

PAC-WEST TELECOMM INC

Form DEF 14A

April 30, 2002

Table of Contents

SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

PAC-WEST TELECOMM, INC.

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

1776 W. March Lane, Suite 250

Stockton, California 95207

May 6, 2002

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Pac-West Telecomm, Inc., which will be held on June 11, 2002, at 10:00 a.m., Pacific time, at our principal executive offices, 1776 W. March Lane, Suite 250, Stockton, California, 95207.

A Notice of Meeting, Proxy Statement, Proxy Form and our 2001 Annual Report are included with this letter. The matters listed in the Notice of Meeting are more fully described in the Proxy Statement.

It is important that your shares are represented and voted at the annual meeting, regardless of the size of your holdings or whether or not you plan to attend in person. Accordingly, please mark, sign and date the enclosed Proxy Form and return it promptly in the enclosed envelope. If you attend the annual meeting, you may, of course, withdraw your proxy should you wish to vote in person.

We hope that you will be able to attend the meeting and we look forward to seeing you.

Sincerely,

/s/ WALLACE W. GRIFFIN

WALLACE W. GRIFFIN

Chairman and Chief Executive Officer

TABLE OF CONTENTS

NOTICE OF MEETING

PROXY STATEMENT

PROPOSITION 1 ELECTION OF DIRECTORS

PROPOSITION 2 APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE COMPANY S 1999 STOCK INCENTIVE PLAN

DIRECTORS AND EXECUTIVE OFFICERS

EXECUTIVE COMPENSATION

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

PERFORMANCE GRAPH

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT

SUBMISSION OF SHAREHOLDER PROPOSALS FOR THE 2002 ANNUAL MEETING

1999 STOCK INCENTIVE PLAN (amended and restated as of January 29, 1999) (amended and restated as of May 2, 2000) (amended and restated as of February 25, 2002)

Table of Contents

1776 W. March Lane, Suite 250

Stockton, California 95207

NOTICE OF MEETING

The annual meeting of shareholders of Pac-West Telecomm, Inc. (the Annual Meeting) will be held on June 11, 2002, at 10:00 a.m., Pacific time, at our principal executive offices, 1776 W. March Lane, Suite 250, Stockton, California, 95207, to consider and take action with respect to the following matters:

1. the election of three directors to hold office for a term of three years;
2. the approval of the amendment and restatement of our 1999 Stock Incentive Plan to increase the number of shares of common stock authorized and reserved for option grants under the Plan by 1,000,000 shares; and
3. the transaction of such other business as may properly come before the annual meeting and any adjournments or postponements thereof.

Holders of record of our common stock at the close of business on April 17, 2002 are entitled to receive notice of and to vote on all matters presented at the Annual Meeting and at any adjournments or postponements thereof. A list of such shareholders will be available for examination by any shareholder for any purpose germane to the Annual Meeting during normal business hours at our principal executive offices, which are located at 1776 W. March Lane, Suite 250, Stockton, California 95207.

By Order of the Board of Directors

/s/ ROBERT C. MORRISON

ROBERT C. MORRISON

Secretary

May 6, 2002

Your vote is important whether or not you plan to attend the Annual Meeting in person and regardless of the number of shares of our common stock you own, please mark, sign and date the enclosed proxy form and mail it promptly in the envelope provided to help ensure that your shares of Common Stock will be represented at the Annual Meeting. If you attend the Annual Meeting, you may, of course, withdraw your proxy and vote in person. In addition, you may revoke your proxy before it is voted by delivering written notice to our Corporate Secretary at our principal executive offices at the address above or by submission of a later-dated proxy.

Table of Contents

1776 W. March Lane, Suite 250

Stockton, California 95207

PROXY STATEMENT

Annual Meeting of Shareholders

To Be Held on June 11, 2002

This proxy statement (this Proxy Statement) is being furnished to the holders of common stock, par value \$0.001 per share, of Pac-West Telecomm, Inc. (Pac-West or the Company) in connection with the solicitation of proxies by and on behalf of our board of directors for use at the annual meeting of shareholders (the Annual Meeting) to be held on June 11, 2002, at 10:00 a.m., Pacific time, and at any adjournments or postponements thereof. The purpose of the Annual Meeting is to elect three directors to our board of directors and approve the amendment and restatement of our 1999 Stock Incentive Plan. Each of these propositions is described more fully in this Proxy Statement.

This Proxy Statement, Proxy Form and our 2001 Annual Report, are being mailed on or about May 6, 2002 to holders of record of our common stock at the close of business on April 17, 2002.

If the enclosed Proxy Form is properly signed, dated and returned to Pac-West, the individuals identified as proxies thereon will vote the shares represented by the Proxy Form in accordance with the directions noted thereon. If no direction is indicated, the proxies will vote **FOR** the nominees named herein as directors and **FOR** the amendment and restatement of our 1999 Stock Incentive Plan. At this time, our management is not aware of any matters other than those discussed in this Proxy Statement that will be presented at the Annual Meeting. If other matters are presented, all proxies will be voted in accordance with the recommendations of our management.

Returning your completed Proxy Form will not prevent you from voting in person at the Annual Meeting if you are present and wish to vote. In addition, you may revoke your proxy before it is voted by delivering written notice to our Corporate Secretary prior to the beginning of the Annual Meeting at our principal executive offices at the address above or by submission of a later-dated proxy.

Only record holders of our Common Stock at the close of business on April 17, 2002 will be entitled to vote at the Annual Meeting. Each outstanding share of common stock entitles the holder thereof to one vote on each matter submitted to a vote of the holders of our common stock at the Annual Meeting. As of March 31, 2002, there were 36,148,487 shares of our common stock outstanding. The presence in person or by proxy of a majority of the shares of common stock outstanding will constitute a quorum for the purpose of transacting business at the Annual Meeting. Abstentions will be treated as present and entitled to vote, and therefore will be counted in determining the existence of a quorum and will have the effect of a vote against any proposition that requires the affirmative vote of a majority of the shares present and entitled to vote at the Annual Meeting in order to be approved or adopted. In addition, broker non-votes will be considered present but not entitled to vote, and thus will be counted in determining the existence of a quorum but will not be counted in determining whether a proposition requiring the approval of a majority of the shares present and entitled to vote has been approved or adopted, or whether a majority of the vote of the shares present and entitled to vote has been cast.

Table of Contents

The Company will bear the entire cost of this solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement, the Proxy Form, and our 2001 Annual Report. We intend to provide copies of such solicitation materials to brokerage houses, fiduciaries, custodians and other persons or entities holding our common stock on behalf of the beneficial owner so that the solicitation materials may be forwarded to such beneficial owners. This solicitation, which is being conducted by mail, may be supplemented by a solicitation by telephone, telegram, or other permissible means by directors, officers or employees of Pac-West. No additional compensation will be paid to these individuals for conducting such a solicitation.

Table of Contents

PROPOSITION 1

ELECTION OF DIRECTORS

Our bylaws provide that the authorized number of members of our board of directors shall be nine. The board of directors is divided into three classes of directors, with each class of directors serving staggered three-year terms. Each director, including any director appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected or appointed and qualified except in the case of the death, removal or resignation of such director. Pursuant to our bylaws, vacancies on the board of directors and newly created directorships resulting from any increase in the authorized number of directors, which is currently not anticipated, are filled by a majority vote of the incumbent directors. The board of directors currently consists of nine directors. Class I consists of A. Gary Ames, David G. Chandler and Samuel A. Plum, whose terms each expire at the 2002 annual meeting. Class II consists of Mark S. Fowler, Dr. Jagdish N. Sheth and Robert C. Morrison, whose terms each expire at the 2004 annual meeting. Class III consists of Wallace W. Griffin, Jerry L. Johnson and John K. La Rue, whose terms each expire at the 2003 annual meeting.

Messrs. Ames, Chandler and Plum have been nominated by our board of directors for re-election at the Annual Meeting as Class I directors. See Management Nominees for Director and Management Continuing Directors for information with respect to Messrs. Ames, Chandler and Plum, as well as our continuing directors. We believe that each nominee is willing to be elected and to serve on our board of directors. In the event that any nominee is unable to serve or is otherwise unavailable for election, which is not now contemplated, the incumbent directors may or may not select a substitute nominee. If a substituted nominee is selected, all proxies will be voted for the person selected.

Directors will be elected at the Annual Meeting by a majority of the votes cast at the Annual Meeting by the holders of shares represented in person or by proxy. There is no cumulative voting as to any matter, including the election of directors.

The board of directors has carefully considered and approved the nominees and recommends that you vote *FOR* the election of Messrs. Ames, Chandler and Plum.

Table of Contents

PROPOSITION 2

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE COMPANY'S

1999 STOCK INCENTIVE PLAN

Introduction

We have established the Pac-West Telecomm, Inc. 1999 Stock Incentive Plan, as amended and restated from time to time, in accordance with its terms (the Current Incentive Plan), which authorizes the granting of stock options, restricted stock, stock appreciation rights (SARS), dividend equivalent rights, performance units, performance shares or other similar rights or benefits to our or our related entities' current or future employees, directors, and consultants. Under the Current Incentive Plan, the board of directors is authorized to issue options to purchase shares of common stock in such quantity, at such exercise prices, on such terms and subject to such conditions as established by the board of directors.

On February 25, 2002, the board of directors adopted, subject to shareholder approval, the amendment and restatement of the Current Incentive Plan (as amended, the Amended Incentive Plan), which would increase the number of shares of common stock authorized and reserved for grant by 1,000,000 shares from 4,751,750 shares under the Current Incentive Plan (after giving effect to certain adjustments described below) to 5,751,750 shares under the Amended Incentive Plan and make certain changes to the terms of the plan described more fully below.

The proposed increase in the number of shares of common stock authorized and reserved for grant under the Amended Incentive Plan is intended to ensure that the Company will maintain sufficient equity incentives to attract and retain the best available personnel, to provide additional incentives to employees, directors, and consultants, and to promote the success of the Company's business. In addition, the Amended Incentive Plan would adopt a limit on the maximum number of common stock with respect to which options may be granted to any grantee in any fiscal year of the company and certain other administrative provisions to comply with the performance-based compensation exception to the deduction limit of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code).

If approved, the Current Incentive Plan would be amended and restated in its entirety as set forth in Exhibit A. To be approved, the amendment and restatement must be approved by a majority of the votes cast at the Annual Meeting by the holders of shares represented in person or by proxy.

The summary of the Amended Incentive Plan that appears below is qualified by reference to the full text of the Amended Incentive Plan set forth in Exhibit A.

Types of Awards

The board of directors or any committee thereof appointed to administer the Amended Incentive Plan (the Administrator) is authorized under the plan to award any type of arrangement to an employee, director or consultant that is not inconsistent with the provisions of the plan and that by its terms involves (i) shares of common stock, (ii) an option, SAR, or similar right, or (iii) any other security with the value derived from the value of shares of common stock, including, but not limited to options, sales or bonuses of restricted stock, SARs, dividend equivalent rights, performance units or performance shares, or any combination thereof.

Term

The Amended Incentive Plan will terminate on January 29, 2009 unless sooner terminated by the board of directors. Termination of the Amended Incentive Plan will not affect grants made prior to termination, but no grants will be made after termination.

Table of Contents

Administration

The Amended Incentive Plan is administered by our compensation committee, with authority delegated by the board of directors. The Administrator of the Amended Incentive Plan has the authority to: (i) select the employees, directors and consultants to whom awards may be granted; (ii) determine whether and to what extent awards are granted; (iii) determine the number of shares or other amount of consideration to be covered by each award; (iv) approve forms of agreements in connection with the awards; (v) determine the terms and conditions of any award; (vi) establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford grantees favorable treatment under such rules or laws; (vii) amend the terms of any outstanding award, subject to certain limitations requiring the consent of grantees; (viii) construe and interpret the terms of the plan; and (ix) take other action, not inconsistent with the plan, as the Administrator deems appropriate.

Any grants of awards to a covered employee intended to qualify as performance-based compensation under the Code shall be made only by a committee, which is comprised solely of two or more directors eligible to serve on such committee.

Eligibility

Awards other than incentive stock options may be granted to employees, directors and consultants. Incentive stock options may be granted only to employees of the Company, a parent, or subsidiary. An employee, director or consultant who has been granted an award may, if otherwise eligible, be granted additional awards. Awards may be granted to such employees, directors, or consultants who are residing in foreign jurisdictions as the administrator of the plan may determine.

Securities Subject to the Incentive Plan

An aggregate of up to 5,751,750 shares of common stock may be issued pursuant to the Amended Incentive Plan (without regard to grants under other stock option plans). This represents an increase of 1,000,000 shares from the 4,751,750 shares of common stock authorized and reserved under the Current Incentive Plan. The Company has filed with the Securities and Exchange Commission (the SEC) a registration statement on Form S-8 under the Securities Act of 1933, as amended (the Securities Act), covering common stock to be offered pursuant to the Current Incentive Plan. It is currently anticipated that a registration statement on Form S-8 under the Securities Act will be filed with the SEC, covering the shares of common stock to be offered pursuant to the Amended Incentive Plan if approved by the shareholders.

Any shares of common stock covered by an award that is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum aggregate number of shares of common stock that may be issued under the Amended Incentive Plan. If any unissued shares of common stock are retained for such award or any withholding taxes due with respect to such award, such retained shares of common stock shall become available for future issuance under the Amended Incentive Plan. Shares that actually have been issued under the Amended Incentive Plan pursuant to an award shall not be returned to the plan and shall not become available for future issuance under the plan, except that if unvested shares of common stock are forfeited, or repurchased by the Company at their original purchase price, such shares shall become available for future grant under the plan.

Subject to any required action by shareholders of the Company, the number of shares of common stock covered by each outstanding award, and the number of shares of common stock that have been authorized for issuance under the plan, but as to which no awards have yet been granted or that have been returned to the plan, the exercise or purchase price of each such outstanding award, as well as any other terms that the Administrator of the plan determines require adjustment shall be proportionately adjusted for (i) any stock split, reverse stock split, stock dividend, combination or reclassification of the shares of common stock, (ii) any other increase or decrease in the number of issued shares of common stock effected without receipt of consideration by the Company, or (iii) as the Administrator of the plan may determine in its discretion. Except as the Administrator of the plan determines, no issuance by the Company of shares of common stock

Table of Contents

of any class, or securities convertible into shares of common stock of any class, shall effect, and no adjustment shall be made with respect to, the number or price of shares of common stock subject to an award.

In the event of (i) any merger or consolidation in which the Company is not the surviving entity, (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company in connection with the complete liquidation or dissolution of the Company, (iii) any reverse merger in which the Company is the surviving entity but in which voting control is transferred to a third party, or (iv) an acquisition of voting control of the Company's securities, all awards under the plan shall terminate immediately prior to such transaction unless the award is assumed by the successor corporation or its parent in connection with the transaction.

Terms and Conditions of Awards

Each award shall be designated in the award agreement. The Administrator shall, subject to the terms of the Amended Incentive Plan, determine the provisions, terms, and conditions of each award, including but not limited to, the vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment, payment contingencies and satisfaction of performance criteria. In the case of an option, the option shall be designated as either an incentive stock option or a non-qualified stock option. Notwithstanding such designation, to the extent that the aggregate fair market value of shares subject to options designated as incentive stock options that become exercisable for the first time by a grantee during any calendar year exceeds \$100,000 on the date of grant, such excess options shall be treated as non-qualified options.

The term of each award shall be the term stated in the award agreement, provided that the term does not exceed ten (10) years from the date of grant. In the case of an incentive stock option granted to a grantee, who at the time the option is granted, owns stock representing more than ten (10) percent of the voting power of all classes of stock of the Company or related entities, the term of the incentive stock option shall be not more than five (5) years from the date of the grant.

