

IDENTIVE GROUP, INC.  
Form DEF 14A  
April 28, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

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

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 Section 240.14a-12

**IDENTIVE GROUP, INC.**

(Name of Registrant as Specified in its Charter)

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

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(3) Filing Party:

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**IDENTIVE GROUP, INC.**

**NOTICE OF**

**2014 ANNUAL MEETING OF STOCKHOLDERS**

**May 22, 2014**

**TO OUR STOCKHOLDERS:**

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of Identive Group, Inc. (the Company), a Delaware corporation, to be held on May 22, 2014, at 8:00 a.m., local time, at our offices located at 39300 Civic Center Drive, Suite 150, Fremont, California, for the following purposes:

1. To elect two Class I directors to serve for a three-year term ending at the annual meeting of stockholders in 2017 and until their successors have been duly elected and qualified or until they resign or are removed;
  2. To approve an amendment to the Company's Fourth Amended and Restated Certificate of Incorporation, as amended (the Restated Certificate), and to authorize our Board of Directors, if in their judgment it is necessary, to effect a reverse stock split of the Company's common stock, \$0.001 par value per share (the Common Stock), at a ratio within the range of 1-for-3 to 1-for-10, such ratio to be determined in the discretion of our Board of Directors;
  3. To approve an amendment to the Restated Certificate, to increase the number of authorized shares of our Common Stock from 130,000,000 to 145,000,000 shares;
  4. To approve an amendment to the Restated Certificate to change the name of the Company from Identive Group, Inc. to Identiv, Inc.;
  5. To approve amendments to the Company's 2011 Incentive Compensation Plan to increase the number of shares reserved for issuance by 10,000,000 shares and to increase certain individual award limits;
  6. To ratify the appointment of BDO USA, LLP, an independent registered public accounting firm, as the independent auditor of the Company for the fiscal year ending December 31, 2014;
  7. To vote on a non-binding advisory resolution on the compensation of the Company's named executive officers (Say on Pay); and
  8. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.
- The foregoing items of business are more fully described in the Proxy Statement accompanying this notice.

**The Board of Directors of the Company recommends that you vote FOR the approval of each of the proposals outlined above and as more fully described in the accompanying Proxy Statement.**

Only stockholders of record at the close of business on April 21, 2014 are entitled to notice of and to vote at the 2014 Annual Meeting of Stockholders and any adjournments or postponements thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for

inspection at the U.S. headquarters of the Company.

All stockholders are cordially invited and encouraged to attend the Annual Meeting. Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted. Accordingly, please review our proxy materials and request a proxy card to sign, date, and return or submit your proxy or voting instruction card, as applicable, by telephone or through the Internet. Instructions for each type of voting are included in the Notice of Internet Availability of Proxy Materials that you received and on the proxy card. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted.

By Order of the Board of Directors of

Identive Group, Inc.

Brian Nelson

Chief Financial Officer and Secretary

Fremont, California

April 28, 2014

**ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. IN ANY EVENT, TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, WE URGE YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE BY FOLLOWING THE INSTRUCTIONS INCLUDED WITH THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS OR THE PROXY CARD. THANK YOU FOR ACTING PROMPTLY.**

IMPORTANT: Please vote your shares via telephone or the Internet, as described in the accompanying materials, to assure that your shares are represented at the meeting, or, if you received a paper copy of the proxy card by mail, you may mark, sign and date the proxy card and return it in the enclosed postage-paid envelope. If you attend the meeting, you may choose to vote in person even if you have previously voted your shares.

**IDENTIVE GROUP, INC.**

**PROXY STATEMENT**

**FOR**

**2014 ANNUAL MEETING OF STOCKHOLDERS**

**May 22, 2014**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The Board of Directors of the Company is furnishing this Proxy Statement to you in connection with the solicitation of proxies for use at our 2014 Annual Meeting of Stockholders (the Annual Meeting) to be held on May 22, 2014, at 8:00 a.m., local time, at our offices at 39300 Civic Center Drive, Suite 150, Fremont, California, or any adjournment(s) or postponement(s) thereof, for the purposes set forth in this Proxy Statement and in the accompanying notice of our Annual Meeting. References in this proxy statement to the Company, we, our, us and Identiv Group or Identiv are to Identiv Group, Inc.

Copies of this Proxy Statement, the enclosed proxy card and our 2013 Annual Report to Stockholders are expected to first be sent or given to stockholders on or about April 28, 2014.

**Important Notice Regarding Internet Availability of Proxy Materials and Annual Report**

Pursuant to the rules of the Securities and Exchange Commission (SEC), we are providing access to our proxy materials, including this Proxy Statement, together with a notice of the meeting and our Annual Report, over the Internet. In addition to receiving your proxy materials for this year's Annual Meeting via mail, you will have the ability to access the proxy materials at <http://www.materials.proxyvote.com/45170X>.

**Record Date**

Our Board of Directors has fixed the close of business on April 21, 2014 as the record date (the Record Date) for the determination of our stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment(s) or postponement(s) thereof.

**Shares Outstanding**

At the Record Date, 79,231,608 shares of our Company's common stock, par value \$0.001 per share (Common Stock), were outstanding and entitled to vote at the Annual Meeting. Our Common Stock is listed on the NASDAQ Capital Market under the symbol INVE.

**Quorum**

The holders of one-third (1/3) of the outstanding shares of our Common Stock entitled to vote at the meeting, present in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes (as described below) will be treated as being present at the Annual Meeting for purposes of establishing a quorum for the transaction of business.

**Voting Rights and Vote Required**

Each stockholder of record on the Record Date is entitled to one vote per share of Common Stock held by him or her on the Record Date on all matters submitted for consideration of, and to be voted upon by, the stockholders at the Annual Meeting.





Assuming that a quorum is present, the affirmative vote of a plurality of the votes cast is required for the election of the nominee for director. No stockholder will be entitled to cumulative votes at the Annual Meeting for the election of any members of our Board of Directors.

The proposals to increase the number of shares of our Common Stock authorized, change our name and effect a reverse split of our Common Stock require the affirmative vote of the holders of a majority of the outstanding shares of our Common Stock.

The proposal to amend the 2011 Incentive Compensation Plan requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

All other matters being submitted to stockholders require the affirmative vote of a majority of the votes cast. Proposal No. 7 (the Say on Pay proposal) is a non-binding, advisory proposal.

Shares which abstain from voting as to a particular matter and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to a particular matter ( broker non-votes ) will be counted for purposes of determining whether a quorum is present for the transaction of business, but will not be considered as voting on such matter. Accordingly, neither abstentions nor broker non-votes will have any effect upon the outcome of voting with respect to the election of directors, which requires a plurality of the votes cast, or other matters being submitted to stockholders, which require an affirmative vote of a majority of votes cast.

All votes will be tabulated by the inspector of elections appointed for the Annual Meeting. The inspector of elections will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

#### **Voting Procedures**

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company LLC, you are considered the stockholder of record with respect to those shares. As the stockholder of record, you have the right to vote in person at the meeting. If you choose to do so, you can bring your proxy card or vote using the ballot provided at the meeting. However, even if you plan to attend the Annual Meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the Annual Meeting.

If you hold your shares in street name through a stockbroker, bank or other nominee rather than directly in your own name, you are considered the beneficial owner of shares held in street name. Because a beneficial owner is not a stockholder of record, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, bank or nominee that holds your shares, giving you the right to vote those shares at the meeting. If you wish to attend the Annual Meeting and vote in person, you will need to contact your broker, bank or nominee to obtain a legal proxy.

If you are unable to attend the Annual Meeting, you may vote by proxy as follows:

*Internet.* You may submit a proxy over the Internet by following the instructions provided on the separate proxy card.

*Telephone.* You may submit a proxy over the telephone by following the instructions provided on the separate proxy card.

*Mail.* You may submit a proxy by mail by completing, signing and returning the separate proxy card in the prepaid and addressed envelope included with the proxy materials.

Stockholders are urged to specify their choices on the proxy they submit by Internet, telephone or mail. If you submit a proxy, but do not specify how you want to vote on a proposal, in the absence of contrary

instructions, the shares of Common Stock represented by such proxy will be voted as our Board of Directors recommends on each proposal and the persons named as proxies will vote on any other matters properly presented at the Annual Meeting in accordance with their best judgment. Stockholder votes will be tabulated by a representative of Broadridge Financial Solutions, Inc.

Brokers, banks, or other nominees that hold shares of Common Stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion if permitted by the stock exchange or other organization of which they are members. Brokers, banks, and other nominees are entitled to vote shares held for a beneficial holder on routine matters, such as the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm, without instructions from the beneficial holder of those shares, but, absent instructions from the beneficial holders of such shares, they are not entitled to vote shares held for a beneficial holder on non-routine matters, such as the election of directors, authorization of additional shares, change of company name, reverse stock split, amendment of the 2011 Incentive Compensation Plan, and the approval of the advisory resolution on Say on Pay. Consequently, if you do not give your broker specific instructions, your shares may not be voted on the non-routine matters and will not be counted in determining the number of shares necessary for approval, although they will count for purposes of determining whether a quorum exists. **Please instruct your bank or broker so your vote can be counted on all proposals.**

#### **Solicitation of Proxies**

The cost of soliciting proxies will be borne by us. We may reimburse brokerage firms, banks and other persons representing the beneficial owners of shares for their expenses in forwarding solicitation materials to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, facsimile or personal solicitation by our directors, officers, regular employees or others without additional compensation. We reserve the right to retain other outside agencies for the purpose of soliciting proxies.

#### **Revocability of Proxies**

Your proxy is revocable at any time before it is voted at the Annual Meeting either by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting, however, will not by itself revoke a proxy previously delivered to us. If you have executed and returned a proxy and are present in person at the Annual Meeting and wish to vote at the Annual Meeting, you may elect to do so by notifying the inspector of elections, thereby suspending the power of the proxy holders to vote the proxy previously delivered by you.

#### **Annual Report and Other Matters**

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ( Fiscal 2013 ) which was made available to stockholders with or preceding this Proxy Statement, contains financial and other information about our Company, but is not incorporated into this Proxy Statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ).

We make all of our filings free of charge on our website, [www.identiv.com](http://www.identiv.com), including our proxy statements (including this Proxy Statement), our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K, as well as Form 3, Form 4, and Form 5 Reports of our directors, officers, and principal stockholders, together with amendments to these reports filed or furnished pursuant to Section 13(a), 15(d), or 16 of the Exchange Act.

We will also provide to each stockholder of record as of the record date, without charge, copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, this Proxy Statement, and the related proxy card. Requests for copies may be made in writing directed to our executive offices at 39300 Civic Center Drive, Suite 160, Fremont, California 94538, Attention: Investor Relations, or by telephone at (949) 553-4251, or by e-mailing us at [IR@Identiv.com](mailto:IR@Identiv.com).

**Stockholder Proposals for 2015 Annual Meeting of Stockholders**

Stockholder proposals submitted for inclusion in our proxy materials for the 2015 Annual Meeting of Stockholders pursuant to Rule 14a-8 under the Exchange Act must be received at our principal offices at 39300 Civic Center Drive, Suite 160, Fremont, California 94538, Attention: Secretary, by December 31, 2014; provided, however, that if the date of the annual meeting has been changed by more than 30 calendar days from the date of the Annual Meeting, then the deadline is a reasonable time before the Company begins to print and send its proxy materials.

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

Our Board of Directors is divided into three director classes with staggered three-year terms. Currently there are eight directors and one vacancy on the Board of Directors. Three directors serve in Class I (whose terms expire at this Annual Meeting), three directors serve in Class II (whose terms expire at the 2015 Annual Meeting) and two directors serve in Class III (whose terms expire at the 2016 Annual Meeting).

The Nominating Committee of the Board of Directors has recommended, and our Board of Directors has proposed, that Steven Humphreys and Daniel Wenzel be elected as Class I directors at the Annual Meeting. Dr. Hans Liebler has not been nominated for re-election but will continue to serve through the end of his current term. Our Board of Directors remains in the process of seeking candidates for the vacant Class I and Class III director positions and therefore we have a fewer number of nominees and directors than the number fixed by our Bylaws or a resolution adopted by the Board of Directors. Stockholders may not vote for a greater number of persons than the number of nominees named herein. Unless otherwise instructed, the proxy holders named in the enclosed proxy will vote the proxies received by them for Messrs. Humphreys and Wenzel, who currently serve as Class I directors of the Company. In the event that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies received by the proxy holders named in the enclosed proxy will be voted for any nominee who is subsequently designated by the Board of Directors to fill the vacancy. We do not expect, however, that any of the nominees will decline to serve as a director at the Annual Meeting, as each has agreed to serve if elected.

The nominees for Class I Director receiving the highest number of votes will be elected as Class I Directors. A Withhold vote will have no effect on the vote. The nominees elected at the Annual Meeting will serve for a term ending on the date of the 2017 annual meeting of stockholders and until their successors have been elected and duly qualified, or upon the date of their earlier resignation or removal.

Set forth below is information about the directors nominated for election at the Annual Meeting and each of the other current directors:

| Name                       | Age | Position                             | Director Since |
|----------------------------|-----|--------------------------------------|----------------|
| <b>CLASS I DIRECTORS</b>   |     |                                      |                |
| Steven Humphreys           | 53  | Director and Chairman                | 1996           |
| Daniel S. Wenzel           | 36  | Director                             | 2010           |
| <b>CLASS II DIRECTORS</b>  |     |                                      |                |
| Saad Alazem                | 41  | Director                             | 2013           |
| Jason Hart                 | 43  | Director and Chief Executive Officer | 2013           |
| Lawrence W. Midland        | 72  | Director and President               | 2009           |
| <b>CLASS III DIRECTORS</b> |     |                                      |                |
| Gary Kremen                | 40  | Director                             | 2014           |
| Phil Libin                 | 42  | Director                             | 2011           |

The principal occupations and qualifications of each of the nominees for director as well as the current directors are as follows. There are no family relationships among any of our directors or executive officers.

**BUSINESS EXPERIENCE OF DIRECTORS****Class I Director Nominees**

*Steven Humphreys* has served as a director of the Company since July 1996. He has served as Chairman of the Board since September 2013 and currently serves as a member of the Audit and Nominating Committees and previously served on the Strategic Committee of the Board of Directors. Previously he also served as Lead

Director from May 2010 until April 2013 and as Chairman of the Board of Directors from April 2000 to March 2007 and from July 1996 to December 1996. Mr. Humphreys also has served as an executive officer of the Company, as President from July 1996 to December 1996 and as President and Chief Executive Officer from December 1996 to April 2000. Since November 2011, Mr. Humphreys has served as chief executive officer of Flywheel Software, Inc., a privately-held location-based mobile solutions company. From October 2008 until its acquisition by SMSC in February 2010, Mr. Humphreys served as Chief Executive Officer and President of Kleer Corporation, a maker of wire audio technology. From October 2001 to October 2003, he served as Chairman of the Board and Chief Executive Officer of ActivCard Corporation (now ActivIdentity), a publicly-listed company until December 2010 and a provider of digital identity solutions, for which he also served as a director from March 2008 until December 2010. Previously, Mr. Humphreys was President of Caere Corporation, an optical character recognition software and systems company. Prior to Caere, he spent ten years with General Electric Company in a variety of positions. Currently, Mr. Humphreys also serves as a director of Flywheel Software and of Giraff Technologies AB, a communications robotics device company. Additionally he serves on the board of Summit Preparatory Charter High School in northern California. Mr. Humphreys holds a B.S. degree from Yale University and M.S. and M.B.A. degrees from Stanford University. In determining to nominate Mr. Humphreys for re-election as a director, the Board of Directors considered his many years' experience as an executive officer of technology companies and his involvement with emerging consumer technologies, as well as his knowledge of the U.S. investment markets.

*Daniel S. Wenzel* has served as a director of the Company since January 2010 and currently he serves as chairman of the Nominating Committee and as a member of the Compensation Committee. He was appointed to the Board of Directors following the completion of our business combination with Bluehill ID AG (Bluehill ID). He is a founding partner of Bluehill ID and previously served on the board of directors of Bluehill ID since the company's founding in March 2007. Mr. Wenzel has served since September 2005 as a delegate and member of the board of Mountain Partners AG, a German-Swiss investment group that he co-founded in September 2005 and for which he is responsible for strategic direction and expansion. Mountain Partners AG currently is the largest stockholder of the Company. Previously, Mr. Wenzel was Chief of Staff responsible for all strategy projects and merger and acquisition transactions and financing at ACG AG from 2001 to September 2005, during which time he successfully achieved the spin-off and the sale of a significant division of the technology group. Prior to this, he worked with Dresdner Bank Latin America in 1998, BNP Paribas in 1999 and Bain & Company in 2000. Mr. Wenzel completed his studies at the WHU, Otto Beisheim Graduate School of Business Management, the Helsinki School of Economics, Finland and the Universidad Adolfo Ibañez, Chile, where he obtained a master's degree (Diplom-Kaufmann) in business administration. In determining to nominate Mr. Wenzel for re-election as a director, the Board of Directors considered his experience as an investment professional and his significant knowledge of the capital markets and global technology trends.

#### **Class II Directors Whose Terms Expire in 2015**

*Saad Alazem* has served as a director of the Company since July 2013 and currently serves as Chairman of the Compensation Committee and as a member of the Audit Committee and previously served on the Strategic Committee of the Board of Directors. Mr. Alazem is president of Alazem for Financial Consulting, which he co-founded in 2007 in Saudi Arabia to provide public and private company clients with financial advisory services. From 2000 to 2007, he was an investment officer with Global Financial Markets, International Finance Corporation (IFC) of the World Bank Group in Washington, DC. Mr. Alazem has served as an independent member of the board of directors of Al-Khabeer Capital Bank in Saudi Arabia since 2010 and in Bahrain since 2012, and also serves as a member of the Nomination and Remuneration Committee and the Audit Committee. Since 2008 he also has served as a non-executive member of the board of directors of Mountain Partners AG in Switzerland. Mr. Alazem holds a BS in Industrial Engineering from King Saud University in Riyadh, Saudi Arabia and an MBA in International Management from Thunderbird School of Global Management in Phoenix, Arizona. He brings significant financial and business expertise in international markets to our Board of Directors, encompassing areas such as operational efficiencies, process and productivity improvement, business continuity strategies, financial analysis and general corporate finance as well as debt and equity capital fundraising.

*Jason Hart* was appointed Chief Executive Officer and a director of the Company in September 2013. He previously served as Executive Vice President, Identity Management & Cloud Solutions and CEO of our idOnDemand subsidiary. From November 2007 until its acquisition by the Company in May 2011, Mr. Hart was CEO of idOnDemand, Inc., a pioneering provider of smart card-based identity solutions via the cloud, which he co-founded. From February 2007 to November 2007 he served as CEO and director of ActivIdentity (formerly ActivCard), a provider of identity assurance and strong authentication solutions, where he earlier served as Senior Vice President Sales, Marketing, Professional Services and Product Management. Prior to this, Mr. Hart was the founder and CEO of Procom Development Systems Inc., an identity management software security business that was acquired by ActivCard in 2005. In 2003, Mr. Hart was recognized by Deloitte & Touche for his software export achievements. In 2002, he was recognized by Ernst & Young as the Australian Young Entrepreneur of the Year and was a member of the judging panel in 2005, 2006 and 2007. Mr. Hart's significant experience in the security technology industry, track record of innovation and growth and intimate knowledge of the technologies and markets of the Company bring to the Board of Directors strategic vision and leadership and in the industries and market opportunities in which the Company is engaged.

*Lawrence W. Midland* has served as President of the Company since September 2013 and as a director of the Company since May 2009. Previously he served as Senior Vice President of the Company and as Chairman of our Hirsch subsidiary from January 2012 to September 2013 and as an Executive Vice President of the Company and as President of the Hirsch subsidiary from May 2009 to December 2011, following the completion of the merger of the Company and Hirsch Electronics Corporation. Prior to the merger, Mr. Midland was President of Hirsch Electronics, which he helped found in August 1981, and for which he served as a director. Mr. Midland became President and Chairman of the Board of Hirsch in March 1986 and held those positions continuously until the completion of the merger. Mr. Midland previously served as president of several companies, including Retirement Inns of America, Pension Properties Trust, a California REIT, and Pension Administrative Services. Previously Mr. Midland also held various sales positions in investment related activities following his employment as a field engineer with Shell Oil Company. He holds a B.S. degree in Physics (With Distinction) from the University of Oklahoma and an M.B.A. degree from Pepperdine University. Mr. Midland's intimate understanding of the physical access control industry and the Company's premises solutions business, and his experience in working with the U.S. government market brings to the Board of Directors understanding and insight into technology and sales trends in an area that comprises a significant component of the Company's revenues.

#### **Class III Directors Whose Terms Expire in 2016**

*Gary Kremen* has served as a director of the Company since February 2014. Mr. Kremen is a serial entrepreneur and an investor in over 40 companies, private equity funds and venture capital funds. Companies he has founded include Match.com, the first dating website, Clean Power Finance, the leading white-label residential solar finance company, among others. Mr. Kremen is credited as the primary inventor on a 1995-filed patent for dynamic web pages, and holds three other patents in financial-related systems management. He holds Bachelor of Science degrees in Electrical Engineering and Computer Science from Northwestern University, as well as an MBA from the Stanford University Graduate School of Business. Currently, Mr. Kremen is a principal or managing partner with private companies including CapGain Solutions and Cross Coin Ventures, and serves on the board of directors of several private entities, including WaterSmart Software, CrowdFlower and the Purissima Hills Water District. Mr. Kremen brings to the Board and the Company his significant experience as a technology entrepreneur, his expertise with Internet, mobile and cloud technologies and his connections to the investment community in Silicon Valley, all of which are relevant to the Company's strategy to deliver trust solutions for the connected world.

*Phil Libin* has served as a director of the Company since May 2011 and currently serves as a member of the Compensation Committee and previously served on the Strategic Committee of the Board of Directors. Currently he serves as chief executive officer and director of Evernote, a consumer Internet company that enables users to capture, store and locate information, photos, experiences or ideas on a variety of mobile devices and platforms.

Prior to joining Evernote in May 2007, in October 2001 he founded CoreStreet, a provider of smart credential and identity management technologies to governments and large corporations throughout the world, where he served as president and a member of the board of directors until its acquisition by ActivIdentity in January 2009. In October 1997, Mr. Libin founded Engine 5, a Boston-based Internet software development firm where he also served as CEO until the company's acquisition in January 2011 by Vignette Corporation, a provider of internet content management software, where Mr. Libin subsequently served as principal architect and chief technologist for applications. Mr. Libin's experience with mobile platforms, identity management and the consumer sector provide the Board of Directors and the Company with understanding and insight into the opportunities and challenges created by the intersection of these markets and their relationship to the Company's strategy to deliver trust solutions for the connected world.

To our knowledge, there are no family relationships between any of our directors and any other of our directors or executive officers.

### **Director Independence**

Our Board of Directors has reviewed the independence of each of our directors and our director nominee and considered whether any director or nominee has had a material relationship with the Company or our management that could compromise his ability to exercise independent judgment in carrying out his duties and responsibilities. As a result of this review, our Board of Directors affirmatively determined that all of our directors, including all of our directors who served in Fiscal 2013 and all directors nominated to the Board of Directors for 2014, other than Messrs. Hart and Midland, and Ashour, are independent under applicable rules of the NASDAQ Stock Market and the SEC.

