exercisable prior to the Sale Event shall be subject to the consummation of the Sale Event.

Notwithstanding anything to the contrary in this Section 3(c), in the event of a Sale Event pursuant to which holders of the Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the Sale Event, the Company shall have the right, but not the obligation, to make or provide for a cash payment to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the value as determined by the Administrator of the consideration payable per share of Stock pursuant to the Sale Event (the "Sale Price") times the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights.

*Substitute Awards.* The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees, directors or other key persons of another corporation in connection with the merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitation set forth in Section 3(a).

#### **ELIGIBILITY**

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and key persons (including consultants and prospective employees) of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

#### **STOCK OPTIONS**

Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

*Stock Options Granted to Employees and Key Persons.* The Administrator in its discretion may grant Stock Options to eligible employees and key persons of the Company or any Subsidiary. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

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*Exercise Price.* The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date.

*Option Term.* The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than 10 years after the date the Stock Option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the term of such Stock Option shall be no more than five years from the date of grant.

*Exercisability; Rights of a Stockholder.* Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

*Method of Exercise.* Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award agreement:

In cash, by certified or bank check or other instrument acceptable to the Administrator;

Through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the optionee on the open market or that have been beneficially owned by the optionee for at least six months and are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award agreement or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

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*Annual Limit on Incentive Stock Options.* To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

*Non-transferability of Options.* No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee, or by the optionee's legal representative or guardian in the event of the optionee's incapacity. Notwithstanding the foregoing, the Administrator, in its sole discretion, may provide in the Award agreement regarding a given Option that the optionee may transfer his Non-Qualified Stock Options to members of his immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Option.

### **STOCK APPRECIATION RIGHTS**

*Nature of Stock Appreciation Rights.* A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right, which price shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

*Grant and Exercise of Stock Appreciation Rights.* Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.

*Terms and Conditions of Stock Appreciation Rights.* Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator, provided that all Stock Appreciation Rights shall be exercisable during the grantee's lifetime only by the grantee or the grantee's legal representative.

*Stock Appreciation Rights Term.* The term of each Stock Appreciation Right shall be fixed by the Administrator, but no Stock Appreciation Right shall be exercisable more than ten years after the date the Stock Appreciation Right is granted.

### **RESTRICTED STOCK AWARDS**

*Nature of Restricted Stock Awards.* A Restricted Stock Award is an Award entitling the recipient to acquire, at such purchase price (which may be zero) as determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant ("Restricted Stock"). Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Stock Award is contingent on the grantee executing the Restricted Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

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*Rights as a Stockholder.* Upon execution of a written instrument setting forth the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Stock shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Stock are vested as provided in Section 7(d) below, and (ii) certificated Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

*Restrictions.* Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award agreement. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, if any, if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Stock that has not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a shareholder. Following such deemed reacquisition of unvested Restricted Stock that are represented by physical certificates, grantee shall surrender such certificates to the Company upon request without consideration.

*Vesting of Restricted Stock.* The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Notwithstanding the foregoing, in the event that any such Restricted Stock granted to an employee shall have a performance-based goal, the restriction period with respect to such shares shall not be less than one year, and in the event any such Restricted Stock granted to an employee shall have a time-based restriction, the restriction period with respect to such shares shall not be less than three years; provided, however, that Restricted Stock with a time-based restriction may become vested incrementally over such three-year period. The minimum vesting requirements set forth in the foregoing sentence will not apply to Restricted Stock granted to a Non-Employee Director. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a grantee's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the grantee's termination of employment (or other service relationship) with the Company and its Subsidiaries and such shares shall be subject to the provisions of Section 7(c) above.

### **DEFERRED STOCK AWARDS**

*Nature of Deferred Stock Awards.* A Deferred Stock Award is an Award of phantom stock units to a grantee, subject to restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Deferred Stock Award is contingent on the grantee executing the Deferred Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Notwithstanding the foregoing, in the event that any such

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Deferred Stock Award granted to an employee shall have a performance-based goal, the restriction period with respect to such award shall not be less than one year, and in the event any such Deferred Stock Award granted to an employee shall have a time-based restriction, the restriction period with respect to such award shall not be less than three years; provided, however, that a Deferred Stock Award with a time-based restriction may become vested incrementally over such three-year period. The minimum vesting requirements set forth in the foregoing sentence will not apply to Deferred Stock Awards granted to Non-Employee Directors. At the end of the deferral period, the Deferred Stock Award, to the extent vested, shall be paid to the grantee in the form of shares of Stock. To the extent that a Deferred Stock Award is subject to Section 409A, it may contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order for such Award to comply with the requirements of Section 409A.