Under the Amended Incentive Plan, the maximum number of shares with respect to which options or SARs may be granted to any grantee in any fiscal year of the Company shall be 500,000 shares. In connection with a grantee's commencement of employment, a grantee may be granted options and SARs for up to an additional 500,000 shares. In each case, such limitation shall be adjusted in connection with changes in capitalization or a corporate transaction.

Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the grantee only by the grantee.

Award Exercise or Purchase Price

The exercise or purchase price for an award of incentive stock options or an award of non-qualified stock options to an employee who at the time the option is granted, owns stock representing more than ten (10) percent of the voting power of all classes of stock of the Company or related entities the exercise price shall not be less than one hundred and ten (110) percent of the fair market value of the shares on the date of the grant. In the case of the sale of shares of common stock to such an employee, the purchase price shall also not be less than one hundred and ten (110) percent of the fair market value of the shares on the date of the grant.

The exercise purchase price, if any, for an award of incentive stock options to an employee who at the time the option is granted, owns stock representing ten (10) percent or less of the voting power of all classes of stock of the Company or related entities shall not be less than one hundred (100) percent of the fair market value of the shares on the date of grant. In the case of a grant of non-qualified stock options or the sale of shares of common stock, the exercise or purchase price to such employees shall not be less than eighty-five (85) percent of the fair market value of the shares on the date of the grant.

Subject to applicable laws, the consideration to be paid for the shares to be issued upon exercise or purchase of an award, including method of payment, shall be determined by the Administrator. The

Table of Contents

Administrator is authorized to accept as consideration for shares of common stock under the plan cash, check, promissory note, surrender of shares of common stock, or, in the case of options, payment through a broker-dealer.

Exercise of Awards

Any award granted under the Amended Incentive Plan shall be exercisable at such times and under such conditions as the Administrator may determine under the Amended Incentive Plan and as specified in the award agreement. In the case of an option, awards may not be exercisable at a rate of less than twenty (20%) percent per year over five (5) years from the date the option is granted.

Effect of Termination of Employment

If a grantee terminates employment with the Company (but not in the event of a grantee's change of status from employee to consultant), such grantee may, for the period specified in the award agreement (but not less than three (3) months) following termination, exercise the award, provided that the award has not previously expired by its terms. The award agreement may provide that an employee terminated for cause may not exercise following termination. In the event of the grantee's disability or death, such grantee or the grantee's estate (or a person who has acquired right to exercise by inheritance) may, for the period specified in the award agreement (but not less than twelve (12) months) following termination as a result of disability or death, exercise the award, provided the award has not previously expired by its terms.

Certain Federal Income Tax Consequences

The following is intended only as a brief summary of the Federal income tax rules relevant to recipients of awards under the Amended Incentive Plan and does not purport to be a complete enumeration or analysis of all potential relevant tax effects. These rules are highly technical and subject to change in the future. It is accordingly recommended that all award recipients consult their own tax advisors concerning federal, state, local and foreign income and other tax considerations relating to such awards and rights thereunder. In particular, it is recommended that each award recipient consult his or her own tax advisor as to the AMT (as defined below) consequences of an award and the special tax considerations for a 16(b) Person (as defined below) and whether and when to make a Section 83(b) Election (as defined below), using a stock swap or stock withholding, utilizing financial assistance from the Company or receiving an award in connection with a deferral of compensation.

Non-qualified Stock Options. An optionee does not recognize any taxable income, and the Company is not entitled to a deduction, upon the grant of a non-qualified option. Upon the exercise of a non-qualified option, the optionee recognizes ordinary income (subject to wage and employment tax withholding) equal to the excess of the fair market value of the shares acquired over the option price. The amount of such excess is generally determined by reference to the fair market value of the common stock on the date of exercise. However, in the case of an optionee subject to six month short-swing profit liability under Section 16(b) of the Exchange Act (a 16(b) Person) (typically, officers, directors and major shareholders of the Company), such excess is determined by using the fair market value on the date of exercise (or, if later, the date six months after the date of grant unless such optionee elects to be taxed based on the fair market value of the common stock on the date of exercise by filing an appropriate election with the Internal Revenue Service within 30 days after the exercise date (a Section 83(b) Election)). An optionee's basis in the stock received is equal to such stock's fair market value on the date of exercise (or on the date six months after the date of grant, if later, in the case of an optionee who is a 16(b) Person and who makes no Section 83(b) Election at the time of exercise). Generally, the Company is entitled to a deduction equal to the compensation taxable to the optionee.

If an optionee sells shares acquired pursuant to the exercise of a non-qualified option, the optionee will recognize capital gain or loss equal to the difference between the selling price of the shares and the optionee's basis in the shares. Such capital gain or loss is long-term or short-term, depending on whether the optionee has held the shares for more than one year. In the case of an optionee who is a 16(b) Person and who makes no

Table of Contents

Section 83(b) Election at the time of exercise, any such capital gain will be long-term only if the stock has been held for more than one year after the later of the exercise date or the date six months after the date of grant. The Company is not entitled to any deduction with respect to any capital gain recognized by the optionee.

Capital losses on the sale of such shares may be used to offset capital gains. The net capital gain of an individual taxpayer is subject to a maximum rate of 20% for the sale of capital assets held more than one year or a maximum rate of 39.6% (the maximum ordinary income tax rate) for the sale of capital assets held one year or less. If capital losses exceed capital gains, then up to \$3,000 of the excess losses may be deducted from ordinary income. Remaining capital losses may be carried forward to future tax years.

Incentive Stock Options. In general, an optionee does not recognize taxable income on the grant or exercise of an incentive stock option. However, the excess of the stock's fair market value on the exercise date (the fair market value on the exercise date or six months after the date of grant, whichever is later, is likely to govern in the case of a 16(b) Person who makes no Section 83(b) Election at the time of exercise) over the option price will be included in the optionee's alternative minimum taxable income and thereby may subject the optionee to an alternative minimum tax. Such alternative minimum tax may be payable even though the optionee receives no cash upon the exercise of his or her incentive stock option with which to pay such tax. Upon the disposition of shares of common stock acquired pursuant to the exercise of an incentive stock option (i) more than one year after the date of exercise, and (ii) more than two years after the date of grant, the optionee recognizes long-term capital gain or loss, as the case may be, measured by the difference between the stock's selling price and the exercise price. The Company is not entitled to any tax deduction by reason of the grant or exercise of an incentive stock option, or a disposition of stock received upon the exercise of an incentive stock option after the required holding period has been satisfied.

If an optionee disposes of the shares of stock acquired pursuant to the exercise of an incentive stock option before the expiration of the required holding period described above (a disqualifying disposition), the difference between the exercise price of such shares and the lesser of (i) the fair market value of the shares on the date of exercise (the fair market value on the exercise date or on the date which is six months after the date of grant, whichever is later, is likely to govern in the case of a 16(b) Person who makes no Section 83(b) Election at the time of exercise), or (ii) the selling price, will constitute compensation taxable to the optionee as ordinary income. Generally, in the case of a disqualification disposition, the Company is allowed a corresponding tax deduction equal to the amount of compensation taxable to the optionee. If the selling price of the stock exceeds the fair market value on the exercise date (or six months after the date of grant, if later, in the case of a 16(b) Person who makes no Section 83(b) Election), the excess will be taxable to the optionee as capital gain (long-term or short-term, depending upon whether the optionee held the stock for more than one year). The Company is not allowed a deduction with respect to any such capital gain recognized by the optionee.

Use of Common Stock to Pay Option Price. If an optionee delivers previously acquired common stock, however acquired, in payment of all or part of the option price of a non-qualified option, the optionee will not, as a result of such delivery, be required to recognize as taxable income or loss any appreciation or depreciation in the value of the previously-acquired common stock after its acquisition date. The optionee's tax basis in, and holding period for, the previously-acquired common stock surrendered carries over to an equal number of the option shares received on a share-for-share basis. The fair market value of the shares received in excess of the shares surrendered constitutes compensation taxable to the optionee as ordinary income. Such fair market value is determined on the date of exercise, except in the case of 16(b) Persons as discussed above. The tax basis for such shares is equal to their fair market value as so determined, and with respect to such shares, the holding period begins on the date on which the fair market value of such shares is determined. Generally, the Company is entitled to a tax deduction equal to the compensation income recognized by the optionee.

If an optionee delivers previously acquired common stock (other than stock acquired upon exercise of an incentive stock option and not held for the required holding period) in payment of all or part of the option price of an incentive stock option, the optionee will not be required to recognize as taxable income or loss any appreciation or depreciation in the value of the previously-acquired common stock after its acquisition date.

Table of Contents

The optionee's tax basis in, and holding period (for capital gain, but not disqualifying disposition, purposes) for the previously acquired stock surrendered carries over to an equal number of the option shares received on a share-for-share basis. Shares received in excess of the shares surrendered have a tax basis equal to the amount paid (if any) in excess of the previously acquired shares used to pay the exercise price, and such shares' holding period will begin on the date of exercise (with the possible exception of 16(b) Persons). Proposed regulations provide that where an incentive stock option is exercised using previously acquired stock, a later disqualifying disposition of the shares received will be deemed to have been a disposition of the shares having the lowest basis first.

If an optionee pays the exercise price of an incentive stock option in whole or in part with previously acquired common stock that was acquired upon the exercise of an incentive stock option and that has not been held for the required holding period, the optionee will recognize ordinary income (but not capital gain) under the rules applicable to disqualifying dispositions. The Company will be entitled to a corresponding deduction. The optionee's basis in the shares received in exchange for the shares surrendered will be increased by the amount of ordinary income recognized by the optionee.

Stock Appreciation Rights. A grantee does not recognize any taxable income, and the Company is not entitled to a deduction, upon the grant of an SAR. Upon the exercise of an SAR, the grantee will recognize ordinary income equal to the amount of (i) cash payable to the grantee (if any) and (ii) the fair market value of the common stock distributed to the grantee (if any) by reason of such exercise.

Restricted Stock. An officer, employee or other individual who receives common stock pursuant to a restricted stock award should not recognize any taxable income upon the receipt of such award unless he or she makes a Section 83(b) Election. Instead, the recipient should recognize taxable compensation income at the time his or her interest in such shares is no longer subject to the repurchase option imposed by the Incentive Plan, in an amount equal to the fair market value of such shares at such time minus the amount, if any, paid for such shares. The tax basis of such shares to the recipient should be equal to the amount includable in his or her gross income as compensation, plus the amount, if any, paid for such shares, and his or her holding period for such shares should normally commence on the day following the date on which such shares are no longer subject to the repurchase option imposed by the Amended Incentive Plan. Dividends paid on restricted stock awards should be included as compensation for federal income tax purposes when received. In lieu of being taxed under the foregoing rules, the recipient may elect to be taxed on compensation income equal to the fair market value of the shares on the award date minus the amount, if any, paid for such shares by making a Section 83(b) Election no later than 30 days after the award date. If a recipient makes a Section 83(b) Election, his or her tax basis in his or her shares should be equal to the amount includable in his or her gross income as compensation plus the amount, if any, paid for such shares, and his or her holding period in the shares should begin on the day following the award date.

Performance Awards. An officer, employee or other individual to whom a performance unit is awarded should recognize no taxable income at the time such award is made. Such person should recognize taxable income, however, at the time cash is paid to him or her pursuant to such award, and the amount of such income should be the amount of such cash.

Limits on Company Deductions. The company for which an individual is performing services will generally be allowed to deduct amounts that are includable in the income of such person as ordinary compensation income at the time such amounts are so includable, provided that such amounts qualify as reasonable compensation for personal services actually rendered. However, if, in any taxable year, an employee's total compensation from the company exceeds \$1 million, compensation in excess of \$1 million that would otherwise be deductible by the company may not be tax deductible under Code Section 162(m) if such employee is a covered employee at the time the compensation is included in the employee's taxable income. An employee is a covered employee if he or she is (1) the chief executive officer or is an individual acting in such capacity, or (2) one of the four most highly compensated employees (other than the chief executive officer) employed by the company at the end of the taxable year, whose compensation is required to be disclosed under the Exchange Act at the end of the Company's taxable year. Compensation that is performance-based within the meaning of Code Section 162(m) is excluded from the calculation of taxable

Table of Contents

income subject to the \$1 million deduction limit. The Company intends that compensation realized upon the exercise of an option or SAR granted under the Amended Incentive Plan be regarded as performance-based under Code Section 162(m) and that such compensation be deductible without regard to the limits of Code Section 162(m).

The Board of Directors recommends a vote *FOR* the approval of the amendment and restatement of the Company's Current Incentive Plan.

Table of Contents**DIRECTORS AND EXECUTIVE OFFICERS**

The table below sets forth certain information as of March 31, 2002 with respect to Pac-West's current directors, executive officers, and key employees:

Name	Age	Position(s)
Executive Officers:		
Wallace W. Griffin	63	Chief Executive Officer and Chairman of the Board
Henry R. Carabelli	46	President and Chief Operating Officer
Michael B. Hawn	38	Vice President Customer Network Services
Wayne Bell	30	Vice President Marketing
H. Ravi Brar	33	Vice President and Acting Chief Financial Officer
Harry W. Wilson	59	Vice President Human Resources
John F. Sumpter	54	Vice President Regulatory
Directors:		
Jerry L. Johnson	54	Director
John K. La Rue	52	Director
A. Gary Ames	57	Director
David G. Chandler	44	Director
Mark S. Fowler	59	Director
Samuel A. Plum	57	Director
Dr. Jagdish N. Sheth	63	Director
Robert C. Morrison	55	Director

The present principal occupations and recent employment history of each of our executive officers, key employees and directors listed above are set forth below.

Nominees for Director

A. Gary Ames has served as one of our Directors since July 2000. Mr. Ames served as President and Chief Executive Officer of MediaOne International, a provider of broadband and wireless communications from 1995 until his retirement in June 2000. From 1989 to 1995, he served as President and Chief Executive Officer of U S West Communications, a regional provider of residential and business telephone services, and operator and carrier services. Mr. Ames also serves as a director of Albertsons, Inc., Tektronix, Inc., Infowave Software, AT&T Latin America and etrieve, Inc.

David G. Chandler has served as one of our Directors since September 1998. Mr. Chandler is a Managing Director of William Blair Capital Partners, a Chicago-based private equity firm. In addition, Mr. Chandler is a Principal of William Blair & Company, L.L.C. where he has been employed since 1987. Prior to joining William Blair & Company, he was an investment banker with Morgan Stanley & Co. Inc. from 1984 to 1987. Mr. Chandler serves as a director of the following companies: Gibraltar Packaging Group, Morton Grove Pharmaceuticals, Inc., PharmaResearch Corporation, Engineering Materials Corp., Pre Delivery Services Corporation, U.S. Education Corporation, The Plastics Group and Sweetwater Sound, Inc.

Samuel A. Plum has served as one of our Directors since September 1998. Mr. Plum has been a Managing General Partner of the general partner of SCP Private Equity Partners, L.P. since its commencement in August 1996 and was employed by Safeguard from 1993 to 1996. From February 1989 to January 1993, Mr. Plum served as President of Charterhouse, Inc. and Charterhouse North American Securities, Inc., the U.S. investment banking and broker-dealer divisions of Charterhouse PLC, a merchant bank located in the United Kingdom. From 1973 to 1989, Mr. Plum served in various capacities in the investment banking divisions of Paine Webber Inc. and Blyth Eastman Dillon & Co., Inc. Mr. Plum has 28 years of investment banking, mergers and acquisitions and private equity investment experience. Mr. Plum

Table of Contents

also serves as a director of Index Stock Photography, Inc., Metallurg Holdings, Inc., Pentech Financial Services Inc. and Webvision Inc.