In connection with the determination of independence of Saad Alazem and Daniel S. Wenzel, our Board of Directors considered each director's relationship with the Company's largest stockholder, Mountain Partners AG, of which Mr. Alazem is an independent member of the board of directors and Mr. Wenzel is a co-founder and partner. Our Board of Directors determined that such relationships would not compromise Mr. Alazem's or Mr. Wenzel's ability to exercise independent judgment in carrying out their duties and responsibilities. In agreeing to serve as members of our Board of Directors, Mr. Alazem and Mr. Wenzel must act independently of Mountain Partners AG in discharging their fiduciary duties to stockholders of the Company and also are obligated not to disclose to Mountain Partners AG or use for their own benefit any confidential information that they may obtain during their service on our Board of Directors. Mr. Alazem and Mr. Wenzel each disclaim shared voting or dispositive power over any securities held by Mountain Partners AG.

## **BOARD MEETINGS AND COMMITTEES**

### **Board Leadership Structure**

In accordance with our Bylaws, the Board of Directors elects all officers of the Company, including our Chief Executive Officer and our Chairman, and each of these positions may be held by the same person or may be held by two persons. The Board of Directors has determined that a Lead Independent Director should be elected when the roles of the Chairman of the Board and the Chief Executive Officer are filled by the same person, and that Lead Independent Director should be an independent director as defined by applicable NASDAQ Stock Market rules and the Company's Corporate Governance Guidelines, and be elected annually. The role of the Lead Independent Director is to coordinate the activities of the independent directors, to advise the Chairman of the Board as to the information provided by Company management to the independent directors, to manage executive sessions of the Board of Directors' independent directors, and to act as principal liaison between the independent directors and the Chairman of the Board.

Currently, Jason Hart serves as our Chief Executive Officer and Steven Humphreys, who is an independent director, serves as Chairman of the Board of Directors. Prior to Mr. Hart's appointment in September 2013,

Ayman S. Ashour served both as Chief Executive Officer and as Chairman of the Board, Mr. Humphreys served as Lead Independent Director through March 2013 and Hans Liebler served as Lead Independent Director from April to September 2013. The Board of Directors believes that the current structure of the Board of Directors is appropriate to effectively manage the affairs of the Company.

#### **The Board of Directors Role in Risk Oversight**

The Board of Directors has an active role, as a whole and also at the committee level, in overseeing management of the Company's risks. The Board of Directors regularly reviews information regarding the Company's credit, liquidity and operations, as well as the risks associated with each. The Compensation Committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The Audit Committee of the Board of Directors oversees management of financial risks. The Nominating Committee manages risks associated with the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about such risks.

#### **Board Meeting Attendance**

Our Board of Directors held 13 meetings in 2013, of which 12 were telephonic meetings and one was a physical meeting. During 2013, we had three standing committees: an Audit Committee, a Compensation Committee and a Nominating Committee. Each standing committee has a written charter which is available on the Corporate Governance page within the Investor Relations section of our website at [www.identiv.com](http://www.identiv.com). The Board of Directors may choose to amend its committee charters from time to time. All members of our standing Board committees are appointed by the Board of Directors and are non-employee directors. From time to time the Board of Directors may choose to create additional committees.

Each of our current directors attended at least 75% of the meetings of the Board of Directors and meetings of committees on which he served during 2013, except for Mr. Clarke. During each physical Board of Directors meeting and additionally as needed, our independent directors meet in executive session without Company management present to address any issues they determine to be appropriate. The Lead Independent Director or independent Chairman of the Board presides at such executive sessions.

#### **Communications with the Board of Directors**

Although we do not have a formal policy regarding communications between our stockholders and our Board of Directors, stockholders may communicate with the Board of Directors by sending an email to [IR@Identiv.com](mailto:IR@Identiv.com) or by writing to the Board of Directors at: Identive Group, Inc., 39300 Civic Center Drive, Suite 160, Fremont, California 94538, Attention: Investor Relations. The Investor Relations staff will forward such communication to the Board of Directors or to any individual director or directors to whom the communication is directed as applicable, if the communication is relevant to the Company's business and financial operations, policies or corporate philosophy. If the communication is unduly hostile, threatening, illegal or similarly inappropriate, or advertisements, solicitations for periodicals or other subscriptions, and other similar communications are received, the Investor Relations staff has the authority to discard the communication or take appropriate legal action regarding the communication.

#### **Director Attendance at Stockholder Meetings**

We do not have a policy regarding director attendance at stockholder meetings. No directors attended the 2013 Annual Meeting of Stockholders.



### COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors currently has three standing committees, the Audit, Compensation and Nominating Committees, which are composed of independent directors appointed by the Board of Directors. From time to time the Board of Directors may choose to create additional committees. The charters of each of our standing committees are available on the Corporate Governance page within the Investor Relations section of our website at [www.identiv.com](http://www.identiv.com).

The following table sets forth the composition of our Board committees during 2013 and currently:

| Name of Director     | Audit Committee                     | Compensation Committee              | Nominating Committee |
|----------------------|-------------------------------------|-------------------------------------|----------------------|
| Saad Alazem (1)      | Member<br>from July 1, 2013         | Chair<br>from July 1, 2013          |                      |
| Ayman S. Ashour (2)  |                                     |                                     |                      |
| Richard A Clarke (3) |                                     |                                     |                      |
| Steven Humphreys     | Member                              |                                     | Member               |
| Phil Libin           |                                     | Member                              |                      |
| Dr. Hans Liebler     | Member; Chair from<br>July 1, 2013  |                                     | Member               |
| Lawrence W. Midland  |                                     |                                     |                      |
| Simon Turner (4)     | Former Chair<br>until June 30, 2013 | Former Chair<br>until June 30, 2013 |                      |
| Daniel Wenzel        |                                     | Member                              | Chair                |

- (1) Mr. Alazem was elected to the Board of Directors effective July 1, 2013.
- (2) Mr. Ashour resigned from the Company effective September 3, 2013 and from the Board of Directors effective December 31, 2013.
- (3) Mr. Clarke left the Board of Directors due to professional commitments on June 4, 2013.
- (4) Mr. Turner resigned from the Board of Directors effective July 1, 2013.

#### Audit Committee

The Audit Committee of our Board of Directors, established in accordance with Section 3(a)(58)(A) of the Exchange Act, assists our Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our financial reporting processes, system of internal control, process for monitoring compliance with laws and regulations, audit process and standards of business conduct. The internal audit and Sarbanes-Oxley compliance personnel of the Company report directly to the Audit Committee. Currently, the Audit Committee consists of Messrs. Alazem, Humphreys and Liebler, and Dr. Liebler serves as Chairman. Previously, Mr. Turner served as Chairman of the Audit Committee until his departure from the Board of Directors at the end of June 2013. The Audit Committee held seven meetings during 2013.

Our Board of Directors has determined that each member of the Audit Committee is an independent director within the rules of the NASDAQ Stock Market and the requirements set forth in Rule 10A-3(b)(1) of the Exchange Act. Our Board of Directors has further determined that Stephen Humphreys is an audit committee financial experts as defined by Item 407(d)(5) of Regulation S-K under the Exchange Act.

In discharging its duties, our Audit Committee, among its other duties:

Selects the independent auditors, reviews the independent auditors fee arrangements, proposed audit scope and approach; and pre-approves audit and non-audit services provided to the Company by the independent auditors (or subsequently approving

non-audit services in those circumstances where a subsequent approval is necessary and permissible).

Reviews on a continuing basis the adequacy of the Company's system of internal controls.

Reviews the performance of the Company's independent auditors and determines whether it is appropriate to adopt a policy of rotating independent auditors on a regular basis.

Oversees the independence of the Company's independent auditors.

Reviews with management and the Company's independent auditors such accounting policies (and changes therein) of the Company, including any financial reporting issues which could have a material impact on the Company's financial statements, as are deemed appropriate for review by the Audit Committee prior to any interim or year-end filings with the SEC or other regulatory body.

Meets with management and the independent auditors to review and discuss the annual financial statements and the report of the independent auditors thereon and, to the extent the independent auditors or management brings any such matters to the attention of the Audit Committee, to discuss significant issues encountered in the course of the audit work, if any, such as restrictions on the scope of activities or access to required information.

Meets quarterly with management and the independent auditors to review and discuss the quarterly financial statements.

Meets at least quarterly with the auditors in order to ensure sufficient independence is maintained from management and to provide the opportunity for the auditors to brief the members of the Audit Committee in confidence.

Reviews the Company's policies relating to the avoidance of conflicts of interest and reviews past or proposed transactions between the Company, members of the Board of Directors and management as well as policies and procedures with respect to officers' expense accounts and perquisites, including the use of corporate assets.

Reviews all related party transactions for potential conflicts of interest.

See *Report of the Audit Committee of the Board of Directors* below for more information.

### **Compensation Committee**

The Compensation Committee of our Board of Directors held three meetings and took action via unanimous written consent on three occasions during 2013. Currently, the Compensation Committee consists of Messrs. Alazem, Libin and Wenzel, and Mr. Alazem serves as Chairman. Previously, Mr. Turner served as Chairman of the Compensation Committee until his departure from the Board of Directors at the end of June 2013. The Board of Directors has determined that each member of the Compensation Committee currently serving or having served during 2013 is independent within the meaning of the applicable SEC and NASDAQ Stock Market rules.

Pursuant to its charter, the Compensation Committee has responsibility for and authority to:

Review and approve corporate goals and objectives relevant to Chief Executive Officer compensation, evaluate the Chief Executive Officer's performance in light of those goals and objectives, and set the Chief Executive Officer's compensation level based on this evaluation;

Develop, review and approve compensation policies and practices applicable to the Company's officers who are deemed to be executive officers of the Company for SEC reporting purposes, including the criteria upon which executive compensation is based,

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the specific relationship of corporate performance to executive compensation and the composition of benefits;

Make recommendations to the Board of Directors with respect to the Company's incentive compensation and equity-based compensation plans;

Review the compensation and benefits offered to non-employee directors and recommend changes to the Board of Directors as appropriate; and

Administer and evaluate the Company's incentive, equity-based and other executive compensation programs, including approving guidelines, granting awards and establishing annual award levels for employee stock options, units, restricted shares and other incentive and equity-based awards under such programs, interpreting and promulgating rules relating to the plans, modifying or canceling awards, designating eligible participants and imposing limitations and conditions on awards.

The Compensation Committee is authorized to delegate any portion of its authority to subcommittees and to engage external independent consultants, as deemed necessary.

**Processes and Procedures.** On an annual or more frequent basis, the Company's Chief Executive Officer recommends to the Compensation Committee salary, annual bonus and long-term compensation levels for less senior officers, including the other named executive officers. The executive officers named in the Summary Compensation Table of this proxy statement are referred to as our Named Executive Officers. Each Named Executive Officer is reviewed annually based on whether various performance objectives were met during the preceding review period. An evaluation of each officer's performance is presented to the Compensation Committee and used in the Compensation Committee's review and analysis of such officer's overall compensation. No other Named Executive Officer currently has a role in determining or recommending the form or amount of compensation paid to the Named Executive Officers, other than providing such financial or other information as the Compensation Committee may request from time to time. Although the participation of our CEO could influence performance targets, our Compensation Committee rather than our CEO makes all determinations regarding performance goals and targets. Our CEO does not attend any portion of meetings at which his compensation is discussed.

**Independent Compensation Consultant.** As indicated above, pursuant to its charter, the Compensation Committee has the power, in its discretion, to retain at the Company's expense, such independent counsel and other advisors and experts as it deems necessary or appropriate to carry out the Compensation Committee's duties. Under its charter, the Compensation Committee has the express authority to decide whether to retain a compensation consultant to assist in the evaluation of compensation. If the Compensation Committee decides in its discretion to retain such a firm, the Board of Directors delegates to the Compensation Committee the sole authority to retain and terminate any compensation consultant engaged to assist in the evaluation of the compensation of the Company's senior executive officers (including all of the Named Executive Officers).

The Company did not engage a compensation consultant to advise on executive compensation in 2013.

**Compensation Committee Interlocks and Insider Participation.** No director who served on the Compensation Committee during 2013 and no current member of the Compensation Committee is a current or former executive officer or employee of the Company. No director who served on the Compensation Committee had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related-party transactions.

**Analysis of Risk in Compensation Programs.** In setting compensation, the Compensation Committee also considers the risks to the Company's stockholders, and the Company as a whole, arising out of the Company's compensation programs. The Compensation Committee did not perform a risk analysis of the Company's compensation practices in 2013. Previously, the Compensation Committee considered the various elements of the Company's compensation practices, including base salary, annual bonus programs, short and long-term incentive awards, the use of cash and equity awards, and how performance is evaluated. While our annual bonus programs may encourage short-term risk taking on the part of participating employees, the Compensation Committee believed that these risks were balanced by the use of fixed base salaries and long-term equity incentives that encourage employees to take a long-term view of our business aligned with the interests of the Company's stockholders. The Compensation Committee did not identify any risks arising from the Company's compensation policies and practices reasonably likely to have a material adverse effect on the Company.

## Nominating Committee

The Nominating Committee assists in identifying individuals qualified to become members of the Board of Directors. Currently, the Nominating Committee consists of Messrs. Humphreys, Liebler and Wenzel, with Mr. Wenzel serving as the committee's Chairman. The Board of Directors has determined that each of the members of the Nominating Committee is independent within the meaning of the NASDAQ Stock Market director independence standards. The Nominating Committee held three meetings during Fiscal 2013.

## POLICY FOR DIRECTOR RECOMMENDATIONS AND NOMINATIONS

The primary role of the Nominating Committee is to develop and recommend to the Board of Directors criteria for identifying and evaluating director candidates and to establish a procedure for consideration of director candidates recommended by our stockholders. The Nominating Committee periodically assesses the appropriate size of the Board of Directors and whether any vacancies are expected due to retirement or otherwise. In the event that vacancies are anticipated, the Nominating Committee seeks to identify and evaluate potential candidates at meetings of the Nominating Committee, which can take place at any point during the year.

Candidates may come to the attention of the Board of Directors through current members of the Board of Directors, professional search firms, stockholders or other parties. All candidates are evaluated based on a review of the individual's qualifications, skills, independence and expertise. The Nominating Committee will consider candidates submitted by stockholders as nominees for election as directors of the Company. Stockholders wishing to have the Nominating Committee consider a candidate should submit the name(s) and supporting information to Corporate Secretary, c/o Identive Group, Inc., 39300 Civic Center Drive, Suite 160, Fremont, California 94538, and should include the following information: (a) the name(s) and address(es) of the stockholder(s) making the recommendation and of the persons to be nominated; (b) a representation that the stockholder is a record holder of stock of the Company entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in the Proxy Statement filed pursuant to the proxy rules of the SEC, had the nominee been nominated, or intended to be nominated, by the Board of Directors; (e) the consent of each nominee to serve as a director of the Company if so elected; and (f) appropriate biographical information and a statement as to the qualifications of the candidate. Written notice of a nomination must be received by us within the timeframe described under *Stockholder Proposals for 2015 Annual Meeting of Stockholders* above.

As part of its selection process, the Nominating Committee may consider recommendations of director candidates with diverse backgrounds and experience who are expected to enhance the quality of the Board of Directors, serve stockholders' long-term interests and contribute to our overall corporate goals. Pursuant to our Corporate Governance Guidelines, we endeavor to have a Board of Directors representing diverse experience at policy-making levels in various areas that are relevant to our global activities. While the Nominating Committee has not established specific minimum criteria for candidates, the philosophy of the Nominating Committee is that directors should possess the highest personal and professional ethics, integrity and values, informed judgment, and sound business experience and be committed to representing the long-term interests of our stockholders. Candidates must also have an inquisitive and objective perspective, the ability to make independent analytical inquiries, practical wisdom and mature judgment. In evaluating candidates, the Nominating Committee may consider a candidate's work experience related to our business, general professional experience and overall expected contributions to the Board of Directors in relation to other directors already serving on the Board of Directors. When evaluating existing directors for nomination for re-election, the Nominating Committee may also consider the directors' past Board of Directors and committee meeting attendance and participation.

The Nominating Committee evaluates stockholder-recommended candidates using the same process and the same criteria it uses to evaluate candidates from other sources.

The Nominating Committee has the authority to retain outside counsel, experts, and other advisors as it determines appropriate to assist it in the full performance of its functions, including sole authority to retain and terminate any search firm used to identify director candidates, and to approve the search firm's fees and other retention terms.

## **CORPORATE GOVERNANCE**

The Company and our Board of Directors regularly review and evaluate the Company's corporate governance practices. The Company's corporate governance documents are posted on the investor relations page of our website at [www.identiv.com](http://www.identiv.com).

### **Corporate Governance Guidelines**

The Board of Directors has adopted Corporate Governance Guidelines that assist the directors in following corporate practices that serve the best interests of the Company and its stockholders, including guidelines relating to board composition, director qualifications and selection process, director independence, board committees and auditor independence. The Corporate Governance Guidelines are available on the Corporate Governance page within the Investor Relations section of our website at [www.identiv.com](http://www.identiv.com). The Nominating Committee and the Board of Directors review the Corporate Governance Guidelines annually and the Board of Directors may amend the Corporate Governance Guidelines at any time.

### **Insider Trading Policy**

Under our Code of Conduct and Ethics, all employees are prohibited from using confidential information for stock trading purposes. To use material, non-public information for personal financial benefit or to tip others who might make an investment decision on the basis of this information is not only unethical and against Company policy, it is also illegal. We maintain an insider trading policy applicable to all of our Directors, officers, and employees, their family members, and specially designated outsiders who have access to the Company's material non-public information. This policy includes restrictions on the timing of transactions involving the Company's stock and establishes a Compliance Committee that must authorize all proposed stock trades by officers, directors and designated key employees. Sales of stock obtained through the exercise of stock options are subject to the restrictions of Company trading windows and blackout windows and must be pre-approved by a representative of the Compliance Committee.

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

The Board of Directors has adopted a Code of Conduct and Ethics for all of our employees, including our Chief Executive Officer, Chief Financial Officer and any other principal accounting officer, and for the members of our Board of Directors. Our Code of Conduct and Ethics is posted on the Corporate Governance page within the Investor Relations section of our website, at [www.identiv.com](http://www.identiv.com). The Board of Directors may amend the Code of Conduct and Ethics at any time and has the sole authority to approve any waiver of the Code of Conduct and Ethics relating to the activities of any of our senior financial officers, other executive officers and directors.

## COMPENSATION OF DIRECTORS

During 2013, each non-employee member of our Board of Directors was eligible to receive compensation consisting of cash and options awards, which are further described below.

### *Annual Cash Compensation*

During 2013, each non-employee member of our Board of Directors was eligible to receive cash compensation, payable quarterly, as detailed below. However, a director may elect to take, in lieu of cash, restricted stock units or stock under the Company's 2011 Incentive Compensation Plan (the 2011 Plan). Cash compensation for each eligible director included:

an annual retainer of \$25,000 paid in cash, or \$30,000 paid in stock (representing the cash fee amount plus a 20% uplift for agreeing to accept shares in lieu of cash);

beginning in May 2013, an additional annual retainer for service as Lead Director of the Board of Directors;

an additional annual retainer of \$5,000 for service on the Audit Committee of the Board of Directors, except for the committee Chairman, who is eligible to receive an annual retainer of \$10,000, with all amounts paid in cash or stock; and

an additional annual retainer of \$2,000 for service on the Compensation or Nominating Committees of the Board of Directors, except for the Chairman of such committees, each of whom is eligible to receive an annual retainer of \$4,000, with all amounts paid in cash or stock.

Additionally, the Company reimburses its non-employee directors for all reasonable out-of-pocket expenses incurred in the performance of their duties as directors, which in practice primarily consist of travel expenses associated with Board of Directors or committee meetings or with committee assignments.

### *Equity Compensation*

During 2013, each of the Company's non-employee directors was eligible to receive option awards under the terms of the 2011 Plan. Under this plan, each new member of the Board of Directors is automatically granted an option to purchase 10,000 shares of Common Stock, or such other number of shares as determined by the Board of Directors in its sole discretion. Continuing members of the Board of Directors who have served for at least six months receive an annual option grant to purchase 20,000 shares of Common Stock on the date of our Annual Meeting of stockholders. Both of these option grants vest 1/12th per month over the one-year period following the date of grant.

Non-employee directors who served on the Strategic Committee were eligible to receive an option grant to purchase 5,000 shares of Common Stock each quarter, with such options granted at the end of each quarter and being fully vested at the date of grant. The Strategic Committee was dissolved as of April 15, 2014.

For directors who elect to receive shares in lieu of cash as payment for their service on the Board of Directors, such shares may not be sold for so long as such director serves on the Board of Directors except in exceptional circumstances and subject to the prior approval of the Compensation Committee.



**Director Compensation for Fiscal 2013**

The following Director Compensation Table sets forth summary information concerning the compensation paid to our current and former non-employee directors for their services to the Company in Fiscal 2013:

| Name                  | Fees Earned or Paid in |              |                   | Total (\$) |
|-----------------------|------------------------|--------------|-------------------|------------|
|                       | Cash                   | Stock Awards | Option Awards (1) |            |
| Saad Alazem (2)       | \$ 17,000              | \$           | \$ 8,347          | \$ 25,347  |
| Richard A. Clarke (3) | \$                     | \$ 12,500    | \$ 10,922         | \$ 23,422  |
| Steven Humphreys (4)  | \$ 32,000              | \$           | \$ 26,230         | \$ 58,230  |
| Phil Libin (5)        | \$                     | \$ 32,000    | \$ 26,230         | \$ 58,230  |
| Dr. Hans Liebler (6)  | \$ 47,000              | \$           | \$ 9,500          | \$ 56,500  |
| Simon Turner (7)      | \$ 19,500              | \$           | \$ 9,500          | \$ 29,000  |
| Daniel Wenzel (8)     | \$                     | \$ 36,000    | \$ 9,500          | \$ 45,500  |

- (1) The amounts in this column represent the aggregate grant date fair value of awards calculated in accordance with financial accounting standards with respect to the fiscal year in accordance with ASC Topic 718, *Compensation-Stock Compensation*. The assumptions used in determining grant date fair value of these awards are set forth in Note 5 to our Consolidated Financial Statements appearing in our Annual Report on 10-K filed with the SEC for the period ended December 31, 2013.
- (2) Cash amounts reflect payment of \$12,500 for Mr. Alazem's service as a director, \$2,500 for his service on the Audit Committee and \$2,000 for his service as Chairman of the Compensation Committee, as prorated from July 1, 2013, the date on which Mr. Alazem joined the Board of Directors. During 2013, Mr. Alazem received an initial grant of 10,000 options which vest monthly over one year and 10,000 fully vested options for his service on the Strategic Committee. As of December 31, 2013, Mr. Alazem held options to purchase 20,000 shares of Common Stock, of which 14,167 were exercisable.
- (3) Stock award amounts reflect payment to Mr. Clarke for his service as a director in shares of our Common Stock, which he elected to receive in lieu of cash payments. Mr. Clarke stepped down from the Board of Directors on June 4, 2013 and his payments for the second quarter of 2013 were prorated accordingly. Quarterly payment amounts are shown below. In each quarter, the number of shares paid in lieu of cash was calculated based on dividing the total quarterly cash amount by the NASDAQ closing price of our Common Stock on or near the last day of the respective quarter.

| Quarter | Director Fees | 20% Uplift | Committee Fees | Number of Shares | Price per Share | Date of Calculation |
|---------|---------------|------------|----------------|------------------|-----------------|---------------------|
| First   | \$ 6,250      | \$ 1,250   | \$             | 5,725            | \$ 1.31         | April 1, 2013       |
| Second  | \$ 4,167      | \$ 833     | \$             | 6,944            | \$ 0.72         | June 28, 2013       |

During 2013, Mr. Clarke received 23,333 fully vested options for his service on the Strategic Committee, of which 8,333 were related to his service in 2013 and 15,000 were related to his service in 2012. As of December 31, 2013, all options to purchase shares of Common Stock previously granted to Mr. Clarke had been cancelled.