*Election to Receive Deferred Stock Awards in Lieu of Compensation.* The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of the cash compensation or Restricted Stock Award otherwise due to such grantee in the form of a Deferred Stock Award. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate.

*Rights as a Stockholder.* During the deferral period, a grantee shall have no rights as a stockholder; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the phantom stock units underlying his Deferred Stock Award, subject to such terms and conditions as the Administrator may determine.

*Restrictions.* A Deferred Stock Award may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of during the deferral period.

*Termination.* Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a grantee's right in all Deferred Stock Awards that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

### **UNRESTRICTED STOCK AWARDS**

*Grant or Sale of Unrestricted Stock.* The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award to any grantee pursuant to which such grantee may receive shares of Stock free of any restrictions ("Unrestricted Stock") under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

### **CASH-BASED AWARDS**

The Administrator may, in its sole discretion, grant Cash-Based Awards to any grantee in such number or amount and upon such terms, and subject to such conditions, as the Administrator shall determine at the time of grant. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect

to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash or in shares of Stock, as the Administrator determines.

#### **PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES**

Notwithstanding anything to the contrary contained herein, if any Restricted Stock Award, Cash-Based Award or Deferred Stock Award granted to a Covered Employee is intended to qualify as "Performance-based Compensation" under Section 162(m) of the Code and the regulations promulgated thereunder (a "Performance-based Award"), such Award shall comply with the provisions set forth below:

*Performance Criteria.* The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. The Administrator, in its discretion, may adjust or modify the calculation of Performance Goals for such Performance Cycle in order to prevent the dilution or enlargement of the rights of an individual (x) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development, (y) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or (z) in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions provided however, that the Administrator may not exercise such discretion in a manner that would increase the Performance-Based Award granted to a Covered Employee. The performance criteria used in performance goals governing Performance-based Awards granted to Covered Employees may include any or all of the following: (i) return on equity, assets, capital or investment; (ii) pre-tax or after-tax profit levels; (iii) cash flow, funds from operations or similar measure; (iv) total shareholder return; (v) changes in the market price of the Stock; (vi) revenues, sales or market share; (vii) net income (loss) or earnings per share; (viii) computer support availability; (ix) expense margins or operating efficiency (including budgeted spending limits) or (x) project development milestones, any of which may relate to the Company or any Subsidiary, division, operating unit or business segment of the Company, or any combination of the foregoing, and may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group and, for financial measures, may be based on numbers calculated in accordance with U.S. generally accepted accounting principles or on an as adjusted basis.

*Grant of Performance-based Awards.* With respect to each Performance-based Award granted to a Covered Employee, the Committee shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the performance criteria for such grant, and the achievement targets with respect to each performance criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The performance criteria established by the Committee may be (but need not be) different for each Performance Cycle and different goals may be applicable to Performance-based Awards to different Covered Employees.

*Payment of Performance-based Awards.* Following the completion of a Performance Cycle, the Committee shall meet to review and certify in writing whether, and to what extent, the performance criteria for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-based Awards earned for the Performance Cycle. The Committee shall then determine the actual size of each Covered Employee's Performance-based Award, and, in doing so, may reduce or eliminate the amount of the Performance-based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

*Maximum Award Payable.* The maximum Performance-based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 825,000 Shares (subject to adjustment as provided)



in Section 3(b) hereof) or \$1,000,000 in the case of a Performance-Based Award that is a Cash-Based Award.

## **DIVIDEND EQUIVALENT RIGHTS**

*Dividend Equivalent Rights.* A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee only as a component of an Unrestricted Stock Award, a Restricted Stock Award or a Deferred Stock Award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award agreement. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other award. A Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other award.

*Interest Equivalents.* Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide in the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

*Termination.* Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 15 below, in writing after the Award agreement is issued, a grantee's rights in all Dividend Equivalent Rights or interest equivalents granted as a component of another Award that has not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

## **TAX WITHHOLDING**

*Payment by Grantee.* Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company's obligation to deliver stock certificates to any grantee is subject to and conditioned on tax obligations being satisfied by the grantee.