Continuing Directors

Mark S. Fowler has served as one of our Directors since August 1999. Mr. Fowler is a founder and current Chairman of Assure Sat, Inc., a business formed for the purpose of operating telecommunications satellites that provide backup protection to satellite operators. In addition, Mr. Fowler founded and served as CEO of Power Fone, a business sold to Nextel Communications in 1994 for \$400 million. He also was a co-founder and Chairman from 1996 to January 2000 of UniSite, Inc., a provider of leased tower space to wireless service operating companies. From 1981 to 1987, Mr. Fowler served as Chairman of the Federal Communications Commission and practiced communications law with the law firm of Latham & Watkins from 1987 to 1994 as Senior Communications Counsel, and, from 1994 to 2000, as of counsel to the firm. Mr. Fowler also serves as a director of TalkAmerica Holdings, Inc. and Beasley Broadcast Group, Inc.

Wallace W. Griffin has served as the President, Chief Executive Officer and a Director of Pac-West from September 1998 to June 2001, at which time he was elected Chairman and Chief Executive Officer. From September 2001 to February 2002, Mr. Griffin assumed an additional interim role as our Chief Financial Officer. From 1994 to 1997, Mr. Griffin served as a Group President for a number of Jones International companies, including Jones Lightwave, Ltd., a competitive local exchange carrier, and Jones Education Company, a leader in using technology to deliver education. Concurrently, he was co-owner of a consulting and business development company, Griffin Enterprises, Inc. From 1987 through 1992, Mr. Griffin served as the President and Chief Executive Officer of U S West Marketing Resources Group, where he managed the \$1 billion publishing, media software and advertising services division. Mr. Griffin has over 36 years experience in telecommunications, cable television, publishing and advertising. Mr. Griffin is also a director of DDx Incorporated.

Jerry L. Johnson served as our Chairman of the Board from September 1998 until June 2001. From 1995 until December 2001, Mr. Johnson was employed by Safeguard Scientifics, Inc. where he was the Executive Vice President overseeing the partner companies in the E-Communications group. From 1985 to 1995, he worked at U S West in various positions, including Vice President, Network and Technology Services, which included managing U S West's largest division, and supervising 21,000 management, engineering, technical and clerical employees. From 1983 to 1985, Mr. Johnson was President and CEO of Northwestern Bell Information Technologies. Mr. Johnson also serves as a Director of Dynegy, Inc., E-Money Advisors and MDL Capital.

John K. La Rue founded Pac-West in 1980 and served as its President until September 1998. From September 1998 until July 2001, Mr. La Rue has served as our Executive Vice President. Currently, Mr. La Rue is employed on a part-time basis, serving as an advisor to Mr. Griffin and Mr. Carabelli. Mr. La Rue has over 32 years of experience in the telecommunications industry.

Robert C. Morrison has served as one of our Directors since June 2001 and has served as our Corporate Secretary since January 2001. Mr. Morrison is a senior attorney and shareholder of Neumiller and Beardslee, a professional corporation. Neumiller and Beardslee and Mr. Morrison have provided legal counsel to the Company since its formation and to its predecessor continuously since 1988. Mr. Morrison served as Managing Director of Neumiller and Beardslee from 1982 through 1990. Mr. Morrison has been a practicing business attorney since 1972. He currently serves on the Board of Regents of the University of California and the Boards of Directors of the Lassen Volcanic National Park Foundation and UC Davis Foundation.

Dr. Jagdish N. Sheth has served as one of our Directors since July 1999. Dr. Sheth has also been the Charles H. Kellstadt Professor of Marketing in the Goizueta Business School since 1991 and is the founder of the Center for Relationship Marketing at Emory University. From 1984 to 1991, Dr. Sheth was the Robert E. Brookner Professor of Marketing at the University of Southern California and is the founder of its Center for Telecommunications Management. Dr. Sheth also serves as a director of Norstan, Inc. and Wipro Limited.

Table of Contents

Officers (Other than Officers Serving as a Director)

Wayne Bell has served as Vice President of Marketing since he joined Pac-West in August 2001. Prior to joining Pac-West, Mr. Bell served as Vice president of Marketing and Channel Development for @Link Networks, Inc. since January 2000. From 1998 to 2000, he was employed by ICG Communications where he held the position of Senior Director of Product and Process Development. Prior to ICG, Mr. Bell served as Acting Director of Program Office for U S West Communications, Inc. Mr. Bell brings over nine years of telecommunications experience to Pac-West.

H. Ravi Brar served as our Vice President of Finance and Treasurer since September 2001 and was appointed our Acting Chief Financial Officer in February 2002. Previously, he held the positions of Vice President of Customer Operations and Vice President of Business Development. Mr. Brar has been employed with us since July 1999. In addition, Mr. Brar serves as President and is a director of Installnet Inc. and US Net Solutions, Inc., each a wholly-owned subsidiary of our Company. Prior to joining us, Mr. Brar was employed with Xerox Corporation from 1991 to 1999, where he held several senior level business development and financial management positions, including Business Development Manager of Xerox's developing markets operations in China and Russia, and Area General Manager and Controller of Xerox's business services division in Pittsburgh, PA.

Henry R. Carabelli has served as President and Chief Operating Officer of Pac-West since he joined the Company in June 2001. Prior to joining Pac-West, Mr. Carabelli served as President of @Link Networks, Inc. since 1999. From 1996 to 1999, Mr. Carabelli was employed by ICG Communications, a Colorado based competitive local exchange carrier, where he held the positions of Chief Operating Officer and Executive Vice President of Network Operations. Prior to ICG, Mr. Carabelli spent 19 years in management with Ameritech and Michigan Bell. Mr. Carabelli brings over 24 years of telecommunications experience to Pac-West.

Michael B. Hawn has served as Vice President of Customer Network Services of Pac-West since he joined the Company in August 2001. Prior to joining Pac-West, Mr. Hawn was employed by @Link Networks, Inc. since February 2000, where he held the positions of Vice President of National Operations and Vice President of Program Management. From 1997 to 2000, he was employed by ICG Communications, where he held various positions including: Vice President of Planning and Engineering, Vice President of Engineering, and Senior Director of Quality. Prior to ICG, Mr. Hawn held various managerial and technical positions with Lucent Technologies and AT&T Bell Laboratories. Mr. Hawn brings 15 years of telecommunications experience to Pac-West.

John F. Sumpter has served as our Vice President of Regulatory since July 1999. He has over 29 years of experience in the telecommunications industry. Prior to joining us, he was employed with AT&T from 1984 to 1999, where he held several executive legal regulatory positions, including Division Manager of Law and Government Affairs, District Manager of Switched Services Product Management, and District Manager of Marketing. Mr. Sumpter is responsible for our relations with government regulatory agencies, regulatory compliance and intercarrier relations.

Harry W. Wilson has served as our Vice President of Human Resources since April 2000. From 1998 to 2000, Mr. Wilson was the Corporate Director of Human Resources for Sumiden Wire Products. From 1994 to 1998, Mr. Wilson was Corporate Director of Employee Relations for Packard Bell/ Nec. Prior to that, he served as the Vice President of Human Resources for a division of Litton Industries. Mr. Wilson has over 26 years of management experience.

Information About Our Board of Directors

General

Messrs. Plum and Chandler have been elected to serve as directors in accordance with a shareholders agreement that was entered into in connection with our recapitalization in September 1998. Their terms will expire at the 2002 annual meeting. Our executive officers are elected by and serve at the discretion of the Board of Directors.

Table of Contents

The board of directors met seven times during the fiscal year ended December 31, 2001. The board of directors has standing audit, compensation and executive committees. Our board does not have a standing nominating or similar committee. Each director, except for Mr. Fowler, attended 75% or more of the meetings of the board of directors and any committees on which such director served during the fiscal year ended December 31, 2001.

Classes of the Board

Our Board of Directors is divided into three classes of directors, with each class serving staggered three-year terms. As a result, approximately one-third of our Board of Directors will be elected each year. Class I consists of Messrs. Ames, Chandler and Plum whose terms expire at the 2002 annual meeting. Class II consists of Mr. Fowler, Dr. Sheth, and Mr. Morrison whose terms expire at the 2004 annual meeting. Class III consists of Messrs. Griffin, Johnson and La Rue whose terms expire at the 2003 annual meeting.

Compensation of Directors

Directors who are employed by us, including Mr. Griffin and Mr. La Rue, and directors who are affiliated with our principal shareholders, including Messrs. Chandler and Plum, are not currently entitled to receive any compensation for serving on our board of directors. Our outside directors, Messrs. Ames, Fowler, Johnson, Morrison and Dr. Sheth, receive \$5,000 per quarter as compensation for serving on our board of directors. Until his resignation from one of our principal shareholders, Safeguard Scientifics, Inc., in December 2001, Mr. Johnson was not entitled to receive any compensation for serving as a director. Beginning in the first quarter of 2002, Mr. Johnson became eligible to receive the same compensation as our other outside directors receive.

In 1999, we granted each of Mr. Fowler and Dr. Sheth stock options to purchase 35,000 shares of our common stock with an exercise price of \$2.14. The stock options will vest over a three-year period with 33 1/3% vesting at the end of each year from the date of grant. During 2000, we granted stock options to Mr. Ames to purchase 35,000 shares of our common stock with an exercise price of \$17.50. These stock options will vest over a three-year period with 33 1/3% vesting at the end of each year from the date of grant. In addition, during 2000, Messrs. Ames, Fowler and Dr. Sheth each received 10,500 additional stock options with an exercise price of \$4.06. These options vest over a three-year period with 33 1/3% vesting at the end of each year from the date of grant. Mr. Morrison was granted stock options to purchase 35,000 shares of our common stock on June 12, 2001. The options vest over a three-year period with 33 1/3% vesting at the end of each year from the date of grant, and have an exercise price of \$2.53. In December, 2001, we granted stock options to purchase an additional 45,500, 10,500, 70,000, 35,000 and 10,500 shares of our common stock to Messrs. Ames, Fowler, La Rue, Morrison and Sheth, respectively. These options vest over a three-year period, with 33 1/3% vesting at the end of each year from the date of grant, and have an exercise price of \$0.79. In addition, we pay for the reasonable out-of-pocket expenses incurred by each director in connection with attending board and committee meetings.

Committees of the Board of Directors

Our board has standing executive, compensation and audit committees, as follows:

Audit Committee. The audit committee is currently composed of three independent directors: Messrs. Ames, Chandler and Morrison. We believe that all members of the Audit Committee are independent, within the meaning of the listing requirements of the National Association of Securities Dealers, Inc. Among other functions, the audit committee makes recommendations to the board of directors regarding the selection of independent auditors, reviews the independence of such auditors, approves the scope of the annual audit activities of the independent auditors and reviews such audit results. The audit committee met five times during the fiscal year ended December 31, 2001.

On October 26, 2000, the audit committee of the board of directors adopted a written charter for the audit committee. A copy of the Pac-West Telecomm, Inc. Charter of the Audit Committee of the

Table of Contents

Board of Directors is attached as Appendix A to its Proxy Statement, dated May 9, 2001, as filed with the Securities and Exchange Commission pursuant to Regulation 14A on May 7, 2001.

Compensation Committee. The compensation committee is currently composed of three independent directors: Messrs. Fowler, Plum, and Dr. Sheth. Among other functions, the compensation committee makes recommendations to the board of directors regarding the compensation of our officers, awards under our compensation and benefit plans and compensation policies and practices. The compensation committee met three times during the fiscal year ended December 31, 2001.

None of Messrs. Fowler, Plum and Dr. Sheth are executive officers or employees of the Company.

Executive Committee. The executive committee is currently composed of four directors: Messrs. Chandler, Griffin, Johnson and Plum. Among other functions, the executive committee makes recommendations to the board of directors regarding matters that arise when the full board is unable to meet. The executive board met five times during the fiscal year ended December 31, 2001.

Reports by Board Committees

Audit Committee Report

The Audit Committee oversees the financial reporting process, the systems of internal accounting and financial controls, the performance and independence of the independent auditor, the annual audit of Pac-West's financial statements, and related matters.

During the last year, the audit committee of the board of directors has met and held discussions with management and Arthur Andersen LLP, our independent auditors for the fiscal year ended December 31, 2001. The audit committee reviewed and discussed with management and Arthur Andersen the audited financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The audit committee also discussed with Arthur Andersen the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees).

The following summarizes certain fees paid to Arthur Andersen. Our Audit Committee has considered whether the provision of the services described below is compatible with maintaining the independence of Arthur Andersen and has concluded that such services are compatible with maintaining the independence of our principal auditor.

Audit Fees. Arthur Andersen billed us \$275,330 for professional services rendered for the audit of our annual financial statements for the fiscal year ended December 31, 2001 and for the reviews of the financial statements included in our Reports on Form 10-Q for the periods ending March 31, June 30 and September 30, 2001.

Financial Information Systems Design and Implementation Fees. Arthur Andersen did not render any such professional services to us during the fiscal year ended December 31, 2001.

All Other Fees. Arthur Andersen billed us \$131,105 for other services rendered during the fiscal year ended December 31, 2001, which primarily relate to research and consultation concerning various local, state and federal tax matters and preparation of federal and state income tax returns.

Arthur Andersen submitted to the audit committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The audit committee discussed with Arthur Andersen such firm's independence. Based 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission on March 29, 2002.

Arthur Andersen LLP has informed the Company that on March 14, 2002, it was indicted on federal obstruction of justice charges arising from the government's investigation of Enron Corp. The audit committee has been carefully monitoring these developments. In a release, dated March 18, 2002, the SEC has said that

Table of Contents

it will continue to accept financial statements audited, and interim financial statements reviewed by, Arthur Andersen so long as it is able to make certain representations to us.

The ability of the Company to raise capital and make timely filings with the SEC could be impaired if the SEC ceases accepting financial statements audited by Arthur Andersen, if Arthur Andersen becomes unable to make the required representations to the Company or if, for any other reason, Arthur Andersen is unable to perform required audit-related services for the Company. As a result of this uncertainty, the audit committee has initiated a review of other independent auditors to determine whether or not it would be in the best interests of the Company and its shareholders to replace Arthur Andersen as its independent auditor.

Although Arthur Andersen currently remains the Company's independent auditor and has performed the independent auditor's review of our consolidated financial statements for the period ended March 31, 2002, there is considerable uncertainty as to whether Arthur Andersen will continue to serve as the Company's independent auditor for the remainder of fiscal year 2002. Consequently, the audit committee has recommended to the board of directors that the selection of Arthur Andersen to serve as independent auditor for fiscal year 2002 not be submitted to a vote of ratification by shareholders in connection with the Annual Meeting.

AUDIT COMMITTEE

A. Gary Ames
David G. Chandler
Robert C. Morrison

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors is composed entirely of outside, non-management directors. No one on the Committee is a former or current officer of Pac-West. The Committee sets and administers the policies governing annual compensation of executive officers, including cash compensation and stock ownership programs.

Our compensation program for executive officers is administered and reviewed by the compensation committee of the board of directors. The key elements of the total annual compensation for executive officers consist of fixed compensation in the form of base salary and variable compensation in the form of annual and quarterly incentive compensation. It is the compensation committee's objective to help ensure that a significant portion of an executive's total annual compensation be contingent upon the attainment of one or more performance objectives. Beginning in 2002, the compensation plans for executive officers (except for the CEO who will only be paid annually) will be modified to issue quarterly variable incentive payments for corporate performance and annual payments for individual performance.

Historically, annual incentive payments were based upon various factors, including corporate, operating unit and individual performance during the preceding calendar year. An operating plan is established annually which sets goals for overall corporate performance relating to earnings (before interest and taxes). The chief executive officer's annual incentive compensation is based on the overall corporate performance plus specific milestones set by the board of directors for markets in operation, access lines in service and capital raising.

For the fiscal year ended December 31, 2001, as a result of corporate results which were below plan, the impact of the economic downturn and the restructuring activities undertaken in the third quarter of 2001, all variable incentive compensation payments have been deferred pending a review of sustained corporate performance improvements for at least two consecutive quarters.

Table of Contents

On November 14, 2001, Pac-West launched a tender offer to exchange options granted under our 1999 Stock Incentive Plan to certain eligible employees. Directors and officers required to report transactions in our common stock pursuant to Section 16 of the Securities Exchange Act of 1934, which included all executive management, were not deemed to be eligible employees and therefore did not participate in the tender offer.