- (4) Cash amounts reflect payment of \$25,000 for Mr. Humphreys' service as a director, \$5,000 for his service on the Audit Committee and \$2,000 for his service on the Nominating Committee in 2013. During 2013, Mr. Humphreys received an annual award of 20,000 options which vest monthly over one year and 35,000 fully vested options for his service on the Strategic Committee, of which 20,000 were related to his service in 2013 and 15,000 were related to his service in 2012. As of December 31, 2013, Mr. Humphreys held options to purchase 167,000 shares of Common Stock, of which 128,125 were exercisable.



- (5) Stock award amounts reflect payment to Mr. Libin for his service as a director and his service on the Compensation Committee, in shares of Common Stock, which he elected to receive in lieu of cash payments. Quarterly payment amounts are shown below. In each quarter, the number of shares paid in lieu of cash was calculated based on dividing the total quarterly cash amount by the NASDAQ closing price of our Common Stock on or near the last day of the respective quarter.

| Quarter | Director Fees | 20% Uplift | Committee Fees | Number of Shares | Price per Share | Date of Calculation |
|---------|---------------|------------|----------------|------------------|-----------------|---------------------|
| First   | \$ 6,250      | \$ 1,250   | \$ 500         | 6,107            | \$ 1.31         | April 1, 2013       |
| Second  | \$ 6,250      | \$ 1,250   | \$ 500         | 11,111           | \$ 0.72         | June 28, 2013       |
| Third   | \$ 6,250      | \$ 1,250   | \$ 500         | 11,111           | \$ 0.72         | September 28, 2013  |
| Fourth  | \$ 6,250      | \$ 1,250   | \$ 500         | 13,793           | \$ 0.58         | December 31, 2013   |

During 2013, Mr. Libin received an annual award of 20,000 options which vest monthly over one year and 35,000 fully vested options for his service on the Strategic Committee, of which 20,000 were related to his service in 2013 and 15,000 were related to his service in 2012. As of December 31, 2013, Mr. Libin held options to purchase 95,000 shares of Common Stock, of which 78,125 were exercisable.

- (6) Cash amounts reflect payment to Dr. Liebler of \$25,000 for his service as a director, \$12,500 for his service as Lead Independent Director from April 4 to September 26, 2013, \$7,500 for his service as a member of the Audit Committee until June 30, 2013 and for his service as Chairman of the Audit Committee from July 1, 2013, and \$2,000 for his service on the Nominating Committee. During 2013, Dr. Liebler received an annual award of 20,000 options to purchase shares of Common Stock which vest monthly over one year. As of December 31, 2013, Dr. Liebler held options to purchase 97,000 shares of Common Stock, of which 71,875 were exercisable.
- (7) Cash amounts reflect payment of \$12,500 for Mr. Turner's service as a director, \$5,000 for his service as Chair of the Audit Committee and \$2,000 for his service as Chair of the Compensation Committee in 2013. Mr. Turner stepped down from the Board of Directors on June 30, 2013 and his payments were prorated accordingly. During 2013, Mr. Turner received an annual award of 20,000 options to purchase shares of Common Stock which vest monthly over one year. As of December 31, 2013, all options to purchase shares of Common Stock previously granted to Mr. Turner had been cancelled.
- (8) Stock award amounts reflect payment to Mr. Wenzel for his service as a director, his service on the Compensation Committee and his service as Chairman of the Nominating Committee in shares of Common Stock, which he elected to receive in lieu of cash payments. Quarterly payment amounts are shown below. In each quarter, the number of shares paid in lieu of cash was calculated based on dividing the total quarterly cash amount by the NASDAQ closing price of our Common Stock on or near the last day of the respective quarter.

| Quarter | Director Fees | 20% Uplift | Committee Fees | Number of Shares | Price per Share | Date of Calculation |
|---------|---------------|------------|----------------|------------------|-----------------|---------------------|
| First   | \$ 6,250      | \$ 1,250   | \$ 1,500       | 6,870            | \$ 1.31         | April 1, 2013       |
| Second  | \$ 6,250      | \$ 1,250   | \$ 1,500       | 12,500           | \$ 0.72         | June 28, 2013       |
| Third   | \$ 6,250      | \$ 1,250   | \$ 1,500       | 12,500           | \$ 0.72         | September 28, 2013  |
| Fourth  | \$ 6,250      | \$ 1,250   | \$ 1,500       | 15,517           | \$ 0.58         | December 31, 2013   |

During 2013, Mr. Wenzel received an annual award of 20,000 options to purchase shares of Common Stock which vest monthly over one year. As of December 31, 2013, Mr. Wenzel held options to purchase 80,000 shares of Common Stock, of which 63,125 were exercisable.

**Vote Required**

At the Annual Meeting, the director nominees receiving the highest number of For votes cast will be elected to our Board of Directors. Abstentions, broker non-votes and votes withheld from any director will be counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law in the election of directors.

**Recommendation of the Board of Directors**

**The Board of Directors recommends a vote FOR the election of the Class I nominees listed above.**

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**PROPOSAL NO. 2**

**APPROVAL OF RESOLUTION AUTHORIZING THE BOARD OF DIRECTORS TO EFFECT A REVERSE STOCK SPLIT OF OUR COMMON STOCK AT A RATIO WITHIN THE RANGE OF 1-FOR-3 AND 1-FOR-10, INCLUSIVE, AT ANY TIME PRIOR TO DECEMBER 31, 2014.**

**General**

Our Board of Directors has approved and is recommending that our stockholders approve a resolution authorizing the Board of Directors, without further action of the stockholders, to amend our Fourth Amended and Restated Certificate of Incorporation, as amended (our Restated Certificate ) to effect a reverse stock split of our Common Stock at a ratio within the range of 1-for-3 to 1-for-10 at any time prior to December 31, 2014 (the Reverse Stock Split ).

If this proposal is approved by our stockholders, our Board of Directors will have the authority, without further action on the part of the stockholders, to implement the Reverse Stock Split at any ratio within the range set forth above by filing an amendment to the Restated Certificate with the Delaware Secretary of State. If this proposal is approved by our stockholders, we anticipate that the Reverse Stock Split will be implemented as soon as practicable following the Annual Meeting in order to meet the NASDAQ listing requirements discussed below in *Purpose and Background of the Reverse Stock Split*. We will not effect the Reverse Stock Split if our Board of Directors does not deem it to be in the best interests of the Company and its stockholders. If the amendment to the Restated Certificate has not been filed with the Delaware Secretary of State by the close of business on December 31, 2014, our Board of Directors will abandon the amendment and will not have the authority to implement the Reverse Stock Split without again seeking and obtaining approval from our stockholders.

Except for any changes as a result of the treatment of fractional shares, each stockholder will hold the same percentage of our outstanding Common Stock immediately after the Reverse Stock Split as such stockholder held immediately prior to the Reverse Stock Split. The Reverse Stock Split will not affect the number of shares of Common Stock authorized in the Restated Certificate, which is 130,000,000, and therefore the effect of the proposed Reverse Stock Split will be an increase in the authorized, but unissued, shares of Common Stock.

**Purpose and Background of the Reverse Stock Split**

The primary reason for implementing the Reverse Stock Split would be to increase the market price per share of our Common Stock. Our Board of Directors believes that a higher price per share would better enable us to maintain the listing of our Common Stock on the NASDAQ Capital Market. In addition, our Board of Directors believes that a higher price per share could result in an increased level of institutional stock ownership and provide us with better opportunities to raise capital to fund our operations, expand our business and execute our business plan.

Our Common Stock is currently listed on the NASDAQ Capital Market. There are a number of continued listing requirements that we must satisfy in order to maintain our listing on the NASDAQ Capital Market, including a requirement that our Common Stock maintain a closing price per share of at least \$1.00 (the Minimum Bid Price Rule ). On June 11, 2013, we received notification from NASDAQ that we were not in compliance with the Minimum Bid Price Rule because the closing price of our Common Stock was below \$1.00 per share for the prior 30 consecutive business days. NASDAQ granted us 180 calendar days to regain compliance by attaining a closing bid price of at least \$1.00 for ten consecutive business days. We did not regain compliance with the Minimum Bid Rule and, on December 16, 2013, NASDAQ granted us an additional 180 days in which to achieve compliance with the Minimum Bid Price Rule. In return for the extension, we agreed to move the listing of our securities from the NASDAQ Global Market to the NASDAQ Capital Market, which move was effected on December 18, 2013.

To regain compliance, our Common Stock must close at or above the \$1.00 minimum bid price for at least 10 consecutive business days or more at the discretion of NASDAQ by June 9, 2014. If we do not regain

compliance by June 9, 2014 in accordance with terms of the notice, NASDAQ will provide written notice that our securities will be subject to delisting from the NASDAQ Capital Market on a date shortly after June 9, 2014. We may appeal that decision to a NASDAQ Listing Qualifications Panel in which case our securities will remain listed on the NASDAQ Capital Market pending a written decision by the Panel following a hearing. In the event that the NASDAQ Listing Qualifications Panel determines not to continue our listing and we are delisted from the NASDAQ Capital Market, our Common Stock will be delisted and will instead be traded on the OTC Bulletin Board or other small trading markets, such as the pink sheets.

Our Board of Directors believes that maintaining the listing of our Common Stock on the NASDAQ Capital Market is in the best interests of the Company and its stockholders. Delisting could adversely affect the liquidity of our Common Stock since alternatives, such as the OTC Bulletin Board and the pink sheets, are generally considered to be less efficient markets. Many investors likely would not buy or sell our Common Stock due to difficulty in accessing over-the-counter markets, policies preventing them from trading in securities not listed on a national exchange or other reasons. Further, maintaining our listing on the NASDAQ Capital Market may enhance our access to capital that is necessary to execute on our business plan and fund our operations.

Based on our current stock price, our Board of Directors believes that the Reverse Stock Split is an effective means for us to regain compliance with the Minimum Bid Price Rule by June 9, 2014. NASDAQ generally views reverse stock splits as the only definitive near-term plan to resolve a bid price deficiency.

#### **Determination of Ratio**

The ratio of the Reverse Stock Split, if approved and implemented, will be a ratio within the range of 1-for-3 and 1-for-10, as determined by our Board of Directors in its sole discretion. In determining the reverse stock split ratio, our Board of Directors will consider numerous factors including:

the historical and projected performance of our Common Stock;

prevailing market conditions;

general economic and other related conditions prevailing in our industry and in the marketplace;

the projected impact of the selected reverse stock split ratio on trading liquidity in our Common Stock and our ability to continue the Common Stock's listing on the NASDAQ Capital Market;

our capitalization (including the number of shares of Common Stock issued and outstanding);

the prevailing trading price for our Common Stock and the volume levels thereof; and

potential devaluation of our market capitalization as a result of a reverse stock split.

The purpose of asking for authorization to implement the Reverse Stock Split at a ratio to be determined by our Board of Directors, as opposed to a ratio fixed in advance, is to give our Board of Directors the flexibility to take into account then-current market conditions and changes in the price of our Common Stock and to respond to other developments that may be deemed relevant when considering the appropriate ratio.

#### **Certain Risks Related to Reverse Stock Split**

*We cannot assure you that the Reverse Stock Split will increase our stock price and have the desired effect of maintaining compliance with NASDAQ Marketplace Rules.*

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Our Board of Directors expects that the Reverse Stock Split of our Common Stock will increase the market price of our Common Stock so that we are able to regain and maintain compliance with the NASDAQ minimum bid price listing standard; however, the effect of a reverse stock split upon the market price of our Common Stock cannot be predicted with any certainty, and the history of similar stock splits for companies in like circumstances is varied. It is possible that the per share price of our Common Stock after the Reverse Stock Split

will not rise in proportion to the reduction in the number of shares of our Common Stock outstanding resulting from the Reverse Stock Split, and the market price per for our Common Stock following the Reverse Stock Split may not exceed or remain in excess of the \$1.00 minimum bid price for a sustained period of time, and the Reverse Stock Split may not result in a per share price that would attract brokers and investors who do not trade in lower priced stocks.

*Our total market capitalization immediately after the Reverse Stock Split may be lower than immediately before the Reverse Stock Split.*

There are numerous factors and contingencies that could affect our stock price following implementation of the Reverse Stock Split, including the status of the market for our stock at the time, our results of operations in future periods, and general economic, market and industry conditions. Accordingly, the market price of our Common Stock may not be sustainable at the direct arithmetic result of the Reverse Stock Split. If the market price of our Common Stock declines after the Reverse Stock Split, our total market capitalization (the aggregate value of all of our outstanding Common Stock at the then existing market price) after the split will be lower than before the split. Even if the market price for our Common Stock following the Reverse Stock Split remains in excess of \$1.00 per share, we may be delisted due to a failure to meet other continued listing requirements, including NASDAQ requirements related to the minimum number of shares that must be in the public float, the minimum market value of the public float and the minimum number of round lot holders.

*The Reverse Stock Split may result in some stockholders owning odd lots that may be more difficult to sell or require greater transaction costs per share to sell.*

The Reverse Stock Split may result in some stockholders owning odd lots of less than 100 shares of our Common Stock following the Reverse Stock Split. Odd Lots may be more difficult to sell, or require greater transaction costs per share to sell, than shares in round lots of even multiples of 100 shares.

*The Reverse Stock Split may decrease the liquidity of our stock.*

While our Board of Directors believes that a higher stock price may help generate investor interest, there can be no assurance that the Reverse Stock Split will result in a per share price that will attract institutional investors or investment funds or that such share price will satisfy the investing guidelines of institutional investors or investment funds. As a result, the trading liquidity of our Common Stock may not improve. In addition, investors might consider the increased proportion of unissued authorized shares to issued shares to have an anti-takeover effect under certain circumstances, since the proportion allows for dilutive issuances.

### **Principal Effects of the Reverse Stock Split**

If the stockholders approve the proposal to authorize our Board of Directors to implement the Reverse Stock Split and our Board of Directors implements the Reverse Stock Split, we will amend our Restated Certificate to read as set forth in Annex A. If implemented, the Reverse Stock Split will be effected simultaneously for all issued and outstanding shares of Common Stock. The Reverse Stock Split will affect all holders of shares of our Common Stock uniformly and will not affect any stockholder's percentage ownership interests in the Company, except to the extent that the Reverse Stock Split results in any of our stockholders owning a fractional share. After the Reverse Stock Split, the shares of our Common Stock will have the same proportional voting rights and rights to dividends and distributions and will be identical in all other respects to our Common Stock now authorized. The Reverse Stock Split will not affect the Company continuing to be subject to the periodic reporting requirements of the Exchange Act. The Reverse Stock Split is not intended to be, and will not have the effect of, a going private transaction covered by Rule 13e-3 under the Exchange Act. Furthermore, because the number of shares of authorized Common Stock will not be affected, the Reverse Stock Split will result in an increase in the authorized, but unissued, shares of Common Stock.



The Reverse Stock Split will reduce the number of shares of Common Stock available for issuance under the Company's employee and director equity plans in proportion to the exchange ratio. Under the terms of the Company's outstanding equity awards, the Reverse Stock Split will cause a reduction in the number of shares of Common Stock issuable upon exercise or vesting of such awards in proportion to the exchange ratio of the Reverse Stock Split and will cause a proportionate increase in the exercise price of such awards to the extent they are stock options. The number of shares of Common Stock issuable upon exercise or vesting of outstanding equity awards will be rounded to the nearest whole share and no cash payment will be made in respect of such rounding.

The table below illustrates the number of shares of Common Stock authorized for issuance following the Reverse Stock Split, the approximate number of shares of our Common Stock that would remain outstanding following the Reverse Stock Split, the approximate number of shares of our Common Stock reserved for future issuance pursuant to the 2011 Plan and other existing contractual obligations following the Reverse Stock Split, and the number of unreserved shares of our Common Stock available for future issuance following the Reverse Stock Split. The information in the following table is based on the following information as of March 31, 2014: (i) 77,603,033 shares of our Common Stock issued and outstanding, (ii) 7,916,481 shares of our Common Stock reserved for future issuance pursuant to the 2011 Plan and (iii) 39,789,775 shares of our Common Stock reserved for other issuances, including issuances pursuant to outstanding warrants and obligations under purchase agreements.

| Proposed Ratio | Number of Shares of Common Stock Authorized | Approximate Number of Shares of Common Stock Outstanding | Approximate Number of Shares Reserved for Issuance pursuant to the 2011 Plan | Approximate Number of Shares Reserved for Other Issuances including Warrants and Purchase Agreements | Approximate Number of Unreserved Shares |
|----------------|---|--|--|--|---|
| 1-for-3        | 130,000,000                                 | 25,867,678   | 2,638,827  | 13,263,258   | 88,230,237                              |
| 1-for-4        | 130,000,000                                 | 19,400,758   | 1,979,120  | 9,947,444  | 98,672,678                              |
| 1-for-5        | 130,000,000                                 | 15,520,607   | 1,583,296  | 7,957,955  | 104,938,142                             |
| 1-for-6        | 130,000,000                                 | 12,933,839   | 1,319,414  | 6,631,629  | 109,115,119                             |
| 1-for-7        | 130,000,000                                 | 11,086,148   | 1,130,926  | 5,684,254  | 112,098,673                             |
| 1-for-8        | 130,000,000                                 | 9,700,379  | 989,560  | 4,973,722  | 114,336,339                             |
| 1-for-9        | 130,000,000                                 | 8,622,559  | 879,609  | 4,421,086  | 116,076,746                             |
| 1-for-10       | 130,000,000                                 | 7,760,303  | 791,648  | 3,978,978  | 117,469,071                             |

#### Exchange of Stock Certificates

The combination of, and reduction in, the number of shares of our outstanding common stock as a result of the Reverse Stock Split will occur automatically and without any action on the part of our stockholders on the date that the amendment to the Restated Certificate effecting the Reverse Stock Split is filed with the Delaware Secretary of State (the Effective Date).

As soon as practicable after the Effective Date, our transfer agent, acting as our exchange agent for purposes of implementing the exchange of certificates, will mail each stockholder of record a transmittal form accompanied by instructions specifying other details of the exchange. Upon receipt of the transmittal form, each stockholder should surrender the certificates representing our Common Stock prior to the Reverse Stock Split in accordance with the applicable instructions. Each holder who surrenders certificates will receive new certificates representing the whole number of shares of our Common Stock that he or she holds as a result of the Reverse Stock Split. New certificates will not be issued to a stockholder until the stockholder has surrendered his or her outstanding certificate(s) together with the properly completed and executed transmittal form to the exchange agent.

If your shares are held in an account at a brokerage firm or financial institution, which is commonly referred to as your shares being held in street name, then you are the beneficial owner of those shares and the brokerage

firm or financial institution holding your account is considered to be the stockholder of record. We intend to treat stockholders holding common stock in street name in the same manner as registered stockholders whose shares are registered in their names. Banks, brokers or other nominees will be instructed to effect the reverse stock split for their beneficial holders holding common stock in street name. However, these banks, brokers or other nominees may have different procedures than registered stockholders for processing the reverse stock split. If you hold your shares with a bank, broker or other nominee and if you have any questions in this regard, we encourage you to contact your bank, broker or nominee.

Any stockholder whose certificate has been lost, destroyed or stolen will be entitled to a new certificate only after complying with the requirements that we and our transfer agent customarily apply in connection with replacing lost, stolen or destroyed certificates.

No service charges, brokerage commissions or transfer taxes shall be payable by any holder of any old certificate, except that if any new certificate is to be issued in a name other than that in which the old certificate(s) are registered, it will be a condition of such issuance that (i) the person requesting such issuance must pay to us any applicable transfer taxes or establish to our satisfaction that such taxes have been paid or are not payable, (ii) the transfer complies with all applicable federal and state securities laws, and (iii) the surrendered certificate is properly endorsed and otherwise in proper form for transfer.

**STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATES AND SHOULD NOT SUBMIT THEIR STOCK CERTIFICATES UNTIL THEY RECEIVE A TRANSMITTAL FORM FROM OUR TRANSFER AGENT.**

#### **Fractional Shares**

No fractional shares will be issued in connection with the Reverse Stock Split. Stockholders of record who otherwise would be entitled to receive a fractional share of Common Stock as a consequence of the Reverse Stock Split will, upon the submission of a transmission letter by a stockholder holding the shares in book-entry form and, where shares are held in certificated form upon surrender to the exchange agent of certificates representing such shares, be entitled to receive cash in an amount equal to the product obtained by multiplying (i) the closing sale price of our Common Stock on the business day immediately preceding the effective date of the Reverse Stock Split as reported on the NASDAQ Capital Market by (ii) the number of shares of our Common Stock held by the stockholder that would otherwise have been exchanged for the fractional share interest.

Stockholders should be aware that, under the escheat laws of the various jurisdictions where stockholders reside, where the Company is domiciled, and where the funds will be deposited, sums due for fractional interests that are not timely claimed after the effective date of the Reverse Stock Split may be required to be paid to the designated agent for each such jurisdiction, unless correspondence has been received by the Company or the exchange agent concerning ownership of such funds within the time permitted in such jurisdiction. Thereafter, stockholders otherwise entitled to receive such funds will have to seek to obtain them directly from the state to which they were paid.

#### **Accounting Matters**

The par value of our Common Stock will remain unchanged at \$0.001 per share after the Reverse Stock Split. As a result, our stated capital, which consists of the par value per share of the Common Stock multiplied by the aggregate number of shares of the Common Stock issued and outstanding, will be reduced proportionately at the effective time of the Reverse Stock Split. Correspondingly, our additional paid-in capital, which consists of the difference between our stated capital and the aggregate amount paid to us upon the issuance of all currently outstanding shares of Common Stock, will be increased by a number equal to the decrease in stated capital. Further, net loss per share, book value per share, net income and other per share amounts will be increased as a result of the Reverse Stock Split because there will be fewer shares of Common Stock outstanding.

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**No Dissenters Rights**

Under the General Corporation Law of the State of Delaware, our stockholders will not be entitled to dissenters rights with respect to the Reverse Stock Split, and we do not intend to independently provide stockholders with any such right.

**Material United States Federal Income Tax Consequences of the Reverse Stock Split**

The following discussion describes the material United States Federal income tax consequences to U.S. holders (as defined below) of Company Common Stock relating to the Reverse Stock Split. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), Treasury Regulations, judicial authorities, published positions of the Internal Revenue Service (IRS), and other applicable authorities, all as currently in effect and all of which are subject to change or differing interpretations (possibly with retroactive effect). We have not obtained a ruling from the IRS or an opinion of legal or tax counsel with respect to the tax consequences of the Reverse Stock Split. The following discussion is for informational purposes only and is not intended as tax or legal advice. Each holder should seek advice based on the holder's particular circumstances from an independent tax advisor.