*Payment in Stock.* Subject to approval by the Administrator, a grantee may elect to have the minimum required tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Stock owned by the grantee with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

**TRANSFER, LEAVE OF ABSENCE, ETC.**

For purposes of the Plan, the following events shall not be deemed a termination of employment:

a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

**AMENDMENTS AND TERMINATION**

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. Except as provided in Section 3(b) or 3(c), in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect repricing through cancellation and re-grants or by exchanging a Stock Option or Stock Appreciation Right for any other Award. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 15 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(c).

**STATUS OF PLAN**

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

**Section 409A awards.**

To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

## GENERAL PROVISIONS

*No Distribution; Compliance with Legal Requirements.* The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange or similar requirements have been satisfied. The Administrator may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

*Delivery of Stock Certificates.* Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. All Stock certificates delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

*Stockholder Rights.* Until Stock is deemed delivered in accordance with Section 18(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

*Other Compensation Arrangements; No Employment Rights.* Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

*Trading Policy Restrictions.* Option exercises and other Awards under the Plan shall be subject to such Company's insider trading policy and procedures, as in effect from time to time.

*Designation of Beneficiary.* Each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no

beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

**EFFECTIVE DATE OF PLAN**

This Plan shall become effective upon approval by the holders of a majority of the votes cast at a meeting of stockholders at which a quorum is present. Subject to such approval by the stockholders and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options and other Awards may be granted hereunder on and after adoption of this Plan by the Board. No Incentive Stock Option may be granted under the Plan after the 10-year anniversary of the most recent prior date on which the Plan was approved by the Board of Directors (provided that the Plan was approved by stockholders within one year of such date) and no other Award may be granted under the Plan after the 10-year anniversary of the most recent prior date on which the Plan was approved by stockholders.

**GOVERNING LAW**

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS: MAY 12, 2004

DATE APPROVED BY STOCKHOLDERS: JUNE 18, 2004

DATE AMENDED AND RESTATED PLAN APPROVED BY  
BOARD OF DIRECTORS: APRIL 17, 2006

DATE AMENDED AND RESTATED PLAN APPROVED BY  
STOCKHOLDERS: MAY 24, 2006

DATE SECOND AMENDED AND RESTATED PLAN APPROVED BY  
BOARD OF DIRECTORS: APRIL 10, 2008

DATE SECOND AMENDED AND RESTATED PLAN APPROVED BY  
STOCKHOLDERS: [           , 2008]



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FOR  AGAINST  ABSTAIN

In their discretion, to transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT

MARK HERE IF YOU PLAN TO ATTEND THE MEETING

**THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR THE NOMINEE LISTED UNDER PROPOSAL 1 AND FOR PROPOSALS 2 AND 3.**

**NOTE:** Please sign exactly as name appears on your certificate. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, give full name and title as such.

**Please sign, date and return promptly in the accompanying envelope.**

Signature of Stockholder  
Print Name of Stockholder  
Date

Signature of Stockholder  
Print Name of Stockholder  
Date

**DETACH HERE**

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**NeuroMetrix, Inc.**

**Proxy for Annual Meeting of Stockholders**

**May 22, 2008**

**THIS PROXY IS SOLICITED ON BEHALF OF THE  
BOARD OF DIRECTORS OF NEUROMETRIX, INC.**

The undersigned, revoking all other prior proxies, hereby appoints Shai N. Gozani, M.D., Ph.D. and W. Bradford Smith and each of them alone, proxies, with full power of substitution, to vote all shares of common stock, par value \$0.0001 per share, of NeuroMetrix, Inc. (the Company ) that the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company, to be held on Thursday, May 22, 2008, at 8:30 a.m., local time, in the offices of Goodwin Procter LLP, Exchange Place, 53 State Street, Boston, MA 02109, and any adjournments or postponements thereof, with all powers the undersigned would possess if present, upon the matters set forth in the Notice of Annual Meeting of Stockholders and related Proxy Statement dated April 25, 2008, a copy of which has been received by the undersigned, AND IN THEIR DISCRETION UPON ANY OTHER BUSINESS THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENTS OR POSTPONEMENTS THEREOF. Attendance by the undersigned at the meeting or at any adjourned or postponed session thereof will not be deemed to revoke this proxy unless the undersigned affirmatively indicates at the meeting the intention of the undersigned to vote said shares in person.

**PLEASE DETACH AND MAIL IN THE ENVELOPE PROVIDED**

SEE REVERSE  
SIDE

CONTINUED AND TO BE SIGNED  
ON REVERSE SIDE

SEE REVERSE  
SIDE

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QuickLinks

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Appendix A Second Amended and Restated 2004 Stock Option and Incentive Plan