COMPENSATION COMMITTEE

Mark S. Fowler
 Samuel A. Plum
 Dr. Jagdish N. Sheth

Equity Compensation Plan Information

The table below provides information regarding securities authorized for issuance under our equity compensation plans as of March 31, 2002.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Approved Plans(2)			
1999 Stock Incentive Plan	3,228,632	\$ 3.26	1,414,557
2000 Employee Stock Purchase Plan(4)			845,187
Non-Approved Plans(3)			
1998 Griffin Non-Qualified Stock Incentive Plan	350,000	\$ 0.48	
1998 Bryson Non-Qualified Stock Incentive Plan	218,750	\$ 0.48	
2000 Napa Valley Non-Qualified Stock Incentive Plan	25,000	\$ 10.00	30,000

(1) Excludes securities reflected in Column A.

(2) Equity compensation plans approved by security holders.

(3) Equity incentive plans not approved by security holders.

(4) Amounts withheld from employees to purchase stock at June 30, 2002 are not included.

Compensation Committee Interlocks and Insider Participation

There are no family relationships between any of our directors or executive officers and there are no director interlocking relationships.

Table of Contents**EXECUTIVE COMPENSATION**

The following table summarizes the compensation we paid in the fiscal years ended December 31, 2001, 2000 and 1999 to our named executive officers, consisting of our chief executive officer, each of our next four most highly compensated executive officers and two former executive officers who, if currently serving as executive officers, would be among the four most highly compensated executive officers for the fiscal year ended December 31, 2001.

None of the prerequisites and other benefits paid to each named current executive officer exceeded the lesser of \$50,000 or 10% of the total annual salary and bonus received by that officer. All Other Compensation reflects matching contributions we made under our 401(k) plan plus group life and disability insurance premiums paid by us on behalf of such officer. The amount listed under All Other Compensation includes \$5,440, \$5,440 and \$18,419 of life insurance and long-term disability insurance premiums we paid on behalf of Mr. Griffin for the fiscal years ended December 31, 2001, 2000 and 1999, respectively. In addition, the named current executive officers may be eligible for a bonus for the fiscal year ended December 31, 2001. At this time, the amount of any such bonuses, if any, and when, if ever, they may be paid has not been determined by the compensation committee.

With respect to Messrs. La Rue and Bryson, the amounts listed under All Other Compensation include amounts paid pursuant to their change in employment and severance agreements, respectively, and for paid vacation, as well as matching contributions we made under our 401(k) plan plus group life and disability insurance premiums paid by us on behalf of such officers. Pursuant to their respective change in employment and severance agreements, Messrs. La Rue and Bryson were paid \$145,833 and \$140,583, respectively. Messrs. La Rue and Bryson also received \$40,385 and \$4,635, respectively, for paid vacation.

Summary Compensation Table for the Years Ended December 31, 2001, 2000 and 1999

Name and Principal Position Held	Salary	Regular Bonus	Commissions	All Other Compensation
Current Executives:				
Wallace W. Griffin, Chairman and Chief Executive Officer				
Fiscal year 2001	\$ 350,000	\$	\$	\$ 12,306
Fiscal year 2000	350,000	175,000		12,051
Fiscal year 1999	350,000	350,000		23,845
Henry R. Carabelli, President and Chief Operating Officer				
Fiscal year 2001	\$ 142,788		\$	\$ 706
H. Ravi Brar, Vice President, Finance(1)				
Fiscal year 2001	\$ 166,125	\$	\$	\$ 3,138
Fiscal year 2000	102,083	55,000		2,111
Fiscal year 1999	31,846	8,767		193
Greg Joksch, Vice President, Information Technology(2)				
Fiscal year 2001	\$ 128,333	\$	\$	\$ 5,592
Fiscal year 2000	121,800	32,000		5,132
Fiscal year 1999	112,500	30,000		4,507
John F. Sumpter, Vice President, Regulatory				
Fiscal year 2001	\$ 127,186	\$	\$	\$ 5,948
Fiscal year 2000	122,761	44,000		3,061
Fiscal year 1999	51,846	16,866		2,772
Former Executives:				
John K. La Rue, Director				
Fiscal year 2001	\$ 241,250	\$ 140,000	\$	\$ 191,917
Fiscal year 2000	350,000	140,000		5,998
Fiscal year 1999	350,000	140,000		7,746

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Richard E. Bryson,
Chief Financial Officer

Fiscal year 2001	\$ 188,792	\$ 55,912	\$	\$ 149,512
Fiscal year 2000	225,000	90,000		4,833
Fiscal year 1999	225,000	90,000		3,783

- (1) In February, 2002, Mr. Brar was appointed as our Acting Chief Financial Officer.
- (2) As of January 1, 2002, Mr. Joksch was named the Senior Director of Information Technologies, and as of that same date, is no longer an executive officer of the Company.

Table of Contents

Stock Incentive Plans

General

We have established the Pac-West Telecomm, Inc. 1999 Stock Incentive Plan, which authorizes the granting of stock options, including restricted stock, SARS, dividend equivalent rights, performance units, performance shares or other similar rights or benefits to our or our subsidiaries' current or future employees, directors, consultants and advisors. Under the 1999 Stock Incentive Plan, the board of directors is authorized to issue options to purchase shares of common stock in such quantity, at such exercise prices, on such terms and subject to such conditions as established by the board.

In addition, we have established the 1998 Griffin and Bryson Non-Qualified Stock Incentive Plans for two senior officers (one of whom, Mr. Bryson, is no longer with the Company), and the 2000 Napa Valley Non-Qualified Stock Incentive Plan which authorizes the granting of stock options, including restricted stock, SARS, dividend equivalent rights, performance units, performance shares or other similar rights or benefits to certain of our employees.

An aggregate of 5,375,500 shares of common stock are currently reserved for option grants under the 1999 Stock Incentive Plan, the 1998 Griffin and Bryson Non-Qualified Stock Incentive Plans, and the 2000 Napa Valley Non-Qualified Stock Incentive Plan. These plans are subject to adjustment upon the occurrence of certain events to prevent any dilution or expansion of the rights of participants that might otherwise result from the occurrence of such events. As of December 31, 2001, we had granted options outstanding with respect to 3,879,345 shares of common stock under all plans, after giving effect to options tendered and accepted with respect to 831,638 shares of common stock, as described more fully below under "Exchange Offer." As of December 31, 2001, 108,561 options have been exercised.

Amendment and Restatement of the 1999 Stock Incentive Plan

An aggregate of 4,751,750 shares of common stock are currently reserved for option grants under the 1999 Stock Incentive Plan. On February 25, 2002, our board of directors approved and adopted a proposed amendment and restatement of the 1999 Stock Incentive Plan, which, if approved by the shareholders at the Annual Meeting, would increase the number of shares of common stock reserved for option grants under the 1999 Stock Incentive Plan to 5,751,750 shares of common stock, which is an increase of 1,000,000 shares. As a result, if the proposed amendment and restatement of the 1999 Stock Incentive Plan is approved by the shareholders, there will be an aggregate of 6,375,500 shares of common stock reserved for option grants under the 1999 Stock Incentive Plan, the 1998 Griffin and Bryson Non-Qualified Stock Incentive Plans, and the 2000 Napa Valley Non-Qualified Stock Incentive Plan.

Exchange Offer

On November 14, 2001, we initiated an exchange offer for options granted under our 1999 Stock Incentive Plan to certain eligible employees. The terms of the exchange offer allowed eligible employees to tender all their existing options in exchange for receiving newly granted options not less than 185 days from the date of expiration of the offer, which was December 14, 2001. Subject to certain limitations, the tendered options will be exchanged on a one for one basis, with the exercise price equal to the fair market value of our Common Stock on the grant date.

For purposes of the exchange offer, "eligible employees" include employees as of November 14, 2001, who remain employed with us through and including the date the new options are granted, who hold options under the 1999 Stock Incentive Plan and who are not directors and officers required to report transactions in Pac-West's Common Stock pursuant to Section 16 of the Securities Exchange Act of 1934, as amended.

We accepted for exchange 831,638 options to purchase our Common Stock, representing approximately 54% of the options that were eligible to be tendered in the offer. We currently anticipate that we will grant participating employees the new options on or after June 18, 2002, provided, however, that they are still employed by us on the date of grant. The new options will be subject to the terms of the 1999 Stock Incentive Plan, and will have the same vesting schedule as the options tendered in the exchange.

Table of Contents**Option Grants in 2001**

The table below provides information regarding stock options granted to the named executive officers during 2001. None of the named executive officers received SAR s. The options referred to below vest over a period of three to four years and are exercisable to purchase shares of our common stock in accordance with the Company s 1999 Stock Incentive Plan. In addition, options issued to the below named executives become fully vested upon a change in control.

The amounts shown for potential realizable value are calculated assuming that the market value of the common stock was equal to the exercise price per share as of the date of grant of the options. This value is the approximate price per share at which shares of the common stock would have been sold in private transactions on or about the date on which the options were granted. The dollar amounts under these columns assume a compounded annual market price increase for the underlying shares of the common stock from the date of grant to the end of the option term of 5% and 10%. This format is prescribed by the Securities and Exchange Commission and is not intended to forecast future appreciation of shares of the common stock. The actual value, if any, a named officer may realize will depend on the excess of the market price for shares of the common stock on the date the option is exercised over the exercise price. Accordingly, there is no assurance that the value realized by a named officer will be at or near the value estimated above.

Name	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees In Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%(\$)	10%(\$)
Current Executives						
Wallace W. Griffin	85,000	4.43	\$3.25	3/12/2011	\$ 174,000	\$ 440,000
Wallace W. Griffin	372,847	19.45	0.79	12/03/2011	185,000	469,000
Henry R. Carabelli	200,000	10.43	2.53	6/12/2011	319,000	806,000
Henry R. Carabelli	200,000	10.43	0.79	12/03/2011	90,000	252,000
Greg Joksch	15,000	0.78	0.79	12/03/2011	7,000	19,000
John F. Sumpter	15,000	0.78	0.79	12/03/2011	7,000	19,000
H. Ravi Brar	20,000	1.04	0.79	12/03/2011	10,000	25,000
Former Executives						
John K. La Rue	70,000	3.64	0.79	12/03/2011	35,000	88,000

Table of Contents**Outstanding Stock Options and Year-End Values**

The following table sets forth information regarding the number and value of unexercised stock options held by each of the named executive officers as of December 31, 2001. No named executive officers exercised options in 2001.

Name	Number of Unexercised Options at Year End		Value of Unexercised In-the-Money Options at Year End	
	Exercisable	Non-Exercisable	Exercisable	Non-Exercisable
Current Executives				
Wallace W. Griffin	525,347	570,347	\$ 24,500	\$
Henry R. Carabelli		400,000		
Greg Joksch	38,750	61,250		
John F. Sumpter	35,000	65,000		
H. Ravi Brar	33,000	91,000		
Former Executives				
John K. La Rue	129,500	234,500		
Richard E. Bryson(1)	328,653	71,250	15,313	

(1) Subject to the terms under which the options were granted, Mr. Bryson has 90 days from March 1, 2002, to exercise his options, after which, the options expire.

Qualified 401(k) and Profit Sharing Plan

We maintain a tax-qualified 401(k) retirement plan for all full-time employees who are at least 18 years of age and who have completed six months of service. The plan year is from January 1 to December 31, and we contribute \$0.50 for every \$1.00 contributed by the employee, subject to our contribution not exceeding 3 percent of the employee's salary. Employees are eligible to participate in the plan after six months of service and become fully vested after six years, although they vest incrementally on an annual basis after two years of service. Employees who are at least 18 years of age may elect to participate in the plan after completing six months of service with us. We match 50% of employee contributions up to 6% of compensation deferred. Our matching contributions vest at a rate 20% per year starting with the employee's second year of service. Although we have not historically done so, we may also make discretionary profit-sharing contributions to all employees who satisfy plan participation requirements. The Company's matching contributions were \$442,000, \$247,000 and \$134,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Employee Stock Purchase Plan

In 2000, we instituted the 2000 Employee Stock Purchase Plan. The purpose of the Plan is to provide our employees with an opportunity to purchase our common stock through accumulated payroll deductions. Employees may elect to participate in semi-annual offer periods, commencing each January 1 and July 1. Employees are eligible to participate in the plan after 30 days of service, provided, however, that their customary employment is not 20 hours or less per week, and not less than 5 months in any calendar year. Subject to certain limitations, eligible employees may elect to have payroll deductions made during the relevant offer periods in amounts between one percent (1%) and not exceeding ten percent (10%) of the employee's compensation. The maximum number of shares of common stock available for sale under the plan is 1,000,000 shares, subject to adjustments for certain defined events. As of December 31, 2001, 154,873 shares of common stock have been purchased pursuant to the plan.

Pension Plans

We do not maintain a pension plan.

Table of Contents

Employment Agreements

Employment Agreements

In December 2001, Mr. Griffin entered into a new employment agreement with us. On June 11, 2001, we entered into an employment agreement with Mr. Carabelli. Messrs. Griffin and Carabelli's employment agreements have terms of two years, provide for an initial base salary of \$350,000 and \$275,000, respectively, and bonuses based upon our achievement of certain objectives and subjective criteria which shall be about 40% of their respective base salary. Their employment agreements also provide for participation in all benefit plans made available to Pac-West executives, and may be terminated earlier by us or the respective executive under certain conditions.

Upon termination by us without cause, as defined in their respective employment agreement, Messrs. Griffin and Carabelli will be entitled to receive severance payments, subject to certain conditions, equal to their respective base salary for a one-year period after such termination.

If the employment period is terminated as a result of their respective disability, then Messrs. Griffin and Carabelli and/or their estate or beneficiaries, as the case may be, will be entitled to receive benefits under our employee benefit programs as in effect on the date of such termination to the extent permitted under such programs. In addition, each will be entitled to receive (1) an amount equal to the lesser of the terminated portion of his respective employment period or his respective base salary for the one-year period after such termination; and (2) a prorated amount of any annual bonus otherwise payable to him for the fiscal year in which his employment is terminated.

If the employment period is terminated as a result of either Mr. Griffin or Mr. Carabelli's death, then they and/or their estate or beneficiaries, as the case may be, will be entitled to receive benefits under our employee benefit programs as in effect on the date of such termination to the extent permitted under such programs and, in addition, will be entitled to receive a prorated amount of any annual bonus otherwise payable to them for the fiscal year in which their respective employment is terminated. If we terminate the employment period for cause or if they resign for any reason, other than a termination without cause under the respective employment agreement, then they will be entitled to receive their respective base salary through the date of termination and we will have no further liability whatsoever to them.

On July 12, 2001, the Company and Mr. John K. La Rue entered into an agreement covering Mr. La Rue's change in employment status, effective August 1, 2002. On this date, Mr. La Rue resigned as a corporate officer of the Company in order to work on a part-time basis as Vice President and Founder. Mr. La Rue's responsibilities include advising the Company and consulting with our corporate officers. The terms of the agreement provide for reduced compensation in exchange for Mr. La Rue's services, and that upon the termination of the agreement, all unvested options shall become fully vested at such time.

Severance Agreements

The Company and Mr. Richard E. Bryson entered into a severance agreement, effective September 27, 2001. The terms for the agreement provided certain compensation, including Mr. Bryson's pro-rata bonus for the year, plus payment for accrued, but unused vacation time. Unexercised vested options and unvested options not covered by the agreement terminate 90 days from the date of Mr. Bryson's separation from the Company, March 1, 2002, in accordance with the terms of the Company's 1999 Incentive Plan.

Change of Control Agreements

We have entered into employment agreements with certain executives which provide that in the event of a change of control if the successor does not hire the named executive, or is terminated by the successor, without cause, within twelve months following the effective date of the change of control event, the named executive would be entitled to receive their base salary for one year following the change of control event. The current executives with whom we have entered into such an agreement are Messrs. Griffin, Carabelli, Wilson, Sumpter, Brar, Bell and Hawn.