For purposes of this discussion, the term U.S. holder means a beneficial owner of Company Common Stock that is for United States Federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for U.S. Federal income tax purposes) organized under the laws of the United States, any state, or the District of Columbia;

an estate with income subject to United States Federal income tax regardless of its source; or

a trust that (a) is subject to primary supervision by a United States court and for which United States persons control all substantial decisions or (b) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

This discussion assumes that a U.S. holder holds Company Common Stock as a capital asset within the meaning of Code Section 1221. This discussion does not address all of the tax consequences that may be relevant to a particular Company stockholder or to Company stockholders that are subject to special treatment under United States Federal income tax laws including, but not limited to, banks, financial institutions, tax-exempt organizations, insurance companies, regulated investment companies, real estate investment trusts, persons that are broker-dealers, traders in securities who elect the mark-to-market method of accounting for their securities, certain former citizens or long-term residents of the U.S., or Company stockholders holding their shares of Company Common Stock as part of a straddle, hedge, conversion transaction, or other integrated transaction. This discussion also does not address the tax consequences to the Company, or to Company stockholders that own 5% or more of our Common Stock, are affiliates of the Company, or are not U.S. holders. In addition, this discussion does not address other United States Federal taxes (such as gift or estate taxes or alternative minimum taxes), the tax consequences of the Reverse Stock Split under state, local, or foreign tax laws or certain tax reporting requirements that may be applicable with respect to the Reverse Stock Split. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

If a partnership (or other entity treated as a partnership for United States Federal income tax purposes) is a Company stockholder, the tax treatment of a partner in the partnership, or any equity owner of such other entity will generally depend upon the status of the person and the activities of the partnership or other entity treated as a partnership for United States Federal income tax purposes.

*Tax Consequences of the Reverse Stock Split Generally*

We believe that the Reverse Stock Split will qualify as a reorganization under Section 368(a)(1)(E) of the Code, with the following consequences:

A U.S. holder will not recognize any gain or loss as a result of the Reverse Stock Split (except to the extent of cash received in lieu of a fractional share).

A U.S. holder's aggregate tax basis of such U.S. holder's post-Reverse Stock Split shares will be equal to the aggregate tax basis in the pre-Reverse Stock Split shares exchanged therefor, reduced by the amount of the adjusted basis of any pre-Reverse Stock Split shares exchanged for such post-Reverse Stock Split shares that is allocated to any fractional share for which cash is received.

A U.S. holder's holding period for the post-Reverse Stock Split shares will include the period during which such stockholder held the pre-Reverse Stock Split shares surrendered in the Reverse Stock Split.

*Cash Received Instead of a Fractional Share*

A U.S. holder who receives cash instead of a fractional share of post-Reverse Stock Split shares will be treated as having received the fractional share of post-Reverse Stock Split shares pursuant to the Reverse Stock Split and then as having exchanged the fractional share of post-Reverse Stock Split shares for cash in a transaction treated as a sale of the shares. Gain or loss generally will be recognized based on the difference between the amount of cash received and the portion of the U.S. holder's adjusted tax basis of the pre-Reverse Stock Split shares exchanged in the Reverse Stock Split which is allocable to such fractional share. Such gain or loss generally will be long-term capital gain or loss if the U.S. holder's holding period for such pre-Reverse Stock Split shares is more than one year as of the effective date of the Reverse Stock Split, and otherwise will be short-term capital gain or loss.

*Information Reporting and Backup Withholding*

Cash payments received by a U.S. holder of Company Common Stock pursuant to the Reverse Stock Split are subject to information reporting, and may be subject to backup withholding at the applicable rate specified by the U.S. Internal Revenue Service (currently 28%) if the holder fails to provide a valid taxpayer identification number and comply with certain certification procedures or otherwise establish an exemption from backup withholding. Backup withholding is not an additional United States Federal income tax. Rather, the U.S. Federal income tax liability of the person subject to backup withholding will be reduced by the amount of the tax withheld. If backup withholding results in an overpayment of taxes, a refund may be obtained provided that the required information is timely furnished to the IRS.

**STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE REVERSE STOCK SPLIT, INCLUDING THE APPLICABILITY OF ANY STATE, LOCAL, GIFT, OR FOREIGN TAX LAWS, CHANGES IN APPLICABLE TAX LAWS, AND ANY PENDING OR PROPOSED LEGISLATION OR AUTHORITY.**

**Vote Required and Board of Directors Recommendation**

Approval of the amendment to our Restated Certificate to effect the Reverse Stock Split requires a **FOR** vote of at least a majority of the Common Stock outstanding and entitled to vote on this proposal. Abstentions and broker non-votes (to the extent a broker does not exercise its authority to vote) will be counted towards the vote total for this proposal and will have the same effect as **against** votes.

**Recommendation of the Board of Directors**

**The Board of Directors believes that Proposal No. 2 is in the best interests of the Company and our stockholders and recommends a vote FOR the resolution authorizing the Board of Directors to effect the Reverse Stock Split of our Common Stock at a ratio within the range of 1-for-3 to 1-for-10.**

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**PROPOSAL NO. 3**

**APPROVAL OF AMENDMENT TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK**

Our Board of Directors has approved, and is asking the stockholders to approve, an amendment to our Restated Certificate to increase the number of shares of Common Stock authorized for issuance by 15,000,000, from 130,000,000 to 145,000,000 (the Share Increase ). The number of shares of Preferred Stock authorized for issuance under our Certification of Incorporation would remain unchanged at 10,000,000 shares.

As of March 31, 2014, 77,603,033 shares of our Common Stock have been issued and are outstanding. In addition, an aggregate of 47,706,256 shares of Common Stock have been reserved for issuance as follows: (i) 15,641,617 shares under our existing incentive programs, (ii) 19,933,047 under outstanding warrants, (iii) 2,035,691 shares under agreements and option plans assumed in the acquisition of Bluehill ID AG, (iv) 1,261,421 shares to be issued to remaining Bluehill ID AG stockholders, 4,409,701 shares for future issuance to Lincoln Park Capital under a purchase agreement, and 4,424,779 shares for contingent consideration related to the acquisition of idOnDemand, Inc.. 4,690,711 shares of our Common Stock remain available for future issuances.

Even if our stockholders approve the increase in the number of authorized shares of Common Stock pursuant to this Proposal No. 3, the Company reserves the right not to effect the increase if, in the opinion of the Board of Directors, it would not be in the best interests of the Company and its stockholders. **In the event Proposal No. 2 relating to the Reverse Stock Split is approved and adopted, we will not effect the increase in the authorized shares of Common Stock pursuant to this Proposal No. 3.**

After evaluating the number of authorized shares of Common Stock issued and outstanding and the number reserved for issuance, our Board of Directors has determined that the current number of authorized shares of Common Stock unreserved and available for issuance may not be sufficient to allow the Company to take future corporate actions that it believes are necessary to our growth and success and in the best interests of the Company and its stockholders.

The increase in authorized shares of Common Stock would provide the Company with additional flexibility in considering and planning for future corporate needs, including but not limited to: (i) selling shares of Common Stock for cash, (ii) continuing the issuance of additional equity-based compensation awards under the 2011 Plan, and any amendment thereto, and (iii) potential strategic transactions. The Company might also use the additional shares to discourage a third-party transaction providing an above market premium that is favored by a majority of the independent stockholders. If the proposed increase in the amount of authorized shares of Common Stock is approved, the shares of Common Stock could be issued by action of our Board of Directors, at any time and for any purpose, without the expense and delay of further approval or action by the stockholders, subject to the provisions of our Restated Certificate and other applicable legal requirements. If the proposed increase in the amount of authorized shares of Common Stock is not approved, the Company will not be able to raise additional funds through the sale of its Common Stock or securities convertible into or exchangeable for Common Stock, as may be required. The Company currently plans to issue shares of Common Stock in connection with our equity-based compensation plans. We may also attempt to raise additional funds through the sale of Common Stock or securities convertible into or exchangeable for Common Stock at some future time, if possible. There are no current plans or arrangements regarding any offering.

Our Board of Directors believes that the Share Increase is necessary to ensure that the Company has sufficient shares available to support various future corporate actions and is asking the stockholders to vote in favor of the Share Increase to increase the number of authorized shares of our Common Stock from 130,000,000 shares to 145,000,000 shares. The full text of the proposed amendment to the Restated Certificate to effect the Share Increase is set forth in Annex A.

**Required Vote**

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock is required for approval of the Share Increase described above. As a result, abstentions and broker non-votes will have the same effect as voting against the proposal. If stockholders do not approve this Share Increase, then the current amount of Common Stock authorized for issuance under the Restated Certificate will remain unchanged.

**Recommendation of the Board of Directors**

**The Board of Directors believes that Proposal No. 3 is in the best interests of the Company and our stockholders and recommends a vote FOR the amendment to increase the number of authorized shares of Common Stock.**

**PROPOSAL NO. 4**

**APPROVAL OF AMENDMENT TO CHANGE THE NAME OF THE COMPANY FROM**

**IDENTIVE GROUP, INC. TO IDENTIV, INC.**

**Purpose and Rationale for the Proposed Amendment**

Our Board of Directors has approved and is recommending that our stockholders approve an amendment to the Restated Certificate to change the name of the Company from Identive Group, Inc. to Identiv, Inc. (the Name Change ). Following the realignment of our organizational structure in Q1 2014 to operate as a single, unified company rather than as a group of individual businesses, we adopted a new corporate identity using the word mark and logo Identiv in place of Identive Group . Our Board of Directors believes that it is the best interests of the Company and our stockholders to change our name to be consistent with our corporate identity.

**Effect of the Proposed Amendment**

If the Name Change is approved by our stockholders, we intend to promptly file a Certificate of amendment to our Restated Certificate with the Delaware Secretary of State amending Article 1 of our Restated Certificate to read in its entirety as follows: The name of this corporation is Identiv, Inc. (hereinafter sometimes referred to as the Corporation ).

If approved by the stockholders, the name change will not alter the terms or rights of holders of Common Stock, change the number of shares held, or affect the validity or transferability of any existing stock certificates that bear the name Identive Group, Inc. Stockholders with certificated shares should continue to hold their existing stock certificates. Direct registration accounts and any new stock certificates that are issued after the name change becomes effective will bear the name Identiv, Inc.

If the Name Change is not approved by the stockholders, the Article I of the Restated Certificate will not be amended and the name of the Company will remain Identive Group, Inc.

**Required Vote**

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock is required for approval of the amendment to our Restated Certificate described above. As a result, abstentions and broker non-votes will have the same effect as voting against the proposal. If stockholders do not approve this amendment to our Restated Certificate, then the name of the Company under the Restated Certificate will remain unchanged.

**Recommendation of the Board of Directors**

**The Board of Directors believes that Proposal No. 4 is in the best interests of the Company and our stockholders and recommends a vote FOR the amendment to change the name of the Company to Identiv, Inc.**

**PROPOSAL NO. 5**

**APPROVAL OF AMENDMENTS TO**

**THE COMPANY'S 2011 INCENTIVE COMPENSATION PLAN**

The Company's stockholders are being asked to approve amendments to the Company's 2011 Incentive Compensation Plan (the "2011 Plan"), which was adopted, subject to stockholder approval, by the Board of Directors on April 7, 2011 and approved by the Company's stockholders on June 6, 2011. The proposed amendments would increase the number of shares of Common Stock reserved for issuance under the 2011 Plan by an additional 10,000,000 shares, to an aggregate of 18,599,561 shares and increase the individual participant fiscal year grant limits for certain equity-based awards from 500,000 shares to 1,500,000 shares. The 2011 Plan is the primary plan from which the Company may grant equity-based awards to our employees, officers, directors and consultants.

**Background**

An aggregate of 8,599,561 shares of our Common Stock have been authorized for issuance under the 2011 Plan, including the shares that remained available for issuance under our 2007 Stock Option Plan and 2010 Bonus and Incentive Plan at the time of those plans' termination. As of March 31, 2014, a total of 2,813 shares had been exercised and issued under the 2011 Plan; 6,985,788 shares remained subject to outstanding stock options under the 2011 Plan, with a weighted average exercise price of \$0.9046 per share and a weighted average remaining term of approximately 8.61 years; 680,267 shares remained subject to unvested restricted stock unit awards; and 930,693 shares remained available for the future grant of equity-based awards under the 2011 Plan. The closing market price on the NASDAQ Stock Market for a share of our Common Stock on March 31, 2014 was \$1.13 per share. Unless earlier terminated by the Board of Directors, the 2011 Plan will terminate on April 7, 2021, the tenth anniversary of its initial adoption.

**Summary of the Proposal**

Our Board of Directors approved amendments to the 2011 Plan on April 25, 2014, subject to approval by our stockholders at the Annual Meeting, that increases by 10,000,000 the aggregate maximum number of shares that may be issued under the 2011 Plan and pursuant to the exercise of incentive stock options, increases by 1,000,000 the maximum number of shares for which any participant in the 2011 Plan may be granted stock options and stock appreciation rights and increases by 1,000,000 maximum number of shares for which any participant in the 2011 Plan may be granted restricted stock, restricted stock units, performance shares and other stock-based awards.

As part of our overall compensation program, the Company grants equity-based compensation awards to our employees, officers, directors and consultants at the time of engagement, annually, and in certain other circumstances. We believe that these awards are an important component of compensation in the technology industry, as they provide the opportunity to acquire or increase a proprietary interest in the Company and encourage recipients to expend their maximum efforts in the creation of stockholder value. We believe this amendment reflects best practices in our industry and allows the establishment of a stronger pay-for-performance culture.

With only 930,693 shares remaining available for the future grant of equity-based awards as of March 31, 2014, we believe we will not be able to continue to offer competitive equity packages to retain our current employees and hire new employees in fiscal year 2014 and future years. This could significantly hamper our plans for growth and adversely affect our ability to operate our business. In addition, if we were unable to grant competitive equity awards, we may be required to offer additional cash-based incentives to replace equity as a means of competing for talent. This could have a significant effect upon our quarterly results of operations and balance sheet and not be competitive with other companies that offer equity. Based upon our review of our current and anticipated equity award requirements, we believe that the authorization of an additional 10,000,000 shares under the 2011 Plan will provide us with enough shares to continue to offer competitive equity compensation through fiscal year 2015.



The 2011 Plan is designed to preserve our ability to deduct in full for federal income tax purposes the compensation recognized by our executive officers in connection with certain types of awards. Section 162(m) of Code generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid to the chief executive officer or any of the three other most highly compensated officers of a publicly held company other than the chief financial officer. However, qualified performance-based compensation is excluded from this limit. To enable compensation in connection with stock options, stock appreciation rights, certain restricted stock and restricted stock unit awards, performance shares, performance units and certain other stock-based awards granted under the 2010 Plan to qualify as performance-based within the meaning of Section 162(m), the 2011 Plan establishes performance measures that may be used by the Compensation Committee to establish the performance goals applicable to the grant or vesting of awards of restricted stock, restricted stock units, performance shares, performance units and other stock-based awards that are intended to result in qualified performance-based compensation and establishes fiscal year limits on the maximum number of shares for which certain awards may be granted to any participant. The stockholders approved these elements of the 2011 Plan at the time they initially approved its adoption.

Currently the 2011 Plan provides that no participant may be granted in any fiscal year (i) stock options or stock appreciation rights for more than 500,000 shares or (ii) restricted stock, restricted stock units, performance shares or other stock based awards for more than 500,000 shares. The stockholders are being asked to approve increases in each of these limits by 1,000,000 shares to new limits of 1,500,000 shares. The Board of Directors believes that these increased limits will be necessary to provide the Board with sufficient flexibility in structuring appropriate and competitive equity-based incentive awards in the future, while maintaining our ability to deduct performance-based compensation in full for federal income tax purposes.

While we believe that compensation provided by such awards under the 2011 Plan generally will be deductible by us for federal income tax purposes, under certain circumstances, such as a change in control of the Company, compensation paid in settlement of certain awards may not qualify as performance-based.

If our stockholders do not approve this 2011 Plan proposal, then the current share limits under, and other terms and conditions of, the 2011 Plan will continue in effect for its existing term.

#### **Summary Description of the 2011 Plan**

The principal terms of the 2011 Plan are summarized below. The following summary is qualified in its entirety by the full text of the 2011 Plan, which appears (as proposed to be amended) as Annex B to this Proxy Statement.

##### *General*

The purpose of the 2011 Plan is to assist the Company in attracting, motivating, retaining and rewarding high-quality employees, officers, directors and consultants with annual and long-term performance equity awards. Our current growth strategy is largely dependent upon the services of our executive officers, directors and key personnel. These incentives may be provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, bonus share awards, performance shares, performance units, other stock-based awards and dividend equivalent awards.

##### *Shares Available for Awards*

As amended, an aggregate total of 18,599,561 shares of Common Stock would be cumulatively authorized for issuance under the 2011 Plan, of which 10,930,693 shares would have remained available for grant as of March 31, 2014 had the proposed amendment been effective at that time. In addition, to comply with applicable tax rules, the 2011 Plan also limits to 18,599,561 the number of shares that may be issued upon the exercise of incentive stock options granted under the 2011 Plan.

#### *Share Counting*

The number of shares remaining available for grant at any time will be increased by the number of shares of Common Stock with respect to which awards previously granted under the 2011 Plan that are forfeited, expire or otherwise terminate without issuance of shares of Common Stock, or that are settled for cash or otherwise do not result in the issuance of shares of Common Stock, and the number of shares of Common Stock that are tendered (either actually or by attestation) or withheld upon exercise of an award to pay the exercise price or any tax withholding requirements will not reduce the number of shares remaining available for grant. Awards issued in substitution for awards previously granted by a company acquired by the Company or a Related Entity, or with which the Company or any Related Entity combines, do not reduce the limit on grants of awards under the Plan.

#### *Annual Per-Person Limitations*

The 2011 Plan imposes individual limitations on the amount of certain awards in part to comply with Code Section 162(m). Under these limitations of the 2011 Plan, as amended, during any fiscal year of the Company, no participant may be granted (i) stock options or stock appreciation rights with respect to more than 1,500,000 shares of Common Stock, or (ii) shares of restricted stock, restricted stock units, performance shares and other stock based-awards with respect to more than 1,500,000 shares of Common Stock, in each case, subject to adjustment in certain circumstances. The maximum amount that may be paid out as performance units with respect to any 12-month performance period is \$3,000,000 (pro-rated for any 12-month performance period that is less than 12 months), and with respect to any performance period that is more than 12 months, \$3,000,000 multiplied by the number of full 12-month periods that are in the performance period.

#### *Adjustments for Capital Structure Changes*

A committee designated by the Board of Directors consisting of not less than two directors (the *Committee*) will make appropriate adjustments to the number of shares authorized under the 2011 Plan and the limitations described in the preceding paragraph and to outstanding awards (including adjustments to exercise prices of options and other affected terms of awards) in the event that a dividend or other distribution (whether in cash, shares of Common Stock or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange or other similar corporate transaction or event affects the Common Stock. The Compensation Committee is also authorized to adjust performance conditions and other terms of awards in response to these kinds of events or in response to changes in applicable laws, regulations or accounting principles.

#### *Eligibility*

The persons eligible to receive awards under the 2011 Plan are the officers, directors, employees, consultants and other persons who provide services to the Company or any Related Entity. The foregoing notwithstanding, only employees of the Company, or any parent corporation or subsidiary corporation of the Company (as those terms are defined in Sections 424(e) and (f) of the Code, respectively), are eligible for purposes of receiving any incentive stock options ( *ISOs* ). An employee on leave of absence may be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the 2011 Plan.

#### *Administration*

The 2011 Plan is administered by the Compensation Committee, provided, however, that except as otherwise expressly provided in the Plan, the Board may exercise any power or authority granted to the Compensation Committee under the 2011 Plan. Subject to the terms of the 2011 Plan, the Compensation Committee is authorized to select eligible persons to receive awards, determine the type, number and other terms and conditions of, and all other matters relating to, awards, prescribe award agreements (which need not be identical for each Participant), and the rules and regulations for the administration of the 2011 Plan, construe and interpret the 2011 Plan and award agreements, correct defects, supply omissions or reconcile inconsistencies

therein, and make all other decisions and determinations as the Compensation Committee may deem necessary or advisable for the administration of the 2011 Plan.

*Stock Options and Appreciation Rights*

The Compensation Committee is authorized to grant stock options, including ISOs, which can result in potentially favorable tax treatment to the participant, and non-qualified stock options, and stock appreciation rights entitling the participant to receive the amount by which the fair market value of a share of Common Stock on the date of exercise exceeds the grant price of the stock appreciation right. The exercise price per share subject to an option and the grant price of a stock appreciation right are determined by the Compensation Committee, provided that the exercise price per share of an ISO shall be no less than 100% of the fair market value of a share of Common Stock on the date such option is granted. An option granted to a person who owns or is deemed to own stock representing 10% or more of the voting power of all classes of stock of the Company or any parent company (sometimes referred to as a "10% owner") will not qualify as an ISO unless the exercise price for the option is not less than 110% of the fair market value of a share of Common Stock on the date such ISO is granted.

For purposes of the 2011 Plan, the term "fair market value" means the fair market value of Common Stock, awards or other property as determined by the Compensation Committee or under procedures established by the Compensation Committee. Unless otherwise determined by the Compensation Committee, the fair market value of Common Stock as of any given date is the closing sales price per share of Common Stock as reported on the principal stock exchange or market on which Common Stock is traded on the date as of which such value is being determined or, if there is no sale on that date, then on the last previous day on which a sale was reported.

The maximum term of each option or stock appreciation right, the times at which each option or stock appreciation right will be exercisable, and provisions requiring forfeiture of unexercised options or stock appreciation rights at or following termination of employment generally are fixed by the Compensation Committee, except that no option or stock appreciation right may have a term exceeding ten years, and no ISO granted to a 10% stockholder (as described above) may have a term exceeding five years (to the extent required by the Code at the time of grant). Methods of exercise and settlement and other terms of options and stock appreciation rights are determined by the Compensation Committee. The Compensation Committee, thus, may permit the exercise price of options awarded under the Plan to be paid in cash, shares, other awards or other property (including loans to participants).

*Automatic Options for Non-Employee Directors and Stock in Lieu of Fees*

The 2011 Plan provides that in addition to any other options that non-employee directors may be granted, non-employee directors will automatically be granted options as follows: (i) an initial grant on the date Board service begins of options to acquire that number of shares as determined by the Board of Directors or, if no amount is established by the Board, to acquire 10,000 shares and (ii) annual grants on the date of re-election at an annual meeting of options to acquire that number of shares as determined by the Board of Directors or, if no amount is established by the Board, 5,000 shares. Initial and annual grants will vest as to one-twelfth (1/12th) of the total award each month so that the option is fully vested on the first anniversary of the grant. If an optionholder's status as director terminates for any reason other than death, he or she will have 90 calendar days to exercise his or her options (to the extent that the optionholder was entitled to exercise such options as of the date of such termination). If an optionholder's status as director terminates due to death, his or her estate will have twelve months to exercise his or her options (to the extent that the optionholder was entitled to exercise such options as of the date of such termination).

In addition, the Compensation Committee may grant shares of Common Stock or other awards in lieu of Company obligations to pay cash under any compensatory arrangements, including the payment of fees to directors for their service on the Board of Directors, subject to such terms as the Compensation Committee may specify.

*Restricted Stock and Restricted Stock Units*

The Compensation Committee is authorized to grant restricted stock and restricted stock units. Restricted stock is a grant of shares of Common Stock which may not be sold or disposed of until vested, and which is subject to such risks of forfeiture and other restrictions as the Compensation Committee may impose. A participant granted restricted stock generally has all of the rights of a stockholder of the Company, unless otherwise determined by the Compensation Committee. An award of restricted stock units confers upon a participant the right to receive shares of Common Stock or cash equal to the fair market value of the specified number of shares of Common Stock covered by the restricted stock units at the end of a specified deferral period, subject to such risks of forfeiture and other restrictions as the Compensation Committee may impose. Prior to settlement, an award of restricted stock units carries no voting or dividend rights or other rights associated with share ownership, although dividend equivalents may be granted, as discussed below.