Table of Contents

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

The following table sets forth certain information regarding ownership of our common stock as of March 1, 2002 for: (1) each person who we know owns beneficially more than 5% of our outstanding common stock; (2) each of our current directors and nominees, and executive officers; and (3) all of our current directors and nominees, and executive officers as a group.

Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent Beneficially Owned(2)
Significant Stockholders:		
Safeguard Scientifics, Inc. 800 The Safeguard Building 435 Devon Park Drive Wayne, PA 19087	4,879,057(3)	13.5
Bay Alarm Securities LLC 925 Ygnacio Valley Road Walnut Creek, CA 94596	4,562,630(4)	12.6
William Blair Capital Partners VI, L.P. 222 West Adams Street Chicago, IL 60606	3,652,649(5)	10.1
SCP Private Equity Partners, L.P. 435 Devon Park Drive, Building 300 Wayne, PA 19087	3,547,219(6)	9.8
TL Ventures III L.P. and related entities 700 Building 435 Devon Park Drive Wayne, PA 19087-1990	2,408,826(7)	6.7
Directors, Nominees and Named Executive Officers:		
A. Gary Ames	16,167(8)	*
H. Ravi Brar	71,000(9)	*
Richard E. Bryson	328,653(10)	*
Henry R. Carabelli	100,000(11)	*
David G. Chandler	3,652,649(12)	10.1
Mark S. Fowler	27,833(13)	*
Wallace W. Griffin	1,068,547(14)	2.9
Greg Joksch	56,250(15)	*
Jerry L. Johnson	30,043(16)	*
John K. La Rue	1,065,500(17)	2.8
Robert C. Morrison	12,667(18)	*
Samuel A. Plum	3,612,219(19)	10.0
Jagdish N. Sheth	89,033(20)	*
John F. Sumpter	56,250(21)	*
All of Pac-West's Directors and Executive Officers as a Group (16 Persons)	10,216,911(22)	28.3

(1) Includes the number of shares of common stock subject to options exercisable within sixty (60) days of April 15, 2002.

(2) Shares of common stock exercisable within sixty (60) days of April 15, 2002 are considered outstanding for the purpose of determining the percent of the class held by the holder of such options, but not for the

Table of Contents

purpose of computing the percentage held by others. Percentages of less than one (1) percent are denoted by an asterisk.

- (3) Based solely upon an Amended Schedule 13G, dated February 14, 2002, Safeguard Delaware, Inc. (SDI) is the record owner of 2,438,267 shares, Safeguard Scientifics (Delaware), Inc. (SSD) is the record owner of 31,352 shares, and SFINT, Inc. is the record owner of 612 shares. Safeguard Scientifics, Inc. (Safeguard) is the sole stockholder of each of SDI and SSD, and SSD is the sole stockholder of SFINT, Inc., which also includes an aggregate of 2,408,826 shares owned of record by the following entities: TL Ventures III, L.P. (TL III), 1,939,513 shares; TL Ventures III Offshore, L.P. (TL III Offshore), 405,984 shares; and TL Ventures III Interfund, L.P. (TL III Interfund), 63,329 shares. TL III, TL III Offshore and TL III Interfund are venture capital funds which are required by their governing documents to make all investment, voting and disposition actions in tandem. TL Ventures III LLC, of which SDI is a member, is a co-general partner of TL Ventures III Management, L.P., the sole general partner of TL Ventures III, L.P., and the sole general partner of TL Ventures III Interfund. TL Ventures III LLC has sole authority and responsibility for all investment, voting and disposition decisions for TL III and TL III Interfund, which powers, other than investments, are exercised through its three-member board of managers, by majority vote. TL Ventures III Offshore Ltd. is the sole general partner of TL Ventures Offshore Partners, L.P., which is the sole general partner of TL III Offshore. As such, it has sole authority and responsibility for investment, voting and disposition decisions for TL III Offshore, which powers are exercised through its three-member board of directors, by majority vote. A representative of SDI serves as a member of the board of managers of TL Ventures III LLC and as a member of the board of directors of TL Ventures III Offshore Ltd. and, therefore, may be deemed to possess indirect beneficial ownership of the shares owned by TL III, TL III Offshore and TL III Interfund.
- (4) Based solely upon a Schedule 13G, dated February 14, 2002, filed jointly by Bay Alarm Securities LLC (Bay Alarm) and the Westphal Family Foundation (Westphal), Bay Alarm is the direct beneficial owner of 4,512,630 shares of common stock and Westphal is the direct beneficial owner of 50,000 shares of common stock.
- (5) Based solely upon an amended Schedule 13G, dated February 14, 2001, filed jointly by William Blair Capital Partners VI, L.P. (WB Partnership) and William Blair Capital Partners VI, L.L.C. (WB LLC), WB Partnership is the direct beneficial owner of 3,652,649 shares of common stock. WB LLC, by virtue of it being the general partner of WB Partnership, may be deemed to be the beneficial owner of the shares of common stock owned by WB Partnership. WB LLC disclaims beneficial ownership of the 3,652,649 shares of common stock owned by WB Partnership.
- (6) Based solely upon a Schedule 13G, dated March 10, 2000, filed jointly by SCP Private Equity Partners, L.P. (Equity Partners), SCP Private Equity Management, L.P. (Equity Management), Winston Churchill (Churchill), Samuel A. Plum (Plum), and Safeguard Capital Management, Inc. (Capital Management), Equity Partners is the direct beneficial owner of 3,547,219 shares of common stock. Equity Management, by virtue of it being the general partner of Equity Partners, may be deemed to be the beneficial owner of the shares of common stock owned by Equity Partners. In addition, Churchill, Plum and Capital Management, by virtue of their being general partners of Equity Management, may also be deemed to be the beneficial owner of the shares of common stock owned by Equity Partners. Each of Equity Management, Churchill, Plum and Capital Management disclaims any direct or indirect beneficial ownership of the 3,547,219 shares of common stock owned by Equity Partners.
- (7) Based solely upon an amended Schedule 13G, dated February 9, 2001, filed jointly by TL III, TL III Interfund, TL Ventures III Management, LP, TL Ventures III LLC, TL Ventures III Offshore Partners, L.P. and TL Ventures III Offshore, Ltd., TL III, TL III Offshore and TL III Interfund are venture capital funds which are required by their governing documents to make all investment, voting and disposition actions in tandem. TL III is the record holder of 1,939,484 shares; TL III Offshore is the record holder of 406,005; and TL III Interfund is the record holder of 63,337 shares. TL Ventures III LLC is the sole general partner of TL Ventures III Management L.P., the sole general partner of TL III and TL Ventures III LLC is the sole general partner of TL III Interfund. As such, TL Ventures III

Table of Contents

LLC has sole authority and responsibility for all investment, voting and disposition decisions for TL III and TL III Interfund, which powers, other than investments, are exercised through its three-member board of managers by majority vote. Investment decisions require a majority vote of the members of TL Ventures III LLC. TL Ventures III Offshore Ltd. is the sole general partner of TL Ventures Offshore Partners L.P., which is the sole general partner of TL III Offshore. As such, it has sold authority and responsibility for investment, voting and disposition decisions for TL III Offshore, which powers are exercised through its three-member board of directors, by majority vote.

- (8) The shares of common stock shown as beneficially owned by Mr. Ames include 1,000 shares of common stock owned directly by Mr. Ames, and 15,167 shares of common stock subject to vested options.
- (9) The shares of common stock shown as beneficially owned by Mr. Brar include 38,000 shares of common stock owned directly by Mr. Brar and 33,000 shares of common stock subject to vested options.
- (10) The shares of common stock shown as beneficially owned by Mr. Bryson include 328,653 shares of common stock subject to vested options. Unexercised vested options and unvested options not covered by Mr. Bryson's severance agreement terminate 90 from March 1, 2002.
- (11) The shares of common stock shown as beneficially owned by Mr. Carabelli include 50,000 shares of common stock, and 50,000 shares of common stock subject to vested options.
- (12) Mr. Chandler, by virtue of his being a managing director of WB LLC, may be deemed to be the beneficial owner of 3,652,649 shares of common stock owned by WB Partnership. Mr. Chandler expressly disclaims beneficial ownership of any shares owned by WB Partnership.
- (13) The shares of common stock shown as beneficially owned by Mr. Fowler include 26,833 shares of common stock subject to vested options and 1,000 shares of common stock owned directly by Mr. Fowler.
- (14) The shares of common stock shown as beneficially owned by Mr. Griffin include 567,847 shares subject to vested options and 220,700 shares of common stock owned directly by Mr. Griffin. In addition, Mr. Griffin, by virtue of his being a general partner of Griffin Family Limited Liability Partnership, L.L.P. (Griffin LLP), may be deemed to be the beneficial owner of 280,000 shares of common stock owned by Griffin LLP.
- (15) The shares of common stock shown as beneficially owned by Mr. Joksch include 56,250 shares subject to vested options.
- (16) The shares of common stock shown as beneficially owned by Mr. Jerry L. Johnson include 29,929 shares of common stock owned directly by Mr. Johnson. In addition, Mr. Johnson, by virtue of his participation in a 401(K) plan, may be deemed to be the beneficial owner of 114 shares of common stock owned directly by such 401(K) plan.
- (17) The shares of common stock shown as beneficially owned by Mr. La Rue include 185,500 subject to vested options and 691,068 shares of common stock owned directly by Mr. La Rue. In addition, Mr. La Rue, by virtue of his being the trustee of the Jason R. Mills and Jennifer L. Mills Irrevocable Trust, dated September 14, 1998 (the Mills Trust), may be deemed to be the beneficial owner of 189,220 shares of common stock owned by the Mills Trust. Mr. La Rue expressly disclaims beneficial ownership of the shares of common stock owned by the Mills Trust.
- (18) The shares of common stock shown as beneficially owned by Mr. Morrison include 11,667 shares of common stock subject to vested options and 1,000 shares of common stock owned directly by Mr. Morrison.
- (19) The shares of common stock shown as beneficially owned by Mr. Plum include 65,000 shares of common stock owned directly by Mr. Plum. In addition, Mr. Plum, by virtue of his being the managing general partner of Equity Partners, may be deemed to be the beneficial owner of 3,547,219 shares owned by Equity Partners. Mr. Plum expressly disclaims beneficial ownership of the shares of common stock owned by Equity Partners.

Table of Contents

- (20) The shares of common stock shown as beneficially owned by Dr. Sheth include 26,833 shares subject to vested options, 24,400 shares of common stock owned directly by Dr. Sheth and 37,800 shares of common stock owned by Sheth and Associates, Inc., a wholly-owned corporation of Dr. Sheth s.
- (21) The shares of common stock shown as beneficially owned by Mr. Sumpter include 56,250 shares subject to vested options and 100 shares of common stock owned directly by Mr. Sumpter.
- (22) The shares of common stock shown as beneficially owned by all of Pac-West s directors and executive officers as a group include the shares of common stock beneficially owned by the directors and the named executive officers described in footnotes 8 to 21.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Recapitalization

Our recapitalization was completed on September 16, 1998 in accordance with the merger agreement between us, Bay Alarm Company and John K. La Rue, the preexisting investors, and PWT Acquisition Corp. a corporation newly formed by an equity investment group led by Safeguard 98 Capital, L.P. and William Blair Capital Partners L.L.P. to effect the recapitalization.

Under the merger agreement, Mr. La Rue and Bay Alarm Company were entitled to receive additional consideration of up to \$20.0 million in the event that certain billings under dispute were received subject to the recapitalization.

On September 9, 1999, Pac-West entered into a settlement agreement with Pacific Bell regarding claims for unpaid reciprocal compensation under our prior interconnection agreement. Under the terms of the settlement agreement, Pacific Bell agreed to pay \$20.0 million to Pac-West and \$20.0 million in the aggregate to Mr. La Rue and Bay Alarm Company in settlement of those claims. As a result of these payments, the terms of our September 1998 merger agreement requiring additional distributions to these shareholders have been satisfied.

In accordance with the merger agreement, Mr. La Rue and Bay Alarm Company have agreed to indemnify us and certain of our related parties for all liabilities and other losses arising from, among other things:

any breach by Pac-West of any representation, warranty, covenant or agreement we made in the merger agreement or in any schedule, exhibit, or other related document;

any claims of any brokers, finders, our employees or consultants relating to the transactions contemplated by the merger agreement not specifically set forth in or contemplated by the merger agreement; or

any claim by any person other than PWT Acquisition Corp. or its affiliates with respect to, or arising as a result of, any reorganization, liquidation, dissolution, recapitalization, non due course borrowing, merger, consolidation, sale or purchase of assets or similar transactions proposed prior to closing of the merger; provided that Mr. La Rue and Bay Alarm Company receive notice of such loss within the applicable time periods set forth in the merger agreement.

Subject to certain exceptions, Mr. La Rue and Bay Alarm Company do not have any obligation to indemnify any of the indemnified parties from any losses caused by the breach or alleged breach of any representation or warranty contained in the merger agreement until the indemnified parties collectively suffer related aggregate losses in excess of \$500,000, which acts as a deductible. Mr. La Rue and Bay Alarm Company have an obligation to indemnify the indemnified parties for all losses suffered by any of the indemnified parties in excess of the deductible, provided that Mr. La Rue and Bay Alarm Company do not have any obligation to indemnify the indemnified parties from such aggregate losses in excess of an indemnity cap of \$15.0 million. Despite the above, breaches or alleged breaches of certain post-closing covenants or agreements contained in the merger agreement will not be subject to the deductible or the indemnity cap.

Table of Contents

The merger agreement contains representations and warranties typical of those kinds of agreements, including, for example, those relating to corporate organization and capitalization, the valid authorization, execution, delivery and enforceability of all transaction documents, the financial statements, the absence of material adverse changes in the business, assets, financial condition and results of operations, the absence of material undisclosed liabilities, tax matters, the quality and title of personal and real property, material contracts, intellectual property, employee benefits plans, environmental matters, compliance with laws, governmental authorizations, permits and licenses and insurance matters. Generally, the representations and warranties expired thirty days after receipt of the audited financial statements for fiscal 1999, except those relating to tax matters which survive until the expiration of the applicable statute of limitations and certain other representations and warranties which survive indefinitely.

The foregoing summary of the material terms of the merger agreement and related matters does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the merger agreement, including the definitions of certain terms therein and the exhibits and schedules hereto.

Registration Agreement

In connection with the recapitalization, all of our shareholders entered into a registration agreement. In accordance with the registration agreement, at any time after May 7, 2000, each of the four equity investors in the recapitalization may request one registration at our expense under the Securities Act of 1933 of all, or any portion of, their Pac-West common stock on Form S-1 or other similar long-form registration and an unlimited number of Form S-2 or S-3 or other similar short-form registrations, provided that the aggregate offering value of the registrable securities requested to be registered in any long-form registration must equal at least \$5.0 million in all long-form registrations and at least \$1.0 million in all short-form registrations. In the event that any one of the four equity investors in the recapitalization makes such a demand registration request, all other parties to the registration agreement will be entitled to participate in such registration. The registration agreement also grants to the parties thereto piggyback registration rights with respect to all other registrations of our common stock and we, subject to limited exceptions, will pay all expenses related to the piggyback registrations.

Non-Competition; Non-Solicitation; Confidentiality Agreements

In connection with the recapitalization and in accordance with the terms of the merger agreement, Mr. La Rue and Bay Alarm Company each entered into a covenant not to compete with Pac-West, not to engage, and not to permit any affiliate to engage, for a noncompete period of two years after the closing date of the recapitalization. These non-compete agreements expired September 16, 2000.

In accordance with his employment agreement, Mr. Griffin has agreed to forfeit any severance obligations owing to him in the event of his breach of noncompetition provisions in restricted territories including the United States of America, Canada and the territories and jurisdictions in Mexico.