*Dividend Equivalents*

The Compensation Committee is authorized to grant dividend equivalents conferring on participants the right to receive, currently or on a deferred basis, cash, shares of Common Stock, other awards or other property equal in value to dividends paid on a specific number of shares of Common Stock or other periodic payments. Dividend equivalents may be granted alone or in connection with another award, may be paid currently or on a deferred basis and, if deferred, may be deemed to have been reinvested in additional shares of Common Stock, awards or otherwise as specified by the Compensation Committee.

*Bonus Stock and Awards in Lieu of Cash Obligations*

The Compensation Committee is authorized to grant shares of Common Stock as a bonus free of restrictions, or to grant shares of Common Stock or other awards in lieu of Company obligations to pay cash under the 2011 Plan or other plans or compensatory arrangements, subject to such terms as the Compensation Committee may specify.

*Other Stock-Based Awards*

The Compensation Committee or the Board is authorized to grant awards that are denominated or payable in, valued by reference to, or otherwise based on or related to shares of Common Stock. The Compensation Committee determines the terms and conditions of such awards.

*Performance Awards*

The Compensation Committee is authorized to grant performance awards to participants on terms and conditions established by the Compensation Committee. The performance criteria to be achieved during any performance period and the length of the performance period is determined by the Compensation Committee upon the grant of the performance award. Performance awards may be valued by reference to a designated number of Shares (in which case they are referred to as performance shares) or by reference to a designated amount of property including cash (in which case they are referred to as performance units). Performance awards may be settled by delivery of cash, shares of Common Stock or other property, or any combination thereof, as determined by the Compensation Committee. Performance awards granted to persons whom the Compensation Committee expects will, for the year in which a deduction arises, be covered employees (as defined below) will, if and to the extent intended by the Compensation Committee, be subject to provisions that should qualify such awards as performance-based compensation not subject to the limitation on tax deductibility by the Company under Code Section 162(m). For purposes of Section 162(m), the term covered employee means the Company's chief executive officer and each other person whose compensation is required to be disclosed in the Company's filings with the SEC by reason of that person being among the three highest compensated officers of the Company (other than the Company's chief executive officer or principal financial officer) as of the end of a taxable year. If and to the extent required under Section 162(m) of the Code, any power or authority relating to a

performance award intended to qualify under Section 162(m) of the Code is to be exercised by the Compensation Committee and not the Board.

If and to the extent that the Compensation Committee determines that these provisions of the 2011 Plan are to be applicable to any award, one or more of the following business criteria for the Company, on a consolidated basis, and/or for Related Entities, or for business or geographical units of the Company and/or a Related Entity (except with respect to the total stockholder return and earnings per share criteria), are to be used by the Compensation Committee in establishing performance goals for awards under the 2011 Plan: (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) economic value added; (7) direct contribution; (8) net income; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income or income from operations; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any ongoing bonus plans of the Company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total stockholder return; (13) debt reduction; (14) market share; (15) entry into new markets, either geographically or by business unit; (16) customer retention and satisfaction; (17) strategic plan development and implementation, including turnaround plans; and/or (18) the fair market value of a share of Common Stock. Any of the above goals may be determined on an absolute or relative basis (e.g. growth in earnings per share) or as compared to the performance of a published or special index deemed applicable by the Compensation Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of companies that are comparable to the Company. The Compensation Committee may exclude the impact of an event or occurrence which the Compensation Committee determines should appropriately be excluded, including without limitation (i) restructurings, discontinued operations, extraordinary items (as defined pursuant to generally accepted accounting principles), and other unusual or non-recurring charges; (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management; (iii) a change in accounting standards required by generally accepted accounting principles; or (iv) such other exclusions or adjustments as the Compensation Committee specifies at the time the award is granted.

The Compensation Committee may, in its discretion, determine that the amount payable as a performance award will be reduced from the amount of any potential award.

#### *Other Terms of Awards*

Awards may be settled in the form of cash, shares of Common Stock, other awards or other property, in the discretion of the Compensation Committee. The Compensation Committee may require or permit participants to defer the settlement of all or part of an award in accordance with such terms and conditions as the Compensation Committee may establish, including payment or crediting of interest or dividend equivalents on deferred amounts, and the crediting of earnings, gains and losses based on deemed investment of deferred amounts in specified investment vehicles. The Compensation Committee is authorized to place cash, shares of Common Stock or other property in trusts or make other arrangements to provide for payment of the Company's obligations under the 2011 Plan. The Compensation Committee may condition any payment relating to an award on the withholding of taxes and may provide that a portion of any shares of Common Stock or other property to be distributed will be withheld (or previously acquired shares of Common Stock or other property be surrendered by the participant) to satisfy withholding and other tax obligations. Awards granted under the 2011 Plan generally may not be pledged or otherwise encumbered and are not transferable except by will or by the laws of descent and distribution, or to a designated beneficiary upon the participant's death, except that the Compensation Committee may, in its discretion, permit transfers, subject to any terms and conditions the Compensation Committee may impose thereon.

Awards under the 2011 Plan are generally granted without a requirement that the participant pay consideration in the form of cash or property for the grant (as distinguished from the exercise), except to the

extent required by law. The Compensation Committee may, however, grant awards in exchange for other awards under the 2011 Plan, awards under other Company plans, or other rights to payment from the Company, and may grant awards in addition to and in tandem with such other awards, rights or other awards.

#### *Acceleration of Vesting; Change in Control*

The Compensation Committee may, in its discretion, accelerate the exercisability, the lapsing of restrictions or the expiration of deferral or vesting periods of any award, and such accelerated exercisability, lapse, expiration and vesting shall occur automatically in the case of a change in control of the Company, as defined in the 2011 Plan (including the cash settlement of stock appreciation rights which may be exercisable in the event of a change in control). In addition, the Compensation Committee may provide in an award agreement that the performance goals relating to any performance award will be deemed to have been met upon the occurrence of any change in control.

#### *Amendment and Termination*

The Board of Directors may amend, alter, suspend, discontinue or terminate the 2011 Plan or the Compensation Committee's authority to grant awards without further stockholder approval (including in a manner adverse to the rights of a participant under an outstanding award), except that stockholder approval must be obtained for any amendment or alteration if such approval is required by law or regulation or under the rules of any stock exchange or quotation system on which shares of Common Stock are then listed or quoted. Thus, stockholder approval may not necessarily be required for every amendment to the 2011 Plan which might increase the cost of the 2011 Plan or alter the eligibility of persons to receive awards. Stockholder approval will not be deemed to be required under laws or regulations, such as those relating to ISOs, that condition favorable treatment of participants on such approval, although the Board may, in its discretion, seek stockholder approval in any circumstance in which it deems such approval advisable. Unless earlier terminated by the Board, the 2011 Plan, as amended, will terminate at the earliest of (a) such time as no shares of Common Stock remain available for issuance under the 2011 Plan, (b) termination of the 2011 Plan by the Board of Directors, or (c) the tenth anniversary of the date of the Annual Meeting. Awards outstanding upon expiration of the 2011 Plan shall remain in effect until they have been exercised or terminated, or have expired.

#### **Summary of Federal Income Tax Consequences of Awards**

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the 2011 Plan and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances. The 2011 Plan is not qualified under the provisions of section 401(a) of the Code and is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974.

#### *Nonqualified Stock Options*

An optionholder generally is not taxable upon the grant of a nonqualified stock option granted under the 2011 Plan. On exercise of a nonqualified stock option granted under the 2011 Plan, an optionholder will recognize ordinary income equal to the excess, if any, of the fair market value on the date of exercise of the shares of stock acquired on exercise of the option over the exercise price. If the optionholder is an employee of the Company or a Related Entity, that income will be subject to the withholding of Federal income tax. The optionholder's tax basis in those shares will be equal to their fair market value on the date of exercise of the option, and his holding period for those shares will begin on that date.

The Company will be entitled to a deduction for Federal income tax purposes equal to the amount of ordinary income taxable to the optionholder, provided that the deduction is not otherwise disallowed under the Code.

### *Incentive Stock Options*

The 2011 Plan provides for the grant of stock options that qualify as incentive stock options as defined in section 422 of the Code, which we refer to as ISOs. Under the Code, an optionholder generally is not subject to tax upon the grant or exercise of an ISO. In addition, if the optionholder holds a share received on exercise of an ISO for at least two years from the date the option was granted and at least one year from the date the option was exercised, which we refer to as the Required Holding Period, the difference, if any, between the amount realized on a sale or other taxable disposition of that share and the holder's tax basis in that share will be long-term capital gain or loss.

If, an optionholder disposes of a share acquired on exercise of an ISO before the end of the Required Holding Period, which we refer to as a Disqualifying Disposition, the optionholder generally will recognize ordinary income in the year of the Disqualifying Disposition equal to the excess, if any, of the fair market value of the share on the date the ISO was exercised over the exercise price. If, however, the Disqualifying Disposition is a sale or exchange on which a loss, if realized, would be recognized for Federal income tax purposes, and if the sales proceeds are less than the fair market value of the share on the date of exercise of the option, the amount of ordinary income recognized by the optionholder will not exceed the gain, if any, realized on the sale. If the amount realized on a Disqualifying Disposition exceeds the fair market value of the share on the date of exercise of the option, that excess will be short-term or long-term capital gain, depending on whether the holding period for the share exceeds one year.

For purposes of the alternative minimum tax, the amount by which the fair market value of a share of stock acquired on exercise of an ISO exceeds the exercise price of that option generally will be an adjustment included in the optionholder's alternative minimum taxable income for the year in which the option is exercised. If, however, there is a Disqualifying Disposition of the share in the year in which the option is exercised, there will be no adjustment with respect to that share. If there is a Disqualifying Disposition in a later year, no income with respect to the Disqualifying Disposition is included in the optionholder's alternative minimum taxable income for that year. In computing alternative minimum taxable income, the tax basis of a share acquired on exercise of an ISO is increased by the amount of the adjustment taken into account with respect to that share for alternative minimum tax purposes in the year the option is exercised.

The Company is not allowed an income tax deduction with respect to the grant or exercise of an incentive stock option or the disposition of a share acquired on exercise of an incentive stock option after the Required Holding Period. However, if there is a Disqualifying Disposition of a share, the Company is allowed a deduction in an amount equal to the ordinary income includible in income by the optionholder, provided that the deduction is not otherwise disallowed under the Code.

### *Stock Awards*

Generally, the recipient of a stock award will recognize ordinary compensation income at the time the stock is received equal to the excess, if any, of the fair market value of the stock received over any amount paid by the recipient in exchange for the stock. If, however, the stock is non-vested when it is received under the 2011 Plan (for example, if the employee is required to work for a period of time in order to have the right to sell the stock), the recipient generally will not recognize income until the stock becomes vested, at which time the recipient will recognize ordinary compensation income equal to the excess, if any, of the fair market value of the stock on the date it becomes vested over any amount paid by the recipient in exchange for the stock. A recipient may, however, file an election with the Internal Revenue Service, within 30 days of his or her receipt of the stock award, to recognize ordinary compensation income, as of the date the recipient receives the stock award, equal to the excess, if any, of the fair market value of the stock on the date the stock award is granted over any amount paid by the recipient in exchange for the stock.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired as stock awards will be the amount paid for such shares plus any ordinary income recognized either when the

stock is received or when the stock becomes vested. Upon the disposition of any stock received as a stock award under the 2011 Plan the difference between the sale price and the recipient's basis in the shares will be treated as a capital gain or loss and generally will be characterized as long-term capital gain or loss if the shares have been held for more than one year from the date as of which he or she would be required to recognize any compensation income.

The Company will be entitled to a deduction for Federal income tax purposes equal to the amount of ordinary income taxable to the recipient, provided that the deduction is not otherwise disallowed under the Code.

#### *Stock Appreciation Rights*

The Company may grant SARs separate from any other award, which we refer to as Stand-Alone SARs, or in tandem with options, which we refer to as Tandem SARs, under the 2011 Plan. Generally, the recipient of a Stand-Alone SAR will not recognize any taxable income at the time the Stand-Alone SAR is granted.

With respect to Stand-Alone SARs, if the recipient receives the appreciation inherent in the SARs in cash, the cash will be taxable as ordinary compensation income to the recipient at the time that the cash is received. If the recipient receives the appreciation inherent in the SARs in shares of stock, the recipient will recognize ordinary compensation income equal to the excess of the fair market value of the stock on the day it is received over any amounts paid by the recipient for the stock.

With respect to Tandem SARs, if the recipient elects to surrender the underlying option in exchange for cash or shares of stock equal to the appreciation inherent in the underlying option, the tax consequences to the recipient will be the same as discussed above relating to the Stand-Alone SARs. If the recipient elects to exercise the underlying option, the holder will be taxed at the time of exercise as if he or she had exercised a nonqualified stock option (discussed above), i.e., the recipient will recognize ordinary income for federal tax purposes measured by the excess of the then fair market value of the shares of stock over the exercise price.

In general, there will be no federal income tax deduction allowed to the Company upon the grant or termination of Stand-Alone SARs or Tandem SARs. Upon the exercise of either a Stand-Alone SAR or a Tandem SAR, however, the Company will be entitled to a deduction for federal income tax purposes equal to the amount of ordinary income that the employee is required to recognize as a result of the exercise, provided that the deduction is not otherwise disallowed under the Code.

#### *Dividend Equivalents*

Generally, the recipient of a dividend equivalent award will recognize ordinary compensation income at the time the dividend equivalent award is received equal to the fair market value of the amount received. The Company generally will be entitled to a deduction for federal income tax purposes equal to the amount of ordinary income that the employee is required to recognize as a result of the dividend equivalent award, provided that the deduction is not otherwise disallowed under the Code.

#### *Section 162 Limitations*

Section 162(m) to the Code, generally disallows a public company's tax deduction for compensation to covered employees in excess of \$1 million in any tax year. Compensation that qualifies as performance-based compensation is excluded from the \$1 million deductibility cap, and therefore remains fully deductible by the company that pays it. We intend that awards granted to participants under the Plan whom the Compensation Committee expects to be covered employees at the time a deduction arises in connection with such awards, may, if and to the extent so intended by the Compensation Committee, be granted in a manner that will qualify as such performance-based compensation, so that such awards would not be subject to the Section 162(m) deductibility



cap of \$1 million. Future changes in Section 162(m) or the regulations thereunder may adversely affect our ability to ensure that awards under the 2011 Plan will qualify as performance-based compensation that are fully deductible by us under Section 162(m).

**Specific Benefits Under the 2011 Plan**

The Company has not approved any awards that are conditioned upon stockholder approval of the proposed amendments. For information regarding share-based awards granted to our Named Executive Officers during Fiscal 2013, see the material under the heading *Grants of Plan-Based Awards in Fiscal 2013* below.

**Aggregate Past Grants and Options to Certain Persons**

As of March 31, 2014, awards covering 6,988,601 shares of the Common Stock subject to past option grants had been granted under the 2011 Plan (net of cancelations). The following table shows information regarding the distribution of those awards among the persons and groups identified below.

| <b>Name and Position</b>  | <b>Number of Shares<br/>Subject to<br/>Past Option Grants</b> |
|---|---|
| <b>Executive Group:</b>   |   |
| Jason Hart  | 108,333   |
| Chief Executive Officer and Director  |   |
| Brian Nelson  | 500,000   |
| Chief Financial Officer   |   |
| Lawrence Midland  | 84,000  |
| President   |   |
| Dr. Manfred Mueller   | 108,021   |
| Chief Operating Officer   |   |
| Joe Tassone   | 221,667   |
| Executive Vice President Global Engineering and Former Executive Officer                |   |
| David Wear  | 82,292  |
| Vice President, Special Projects and Former Chief Financial Officer and Secretary       |   |
| Ayman S. Ashour   | 431,141   |
| Former Chief Executive Officer and Director   |   |
| <b>Total for Executive Group:</b>   | <b>1,535,454</b>  |
| <b>Non-Executive Director Group:</b>  |   |
| Saad Alazem   | 25,000  |
| Steven Humphreys  | 142,000   |
| Gary Kremen   | 10,000  |
| Phil Libin  | 100,000   |
| Dr. Hans Liebler  | 82,000  |
| Daniel Wenzel   | 70,000  |
| <b>Total for Non-Executive Director Group:</b>  | <b>429,000</b>  |
| <b>Each other person who has received 5% or more of the options under the 2011 Plan</b> |   |
| <b>All employees who are not executive officers or directors, as a group</b>            | <b>5,024,147</b>  |
| <b>Total</b>  | <b>6,988,601</b>  |

Messrs. Humphreys and Wenzel are nominees for re-election as a director at the Annual Meeting. Since its inception, no other options have been granted under the 2011 Plan to other nominees for election as a director, or any associate of any such director, nominee or executive officer.

**Equity Compensation Information for Plans**

For a description of the equity compensation information for plans, see the table under the section entitled *Equity Compensation Plan Information* within this Proxy Statement.

**Required Vote**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote is required for approval of the amendment to the 2011 Plan described above. Under the rules of the NASDAQ, brokers are prohibited from giving proxies to vote on equity compensation plan matters unless the beneficial owner of such shares has given voting instructions on the matter. This means that if your broker is the record holder of your shares, you must give voting instructions to your broker with respect to Proposal No. 5 if you want your broker to vote your shares on the matter. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have the same effect as a negative vote.

**Recommendation of the Board of Directors**

**The Board believes that Proposal No. 5 is in the Company's best interests and in the best interests of its stockholders and recommends a vote FOR the amendment to increase the number of shares reserved for issuance and certain individual award limits under the 2011 Plan.**

**PROPOSAL NO. 6****RATIFICATION OF THE APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

In April 2014, the Board of Directors, at the direction of the Audit Committee, appointed BDO USA, LLP ( BDO ), an independent registered public accounting firm, as the Company's independent auditor for the fiscal year ending December 31, 2014. The engagement of BDO was the result of our decision to move our corporate finance activities from our office in Ismaning, Germany to our headquarters in California. The appointment of BDO effectively dismissed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft ( EY ) as the Company's independent registered public accounting firm as of April 7, 2014. The change in accountants did not result from any dissatisfaction with the quality of professional services rendered by EY.

Our Board of Directors is asking you to ratify the appointment of BDO as our independent auditor. Although our Bylaws and applicable legal requirements do not require stockholder ratification of the selection of BDO as our independent auditor, our Board of Directors is submitting the selection of BDO to our stockholders for ratification as a matter of good corporate practice. We expect that a representative of BDO will be available at the Annual Meeting to make a statement and will be available to respond to appropriate questions.

In the event that our stockholders fail to ratify the appointment of BDO as independent auditor, our Audit Committee may reconsider its selection. Even if the selection is ratified, the Audit Committee at its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The reports of EY on the Company's consolidated financial statements as of and for the fiscal years ended December 31, 2013 and 2012 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles, other than to indicate that there was substantial doubt as to the Company's ability to continue as a going concern. In connection with the audits of the Company's consolidated financial statements for the fiscal years ended December 31, 2013 and 2012 and through the date of BDO's appointment, there were no disagreements with EY on any matters of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of EY, would have caused EY to make reference to the subject matter of the disagreement in their report. There were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) during the two fiscal years ended December 31, 2013 and 2012.

During the Company's two most recent fiscal years ended December 31, 2013 and through the date of BDO's engagement, the Company did not consult with BDO on matters that involved (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that may be rendered on the Company's financial statements, and BDO did not provide either a written report or oral advice to the Company that BDO concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue; or (ii) any matter that was either the subject of any disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as defined in Item 304 (a)(1)(v) of Regulation S-K and the related instructions to Item 304 of Regulation S-K).

**Principal Accountant Fees and Services**

The aggregate fees billed or to be billed to us by E&Y for the fiscal years ended December 31, 2013 and 2012 are as follows:

|                    | <b>2013</b>         | <b>2012</b>       |
|--------------------|---------------------|-------------------|
| Audit Fees         | \$ 1,021,097        | \$ 551,169        |
| Audit-Related Fees | 64,997              |                   |
| <b>Total</b>       | <b>\$ 1,086,094</b> | <b>\$ 551,169</b> |

*Audit Fees.* Audit fees include fees associated with the audit of our annual financial statements included in our Annual Report on Form 10-K, review of our financial statements included in our quarterly reports on Form 10-Q, and fees for the statutory audit of subsidiaries.

*Audit-Related Fees.* Audit-related fees principally include fees for audit of materials used in registration statements.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Our Independent Registered Public Accountants**

In accordance with the charter of the Audit Committee of our Board of Directors, the Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm, including the estimated fees and other terms of any such engagement. In certain circumstance, the Audit Committee may provide subsequent approval of non-audit services not previously approved. Services provided by our independent registered public accounting firm may include audit services, audit-related services, tax services and other services. Actual amounts billed, to the extent in excess of the estimated amounts, were periodically reviewed and approved by the Audit Committee. The Audit Committee considers whether such audit or non-audit services are consistent with the SEC rules on auditor independence. The Audit Committee has determined that the services provided by EY are compatible with maintaining the independence of EY. All audit, audit-related, tax and other fees set forth in the table above were pre-approved pursuant to this policy.

**Vote Required**

The affirmative vote of the holders of a majority of the votes cast will be required to ratify the appointment of BOD to audit our financial statements for the fiscal year ending December 31, 2014.

**Recommendation of the Board of Directors**

**The Board of Directors believes that Proposal No. 6 is in the best interests of the Company and our stockholders and recommends a vote FOR the ratification of the appointment of BOD USA, LLP, an independent registered public accounting firm, to serve as the Company's independent auditor for the fiscal year ending December 31, 2014.**

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

The Audit Committee of the Board of Directors is composed of three members and acts under a written charter adopted and approved by the Board of Directors. The members of the Audit Committee are independent as defined by the Audit Committee's charter, the NASDAQ Capital Market listing standards and the Securities Exchange Act.

The Audit Committee assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of our financial reporting processes, system of internal controls, process for monitoring compliance with laws and regulations, audit process and standards of business conduct. The Audit Committee manages the relationship with our independent auditor, who reports directly to the Audit Committee. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and to allocate appropriate funding, as determined by the Audit Committee, for such advice and assistance.

The Audit Committee has reviewed and discussed with management the audited financial statements of the Company for the fiscal year ended December 31, 2013. The Audit Committee also has discussed with the Company's independent auditor for the fiscal year ended December 31, 2013, Ernst & Young GmbH Wirtschaftspruefungsgesellschaft, an independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61 ( Codification of Statements on Auditing Standards, AU Section 380 ), as amended. Furthermore, the Audit Committee has received the written communications from Ernst & Young GmbH Wirtschaftspruefungsgesellschaft required by the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Audit Committee concerning independence. The Audit Committee has discussed with Ernst & Young GmbH Wirtschaftspruefungsgesellschaft the auditor's independence from the Company and its management, and considered whether the provision of other non-audit services by Ernst & Young GmbH Wirtschaftspruefungsgesellschaft to the Company is compatible with the auditor's independence.

In performing all these functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of our management and independent registered public accountants. Management has primary responsibility for preparing the Company's financial statements and for our financial reporting process. Our independent auditors for the fiscal year ended December 31, 2013, Ernst & Young GmbH Wirtschaftspruefungsgesellschaft, are responsible for expressing an opinion on the conformity of our audited financial statements to accounting principles generally accepted in the United States. In reliance on the reviews and discussions referred to in this report, and in light of its role and responsibilities, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended December 31, 2013 be included for filing with the SEC in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, and the Board of Directors has approved such inclusion.