Messrs. La Rue, Griffin, Carabelli, Bryson and Bay Alarm have also agreed to maintain the confidentiality of our information and not to solicit our employees and customers as provided in the merger agreement or their respective employment agreements, as the case may be. These provisions remain in effect for varying periods following the termination of the employment agreements.

Indebtedness of Management

In connection with the 1998 recapitalization, Mr. Wallace W. Griffin, our Chief Executive Officer and Chairman of the Board, purchased 37,500 shares of common stock from the Company for \$250,000. The Company received \$50,000 in cash from Mr. Griffin and entered into a note receivable for the remaining balance of \$200,000. The note accrues interest at 5.54 percent and compounds annually, with any unpaid accrued interest and principal due at the earlier of (1) the sale of the above stock with proceeds received first applied to unpaid interest, then to principal; (2) sale of the Company; (3) 60 days from the date Mr. Griffin is no longer an employee of the Company or a subsidiary; or (4) September 16, 2003.

Table of Contents

In December 2000, the Company entered into two notes receivable totaling \$105,000 with H. Ravi Brar, the Interim Chief Financial Officer of the Company. The notes accrue interest at a rate of 6.1% per annum and are payable upon demand. The notes are secured by a pledge of 38,000 shares of the Company's common stock.

Other Transactions with Significant Stockholders

Mr. Bruce A. Westphal, who served as our Chairman of the Board until the recapitalization and as a director of the Company until March 16, 2000, is the chairman of the board of both Bay Alarm Company and InReach Internet. As of March 1, 2002, an affiliate of Bay Alarm Company held approximately 12.6% of our outstanding common stock. Sales to Bay Alarm and InReach Internet LLC accounted for approximately \$2,667,000, \$2,540,000 and \$2,750,000, or 3%, 2% and 2% of our revenues for the years ended December 31, 1999, 2000 and 2001 respectively. In addition, Bay Alarm Company provides us with security monitoring services at its normal commercial rates and purchased the real property at which our Oakland switch facility is located. In connection with that purchase, we negotiated a lease with Bay Alarm Company for our continued use of that commercial space. The monthly lease payments under the lease were approximately \$14,000 on December 31, 2001, and as a result of certain adjustments, is currently approximately \$14,300.

Transactions with Management and Others

Robert C. Morrison, currently serving on our board of directors, is currently a senior attorney and shareholder of Neumiller & Beardslee, a professional corporation. Mr. Morrison holds a 10% equity interest in Neumiller & Beardslee, which has billed the Company approximately \$461,000 for legal services performed and cost reimbursements in the fiscal year ended December 31, 2001.

Table of Contents**PERFORMANCE GRAPH**

The following graph compares our cumulative total stockholder return on an investment of \$100 since November 3, 1999, the day prior to our initial trading date, with that of the Nasdaq Composite Index and the Nasdaq Telecommunications Index.

	11/3/99	12/99	12/00	12/01
Pac-West	\$ 100.00	265.00	33.38	5.50
Nasdaq CI	\$ 100.00	133.97	80.58	63.94
Nasdaq TI	\$ 100.00	124.54	53.04	35.51

COMPLIANCE WITH SECTION 16(a) OF**THE SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file certain reports of ownership and changes in ownership with the Securities and Exchange Commission (the Commission) and the Nasdaq Stock Market, as required. These persons are required to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons that Forms 5 were not required for those persons we believe that during the fiscal year ended December 31, 2001, except for Dr. Jagdish N. Sheth and Mr. Richard E. Bryson, each of whom filed one Form 4 late, our executive officers, directors and greater than ten percent beneficial owners complied with all applicable Section 16(a) filing requirements.

ANNUAL REPORT

Copies of our 2001 Annual Report to Shareholders are being mailed with this Proxy Statement to each shareholder entitled to vote at the Annual Meeting of shareholders. Shareholders not receiving a copy of the Annual Report may obtain one by writing Mr. H. Ravi Brar, Acting Chief Financial Officer, Pac-West Telecomm, Inc., 1776 W. March Lane, Suite 250, Stockton, California 95207.

Table of Contents

SUBMISSION OF SHAREHOLDER PROPOSALS

FOR THE 2002 ANNUAL MEETING

Shareholder proposals for inclusion in the Proxy Statement to be issued in connection with the 2003 Annual Meeting of shareholders must be mailed to the Corporate Secretary, Pac-West Telecomm, Inc., 1776 W. March Lane, Suite 250, Stockton, California 95207, and must have been received by the Corporate Secretary on or before January 7, 2003. We will consider only proposals meeting the requirements of applicable federal securities laws and Securities and Exchange Commission rules promulgated thereunder.

The Board of Directors

May 6, 2002

Table of Contents

Exhibit A

PAC-WEST TELECOMM, INC.

1999 STOCK INCENTIVE PLAN
(amended and restated as of January 29, 1999)
(amended and restated as of May 2, 2000)
(amended and restated as of February 25, 2002)

1. **Purposes of the Plan.** The purposes of this Stock Incentive Plan are to attract and retain the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business.

2. **Definitions.** As used herein, the following definitions shall apply:

(a) **Administrator** means the Board or any of the Committees appointed to administer the Plan.

(b) **Applicable Laws** means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal and state securities laws, the corporate laws of California and, to the extent other than California, the corporate law of the state of the Company's incorporation, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(c) **Award** means the grant of an Option, Restricted Stock, SAR, Dividend Equivalent Right, Performance Unit, Performance Share, or other right or benefit under the Plan.

(d) **Award Agreement** means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(e) **Board** means the Board of Directors of the Company.

(f) **Cause** means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is for Cause as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's: (i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity; (ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability); (iii) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or a Related Entity; (iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or (v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. At least 30 days prior to the termination of the Grantee's Continuous Service pursuant to (i) or (ii) above, the Company shall provide the Grantee with notice of the Company's or such Related Entity's intent to terminate, the reason therefor, and an opportunity for the Grantee to cure such defects in his or her service to the Company's or such Related Entity's satisfaction. During this 30 day (or longer) period, no Award issued to the Grantee under the Plan may be exercised or purchased.

(g) **Code** means the Internal Revenue Code of 1986, as amended.

(h) **Committee** means any committee appointed by the Board to administer the Plan.

(i) **Common Stock** means the common stock of the Company.

(j) **Company** means Pac-West Telecomm, Inc.

(k) **Consultant** means any person (other than an Employee or, solely with respect to rendering services in such person's capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related

Entity.

(l) **Continuous Service** means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant, is not interrupted or terminated. Continuous Service

A-1

Table of Contents

shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers between locations of the Company or among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract.

(m) **Corporate Transaction** means any of the following shareholder-approved transactions to which the Company is a party:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated;

	Statutory Reserve		Retained Earnings		Total Stockholders' Equity		
Balance January 1, 2004	15,268,000	\$ 1,527	\$ 5,991,823	\$	263,794	\$ 2,089,379	\$ 8,346,523
Cumulative translation adjustment				68,855			68,855
Net loss for the year ended December 31, 2004						5,027,403	5,027,403
Transfer to statutory reserve					754,111	(754,111)	
Balance December 31, 2004	15,268,000	1,527	5,991,823	68,855	1,017,905	6,362,671	13,442,781
Conversion of convertible debenture and interest to common stock	657,402	66	3,155,498				3,155,564
Exercise of warrants for	195,500	20	955,020				955,040

cash			
Value of beneficial conversion feature in connection with \$3 million convertible note	803,381		803,381
Value of warrants issued in connection with \$3 million convertible note	365,881		365,881
Value of warrants issued in connection with \$5 million note payable	811,190		811,190
Change in foreign currency translation gain	519,066		519,066
Change in unrealized gain on marketable equity security	3,943,088		3,943,088
Net Income for the year ended December 31, 2005		7,421,112	7,421,112
Transfer to statutory reserve		1,349,026	(1,349,026)

Balance December 31, 2005	16,120,902	\$ 1,613	\$ 12,082,793	\$ 4,531,009	\$ 2,366,931	\$ 12,434,757	\$ 31,417,103
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The accompanying notes are an integral part of these consolidated financial statements

F-4

BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Years Ended December 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,421,112	\$ 5,027,403
Adjustments to reconcile net income to net cash provided in operating activities:		
Depreciation and amortization	324,638	302,803
Common stock issued for interest expense	155,564	—
Amortization of debt discounts	1,376,566	—
(Increase) / decrease in assets:		
Accounts receivable	(2,333,365)	(3,166,143)
Other receivable	(987,322)	—
Inventory	(388,251)	51,612
Advances to suppliers	(3,732,975)	1,178,306
Prepaid expense	(45,290)	—
Other assets	(3,388)	(48,736)
Increase / (decrease) in current liabilities:		
Accounts payable	(63,927)	(1,521,819)
Unearned revenue	—	(15,888)
Other payables	(11,716)	(35,350)
Accrued expenses	111,369	196,031
Net cash provided by operating activities	1,823,015	1,968,219
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of loan receivable	—	(968,000)
Payment on loan receivable	976,368	—
Acquisition of property and equipment	(3,642,530)	(435,814)
Additions to construction in progress	(234,520)	(1,374,322)
Purchase of marketable security	(2,867,346)	—
Net cash used in investing activities	(5,768,028)	(2,778,136)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(976,368)	(111,900)
Loans made to officers	(2,383,217)	—
Repayments of loans to officers	2,383,217	—
Proceeds from issuance of convertible note	3,000,000	—
Proceeds from issuance of note payable	5,000,000	—
Proceeds from the exercise of warrants	955,040	—
Net cash provided by (used in) financing activities	7,978,672	(111,900)
Effect of exchange rate changes on cash and cash equivalents	121,427	68,855

NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	4,155,086	(852,962)
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CASH & CASH EQUIVALENTS, BEGINNING BALANCE	2,121,811	2,974,773
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CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ 6,276,897	\$ 2,121,811
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid	\$ 68,144	\$ 60,231
Income taxes paid	\$ —	\$ —

The accompanying notes are an integral part of these consolidated financial statements

F-5

Note 1 - Organization and Basis of Presentation

Organization and Line of Business

Yang Ling Bodisen Biology Science and Technology Development Company Limited (“BBST”) was founded in the People’s Republic of China on August 31, 2001. BBST, located in Yang Ling Agricultural High-Tech Industries Demonstration Zone, is primarily engaged in developing, manufacturing and selling pesticides and compound organic fertilizers in the People’s Republic of China. Bodisen International, Inc. (“BII”) is a Delaware Corporation, incorporated on November 19, 2003. BII was a non-operative holding company of BBST. On December 15, 2003, BII entered in to an agreement with all the stockholders of BBST to exchange all of the outstanding stock of BII for all the issued and outstanding stock of BBST. After the consummation of the agreement, the former stockholders of BBST own 1,500 shares of common stock of BII, which represent 100% of BII’s issued and outstanding shares. For U.S. Federal income tax purpose, the transaction is intended to be qualified as a tax-free transaction under section 351 of the Internal Revenue Code of 1986, as amended.

The exchange of shares with BBST has been accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of the BBST obtained control of the consolidated entity. Accordingly, the merger of the two companies has been recorded as a recapitalization of BBST, with BBST being treated as the continuing entity. The historical financial statements presented are those of BBST. The continuing company has retained December 31 as its fiscal year end. The financial statements of the legal acquirer are not significant; therefore, no pro forma financial information is submitted.

On February 24, 2004, BII consummated a merger agreement with Stratabid.com, Inc. (“Stratabid”), a Delaware corporation, to exchange 12,000,000 shares of Stratabid to the stockholders of BII, in which BII merged into Bodisen Holdings, Inc. (BHI), an acquisition subsidiary of Stratabid, with BHI being the surviving entity. As a part of the merger, Stratabid cancelled 3,000,000 shares of its issued and outstanding stock owned by its former president and declared a stock dividend of three shares on each share of its common stock outstanding for all stockholders on record as of February 27, 2004.

Stratabid was incorporated in the State of Delaware on January 14, 2000 and before the merger, was a start-up stage Internet based commercial mortgage origination business based in Vancouver, BC, Canada.

The exchange of shares with Stratabid has been accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of BII obtained control of Stratabid. On March 1, 2004, Stratabid was renamed Bodisen Biotech, Inc. (the “Company”). Accordingly, the merger of the two companies has been recorded as a recapitalization of the Company, with the Company being treated as the continuing entity. The financial statements of legal acquirer are not significant; therefore, no pro forma financial information is submitted.

In March 2005, Bodisen Biotech Inc. completed a \$3 million convertible debenture private placement through an institutional investor. Approximately \$651,000 in expenses relating to this private placement has been amortized over the term of the convertible debenture. The net proceeds from this offering were sent to China towards capital contribution of the registration of a wholly-owned Bodisen subsidiary by the name of “Yang Ling Bodisen Agricultural Technology Co., Ltd. (“Agricultural”). In June 2005, Agricultural completed a transaction with Yang Ling Bodisen Biology Science and Technology Development Company Limited (“Yang Ling”), Bodisen Biotech, Inc.’s operating subsidiary in China, which resulted in Agricultural owning 100% of Yang Ling.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Company’s functional currency is the Chinese Renminbi; however the accompanying consolidated financial statements have been translated and presented in United States Dollars (\$).

Foreign Currency Translation

As of December 31, 2005 and 2004, the accounts of the Company were maintained, and their consolidated financial statements were expressed in the Chinese Yuan Renminbi (CNY). Such consolidated financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation," with the CNY as the functional currency. According to the Statement, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income

F-6

Note 2 - Summary of Significant Accounting PoliciesUse of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Terms of the sales vary from COD through a credit term up to 9 to 12 months. Reserves are recorded primarily on a specific identification basis. Allowance for doubtful debts amounted to \$263,376 as at December 31, 2005.

Advances to Suppliers

The Company advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured. The advances to suppliers amounted to \$4,563,471 at December 31, 2005.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Management compares the cost of inventories with the market value and allowance is made for writing down their inventories to market value, if lower.

Loan Receivable

On December 8, 2004, the Company entered in to an agreement to loan \$968,000 to an unrelated party. The loan was unsecured, payable by December 7, 2005 and carried an interest rate of 8.7% per annum. The amount was repaid in full by the due date.

Property & Equipment & Capital Work In Progress

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

Operating equipment	10 years
Vehicles	8 years

Office equipment	5 years
Buildings	30 years

F-7

At December 31, 2005, the following are the details of the property and equipment:

Operating equipment	\$ 923,688
Vehicles	362,780
Office equipment	63,403
Buildings	4,142,129
	5,492,000
Less accumulated depreciation	(604,159)
	\$ 4,887,841

Depreciation expense for the years ended December 31, 2005 and 2004 was \$193,634 and \$172,622, respectively.

On December 31, 2005, the Company has "Capital Work in Progress" representing the construction in progress of the Company's manufacturing plant amounting \$1,872,945.

Marketable Securities

Marketable securities consist of 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG). This investment is classified as available-for-sale as the Company plans to hold this investment for the long-term. This investment is reported at fair value with unrealized gains and losses included in other comprehensive income. The fair value is determined by using the securities quoted market price as obtained from stock exchanges on which the security trades.

Investment income, principally dividends, is recorded when earned. Realized capital gains and losses are calculated based on the cost of securities sold, which is determined by the "identified cost" method.

Long-Lived Assets

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of December 31, 2005 there were no significant impairments of its long-lived assets.

Intangible Assets

Intangible assets consist of Rights to use land and Fertilizers proprietary technology rights. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets and, goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

Fair Value of Financial Instruments

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

F-8

Revenue Recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the years ended December 31, 2005 and 2004 were insignificant.

Stock-Based Compensation

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. SFAS No. 123 requires compensation expense to be recorded (i) using the new fair value method or (ii) using the existing accounting rules prescribed by Accounting Principles Board Opinion No. 25, "Accounting for stock issued to employees" (APB 25) and related interpretations with proforma disclosure of what net income and earnings per share would have been had the Company adopted the new fair value method. The Company uses the intrinsic value method prescribed by APB 25 and has opted for the disclosure provisions of SFAS No.123.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

According to the Provisional Regulations of the People's Republic of China on Income Tax, the Document of Reductions and Exemptions of Income Tax for the Company had been approved by the local tax bureau and the Yang Ling Agricultural High-Tech Industries Demonstration Zone. The Company is exempted from income tax through October 2007.