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

Dr. Hans Liebler, Chairman

Saad Alazem

Steven Humphreys

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**PROPOSAL NO. 7**

**ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION SAY ON PAY**

We are asking stockholders to approve an advisory resolution on the Company's compensation of our Named Executive Officers as reported in this Proxy Statement. As described below in the *Compensation Discussion and Analysis* section of this Proxy Statement, the Compensation Committee has designed the compensation of our Named Executive Officers to align each Named Executive Officer's compensation with the Company's short-term and long-term performance and to provide the compensation and incentives needed to attract, motivate and retain the Named Executive Officers, who are crucial to the Company's long-term success. You are urged to read the *Compensation Discussion and Analysis*, which describes in more detail our executive compensation policies, as well as the Summary Compensation Table and other related compensation tables and narrative, which provide detailed information on the compensation of the Company's Named Executive Officers.

The Company's compensation programs reflect our commitment to pay-for-performance, with a substantial portion of each Named Executive Officer's compensation being at-risk and subject to important performance measures aligned with long-term stockholder value. During 2013, a significant percentage of each Named Executive Officer's total compensation was at-risk, being comprised of performance-based cash bonus, stock option awards and stock awards, which become valuable to the executive only upon realized share appreciation. The Compensation Committee sets a significant portion of the compensation of the Named Executive Officers based on their ability to achieve annual operational objectives that advance the Company's long-term business objectives and that are designed to create sustainable long-term stockholder value. The Company's performance-based compensation elements are guided by the Compensation Committee's long-term objectives of maintaining market competitiveness and aligning the interests of our executives with the interests of our stockholders. The Compensation Committee believes that the compensation arrangements for Named Executive Officers are consistent with market practice and provide for compensation that is reasonable in light of the Company's and each individual officer's performance. Moreover, the Compensation Committee does not provide for egregious pay practices, such as excessive perquisites or tax gross up payments as elements of Named Executive Officers' compensation. The detailed ways in which the Company links pay with Company and individual performance and structures the Named Executive Officer compensation arrangements consistent with good governance practices is described in the *Compensation Discussion and Analysis* section below.

The advisory resolution, commonly known as a say-on-pay proposal, gives stockholders the opportunity to express their views on the Company's Named Executive Officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's Named Executive Officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, you are being asked to vote on the following resolution at the Annual Meeting:

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company's Proxy Statement for the 2014 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2013 Summary Compensation Table and the other related tables and disclosure.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or the Board of Directors; however, the Board of Directors and Compensation Committee value the opinions of the Company's stockholders and to the extent there is any significant vote against the Named Executive Officer compensation as disclosed in this Proxy Statement, the Compensation Committee will consider the Company's stockholders' concerns and will evaluate whether any actions are necessary to address those concerns.

**Recommendation of the Board of Directors**

**The Board of Directors believes that Proposal No. 7 is in the best interests of the Company and our stockholders and recommends a vote FOR the approval of the advisory resolution on Named Executive Officer compensation as disclosed in this Proxy Statement.**



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

The table below sets forth information known to us as of April 9, 2014 with respect to the beneficial ownership of our Common Stock by:

each person who is known by us to be the beneficial owner of more than 5% of our issued and outstanding Common Stock;

each director of the Company;

each of the executive officers or former executive officers of the Company appearing in the Summary Compensation Table below; and

all current directors and executive officers of the Company, as a group.

Except as otherwise indicated, and subject to applicable community property laws, to our knowledge, the persons named in the table below have sole voting and investment power with respect to all shares held by them. Applicable percentage ownership in the following table is based on 78,892,120 shares of our Common Stock issued and outstanding as of April 9, 2014.

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of April 9, 2014 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Unless specified below, the mailing address for each individual, officer or director is c/o Identive Group, Inc., 33900 Civic Center Drive, Suite 160, Fremont, CA 94538.

| Name of Beneficial Owner                       | Shares of Common Stock<br>Beneficially Owned |            |
|--|--|------------|
|  | Number                                       | Percentage |
| <i>5% Stockholders</i>                         |  |            |
| Mountain Partners AG (1)                       | 8,491,732                                    | 10.7%      |
| Dufourstrasse 121                              |  |            |
| St. Gallen, Switzerland CH-9001                |  |            |
| BH Capital Management AG (2)                   | 4,039,344                                    | 5.0%       |
| Etzelblickstrasse 1                            |  |            |
| Schindellegi, Switzerland CH-8834              |  |            |
| <i>Named Executive Officers of the Company</i> |  |            |
| <i>Current NEOs</i>                            |  |            |
| Jason Hart (3)                                 | 682,083                                      | *          |
| Lawrence W. Midland (4)                        | 1,678,066                                    | 2.1%       |
| Dr. Manfred Mueller (5)                        | 345,825                                      | *          |
| Brian Nelson                                   | 2,813  | *          |
| <i>Former NEOs</i>                             |  |            |
| Ayman S. Ashour (6)                            | 3,102,581                                    | 3.9%       |
| Joseph Tassone(7)                              | 571,040                                      | *          |
| David Wear (8)                                 | 58,333                                       | *          |
| <i>Non-Employee Directors of the Company</i>   |  |            |
| Saad Alazem (9)                                | 32,795                                       | *          |

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|  |            |       |
|--|------------|-------|
| Steven Humphreys (10)  | 225,154    | *     |
| Gary Kremen (11)   | 5,819      | *     |
| Phil Libin (12)  | 166,358    | *     |
| Dr. Hans Liebler (13)  | 126,493    | *     |
| Daniel S. Wenzel (14)  | 9,396,175  | 11.8% |
| All current directors and executive officers as a group (10 persons)(15) | 12,661,581 | 15.8% |

\* Less than one percent.

- (1) Includes 1,021,863 shares and an option to purchase 1,038,202 shares held by BH Capital Management. Investment decisions regarding shares held by Mountain Partners AG are made by the majority vote of the board of directors of Mountain Partners AG.
- (2) Includes options to purchase 2,035,691 shares. Mountain Partners AG has voting and investment control over 51% of the shares held by BH Capital Management, and Mr. Ashour has voting and investment control over 49% of the shares held by BH Capital Management AG. See also footnote 1 regarding Mountain Partners AG.
- (3) Includes options to purchase 77,083 shares.
- (4) Includes (i) options to purchase 170,000 shares, (ii) 1,456,195 shares held by the Midland Family Trust Est. Jan 29, 2002, and (iii) 18,000 shares held in custodianship by Mr. Midland, as follows: 5,200 shares held as custodian for Ashley Marie Midland, 6,000 shares held as custodian for Alison Midland, 4,000 shares held as custodian for Taylor Ann Midland, and 2,800 shares held as custodian for Madison Kathleen Midland.
- (5) Includes options to purchase 223,038 shares.
- (6) Includes (i) 981,790 shares and an option to purchase 997,488 shares held by BH Capital Management (ii) options to purchase 248,675 shares, and (iii) warrants to purchase 100,000 shares.
- (7) Includes options to purchase 99,017 shares and warrants to purchase 39,604 shares.
- (8) Consists of options to purchase 58,333 shares.
- (9) Includes options to purchase 24,167 shares.
- (10) Includes options to purchase 148,375 shares.
- (11) Includes options to purchase 2,500 shares.
- (12) Includes options to purchase 94,375 shares.
- (13) Includes options to purchase 84,625 shares.
- (14) Includes (i) 6,431,667 shares held by Mountain Partners AG, (ii) 1,021,863 shares and an option to purchase 1,038,202 shares held by BH Capital Management AG, (iii) 502,573 shares and warrants to purchase 99,010 shares held by Rosenberg Ventures AG, (iv) options to purchase 74,375 shares, and (v) warrants to purchase 63,366 shares. Because of his position as a director of each of Mountain Partners AG

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and Rosenberg Ventures AG, Mr. Wenzel may be deemed to beneficially own the shares held by these entities and BH Capital Management AG. Mr. Wenzel disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(15) Includes an aggregate of (i) options to purchase 1,936,740 shares and (ii) warrants to purchase 162,376 shares.

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

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who beneficially own more than ten percent of a registered class of our equity securities ( 10% stockholders ), to file reports on Forms 4 and 5 reflecting transactions affecting their beneficial ownership of our equity securities with the SEC and with the National Association of Securities Dealers. Such officers, directors and 10% stockholders are also required by the SEC's rules and regulations to provide us with copies of all such reports on Forms 4 and 5 that they file under Section 16(a) of the Exchange Act.

Based solely on our review of copies of such reports on Forms 4 and 5 received by us, and on written representations from our officers, directors and the 10% stockholders known to us, we believe that, during the period from January 1, 2013 to December 31, 2013, our executive officers, directors and the 10% stockholders known to us filed all required reports under Section 16(a) of the Exchange Act on a timely basis, except that, due to administrative error, 1) annual grants were filed late for all non-employee directors, 2) quarterly grants of options and shares of Common Stock received in lieu of cash were filed late for non-employee directors, and 3) the initial statement of beneficial ownership and initial option grant for Brian Nelson, who became our Chief Financial Officer on December 20, 2013, were filed late.

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**EXECUTIVE OFFICERS**

Information concerning our current executive officers, including their backgrounds and ages as of April 30, 2014, is set forth below. All executive officers hold their positions for an indefinite term and serve at the pleasure of our Board of Directors.

**Jason Hart**, 43 Chief Executive Officer and Director

*Jason Hart* was appointed Chief Executive Officer and a director of the Company in September 2013. He is a 25-year veteran of the technology industry with a substantial track record of innovation and success, including more than 20 years leading security companies. He previously served as Executive Vice President, Identity Management & Cloud Solutions and CEO of our idOnDemand subsidiary. From November 2007 until its acquisition by the Company in May 2011, Mr. Hart was CEO of idOnDemand, Inc., a pioneering provider of smart card-based identity solutions via the cloud, which he co-founded. From February 2007 to November 2007 he served as CEO and director of ActivIdentity (formerly ActivCard), a provider of identity assurance and strong authentication solutions, where he earlier served as Senior Vice President Sales, Marketing, Professional Services and Product Management. Prior to this, Mr. Hart was the founder and CEO of Protocom Development Systems Inc., an identity management software security business that was acquired by ActivCard in 2005. In 2003, Mr. Hart was recognized by Deloitte & Touche for his software export achievements. In 2002, he was recognized by Ernst & Young as the Australian Young Entrepreneur of the Year and was a member of the judging panel in 2005, 2006 and 2007.

**Brian Nelson**, 55 Chief Financial Officer and Corporate Secretary

*Brian Nelson* became our Chief Financial Officer in December 2013. He has more than 20 years of practical experience in accounting and finance, ranging from executive finance positions with both emerging and established technology companies in Silicon Valley to providing audit assurance and transaction-related services to public and private companies. Prior his appointment, Mr. Nelson provided consulting services to the Company from February 2012 to December 2013, and served as CFO of our idOnDemand subsidiary both prior to and following its acquisition by the Company in May 2011. From 2005 to 2010, he served as vice president of finance and CFO of Kleer Corporation, a wireless audio company. Mr. Nelson's previous positions also include vice president of finance for Silicon Access Networks and for PlanetRx, corporate controller for LinkExchange (acquired by Microsoft) and various other technology start-ups, and he also was an audit manager with KPMG LLP in Silicon Valley. Since 2008, he has served as a Professor of Practice in the MBA program in the Leavey School of Business at Santa Clara University in Santa Clara, California. Mr. Nelson received his bachelor of science degree in accounting from San Jose State University, studied in the MBA program at Santa Clara University, and holds a CPA license in the State of California.

**Lawrence W. Midland**, 72 President and Director

*Lawrence W. Midland* has served as President of the Company since September 2013 and as a director of the Company since May 2009. He has more than 30 years' experience in the physical access control industry and a record of success as a security supplier to the U.S. Government, international, commercial and industrial markets. Previously he served as Senior Vice President of the Company and as Chairman of our Hirsch subsidiary from January 2012 to September 2013 and as an Executive Vice President of the

Company and as President of the Hirsch subsidiary from May 2009 to December 2011, following the completion of the merger of the Company and Hirsch Electronics Corporation. Prior to the merger, Mr. Midland was President of Hirsch Electronics, which he helped found in August 1981, and for which he served as a director. Mr. Midland became President and Chairman of the Board of Hirsch in March 1986 and held those positions continuously until the completion of the merger. Mr. Midland previously served as president of several companies, including Retirement Inns of America, Pension Properties Trust, a California REIT, and Pension Administrative Services. Previously Mr. Midland also held various sales positions in investment related activities following his employment as a field engineer with Shell Oil Company. He holds a B.S. degree in Physics (With Distinction) from the University of Oklahoma and an M.B.A. degree from Pepperdine University.

**Dr. Manfred Mueller**, 44 Chief Operating Officer *Dr. Manfred Mueller* was named chief operating officer (COO) of the Company in September 2013 and has served as an Executive Vice President of the Company since January 2010. He has held diverse roles at the Company including sales, marketing, product management, business development and investor relations which provide deep understanding of our technology, markets, customers, stakeholders and operations. Dr. Mueller joined the Company in August 2000 as Director of Strategic Business Development and subsequently has held a variety of roles in strategic business development, marketing and sales. Most recently, Dr. Mueller served as CEO of the SCM Microsystems business from January 2010 to November 2011, as Managing Director of the Company's ID Infrastructure division (formerly the SCM Microsystems business) from November 2011 to April 2012, and as COO, Identification Products from April 2012 to September 2013. Prior to joining the Company, from August 1998 to July 2000, Dr. Mueller was Product Manager and Business Development Manager at BetaResearch GmbH, the digital TV technology development division of the Kirch Group. Dr. Mueller holds a master's degree and a Ph.D. in Chemistry from Regensburg University in Germany and an M.B.A. from the Edinburgh Business School of Heriot Watt University in Edinburgh, Scotland.

To our knowledge, there are no family relationships between any of our executive officers and any other of our executive officers or directors.

## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes the material elements of compensation awarded to, earned by or paid to the principal executive and principal financial officers of the Company, the three other most highly compensated individuals who were serving as executive officers during 2013 or as of the last day of the fiscal year ending December 31, 2013, as well as our former principal executive and principal financial officers. These individuals are listed in the *Summary Compensation Table* below and referred to in this Proxy Statement as the Named Executive Officers.

Our executive compensation program bases a significant portion of the compensation of our executives, including the Named Executive Officers, on their ability to achieve annual operational objectives that advance the Company's long-term business goals and that are designed to create sustainable long-term stockholder value. The Company's performance-based compensation elements are guided by the Compensation Committee's long-term objectives of maintaining market competitiveness and aligning the interests of our executives with the interests of our stockholders. In addition, the Compensation Committee considers the results of the prior-year's stockholder advisory vote on our executive compensation as part of its compensation setting process. It believes these voting results provide useful feedback regarding whether stockholders agree that the Compensation Committee is achieving its goal of designing an executive compensation program that promotes the best interests of the Company and its stockholders by providing its executives with the appropriate compensation and meaningful incentives. As part of its 2013 compensation setting process, the Compensation Committee reviewed the results of the 2012 stockholder advisory vote, for which 97.6% of the votes cast were voted in favor of our executive compensation.

#### Key Business Developments During 2013

During the first eight months of 2013, we pursued a strategy to develop and sell a comprehensive range of secure identification (Secure ID) solutions for multiple markets around the world. In particular, we focused on reinforcing our position in established Secure ID markets, such as logical access, physical access and contactless ticketing, and on building a strong position in emerging markets, such as cloud-based credential management, cashless and mobile payment and near field communication (NFC). We delivered these solutions through various business entities operated under a group structure.

In September 2013, Ayman Ashour resigned from his position as Chief Executive Officer, and our Board of Directors appointed Jason Hart, formerly the CEO of our idOnDemand subsidiary, as our Chief Executive Officer. Lawrence W. Midland was appointed as President and Manfred Mueller was appointed as Chief Operating Officer, and no other individuals were appointed as executive officers of the Company. Brian Nelson, previously Chief Financial Officer of our idOnDemand business, and most recently a consultant to the Company, was appointed as our Chief Financial Officer in December 2013.

Following Mr. Hart's appointment, we undertook a strategic review of our business and initiated a series of actions to simplify our business structure and focus. We realigned our organizational structure to operate as a single, unified company rather than as a group of individual businesses, and signaled this change to stakeholders with a new corporate identity featuring the word mark and logo Identiv. Additionally, we reorganized our operational functions to enable centralized management of key activities on a global basis and streamline our operations. Further, we divested certain businesses that were determined to be non-core to our ongoing strategy in order to focus our resources and investments on higher-growth and more profitable opportunities in the security technology market.

Our current strategy aims to drive revenue growth by focusing our resources and activities to deliver trust solutions to customers globally. Our trust solutions leverage core expertise from our existing product portfolio



with a focus on cloud and mobile technologies, as well as our significant experience addressing customers' security challenges across multiple markets, including the U.S. Government, transportation, healthcare, education, banking, critical infrastructure, foreign governments and others.

### **Impact on 2013 Executive Compensation**

The mixture of established and new business opportunities available to us as a security technology company influences our compensation practices. We seek to attract and retain executives with significant experience in security, RFID, and cloud technologies and markets while also motivating them to be innovative and entrepreneurial in their approach to advancing our business.

#### *We Pay for Performance*

The compensation program implemented by the Compensation Committee in 2013 demonstrates our continued commitment to pay-for-performance, with a substantial portion of each Named Executive Officer's compensation being at-risk and subject to important performance measures aligned with long-term stockholder value. Compensation for our Named Executive Officers has been designed to reward high performance through short- and long-term incentives. In Fiscal 2013:

A significant portion of the compensation of each Named Executive Officer was at-risk, being comprised of the opportunity to earn a performance-based cash bonus and the opportunity to receive an at-the-money stock option award and stock bonus award subject to our achievement of pre-established performance objectives.

The Compensation Committee established performance-based award criteria based on our annual corporate performance, including the attainment of specific objectives for growth in sales, growth in Adjusted EBITDA (defined as earnings before interest, taxes, depreciation and amortization, equity-based compensation, and certain other adjustments) and growth in volume-weighted share price performance. The specific corporate performance goals that were established for 2013 are discussed in detail below under

#### *Fiscal 2013 Incentive Compensation to our Named Executive Officers*

Consistent with our commitment to becoming sustainably profitable, none of these performance-based awards would be earned by our Named Executive Officers unless we achieved positive Adjusted EBITDA

Our financial results in Fiscal 2013 reflected mixed sales strength across our three main product areas, very little change in our gross profit margin and a modest reduction in base operating expenses. Taken together, these results did not allow us to attain our goals for growth in sales or Adjusted EBITDA.

Sales of our RFID and NFC products for emerging contactless applications grew more than 50% and sales of smart card readers for secure PC and network access grew 10%. These increases were offset by a 29% decrease in sales of our physical access control solutions as a result of budget delays and deferrals due to the U.S. Government budget sequester and government shutdown. Excluding discontinued operations of non-core businesses that were divested, total sales from continuing operations were \$75.6 million in 2013, up 4% compared with \$72.4 million in 2012.

Gross profit margin in 2013 was 44.5% compared with 44.2% in 2012.

Our base operating expenses (research and development, sales and marketing, and general and administrative expenses) decreased 4% in 2013 compared with 2012.

We did not achieve profitability on an Adjusted EBITDA basis.

Because we did not achieve the minimum performance objectives established by the Compensation Committee, our Named Executive Officers did not earn any portion of their performance-based cash bonus, stock option or stock bonus award opportunities.



### **Executive Compensation Program Objectives and Overview**

Our current executive compensation program is intended to achieve three fundamental objectives:

attract, retain and motivate qualified executives;

reward executives based on the Company's performance; and

align executives' interests with the interests of our stockholders.

To achieve these objectives, we attempt to:

offer compensation packages that are competitive in the markets and countries where we operate and that provide an attractive base of salary and benefits;

maintain a substantial portion of total compensation at risk, with payment of that portion tied to achievement of specific financial, organizational or other performance goals; and

provide both short-term and long-term performance incentives through a combination of potential cash and equity-based awards.

As described in more detail below, the material elements of our current executive compensation program for Named Executive Officers include fixed base salary, performance-based compensation opportunities consisting of a mix of a cash bonus, shares of Common Stock and stock options, as well as various benefits and perquisites. Our executive compensation program strives to set annual salaries that are competitive but low relative to potential performance-based bonus awards, as we believe that this provides incentive for the achievement of corporate objectives. We believe that each element of our executive compensation program helps us to achieve one or more of our compensation objectives. For example, linking bonus payments to corporate performance-based criteria rewards executives based on the Company's performance. In addition, providing our executives with the opportunity to earn equity-based bonus awards aligns their interests with the long-term interests of our stockholders, as this subjects a significant portion of their total compensation to fluctuations in the market price of Common Stock and reinforces the incentive to manage the Company's business as owners.

### **Current Executive Compensation Program Elements**

***Base Salary.*** Base salary provides fixed compensation based on competitive local market practice and is intended to acknowledge and reward core competence of our executives relative to their skills, experience and contributions to the Company. Base salaries for executives are generally reviewed annually, and more frequently when there are any changes in responsibilities or market conditions.

Following the voluntary salary reductions taken in 2012 by each of our Named Executive Officers, in 2013 all salary levels were restored to their pre-reduction levels, but the Compensation Committee did not increase the salary levels of any of the Company's current or former Named Executive Officers, except for Brian Nelson.

In December 2013, we entered into an executive employment agreement with Brian Nelson, under which Mr. Nelson was named Chief Financial Officer. Mr. Nelson's annual base salary was set at \$295,000, effective December 20, 2013. Mr. Nelson's executive employment agreement is further described below in *Employment Agreements; Termination / Change in Control Arrangements*.

***Performance-based Compensation.*** In April 2013, our Board of Directors adopted specific performance objectives for 2013 based upon the business performance criteria authorized by our 2011 Plan. In general, under the 2011 Plan the Compensation Committee may grant to our executives and other key employees the opportunity to earn certain cash-based and equity-based awards upon the achievement of performance goals whose attainment is measured at the end of a specified performance period of 12 months or longer. Such equity awards may include shares of Common Stock, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, and performance share awards. The specific performance goals established for 2013 are discussed below under *Fiscal 2013 Incentive Compensation to our Named Executive*

*Officers.*

The 2011 Plan is designed to address the objectives of our compensation program by providing executives with the opportunity to earn substantial at-risk compensation, based on the Company's performance. We believe this helps us attract, retain and motivate qualified executives and emphasizes corporate performance as the basis for rewarding our executives. Through the Compensation Committee's use of a combination of performance-based cash bonuses and equity award opportunities granted under the 2011 Plan, we are able to provide both short-term and long-term incentives to remain with the Company and to work towards corporate performance goals on an ongoing basis.

Because the requisite corporate performance goals for 2013 were not achieved, as discussed below, no performance-based annual bonuses or equity awards were earned by our Named Executive Officers for 2013.

*Other Equity Awards.* In January 2013, the Compensation Committee granted an option for 250,000 shares to Mr. Ashour. At the date of grant, the option had a four-year vesting period, with 25% of the shares subject to the option vesting after one year and the remaining shares vesting 1/36th per month for the following three years. Under Mr. Ashour's amended employment agreement, discussed below under *Employment Agreements; Termination / Change in Control Arrangements*, vesting for the remainder of the option was accelerated upon Mr. Ashour's resignation from the Company on September 1, 2013, such that the option will be fully vested by August 31, 2015, and remain exercisable until August 31, 2017. The option grant was the result of a review of CEO compensation, which was planned after the Company entered into an amended employment agreement with Mr. Ashour on September 1, 2013. In light of the historical performance and the then current challenges of the Company, the Committee did not change any salary components, but deemed the grant of options appropriate in order to incentivize Mr. Ashour.