In March 2005, Bodisen Biotech Inc. formed a new 100% wholly-owned subsidiary named Yang Ling Bodisen Agricultural Technology Co., Ltd. ("Agricultural") in China. Under Chinese law, a newly formed wholly owned subsidiary of a foreign company enjoys an income tax exemption for the first two years and a 50% reduction of normal income tax rates for the following 3 years. In order to extend such tax benefits, in June 2005, Agricultural completed a transaction with Yang Ling Bodisen Biology Science and Technology Development Company Limited ("Yang Ling", Bodisen Biotech, Inc.'s operating subsidiary in China), which resulted in Agricultural owning 100% of Yang Ling.

If the Company had not been exempt from paying income taxes during the years ended December 31, 2005 and 2004, income tax expense would have been approximately \$2,859,000 and \$1,659,000, respectively, and earnings per share would have been reduced by \$0.19 and \$0.11, respectively.

Foreign Currency Transactions and Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company is Chinese Renminbi. The unit of Renminbi is in Yuan. Translation gains of \$587,921 at December 31, 2005 are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet. During the years ended December 31, 2005 and 2004, other comprehensive income in the consolidated statements of income and other comprehensive income included translation gains of \$519,066 and \$68,855, respectively.

F-9

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net loss per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Statement of Cash Flows

In accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Segment Reporting

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure About Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company's consolidated financial statements as the Company consists of one reportable business segment. All revenue is from customers in People's Republic of China. All of the Company's assets are located in People's Republic of China.

Recent Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless this would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006.

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the Company's first quarter of fiscal 2006.

In June 2005, the EITF reached consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements ("EITF 05-6.") EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. EITF 05-6 is not expected to have a material effect on its consolidated financial position or results of operations.

F-10

The Company believes that the adoption of these standards will have no material impact on its financial statements.

Note 3 - Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Bodisen Biotech, Inc., its 100% wholly-owned subsidiary Bodisen Holdings, Inc. (“BHI”), BHI’s 100% wholly-owned subsidiary Yang Ling Bodisen Biology Science and Technology Development Company Limited, and a 100% wholly-owned subsidiary, incorporated in March 2005, named Yang Ling Bodisen Agricultural Technology Co., Ltd. All significant inter-company accounts and transactions have been eliminated in consolidation.

Note 4 - Advances to officers

During the six month period ending June 30, 2005, the Company advanced \$2,383,217 to 4 officers as a short term loan. Said loan was interest free, unsecured, and payable upon demand. These loans were repaid during the quarter ended September 30, 2005.

Note 5 - Marketable Security

During the year ended December 31, 2005, the Company purchased 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG) for \$2,867,346. At December 31, 2005, the fair value of this investment was \$6,810,434 which resulted in an unrealized gain of \$3,943,088 which is included in other comprehensive income. At December 31, 2005, this represented a 10.2% interest in China Natural Gas, Inc.

Note 6 - Intangible Assets

Net intangible assets at December 31, 2005 were as follows:

Rights to use land	\$ 1,693,833
Fertilizers proprietary technology rights	991,304
	2,685,137
Less Accumulated amortization	(565,550)
	\$ 2,119,587

The Company’s office and manufacturing site is located in Yang Ling Agricultural High-Tech Industries Demonstration Zone in the province of Shanxi, People’s Republic of China. The Company leases land per a real estate contract with the government of People’s Republic of China for a period from November 2001 through November 2051. Per the People’s Republic of China’s governmental regulations, the Government owns all land.

During July 2003, the Company leased another parcel of land per a real estate contract with the government of the People’s Republic of China for a period from July 2003 through June 2053.

The Company has recognized the amounts paid for the acquisition of rights to use land as intangible asset and amortizing over a period of fifty years. The “Rights to use land” is being amortized over a 50 year period.

The Company acquired Fluid and Compound Fertilizers proprietary technology rights with a life ending December 31, 2011. The Company is amortizing Fertilizers proprietary technology rights over a period of ten years.

Amortization expense for the Company’s intangible assets for the years ended December 31, 2005 and 2004 amounted to \$131,004 and \$130,181, respectively.

Amortization expense for the Company's intangible assets over the next five fiscal years is estimated to be: 2006-\$130,000, 2007-\$130,000, 2008-\$130,000, 2009-\$130,000 and 2010-\$130,000.

Note 7 - Short-Term Loans

At December 31, 2004, the Company had three short-term notes payable outstanding that totaled \$980,100. During the year ended December 31, 2005, all three notes were repaid in full.

Note 8 - Note Payable

On December 8, 2005, the Company issued a \$5,000,000 note payable to Amaranth Partners LLC that accrues interest at 9% per annum and is due on March 8, 2006. In connection with this note payable agreement, the Company also issued to Amaranth Partners LLC a warrant to purchase 133,333 shares of the Company common stock for \$7.50 per shares. The Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this note payable. The estimated value of the warrants of \$968,282 was determined using the Black-Scholes option pricing model and the following assumptions: term of 5 years, a risk free interest rate of 4.00%, a dividend yield of 0% and volatility of 31%. The face amount of the note payable of \$5,000,000 was proportionately allocated to the note payable and the warrant in the amount of \$4,188,810 and \$811,190, respectively. The amount allocated to the warrants of \$811,190 was recorded as a discount on the note payable and will be amortized over the year life of the note payable. For the year ended December 31, 2005 \$207,304 has been amortized to interest expense, due to the passage of time. The unamortized discount at December 31, 2005 amounted to \$603,886.

Note 9 - Convertible Debenture

On March 16, 2005, the Company completed a private placement offering. The Company received \$3,000,000 and issued a one year 9% debenture convertible into shares of common stock by dividing the aggregate principal and accrued interest by a conversion price of \$4.80; and three year warrants to purchase 187,500 shares of common stock at \$4.80 per share and three year warrants to purchase 40,000 shares of common stock at \$6.88 per share.

This debenture was considered to have an embedded beneficial conversion feature because the conversion price was less than the quoted market price at the time of the issuance. The Company allocated the proceeds of the debt between the warrant and the debt based on relative fair values which amounted to \$365,881 and \$2,634,119. The beneficial conversion feature of \$803,381 was recorded separately based on the intrinsic value method per EITF 00-27. During the year ended December 31, 2005, the entire \$3,000,000 convertible debenture and \$155,564 of accrued interest were converted into 657,402 shares of the Company's common stock. In addition, since the entire principal balance of the convertible debenture was converted into common stock, the entire debt discount of \$1,169,262 was amortized to interest expense.

Note 10 - Stockholders' Equity

On February 24, 2004, BII entered into a merger agreement with Stratabid.com, Inc. (Stratabid) to exchange 12,000,000 shares of Stratabid to the stockholders of BII (Note 18). As a part of the merger, Stratabid cancelled 3,000,000 shares of its issued and outstanding stock owned by a majority stockholder and declared a stock dividend of three shares on each share of its common stock outstanding for all stockholders on record as of February 27, 2004, after the merger agreement.

During the year ended December 31, 2005, the Company issued 657,402 share of common stock in connection with the conversion of a \$3,000,000 convertible debenture and \$155,564 of accrued interest. In addition, the Company also issued 195,500 shares of common stock upon the exercise of warrants and received proceeds of \$955,040.

Note 11 - Stock Options and WarrantsStock Options

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation- Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used, on reported results. The Statement is effective for the Companies' interim reporting period ending January 31, 2003.

In compliance with FAS No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by APB No. 25 and has made the applicable disclosures below.

In 2004 the board of directors approved the creation of the 2004 Stock Option Plan. This plan provides for the grant of incentive stock options to employees, directors and consultants. Options issued under this plan will expire over a maximum term of five years from the date of grant.

Pursuant to the Stock Option Plan, during the year ended December 31, 2004, the Company granted 110,000 stock options to two directors (55,000 options each), of which 100,000 stock options was granted on June 4, 2004 and the balance of the 10,000 was granted on December 28, 2004.

On the first 100,000 stock options granted, 50,000 stock options vested immediately and 50,000 stock options became vested over 8 equal quarterly installments, with the first installment vesting at the end of the second quarter of 2004. The 10,000 stock options granted on December 28, 2004 vested on December 31, 2004.

The option exercise price was \$5 for the first 100,000 stock options which was the same as fair value of the shares at the time of granting of the options. The option exercise price was \$5.80 for the second 10,000 stock options which was the same as fair value of the shares at the time of granting of the options.

On October 4, 2005, the Company granted 26,000 stock options to two directors (13,000 options each). 20,000 stock options vested immediately and the remaining 6,000 stock options became vested over the next three months. The option exercise price was \$6.72 which was the same as fair value of the shares at the time of granting of the options.

Following is a summary of the stock option activity:

Outstanding, December 31, 2003	—
Granted	110,000
Forfeited	—
Exercised	—
Outstanding, December 31, 2004	110,000
Granted	26,000
Forfeited	—
Exercised	—
Outstanding, December 31, 2005	136,000

Following is a summary of the status of options outstanding at December 31, 2005:

Outstanding Options			Exercisable Options			
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number	Average Exercise Price	
\$5.00	100,000	3.42	\$5.00	93,750	\$5.00	
\$5.80	10,000	3.99	\$5.80	10,000	\$5.80	
\$6.72	26,000	4.76	\$6.72	24,000	\$6.72	

For options granted during the year ended December 31, 2005, the weighted-average fair value of such options was \$3.76.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option-pricing model are as follows:

Risk-free interest rate	4.0%
Expected life of the options	5.00 years
Expected volatility	62%
Expected dividend yield	0

For options granted during the year ended December 31, 2004, the weighted-average fair value of such options was \$1.92.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option-pricing model are as follows:

First 100,000 stock options granted on June 4, 2004:

Risk-free interest rate	4.0%
Expected life of the options	5.00 years
Expected volatility	35%
Expected dividend yield	0

Second 10,000 stock options granted on December 28, 2004

Risk-free interest rate	4.0%
Expected life of the options	5.00 years
Expected volatility	40%
Expected dividend yield	0

Had the Company determined employee stock based compensation cost based on a fair value model at the grant date for its stock options under SFAS 123, the Company's net earnings per share would have been adjusted to the pro forma amounts for the years ended December 31, 2004 as follow (\$ in thousands, except per share amounts):

	2005	2004
Net income:		

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As reported	\$	7,421,112	\$	5,027,403
Stock-Based employee compensation expense included in reported net income, net of tax			—	—
Total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax		(106,000)		(153,000)
Pro forma	\$	7,315,112	\$	4,874,403
Basic earnings per share:				
As reported	\$	0.48	\$	0.33
Pro forma	\$	0.47	\$	0.32
Diluted earnings per share:				
As reported	\$	0.48	\$	0.33
Pro forma	\$	0.47	\$	0.32

F-14

Warrants

Following is a summary of the warrant activity:

Outstanding, December 31, 2004	—
Granted	360,833
Forfeited	—
Exercised	195,500
Outstanding, December 31, 2005	165,333

Following is a summary of the status of warrants outstanding at December 31, 2005:

Outstanding Warrants			Exercisable Warrants		
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number	Average Exercise Price
\$6.88	32,000	2.21	\$6.88	32,000	\$6.88
\$7.50	133,333	4.94	\$7.50	133,333	\$7.50

Note 12 - Supplemental Disclosure of Cash Flows

The Company prepares its statements of cash flows using the indirect method as defined under the Financial Accounting Standard No. 95.

Note 13 - Employee Welfare Plans

The Company has established its own employee welfare plan in accordance with Chinese law and regulations. The Company makes annual contributions of 14% of all employees' salaries to employee welfare plan. The total expense for the above plan \$82,705 and \$80,761 for the years ended December 31, 2005 and 2004, respectively. The Company has recorded welfare payable of \$260,071 at December 31, 2005 which is included in accrued expenses in the accompanying consolidated balance sheet.

Note 14 - Statutory Common Welfare Fund

As stipulated by the Company Law of the People's Republic of China (PRC), net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i. Making up cumulative prior years' losses, if any;
- ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

- iv. Allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting.

F-15

The Company established a reserve for the annual contribution of 5% of net income to the welfare fund in 2005 and 2004. The amount included in the statutory reserve for the years ended December 31, 2005 and 2004 amounted to \$449,675 and \$251,370, respectively.

Note 15 - Statutory Reserve

In accordance with the Chinese Company Law, the company has allocated 10% of its annual net income, amounting \$899,351 and \$502,741 as statutory reserve for the years ended December 31, 2005 and 2004, respectively.

Note 16 - Factory Location and Lease Commitments

BBST's principal executive offices are located at North Part of Xinquia Road, Yang Ling Agricultural High-Tech Industries Demonstration Zone Yang Ling, Shaanxi province, People's Republic of China. BBST owns two factories, which includes three production lines, an office building, one warehouse, and two research labs and, is located on 10,900 square meters of land. The rent of the office building is \$121 a month from May 20, 2004 through May 20, 2005. BBST also leases warehouses in Yang Ling near the site of Bodisen's factories. The rent of the warehouses is \$194 a month from January 2005 through May 2005. Total future commitment through June 30, 2005 amounts to \$1,573.

The Company has committed to pay \$18,150 to an advertising agency for an advertising campaign, by October 2006.

F-16

Note 17 - Earnings Per Share

Earnings per share for years ended December 31, 2005 and 2004 were determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock and common stock equivalents outstanding.

The following is an analysis of the differences between basic and diluted earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

	Year Ended December 31,					
	2005			2004		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic earnings per share						
Net income	\$ 7,421,112			\$ 5,027,403		
Weighted shares outstanding		15,427,494			15,268,000	
			\$ 0.48			\$ 0.33
Diluted earnings per share						
Net income	\$ 7,421,112			\$ 5,027,403		
Weighted shares outstanding		15,427,494			15,268,000	
Effect of dilutive securities						
Options		83,663			60,356	
Warrants		78,179			—	
		15,589,336			15,328,356	
			\$ 0.48			\$ 0.33

Note 18 - Merger Agreement

On February 11, 2004, Stratabid entered into an Agreement and Plan of Merger with Bodisen Acquisition Corp., a Delaware corporation ("BAC") wholly-owned by Stratabid, Bodisen International, Inc., a Delaware corporation ("BII") and the stockholders of BII. BII has one 100% wholly-owned subsidiary in Shaanxi, China, Yang Ling Bodisen Biology Science and Technology Development Company Limited ("BBST"). Under the terms of the agreement, BAC acquired 100% of BII's stock in exchange for the issuance by Stratabid of three million shares of its common stock to the holders of BII. The new shares constitute approximately 79% of the outstanding shares of Stratabid, which changed its name to Bodisen Biotech, Inc. (the "Company"). The Agreement and Plan of Merger was closed on February 24, 2004.

BII's Chairman of the Board was appointed the Company's Chief Executive Officer.

F-17

At the Effective Time, by virtue of the Merger and without any action on the part of the BAC, BII or the BII Stockholders, the shares of capital stock of each of BII and the BAC were converted as follows:

- i. Capital Stock of the BAC. Each issued and outstanding share of the BAC's capital stock continued to be issued and outstanding and was converted into one share of validly issued, fully paid, and non-assessable common stock of the Surviving Company (Bodisen Holdings, Inc.). Each stock certificate of the BAC evidencing ownership of any such shares continued to evidence ownership of such shares of capital stock of the Surviving Company.
- ii. Conversion of BII Shares. Each BII Share that was issued and outstanding at the Effective Time was automatically cancelled and extinguished and converted, without any action on the part of the holder thereof, into the right to receive at the time and in the amounts described in the Agreement an amount of Acquisition Shares equal to the number of Acquisition Shares divided by the number of BII Shares outstanding immediately prior to Closing. All such BII Shares, so converted, were no longer outstanding and were automatically cancelled and retired and ceased to exist, and each holder of a certificate representing any such shares ceased to have any rights with respect thereto, except the right to receive the Acquisition Shares paid in consideration therefore upon the surrender of such certificate in accordance with the Agreement.
- iii. Within thirty (30) days from the Closing Date, Stratabid was required to sell its business operations, as they exist immediately prior to the Closing, to Derek Wasson, former president. In consideration of the sale, Mr. Wasson returned 750,000 Common Shares to Stratabid for cancellation. In addition, Mr. Wasson forgave all indebtedness owed by Stratabid to Mr. Wasson. Other than indebtedness of BII, Stratabid had no indebtedness or other liability of any kind or nature after the sale of the business to Mr. Wasson, save and except for liabilities incurred in connection with the Merger.

Note 19 - Current Vulnerability Due to Certain Concentrations

Four vendors provided 29.9%, 22.4%, 11.6% and 11.2% of the Company's raw materials for the year ended December 31, 2005 and four vendors provided 25.9%, 19.9%, 14.0% and 10.0% of the Company's raw materials for the year ended December 31, 2004. The payable balance for these parties amounted to \$0 at December 31, 2005.

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, by the general state of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Note 20 - Reclassifications

Certain prior period amounts have been reclassified to conform to the year ended December 31, 2005 presentation.

Note 21 - Subsequent Events (Unaudited)

On February 3, 2006, the Company entered into a placing agreement (the "Placing Agreement") with Charles Stanley Securities ("Charles Stanley") relating to the sale of up to 1,643,836 shares of the Company's common stock. Pursuant to the Placing Agreement, Charles Stanley has agreed to use its reasonable effort to sell all such shares of common stock at a price of 730 pence (approximately US\$12.99) per share, resulting in gross proceeds of approximately 12 million British pounds sterling (approximately US\$21,360,000).

In connection with the placement, the Company's shares would be admitted to trading on the AIM Market of the London Stock Exchange. The Company's shares will continue to be listed on the American Stock Exchange.

On March 15, 2006, the Company completed financing of \$5,322,506 by issuing 380,179 restricted shares of common stock of the Company at \$14.00 per share to institutional investors in a private placement pursuant to Regulation S. Issuance of these new shares are subject to approval by the American Stock Exchange and admission to the London AIM market. The Company has obtained approval of the American Stock Exchange. The proceeds from this financing will be used to fulfill repayment obligations of a \$5 million short term note that the Company entered in December 2005 which was used to fund raw materials purchases

F-18

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 8A. CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no significant changes in internal control over financial reporting (as defined in Rule 13a-15f under the Exchange Act) that occurred during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

15

PART III**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.**

Below are the names and certain information regarding our executive officers and directors:

Name	Age	Position
Wang Qiong	41	Chairman and Chief Executive Officer
Bo Chen	48	Executive Director and President
Patrick McManus	51	Director
David Gatton	52	Director
Weirui Wan	64	Director
Wang Chunsheng	42	Chief Operating Officer
Yiliang Lai	40	Chief Financial Officer

Officers are elected annually by the Board of Directors, at our annual meeting, to hold such office until an officer's successor has been duly appointed and qualified, unless an officer sooner dies, resigns or is removed by the Board.

Background of Executive Officers and Directors

Wang Qiong, Chairman and Chief Executive Officer of Bodisen and Yang Ling - Mrs. Wang Qiong has served as the Chairman of the Board of Bodisen since the merger of BHI and BII and she has been on the board of Yang Ling since Yang Ling was founded in August 2001. Mrs. Wang Qiong has over 10 years experience in the fertilizer and chemical industry. From 1997 to May 2001, she was the Chief Executive Officer and President of Shaanxi Bodisen Chemical Co., Ltd., which changed its name to Bodisen International, Inc. on August 31, 2001. From May 1996 to December 1997, she was the President of Yang Ling Kangyuan Agricultural Chemical Company, a company dedicated to the research and development of agricultural products. Mrs. Wang Qiong graduated from North-West Agronomy College, with a Bachelor of Science degree in 1986.

Bo Chen, Director and President of Bodisen and Yang Ling - Mr. Chen, the President of Bodisen, is one of its original founders and stockholders. From August 1997 to August 2001, Mr. Bo Chen was Chief Operations Officer and Chief Technology Officer of Shaanxi Bodisen Chemical Co., Ltd. From July 1994 to December 1997, he was the Chief Executive Officer and President of Yang Ling Shikanglu Chemurgical Technology Development Co., Ltd. Mr. Chen currently sits on the Board of Directors of China Natural Gas, Inc. Mr. Chen received his Bachelor of Science degree from Shaanxi Normal College in July 1984.

Patrick McManus, Director of Bodisen - Mr. Patrick McManus, CPA, J.D joined Bodisen's Board of Directors on May 1, 2004 as an independent board member. Mr. McManus brings over 25 years of experience in business, finance and law to Bodisen. He was elected Mayor of the City of Lynn, Massachusetts in 1992 and served in this position until his retirement to the private practice of law and accounting in 2002. While serving the City of Lynn as its Mayor, he was elected a member and trustee of the Executive Committee of the U.S. Conference of Mayors (USCM) with responsibility for developing policy for the USCM. He also served as the Chairman of the USCM Science and Technology Subcommittee, the Urban Water Council, and the USCM Audit Committee. Mayor McManus started his career in business with the General Electric Company in 1979, and was a Professor of Business and Finance at Salem State College in Massachusetts. Mayor McManus is an expert on China. He was instrumental in establishing a close alliance as well as coordinating a regular exchange of visits by members of the U.S. Conference of Mayors and the China Association of Mayors. Mr. McManus has been a Certified Public Accountant since 1985. Mr. McManus received his Juris Doctorate from Boston College Law School and an MBA from Suffolk University

David Gatton, Director of Bodisen - Mr. Gatton joined Bodisen's Board of Directors on May 1, 2004 as an independent board member. Since 1985 Mr. Gatton has served as the Chairman and President of Development Initiatives, Inc, a Washington, DC-based government relations firm specializing in urban affairs, business development and marketing, serving a variety of public and private clients. Mr. Gatton advises cities, organizations, and companies on business development strategies, public/private partnerships and marketing initiatives. He has advised various organizations on tax reform, economic development initiatives and a variety of environmental laws, including the reauthorization of the following Acts of the United States: the Clean Water Act, the Safe Drinking Water Act, the Resource Conservation and Recovery Act, Superfund and the Clean Air Act. Some of Mr. Gatton's major accomplishments include: development of U.S. Sino Memorandum of Cooperation between U.S. and China Association of Mayors, development of a national brownfield redevelopment initiative, development of several multifamily low- and moderate-income housing developments, business development strategies for various private firms, and assistance in development of economic development projects for numerous cities. Mr. Gatton holds a B.A. from Cornell College, and a Master's degree from Harvard University.

Weirui Wan, Director of Bodisen - Mr. Weirui Wan joined Bodisen's Board of Directors on May 1, 2004 as an independent board member. Mr. Wan has over 40 years of experience in management and leadership positions in the agricultural sector in China. He started his career in 1967 as an agricultural scientist at the Chinese Academy of Water and Soil Preservation, China's leading government agency on soil and agricultural studies. In 1984, Mr. Wan was appointed the position of Deputy Director of the Chinese Academy of Water and Soil Preservation. In 1997, Mr. Wan moved to the city of Yang Ling and was appointed Deputy Governor of the Yang Ling Agricultural High-Tech Industries Demonstration Zone and was in charge of building the zone into the agricultural hub of China. Mr. Wan retired as Deputy Governor in 2001 and is currently on the Advisory Board of Yang Ling Agricultural High-Tech Industries Demonstration Zone. Mr. Wan graduated from Beijing University of Agriculture in 1967 with a Bachelor's degree in Agriculture.

Wang Chunsheng, Chief Operating Officer of Bodisen, Executive Vice President and Chief Operating Officer of Yang Ling - Mr. Wang Chunsheng, joined Bodisen in September 2001 as Chief Operations Officer. From September 1999 to August 2001, Mr. Wang Chunsheng was Vice General Manager of the Shaanxi Bodisen Chemical Co. Ltd. responsible for sales and marketing. From January 1997 to July 1999, he held a position as Senior Sales Manager with the Yang Ling Kangyuan Agricultural Chemical Company. Mr. Wang Chunsheng holds agronomist certification.

Yiliang Lai, Chief Financial Officer of Bodisen and Yang Ling - On November 1, 2005, the Company promoted Yiliang Lai to the position of Chief Financial Officer. Mr Lai joined the Company as a financial controller in March 2005. Mr Lai has extensive experience in accounting and auditing matters. He started his career as an accountant at China Shipping in 1986 and in 1999 he joined the CPA firm ShenZhen CaiXin as an auditor. In 2001, Mr Lai joined Shaanxi Kaida Limited as head of accounting and in 2002 he joined Xi'an Hongsheng Biotech as Chief Financial Officer. Mr Lai is a Certified Public Accountant in China as well as a Certified Auditor.

Board of Directors

Our Directors are elected by the vote of a plurality in interest of the holders of our voting stock and hold office for a term of one year and until a successor has been elected and qualified.

A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board individually or collectively consent in writing to the action.

Directors may receive compensation for their services and reimbursement for their expenses as shall be determined from time to time by the Board.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10 percent of the Company's Common Stock, to file with the SEC the initial reports of ownership and reports of changes in ownership of common stock. Officers, directors and greater than 10 percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Specific due dates for such reports have been established by the Commission and the Company is required to disclose any failure to file reports by such dates. In light of the fact that the Company only became obligated for the filing of reports in compliance with Section 16(a) of the Securities Exchange Act of 1934 in the middle of the fiscal year, do to an inadvertent oversight, there was a failure of all officers, directors and greater than 10 percent stockholders of the Company to comply with Section 16(a) filing requirements. However, this oversight is currently being addressed to rectify the problem.

Code of Ethics

The Company has adopted a Code of Ethics that applies to all officers, directors and employees of the Company.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth all compensation paid in respect of our Chief Executive Officer and those individuals who received compensation in excess of \$100,000 per year (collectively, the "Named Executive Officers") for our last three completed fiscal years.

SUMMARY COMPENSATION TABLE

Name And Principal Position	Year	Annual Compensation			Long Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards	Securities Under- Lying Options/ SARs (#)	Payouts	
					Restricted Stock Compensation (\$)	LTIP Payouts (\$)		
Wang	2005	31,450	-0-	-0-	N/A	N/A	N/A	N/A
Qiong,	2004	23,220	-0-	-0-	N/A	N/A	N/A	N/A
Chief Executive Officer and Chairman	2003	4,400	-0-	-0-	N/A	N/A	N/A	N/A
Derek Wasson, Former Chief Executive Officer	2005	-0-	-0-	-0-	N/A	N/A	N/A	N/A
	2004	-0-	-0-	-0-	N/A	N/A	N/A	N/A
	2003	-0-	-0-	32,694 (1)	N/A	N/A	N/A	N/A

(1)

Represents consulting fees paid.

Equity Compensation Plan Information

There has been no common stock authorized for issuance with respect to any equity compensation plan as of the fiscal year ended December 31, 2005.

Employment Agreements

There are currently no employment agreements between the Company and any of its named executive officers.

18

Option Grants During 2005 Fiscal Year

The following table provides information related to options granted to the named executive officers during the 2005 fiscal year. The Company does not have any outstanding stock appreciation rights.

Name	No. of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Sh)	Expiration Date
David Gatton	13,000	50%	\$6.72	October 4, 2010
Patrick McManus	13,000	50%	\$6.72	October 4, 2010

Aggregated Option Exercises During 2005 Fiscal Year and Fiscal Year-End Option Values

The following table provides information related to employee options exercised by the named executive officers during the 2005 fiscal year and number and value of such options held at fiscal year-end.

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year- End (#)		Value of Unexercised In-the-Money Options at Fiscal Year- End (\$) (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
David Gatton	N/A	N/A	63,875	4,125	550,235	35,405
Patrick McManus	N/A	N/A	63,875	4,125	550,235	35,405

(1) Based on the closing price of \$14.00, at December 30, 2005.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information, as of March 24, 2006 with respect to the beneficial ownership of the outstanding common stock by (i) any holder of more than five (5%) percent; (ii) each of our executive officers and directors; and (iii) our directors and executive officers as a group. Except as otherwise indicated, each of the stockholders listed below has sole voting and investment power over the shares beneficially owned.

Name of Beneficial Owner (1)	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned (2)
Wang Qiong	3,748,780	20.6%
Bo Chen	3,584,096	19.7%
Patrick McManus	68,000	*
David Gatton	68,000	*
Weirui Wan	0	*
Wang Chunsheng	0	*
Yiliang Lai.	0	*
All officers and directors as a group (7 persons)	7,462,626	40.8%

*Less than 1%.

19

- (1) Except as otherwise indicated, the address of each beneficial owner is c/o Bodisen Biotech, Inc., North Part of Xinquia Road, Yang Ling AG, High-Tech Industries Demonstration Zone, Yang Ling, China 712100
- (2) Applicable percentage ownership is based on 18,176,917 shares of common stock outstanding as of March 24, 2006, together with securities exercisable or convertible into shares of common stock within 60 days of March 24, 2006 for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of March 24, 2006 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

No Director, executive officer, affiliate or any owner of record or beneficial owner of more than 5% of any class of voting securities of the Company is a party adverse to the Company or has a material interest adverse to the Company.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table shows information with respect to each equity compensation plan under which our common stock is authorized for issuance as of the fiscal year ended December 31, 2005.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	136,000	\$5.39	864,000
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	136,000	\$5.39	864,000

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

20

ITEM 13. EXHIBITS

Exhibit Number Description of Exhibit

- 3.1 Certificate of Incorporation (incorporated by reference to Company's Form SB-2 filed September 3, 2002).
- 3.2 Amendment to Certificate of Incorporation (incorporated by reference to Company's Form 10-KSB filed March 30, 2004).
- 3.3 By-Laws (incorporated by reference to Company's Form SB-2 filed September 3, 2002).
- 10.1 Loan Agreement, dated as of September 28, 2003, between the Company and Xianyang City Commercial Bank. (incorporated by reference to Company's Form 10-KSB filed March 30, 2004).
- 10.2 Bodisen Biotech, Inc. 2004 Stock Option Plan (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).
- 10.3 Form of Bodisen Biotech, Inc. Nonstatutory Stock Option Agreement (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).
- 21.1 Schedule of Subsidiaries (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees. The aggregate fees billed by our auditors, for professional services rendered for the audit of our annual financial statements for the years ended December 31, 2005 and 2004, and for the reviews of the financial statements included in our Quarterly Reports on Form 10-QSB during that fiscal year were \$0, and \$40,500, respectively.

Audit Related Fees. We incurred fees to auditors of \$15,000 and \$0, respectively, for audit related fees during the fiscal years ended December 31, 2005 and 2004.

Tax Fees. We incurred no fees to auditors for tax compliance, tax advice and tax compliance services during the fiscal years ended December 31, 2005 and 2004.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bodisen Biotech, Inc.

By: /s/ Wang Qiong

 Wang Qiong
 Chief Executive Officer (Principal Executive Officer)

By: /s/ Yiliang Lai

 Yiliang Lai
 Chief Financial Officer
 (Principal Financial and Accounting Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Wang Qiong Wang Qiong	Chairman and Chief Executive Officer	March 28, 2006
/s/ Yiliang Lai Yiliang Lai	Chief Financial Officer	March 28, 2006
/s/ Bo Chen Bo Chen	President and Director	March 28, 2006
/s/ Patrick McManus Patrick McManus	Director	March 28, 2006
/s/ David Gatton David Gatton	Director	March 28, 2006
/s/ Weirui Wan Weirui Wan	Director	March 28, 2006