*Special Performance Bonuses.* The Compensation Committee, in its sole discretion, may determine that an executive officer is entitled to a one-time bonus or equity award in recognition of special services to the Company or achievements of individual performance targets or goals for the executive officer. No special performance bonuses were awarded in 2013.

*Benefits and Perquisites.* We provide all our employees with standard benefits for health and life insurance. On behalf of our executive officers in Europe, we make payments to government-mandated pension programs, to government-managed or private health insurance programs, and in some cases for unemployment insurance, as mandated under the employment laws of various European countries, including Germany, Switzerland and the United Kingdom. Additionally, we provide certain of our Named Executive Officers with either a company car or a comparable car allowance. For certain executives who are required to travel frequently to our facility in Ismaning, Germany, we also provide an allowance for local apartment rental. Payments made to or on behalf of our Named Executive Officers in 2013 are included in the *Summary Compensation Table* below.

*Severance Benefits.* As disclosed in the description of the individual employment agreements under *Employment Agreements; Termination / Change in Control Arrangements* below, our executive officers are entitled to continued salary payments ranging from three months to two years following termination by the Company without cause. The level of payment is negotiated on an individual basis and takes into account any requirements under local law as well as the executive's position within the Company. With the exception of Messrs. Ashour and Tassone, all of these employment agreements provide for payments or acceleration of equity awards in the event of a change in control of the Company.

*Executive Employment Agreements.* We have entered into employment agreements with each of our Named Executive Officers that provide for certain severance benefits. In most instances, notice of termination is required to be given by either the Company or the executive, and we are required to continue to compensate the executive for salary and eligible bonus amounts during this period. The length of the notice period is stated in the executive's employment contract. In lieu of *continuing* the employment relationship during the notice period, our employment agreements provide that we can immediately terminate the executive's employment and pay compensation for the notice period. Alternatively, we can require that the executive continue to work during the

notice period. Additionally, under labor practices applicable to our European employees, terminated employees also may be eligible to continue to receive health and unemployment insurance coverage, pension contributions, car leasing expenses or car allowance, or other benefits provided during their employment, for the duration of the notice period. Further, our Named Executive Officers, if terminated, may also be entitled to receive annual bonus payments, the amount of which would be pro-rated accordingly and based on a variety of factors, including the employee's length of service and perceived contributions to past or future company performance, as well as other factors. Actual bonus payments for which individual executives may become eligible are determined at or following termination, and cannot be projected.

### **Fiscal 2013 Incentive Compensation to our Named Executive Officers**

The Compensation Committee approved specific performance goals for the payment of performance-based cash and equity incentive awards in 2013 and determined the potential award opportunities that could be earned by each of our Named Executive Officers. Specific performance targets under these performance goals reflected our operational goals for 2013. Award opportunities were based on the achievement of base performance ( Base Bonus ) criteria and peak performance ( Peak Bonus ) criteria. Each set of criteria was assigned a certain percentage value of the total potential Base Bonus or Peak Bonus. The potential Base Bonus and Peak Bonus amounts for each Named Executive Officer were determined by multiplying the sum of the percentage values of the Base Bonus and Peak Bonus by the executive's annual base salary.

*Base Bonus.* Each Named Executive Officer was eligible to earn a Base Bonus of up to 100% of his annual base salary, subject to achievement of the following performance goals:

10% to 20% growth in net sales over a base sales figure of \$94.6 million (the Growth in Sales Performance Target ), with an award range of 2.5% to 25% of annual base salary;

Adjusted EBITDA (earnings before income taxes, depreciation and amortization, equity-based compensation expense and one-time expenses) of \$2.0 million to \$4.0 million (the Growth in Adjusted EBITDA Performance Target ), with an award range of 2.5% to 25% of annual base salary; and

0% to 10% growth in the volume-weighted average value of the Company's share price in 2013 compared with 2012 (the Growth in Volume Weighted Average of Share Price Performance Target ), with an award range of 5% to 50% of annual base salary.

No Base Bonus awards were to be earned unless we achieved at least \$2.0 million positive Adjusted EBITDA in 2013.

To the extent that Base Bonus performance targets were met, earned Base Bonus awards were to be paid in a combination of cash and shares of Common Stock. In addition, to the extent that the Base Bonus was earned in 2013, each Named Executive Officer would also be entitled to receive an option to acquire shares of Common Stock equal in number to 20% of the executive's annual base salary (measured in U.S. Dollars) divided by the fair market value of a share of our Common Stock determined on the date of grant.

*Peak Bonus.* Each Named Executive Officer also was eligible to earn a Peak Bonus of up to 100% of his annual base salary. Peak Bonuses would be earned if the Company achieved:

Adjusted EBITDA of \$4.0 million to \$5.0 million, with an award range of 0% to 50% of annual base salary; and

30% growth in total capitalization (calculated by comparing the Company's market capitalization, defined as outstanding shares times volume-weighted average share price) as of December 31, 2013, against a base market capitalization of \$90 million, with an award range of 0% to 50% of annual base salary.

*Achievement of Base and Peak Performance Targets in 2013.* The Company's 2013 financial performance failed to achieve the minimum threshold levels of performance required for our Named Executive Officers to earn either the Base Bonus or Peak Bonus, and accordingly such bonuses were not paid following the end of Fiscal 2013.

#### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed with management of the Company the Compensation Discussion and Analysis contained in this Proxy Statement on Schedule 14A. Based on the Compensation Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, the Compensation Committee recommended to the Board of the Directors of the Company that the Compensation Discussion and Analysis be included for filing with the SEC in this Proxy Statement on Schedule 14A for the fiscal year ended December 31, 2013, and the Board of Directors has approved such inclusion.

#### **Compensation Committee**

Saad Alazem, Chairman

Phil Libin

Daniel Wenzel

## SUMMARY OF EXECUTIVE COMPENSATION IN 2013

## Summary Compensation Table

The following table sets forth certain information with respect to the compensation of our current Chief Executive Officer, Chief Financial Officer and our two current executive officers, as well as our former Chief Executive Officer, former Chief Financial Officer and another former executive officer who served during 2013 (the Named Executive Officers), based on total compensation earned during fiscal years 2013, 2012 and 2011, for their services with us in all capacities during those fiscal years.

| Name and Principal Position  | Year | Salary         | Option            |                 | All Other Compensation | Total        |
|--|------|----------------|-------------------|-----------------|------------------------|--------------|
|  |      |                | Stock Awards (15) | Awards (16)(17) |                        |              |
| Jason Hart<br>Chief Executive Officer and Director   | 2013 | \$ 250,000(1)  |                   |                 | \$ 56(20)              | \$ 250,056   |
|  | 2012 | \$ 205,833(2)  |                   | \$ 94,781       |                        | \$ 300,614   |
|  | 2011 | \$ 126,667(3)  |                   |                 | \$ 800(21)             | \$ 127,467   |
| Brian Nelson<br>Chief Financial Officer and Secretary  | 2013 | \$ 9,077(4)    |                   | \$ 178,750(18)  |                        | \$ 187,827   |
|  | 2012 |                |                   |                 |                        |              |
|  | 2011 |                |                   |                 |                        |              |
| Lawrence W. Midland<br>President   | 2013 | \$ 120,000     |                   |                 | \$ 4,545(22)           | \$ 124,545   |
|  | 2012 | \$ 68,000(5)   |                   | \$ 62,160       | \$ 4,831(22)           | \$ 134,991   |
|  | 2011 | \$ 210,000     |                   |                 | \$ 4,462(22)           | \$ 214,462   |
| Dr. Manfred Mueller<br>Executive Vice President and COO, Identification Products (32)                | 2013 | \$ 264,486(6)  |                   |                 | \$ 38,290(23)          | \$ 302,776   |
|  | 2012 | \$ 211,148(7)  |                   | \$ 94,551       | \$ 37,893(24)          | \$ 343,592   |
|  | 2011 | \$ 208,662(8)  |                   |                 | \$ 41,686(25)          | \$ 250,348   |
| Ayman S. Ashour<br>Former Chief Executive Officer and Chairman of the Board (32)                     | 2013 | \$ 214,066(9)  |                   | \$ 20,029(19)   | \$ 788,691(26)         | \$ 1,022,786 |
|  | 2012 | \$ 224,774(10) |                   | \$ 134,044      | \$ 53,456(27)          | \$ 412,274   |
|  | 2011 | \$ 328,477(11) |                   |                 | \$ 74,088(28)          | \$ 402,565   |
| Joseph Tassone<br>Executive Vice President Global Engineering and Former Executive Officer           | 2013 | \$ 225,000     |                   |                 | \$ 10,038(29)          | \$ 245,038   |
|  | 2012 | \$ 176,667(12) |                   | \$ 86,149       | \$ 9,888(29)           | \$ 272,704   |
|  | 2011 | \$ 200,000     |                   |                 | \$ 11,128(29)          | \$ 211,238   |
| David Wear<br>Vice President, Special Projects and Former Chief Financial Officer and Secretary (32) | 2013 | \$ 312,278(13) |                   |                 | \$ 135,286(30)         | \$ 447,564   |
|  | 2012 | \$ 95,068(14)  |                   | \$ 127,791      | \$ 5,356(31)           | \$ 228,215   |
|  | 2011 |                |                   |                 |                        |              |

## Salary

- (1) Reflects an annual salary for Mr. Hart of \$250,000 in 2013. Mr. Hart became our Chief Executive Officer on September 3, 2013.
- (2) Reflects an annual salary for Mr. Hart of \$190,000 from January 1 – March 31, 2012, an annual salary of \$250,000 beginning April 1, 2012, and a 20% voluntary reduction in salary for the period June 1 – December 31, 2012.
- (3) Reflects an annual salary for Mr. Hart of \$190,000 beginning May 2, 2011, the date on which Mr. Hart joined the Company.
- (4) Reflects an annual salary for Mr. Nelson of \$295,000 beginning December 20, 2013, the date on which Mr. Nelson joined the Company as our Chief Financial Officer.



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- (5) Reflects an annual salary for Mr. Midland of \$120,000 in 2012 with a 60% voluntary reduction in salary for the period from June 1, 2012 until December 31, 2012.

- (6) Reflects an annual salary for Dr. Mueller of EUR 200,000 in 2013.
- (7) Reflects an annual salary for Dr. Mueller of EUR 150,000 from January 1, 2013 to March 31, 2012, an annual salary of EUR 200,000 beginning April 1, 2012, and a 20% voluntary reduction in salary for the period June 1 – December 31, 2012.
- (8) Reflects an annual salary for Dr. Mueller of EUR 150,000 in 2011.
- (9) Reflects an annual salary for Mr. Ashour of CHF 300,000 from January 1, 2013 to September 3, 2013, the date of Mr. Ashour's resignation as Chief Executive Officer.
- (10) Reflects an annual salary for Mr. Ashour of CHF 300,000 in 2012 and a 50% voluntary reduction in salary for the period from June 1, 2012 until December 31, 2012.
- (11) Reflects an annual salary for Mr. Ashour of CHF 300,000 in 2011.
- (12) Reflects an annual salary for Mr. Tassone of \$200,000 in 2012 and a 20% voluntary reduction in salary for the period from June 1, 2012 until December 31, 2012.
- (13) Reflects an annual salary for Mr. Wear of GBP 200,000 in 2013.
- (14) Reflects an annual salary for Mr. Wear of GBP 200,000 beginning May 3, 2012, the date on which Mr. Wear joined the Company, and a 16.27% voluntary salary reduction for the period from June 1, 2012 until December 31, 2012.

***Stock Awards***

- (15) The performance-based stock award opportunities granted in 2013 were determined not to be probable of being earned. Accordingly, the grant date fair values of such awards calculated in accordance FASB ASC Topic 718 are not included in this table. Had the highest level of performance applicable to the performance-based stock award opportunities granted in 2013 been achieved, the grant date fair values of such awards determined in accordance FASB ASC Topic 718 would have been: Mr. Hart, \$250,000; Mr. Nelson, \$9,077; Mr. Midland, \$120,000, Dr. Mueller, \$264,486, Mr. Ashour, \$214,071; Mr. Tassone, \$225,000; and Mr. Wear, \$312,278.

***Option Awards***

- (16) The amounts in this column represent the aggregate grant date fair value of options calculated in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of stock option awards are set forth in Note 5 to the Consolidated Financial Statements appearing in our Annual Report on Form 10-K filed with the SEC for the period ended December 31, 2013, which is incorporated by reference into this proxy statement. These option awards due not include the potential options, that could have been earned under 2013 Bonus plan.
- (17) The performance-based stock option award opportunities granted in 2013 were determined not to be probable of being earned. Accordingly, the grant date fair values of such awards calculated in accordance FASB ASC Topic 718 are not included in this table. Had the highest level of performance applicable to the performance-based stock option award opportunities granted in 2013 been achieved, the grant date fair values of such awards determined in accordance FASB ASC Topic 718 would have been: Mr. Hart, \$50,000; Mr. Nelson, \$1,815; Mr. Midland, \$24,000, Dr. Mueller, \$52,897, Mr. Ashour, \$4,814; Mr. Tassone, \$45,000; and Mr. Wear, \$62,456.
- (18) Reflects initial option to purchase 500,000 shares of Common Stock granted to Mr. Nelson on December 20, 2013.
- (19) Reflects option to purchase 250,000 shares of Common Stock granted to Mr. Ashour on January 13, 2013.

***Non-Equity Incentive Plan Compensation***

***All Other Compensation***

- (20) Reflects payments made on behalf of Mr. Hart in 2013 for life insurance.
- (21) Reflects payments made on behalf of Mr. Hart in 2011 for health insurance.

- (22) Reflects payments made on Mr. Midland's behalf for health insurance.
- (23) Reflects payments of EUR 28,930 made on Dr. Mueller's behalf in 2013 for pension (EUR 6,577), employee saving contributions (EUR 319), health insurance (EUR 2,350), unemployment insurance (EUR 1,044), and car leasing and insurance expenses (EUR 18,639).
- (24) Reflects payments of EUR 29,479 made on Dr. Mueller's behalf in 2012 for pension and employee saving contributions, health and unemployment insurance, and car leasing and insurance expenses.
- (25) Reflects payments of EUR 30,008 made on Dr. Mueller's behalf in 2011 for pension and employee saving contributions, health and unemployment insurance, and car leasing and insurance expenses.
- (26) Reflects the accrual for a termination payment of CHF 692,053 (or approximately \$743,633) following Mr. Ashour's resignation from the Company in September 2013. Also reflects payments totaling CHF 42,134 (or approximately \$45,028) made to Mr. Ashour or on his behalf in 2013 for, social security insurance (CHF 25,935), apartment rental (CHF 7,080) and car leasing and insurance expenses (CHF 9,118).
- (27) Reflects payments totaling CHF 50,167 made to Mr. Ashour or on his behalf in 2012 for social security insurance, pension, apartment rental and car leasing and insurance expenses.
- (28) Reflects payments totaling CHF 65,854 made to Mr. Ashour or on his behalf in 2011 for social security insurance, pension and apartment rental.
- (29) Reflects payments made on behalf of Mr. Tassone for health insurance (\$10,038).
- (30) Reflects payments totaling GBP 86,364 made to Mr. Wear or on his behalf in 2013 for pension (GBP 20,004), social insurance (GBP 34,800) and health insurance (GBP 3,000), car allowance (GBP 12,000) and apartment rental expenses (GBP 16,560).
- (31) Reflects payments totaling GBP 3,340 made to Mr. Wear or on his behalf in 2012 for apartment rental expenses.

**Exchange Rate**

- (32) Some of our Named Executive Officers are paid in local currency other than the U.S. Dollar. Dr. Mueller is paid in Euros (EUR), Mr. Ashour is paid in Swiss Francs (CHF) and Mr. Wear is paid in British Pounds (GBP). Due to fluctuations in exchange rates during the year, amounts in U.S. Dollars varied from month to month. Amounts shown in dollars under *Salary* and *All Other Compensation* above were derived using the average exchange rates for the quarter in which such amounts were earned and paid. Average exchange rates for the periods shown in the table above are as follows:

|                | 2013  | 2012  | 2011   |
|----------------|---|---|--|
| First Quarter  | EUR 0.755 per US Dollar<br>CHF 0.922 per US Dollar<br><br>GBP 0.630 per US Dollar | EUR 0.765 per US Dollar<br>CHF 0.930 per US Dollar                            | EUR 0.748 per US Dollar<br>CHF 0.962 per US Dollar |
| Second Quarter | EUR 0.769 per US Dollar<br>CHF 0.945 per US Dollar<br>GBP 0.657 per US Dollar     | EUR 0.765 per US Dollar<br>CHF 0.921 per US Dollar<br>GBP 0.628 per US Dollar | EUR 0.702 per US Dollar<br>CHF 0.899 per US Dollar |
| Third Quarter  | EUR 0.759 per US Dollar<br>CHF 0.937 per US Dollar<br>GBP 0.651 per US Dollar     | EUR 0.806 per US Dollar<br>CHF 0.968 per US Dollar<br>GBP 0.641 per US Dollar | EUR 0.698 per US Dollar<br>CHF 0.816 per US Dollar |
| Fourth Quarter | EUR 0.742 per US Dollar<br>CHF 0.915 per US Dollar<br>GBP 0.626 per US Dollar     | EUR 0.777 per US Dollar<br>CHF 0.938 per US Dollar<br>GBP 0.624 per US Dollar | EUR 0.730 per US Dollar<br>CHF 0.890 per US Dollar |

**Grant of Plan-Based Awards in Fiscal 2013**

The following table sets forth certain information with respect to the grant of plan-based awards in 2013 to our Named Executive Officers.

| Name                | Grant Date | Grant Type    | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)(2) |            |            | Estimated Future Payouts Under Equity Incentive Plan Awards (3) |            | All Other Option Awards; Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards (Per/Share) | Grant Date Fair Value of Stock and Option Awards (6)(7) |
|---------------------|------------|---------------|---|------------|------------|---|------------|--|---|---|
|                     |            |               | Threshold   | Target     | Maximum    | Threshold   | Target     |  |   |   |
| Jason Hart          | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 3,125  | \$ 125,000 | \$ 250,000 |   |            |  |   |   |
| Brian Nelson        | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 113  | \$ 4,539   | \$ 9,077   |   |            |  |   |   |
|                     | 12/20/2013 | Stock Options |   |            |            |   | 500,000(4) | \$ 0.52  | \$ 178,750  |   |
| Lawrence W. Midland | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 1,500  | \$ 60,000  | \$ 120,000 |   |            |  |   |   |
| Dr. Manfred Mueller | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 3,306  | \$ 132,243 | \$ 264,486 |   |            |  |   |   |
| Ayman S. Ashour     | 1/14/2013  | Stock Options |   |            |            |   | 250,000(5) | \$ 1.34  | \$ 20,029   |   |
|                     | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 2,676  | \$ 107,036 | \$ 214,071 |   |            |  |   |   |
| Joseph Tassone      | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 2,813  | \$ 112,500 | \$ 225,000 |   |            |  |   |   |
| David Wear          | 4/25/2013  | Stock Award   |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Stock Options |   |            |            |   |            |  |   |   |
|                     | 4/25/2013  | Cash          | \$ 3,903  | \$ 156,139 | \$ 312,278 |   |            |  |   |   |

- (1) Refers to the potential performance-based cash bonus award payouts for 2013 performance, as further discussed in *Compensation Discussion and Analysis*. Threshold amounts represent 1.25% of each Named Executive Officer's annual base salary; Target amounts represent 50% of each Named Executive Officer's annual base salary; and Maximum amounts represent 200% of each Named Executive Officer's annual base salary. In the case of Mr. Nelson, the annual base salary represents less than one month, as he joined the Company on December 20, 2013. As the applicable performance targets were not achieved, no performance-based cash bonus awards were earned by our Named Executive Officers for 2013 performance.
- (2) For Messrs. Mueller, Ashour and Wear, amounts shown in dollars are converted from the respective local currencies in which these executives are paid, and were derived using average quarterly exchange rates for 2013, as described in Footnote 34 of the *Summary Compensation Table*, above.

- (3) As further discussed in *Compensation Discussion and Analysis*, the Compensation Committee granted performance-based stock award and stock option award opportunities to the Named Executive Officers in 2013. The numbers of shares subject to the performance-based stock awards, had they been earned, would have been determined by reference to each Named Executive Officer's annual base salary and the volume-weighted average share price (VWAP) over the 30 calendar days prior to the announcement of the annual results. For earned stock awards, the number of shares determined at Threshold would be determined by 1.25% of each Named Executive Officer's annual base salary; at Target would be determined by 50% of each Named Executive Officer's annual base salary; and at Maximum would be determined by 100% of each Named Executive Officer's annual base salary. The number of shares subject to the performance-based option awards, had they been earned, would have been computed by dividing a dollar amount equal to 20% of each Named Executive Officer's annual base salary by the fair market value of a share of Company Common Stock determined on the grant date, which shall occur within 30 days of filing the annual report on form 10-K. As the applicable performance targets were not achieved, no performance-based stock awards or performance-based stock option awards were earned by our Named Executive Officers for 2013 performance.
- (4) Reflects initial stock option awarded upon joining the Company. The exercise price of the option is equal to the closing price of our Common Stock on the NASDAQ Stock Market on the date of grant. The option vests on a four-year schedule with 25% vesting one year from the date of grant and the remainder vesting 1/36<sup>th</sup> per month over three years. Further details are provided in *Compensation Discussion and Analysis*.
- (5) The exercise price of the option is equal to the closing price of the Common Stock on the NASDAQ Stock Market on the date of grant. 25% of the option vests on each year on the anniversary of the grant. Upon Mr. Ashour's resignation from the Company in September 2013, vesting for the remainder of the option is accelerated so that the option will be fully vested as on August 31, 2015 (this is his termination date) and remain exercisable until August 31, 2017. Further details are provided in *Compensation Discussion and Analysis*.
- (6) The grant date fair value of the awards was calculated in accordance with FASB ASC Topic 718, as disclosed in footnote 17 of the Summary Compensation Table.
- (7) The performance-based stock award and stock option award opportunities granted in 2013 were determined not to be probably of being earned. Accordingly, the grant date fair values of such awards calculated in accordance FASB ASC Topic 718 are not included in this table.

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

The following table sets forth certain information with respect to the outstanding equity awards held by our Named Executive Officers as of December 31, 2013.

| Name                | Date of Grant (1) | Option Awards   |   | Option Exercise Price | Option Expiration Date |
|---------------------|-------------------|---|---|-----------------------|------------------------|
|                     |                   | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable (2) |                       |                        |
| Jason Hart          | 6/01/2012         | 58,333  |   | \$ 1.20               | 6/1/2022               |
|                     | 12/09/2012        | 12,500  | 37,500  | \$ 1.44               | 12/9/2022              |
| Brian Nelson.       | 12/20/2013        |   | 500,000   | \$ 0.52               | 12/20/2023             |
| Lawrence W. Midland | 4/30/2009         | 40,000  |   | \$ 2.37               | 4/30/2019              |
|                     | 2/28/2011         | 46,000  |   | \$ 2.63               | 2/28/2021              |
|                     | 6/01/2012         | 84,000  |   | \$ 1.20               | 6/01/2022              |
| Dr. Manfred Mueller | 9/16/2004         | 6,000   |   | \$ 2.78               | 9/16/2014              |
|                     | 9/16/2004         | 5,000   |   | \$ 2.78               | 9/16/2014              |
|                     | 7/27/2005         | 6,000   |   | \$ 3.08               | 7/27/2015              |
|                     | 2/02/2006         | 5,000   |   | \$ 3.23               | 2/02/2016              |
|                     | 7/05/2006         | 6,200   |   | \$ 3.03               | 7/05/2016              |
|                     | 9/28/2006         | 20,000  |   | \$ 3.41               | 9/28/2016              |
|                     | 2/14/2007         | 20,000  |   | \$ 4.02               | 2/14/2017              |
|                     | 3/23/2007         | 6,500   |   | \$ 4.34               | 3/23/2017              |
|                     | 4/22/2008         | 20,500  |   | \$ 3.12               | 4/22/2018              |
|                     | 4/28/2009         | 8,000   |   | \$ 2.42               | 4/28/2019              |
|                     | 2/28/2011         | 43,067  |   | \$ 2.63               | 2/28/2021              |
|                     | 6/01/2012         | 58,021  |   | \$ 1.20               | 6/01/2022              |
|                     | 12/09/2012        | 12,500  | 37,500  | \$ 1.44               | 12/09/2022             |
| Joseph Tassone      | 02/28/2011        | 33,600  |   | \$ 2.63               | 2/28/2021              |
|                     | 6/01/2012         | 46,667  |   | \$ 1.20               | 6/01/2022              |
|                     | 12/09/2012        | 12,500  | 37,500  | \$ 1.44               | 12/09/2022             |
| Ayman S. Ashour     | 1/04/2010         | 10,000  |   | \$ 2.26               | 1/04/2020              |
|                     | 2/28/2011         | 57,534  |   | \$ 2.63               | 2/28/2021              |
|                     | 6/01/2012         | 181,141   |   | \$ 1.20               | 6/01/2022              |
|                     | 1/14/2013         | 250,000   |   | \$ 1.34               | 8/31/2017              |
| David Wear          | 5/03/2012         | 9,896   | 15,104  | \$ 1.86               | 5/03/2022              |
|                     | 6/01/2012         | 58,333  |   | \$ 1.20               | 06/01/2022             |
|                     | 12/09/2012        | 12,500  | 37,500  | \$ 1.44               | 12/09/2022             |

- (1) Because the required level of achievement of 2013 performance goals necessary for our Named Executive Officers to earn the performance-based stock award and performance-based option award opportunities granted to them on April 25, 2013 were not attained, such awards opportunities were not earned and accordingly the related stock and stock option awards were not issued and outstanding as of December 31, 2013.

- (2) Unless otherwise noted in footnotes to this table, options vest 25% after one year, then in equal monthly installments over 36 months.

***Option Exercises and Stock Vested***

None of our Named Executive Officers exercised options, and no stock awards vested, in 2013.

***Employment Agreements; Termination / Change in Control Arrangements***

We have entered into employment agreements with each of our Named Executive Officers. Below is a description of the material terms of each agreement, including severance provisions. Only one of the Named Executive Officers is of retirement age and none of their respective agreements contain provisions for additional payments upon retirement. We do not offer our executive officers severance benefits in the case of death or disability or termination for cause.

Following any termination, each of the agreements described below requires the Named Executive Officer to keep as secret all confidential information related to the Company, including, but not limited to, operational and business secrets.

***Employment Agreement with Jason Hart***

On April 1, 2012, we entered into an executive employment agreement with Jason Hart which replaced the prior employment agreement between Mr. Hart and idOnDemand, Inc. ( idOD ), a wholly-owned subsidiary of the Company, dated May 2, 2011. Under the terms of the April 1, 2012 agreement, Mr. Hart assumed the additional role of Executive Vice President, Identity Management & Cloud Solutions of the Company. Mr. Hart received an annual base salary of \$250,000 and was eligible to participate in the Company's bonus program for core management executive officers and in the Company's benefit programs, as in effect from time to time. The initial term of the agreement was two years, and could be extended for such additional period as may be agreed in writing by the Company and Mr. Hart at any time prior to the expiration of the initial term. The Company or Mr. Hart could not terminate the agreement at any time without cause upon one year's prior written notice. From the time of such notice to the end of the one-year notice period, Mr. Hart would continue to receive his then-current fixed salary, the pro rata amount of any bonus payments and all benefits to which he was entitled. The Company could terminate the Agreement for cause at any time without notice and without any payment in lieu of notice. In June 2012, Mr. Hart's employment agreement was amended to reflect a voluntary 20% salary reduction from June 1 through December 31, 2012.

On March 13, 2014, we entered into an executive employment agreement with Mr. Hart under which Mr. Hart will serve as our Chief Executive Officer and member of our Board of Directors. Under the terms of the agreement, Mr. Hart will receive an annual base salary of \$350,000 and is eligible to receive inducement grants of 500,000 Restricted Stock Units and options to purchase 3,000,000 shares of our Common Stock which were granted to him pursuant to individual agreements not subject to the 2011 Plan. He is also eligible to participate in the Company's bonus program for core management executives and will have the use of a company car. The initial term of Mr. Hart's agreement is three years, beginning January 1, 2014, and the agreement may be extended for an additional three-year period at the expiration of the initial term. The Company or Mr. Hart may terminate the agreement at any time without cause upon 12 months' prior written notice. In the event that the Company terminates the agreement without cause, Mr. Hart will continue to receive monthly salary payments until the earlier of either the expiry of 24 months from the date of such termination or the then-current term of the agreement. He will also continue to receive benefits under the Company's employee benefits plans and programs, including applicable bonus payments and the use of a company car, until expiry of the then-current term of the agreement. In the event that Mr. Hart terminates the agreement with or without cause, he will continue to receive his base salary and the pro rata amount of any applicable bonus payments and will be entitled to a continuation of all benefits during the 12-month notice period. If Mr. Hart is terminated or other conditions of his employment are materially changed following a change of control of the Company, as defined in the agreement, he will be entitled to receive a severance payment equal to 200% of his then-current annual base salary payable in a lump sum, accelerated vesting of all unvested stock options and restricted stock units so that they become fully vested and exercisable, and reimbursement for health care coverage for a period of time as defined in the agreement.



Employment Agreement with Brian Nelson

On December 20, 2013, we entered into an executive employment agreement with Brian Nelson, under which Mr. Nelson serves as Executive Vice President, Chief Financial Officer and Company Secretary. Under the terms of the agreement, Mr. Nelson will receive an annual base salary of \$295,000 and is eligible to receive options to purchase 500,000 shares of our Common Stock. He is also eligible to participate in the Company's bonus program for core management executives and will have the use of a company car. The initial term of the agreement is 36 months, and may be extended by mutual consent at any time prior to the expiration of the initial term. The Company or Mr. Nelson may terminate the agreement at any time without cause upon 12 months' prior written notice. From the time of such notice to the end of the 12-month notice period, Mr. Nelson would continue to receive his then-current fixed salary and any bonus payments. If Mr. Nelson is terminated or other conditions of his employment are materially changed following a change of control of the Company, as defined in the agreement, he will be entitled to receive a severance payment equal to 200% of his then-current annual base salary payable in a lump sum, accelerated vesting of all unvested stock options and restricted stock units so that they become fully vested and exercisable, and reimbursement for health care coverage for a period of time as defined in the agreement.

Employment Agreement with Lawrence W. Midland

On December 21, 2011, we entered into an amended and restated executive employment agreement with Mr. Midland, under which Mr. Midland's role changed from Executive Vice President to Senior Vice President of the Company effective January 1, 2012, and he remained a member of our Board of Directors. Under the agreement, Mr. Midland's annual base salary was reduced to \$120,000, based upon approximately 60 hours of work per month. The initial term of the agreement was two years, and may be extended by mutual agreement at any time prior to the expiration of the initial term. The Company or Mr. Midland could terminate the agreement at any time without cause upon six months' written notice.

On March 18, 2014, we entered into an executive employment agreement with Mr. Midland under which Mr. Midland will serve as our President, replacing the amended and restated executive employment agreement between Mr. Midland and the Company dated December 21, 2011. Under the terms of the new agreement, Mr. Midland will receive an annual base salary of \$200,000 and will be eligible to receive an annual bonus payment of \$100,000, based upon the achievement of criteria as determined by the Chief Executive Officer and approved by the Compensation Committee. Additionally, Mr. Midland is eligible to receive 100,000 Restricted Stock Units and options to purchase 400,000 shares of the Company's Common Stock. The initial term of Mr. Midland's agreement is three years, beginning January 1, 2014, and may be extended by mutual consent at any time prior to its expiration. The Company or Mr. Midland may terminate the agreement at any time without cause upon 12 months' prior written notice. During the 12-month notice period, Mr. Midland would continue to receive monthly salary payments and benefits under the Company's employee benefits plans and programs, and any applicable bonus payments. If Mr. Midland is terminated or other conditions of his employment are materially changed following a change of control of the Company, as defined in the agreement, he will be entitled to receive a severance payment equal to 200% of his then-current annual base salary payable in a lump sum, accelerated vesting of all unvested stock options and restricted stock units so that they become fully vested and exercisable, and reimbursement for health care coverage for a period of time as defined in the agreement.

Employment Agreement with Dr. Manfred Mueller

On February 16, 2012, we entered into an amended and restated executive employment agreement with Dr. Manfred Mueller, under which Dr. Mueller's role changed from Executive Vice-President and Managing Director of Identive's ID Infrastructure division to Executive Vice President & Chief Operating Officer, Identification Products, effective April 1, 2012. In connection with the change in position, Dr. Mueller was paid an annual base salary of EUR 200,000 and continued to be eligible to participate in the Company's bonus program for core management executive officers and in the Company's benefit programs, as in effect from time to time. The Company waived any obligation of Dr. Mueller to repay the break-up fee previously paid to him in

connection with a Termination Agreement and Release, dated April 1, 2010, arising out of the merger of Bluehill ID AG and SCM Microsystems, Inc. The initial term of the amended agreement was 36 months, and may be extended for an additional term of 24 months by mutual agreement at any time prior to the expiration of the initial term. The Company or Dr. Mueller could terminate the amended agreement at any time without cause upon 12 months' prior written notice. From the time of such notice to the end of the 12-month notice period, Dr. Mueller would continue to receive his then-current fixed salary and any bonus payments. The Company could terminate the amended agreement for cause at any time without notice and without any payment in lieu of notice. In June 2012, his employment agreement was amended to reflect a voluntary 20% salary reduction from June 1 through December 31, 2012.

On March 18, 2014, we entered into a second amendment to its amended and restatement executive employment agreement with Manfred Mueller, dated February 16, 2012. This second amendment changed Dr. Mueller's position to Chief Operating Officer, with responsibility for the Company's sales in the Europe/Middle East and Asia/Pacific regions. It also replaced Dr. Mueller's eligibility for bonus compensation with payment of commissions equal to 50% of his annual base salary, based on achievement of planned target revenues and paid on a quarterly basis. Additionally, Dr. Mueller is eligible to receive 140,000 Restricted Stock Units and options to purchase 560,000 shares of the Common Stock. The term of Dr. Mueller's amended agreement is three years, beginning January 1, 2014, and may be extended by mutual consent at any time prior to its expiration. If Dr. Mueller is terminated or other conditions of his employment are materially changed following a change of control of the Company, as defined in the agreement, he will be entitled to receive a severance payment equal to 200% of his then-current annual base salary payable in a lump sum and accelerated vesting of all unvested stock options and restricted stock units so that they become fully vested and exercisable. All other terms and conditions of Dr. Mueller's amended and restated executive employment agreement dated February 16, 2012 and amended May 31, 2012 remain in full force and effect.

*Employment Agreement with Ayman S. Ashour*

On December 1, 2009, Bluehill ID, through its wholly-owned subsidiary Bluehill ID Services AG, entered into an employment agreement with Ayman S. Ashour, under which Mr. Ashour served as Bluehill ID's Chief Executive Officer and President of its board of directors. Mr. Ashour became Executive Chairman of the Board of the Company on January 4, 2010 following our acquisition of Bluehill ID and the Company assumed his employment agreement with Bluehill ID. Mr. Ashour was appointed Chief Executive Officer and Chairman of the Board on March 1, 2010. In June 2012, his employment agreement was amended to reflect a voluntary 50% salary reduction from June 1 through December 31, 2012. On September 1, 2013, through our Identive Services AG subsidiary, we entered into a third amendment to the employment agreement with Ayman Ashour, under which Mr. Ashour agreed to resign his position as Chief Executive Officer of the Company effective as of September 3, 2013, as well as all other executive positions held by him with the Company and/or any of its subsidiaries and remain on the Board as non-executive Chairman. In accordance with the terms of his employment agreement, Mr. Ashour is entitled to receive his current base salary, benefits and perquisites for a period of 24 months, ending August 31, 2015. Any stock options granted to Mr. Ashour prior to or as of the termination date, which remained unvested as of such date, thereupon became fully vested; all options will expire two years after the termination date.

*Employment Agreement with Joseph Tassone*

On February 22, 2010, we entered into an employment agreement with Joseph Tassone, who became our Executive Vice President for Technology and Product Management on January 19, 2010 following our acquisition of Bluehill ID. Under the agreement, Mr. Tassone was paid an annual base salary of \$168,000 and he was eligible to participate in the Company's bonus program for executive officers. The agreement may be terminated by the Company at any time without cause with six months' prior written notice, during which notice period Mr. Tassone is entitled to receive his monthly fixed salary and any bonus payments. Additionally, following any termination, Mr. Tassone is subject to a three-year non-solicitation provision. In February 2011,

Mr. Tassone's annual base salary was increased to \$200,000. In June 2012, his employment agreement was amended to reflect a voluntary 20% salary reduction from June 1 through December 31, 2012, as discussed above in *Compensation Discussion & Analysis*. In January 2013, Mr. Tassone's annual base salary was increased to \$225,000. In September 2013, Mr. Tassone's role was changed to Executive Vice President, Global Engineering and he ceased to be an executive officer of the Company.

#### *Employment Agreement with David Wear*

On May 3, 2012, we entered into an executive employment agreement with David Wear, under which Mr. Wear served as Executive Vice President, Finance and under which he additionally assumed the role of Chief Financial Officer and Secretary effective June 15, 2012. The initial term of the amended agreement was 36 months. Mr. Wear's annual base salary was GBP 200,000, he was granted an option to purchase 25,000 shares of Common Stock and he was eligible to participate in the Company's bonus program for executive officers. The Company or Mr. Wear could terminate the agreement at any time without cause upon 12-months' prior written notice. From the time of such notice to the end of the 12-month notice period, Mr. Wear would continue to receive his then-current fixed salary and any bonus payments. The Company may terminate the Agreement for cause at any time without notice and without any payment in lieu of notice. If the Company (or its successor) were to terminate Mr. Wear without cause within 12 months following a Change of Control, as defined in the agreement, and Mr. Wear executes a general release which is not revoked on or before 60 days following the date of termination, then: (i) Mr. Wear will be entitled to receive a severance payment equal to 200 percent of his then-current fixed salary on the 60th day following the date of termination; and (ii) all equity awards granted prior to the Change of Control which would have become vested and exercisable within 18 months following the date of termination shall accelerate and become vested and exercisable as of the 60th day following the date of termination. In June 2012, his employment agreement was amended to reflect a voluntary 16.8% salary reduction from June 1 through December 31, 2012, as discussed above in *Compensation Discussion & Analysis*.

On December 20, 2013, we entered into an amendment to the executive employment with David Wear, under which Mr. Wear resigned his position as Chief Financial Officer and Secretary and was appointed Vice President Special Projects with immediate effect. The amended agreement will expire February 28, 2015, and either party has the right to terminate the agreement earlier at any time. Until the expiration of the amended agreement, Mr. Wear will continue to receive his base salary, any applicable bonus payments and benefits including pension contribution, medical insurance and car allowance, and options previously granted will continue to vest. All other terms of Mr. Wear's original employment agreement remain unchanged.

#### ***Potential Payments upon Termination or Change in Control***

The information below describes the estimated value of certain compensation and benefits that would potentially have become payable under contractual arrangements with our Named Executive Officers assuming a termination of employment or change in control of the Company had occurred on December 31, 2013, based upon the Named Executive Officers' compensation and service levels as of such date and, where applicable, the \$0.58 closing price of our common stock on December 31, 2013. The information presented represents estimates of incremental amounts that would become payable had a triggering event occurred on December 31, 2013 and does not include amounts that were earned and payable as of that date regardless of the occurrence of a triggering event. Because Mr. Ashour's employment with the Company actually terminated on September 3, 2013, the information presented for him reflects the actual compensation and benefits to which he became entitled as a result of termination. The actual amounts to be paid and the value of any accelerated vesting of stock options, restricted stock or restricted stock units can be determined only at the time of a triggering event, and are dependent upon the facts and circumstances then applicable.

If Mr. Hart had been terminated by the Company as of December 31, 2013 for any reason other than for cause (as defined in his employment agreement), he would have become entitled to \$250,000, representing 12 months' salary or continued payment thereof in lieu of notice. Under his employment agreement, Mr. Hart

would have been entitled to a pro rata portion of any bonus that would otherwise have been earned by him during the 12-month notice period. Mr. Hart would not have been entitled to any compensation or benefits resulting from a change in control occurring on December 31, 2013.

If Mr. Nelson had been terminated by the Company as of December 31, 2013 for any reason other than for cause (as defined in his employment agreement), he would have become entitled to (i) \$295,000, representing 12 months' salary or continued payment thereof in lieu of notice. Under his employment agreement, Mr. Nelson would have been entitled to a pro rata portion of any bonus that would otherwise have been earned by him during the 12-month notice period. Had Mr. Nelson's employment terminated as of December 31, 2013 following a change in control of the Company as a result of involuntary termination without cause or his resignation following a material change in his employment conditions, he would have become entitled to (i) a severance payment of \$590,000 payable in a lump sum, representing 200% of his then current annual salary, (ii) reimbursement of health care coverage for a period of twelve months and having a value of approximately \$30,000, and (iii) accelerated vesting of options for 500,000 shares having an intrinsic value of approximately \$290,000. Mr. Nelson's entitlement to such benefits would be conditioned upon his execution and non-revocation of a general release in a form determined by the Company.

If Mr. Midland had been terminated by the Company as of December 31, 2013 for any reason other than for cause (as defined in his employment agreement), he would have become entitled to (i) \$60,000, representing six months' salary or continued payment thereof in lieu of notice and (ii) \$2,250, representing the value of health care coverage for the notice period. Under his employment agreement, Mr. Midland would have been entitled to a pro rata portion of any bonus that would otherwise have been earned by him during the six-month notice period. Mr. Midland's entitlement to such benefits would be conditioned upon his execution and non-revocation of a general release of claims. Mr. Midland would not have been entitled to any compensation or benefits resulting from a change in control occurring on December 31, 2013.

If Dr. Mueller had been terminated by the Company as of December 31, 2013 for any reason other than for cause (as defined in his employment agreement), he would have become entitled to approximately \$269,542, representing 12 months' salary (based on the average exchange rate for December 2013 of one Euro being equal to 0.742 U.S. Dollars) or continued payment thereof in lieu of notice, and a pro rata portion of any bonus that would otherwise have been earned by him during the 12-month notice period. Dr. Mueller would not have been entitled to any compensation or benefits resulting from a change in control occurring on December 31, 2013.

If Mr. Tassone had been terminated by the Company as of December 31, 2013 for any reason other than for cause (as defined in his employment agreement), he would have become entitled to \$112,500, representing six months' salary or continued payment thereof in lieu of notice. Under his employment agreement, Mr. Tassone would have been entitled to a pro rata portion of any bonus that would otherwise have been earned by him during the six-month notice period. Mr. Tassone's entitlement to such benefits would be conditioned upon his compliance with a three-year non-solicitation provision contained in his employment agreement. Mr. Tassone would not have been entitled to any compensation or benefits resulting from a change in control occurring on December 31, 2013.

If Mr. Wear had been terminated by the Company as of December 31, 2013 for any reason other than for cause (as defined in his employment agreement), he would have become entitled to (i) approximately \$321,027, representing 12 months' salary (based on the average exchange rate for December 2013 of one British Pound being equal to 0.623 U.S. Dollars) or continued payment thereof in lieu of notice. Under his employment agreement, Mr. Wear would have been entitled to a pro rata portion of any bonus that would otherwise have been earned by him during the 12-month notice period. Had Mr. Wear's employment terminated as of December 31, 2013 following a change in control of the Company occurring within the preceding 12 months as a result of involuntary termination without cause, he would have become entitled to a severance payment of approximately \$642,054 payable in a lump sum, representing 200% of his then current annual salary. The vesting of Mr. Wear's options would accelerate, but as of December 31, 2013, the option price was greater than the closing stock price.

Mr. Wear's entitlement to such benefits would be conditioned upon his execution and non-revocation of a general release in a form determined by the Company.

Mr. Ashour and the Company entered into a third amendment to the employment agreement on September 1, 2013, under which Mr. Ashour agreed to resign his position as Chief Executive Officer of the Company with effect from September 3, 2013. In accordance with the terms of his employment agreement, Mr. Ashour will receive his base salary of CHF 300,000, or approximately \$337,079, based on the average exchange rate for December 2013 of one CHF being equal to 0.89 U.S. Dollars, for a period of 24 months, for a total of approximately \$674,158. In addition, Mr. Ashour will be entitled to continue to receive benefits consisting of social security insurance, apartment rental, and car leasing and insurance expenses and having a value of approximately \$90,000 for a period of 24 months, ending August 31, 2015. The vesting of Mr. Ashour's options was accelerated, but as of December 31, 2013, the option price was greater than the closing stock price.

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**EQUITY COMPENSATION PLAN INFORMATION**

The following table summarizes information as of December 31, 2013 about our Common Stock that may be issued upon the exercise of options and rights granted to employees, consultants or members of our Board of Directors under all of our existing equity compensation plans, including our 1997 Stock Plan, Director Plan, 2000 Nonstatutory Stock Option Plan (the Nonstatutory Plan ), 2007 Stock Option Plan, the 2010 Bonus and Incentive Plan (the 2010 Plan ), the 2011 Employee Stock Purchase Plan and the 2011 Plan. Each of the 1997 Stock Plan, Director Plan, Nonstatutory Plan and 2010 Plan have expired and no additional awards will be granted under such plans.

| <b>Plan Category</b>   | <b>(a)</b><br><b>Number of securities to<br/>be issued upon<br/>exercise<br/>of outstanding<br/>options,<br/>warrants and<br/>rights</b> | <b>(b)</b><br><b>Weighted-average<br/>exercise price<br/>of<br/>outstanding options,<br/>warrants and<br/>rights</b> | <b>(c)</b><br><b>Number of securities remaining<br/>available for future<br/>issuance<br/>under equity<br/>compensation<br/>plans (excluding<br/>securities<br/>reflected in column (a))</b> |
|--|--|--|--|
| Equity compensation plans approved by stockholders (1)         | 5,266,247  | \$ 1.42  | 9,801,847(3)   |
| Equity compensation plans not approved by security holders (2) | 199,292  | \$ 3.23  |  |
| <b>Total</b>   | <b>5,465,539</b>   | <b>\$ 1.49</b>   | <b>9,801,847</b>   |

- (1) Equity plans approved by stockholders consist of the 2007 Stock Option Plan, the 1997 Stock Plan, the Director Plan, the 2010 Plan, the 2011 Plan, and the 2011 Employee Stock Purchase Plan.
- (2) Equity plans not approved by stockholders consist solely of the Nonstatutory Plan. The Nonstatutory Plan, which expired in 2010, provided for option grants to generally vest over four years with a term of ten years.
- (3) Includes 3,009, 646 shares that remain available for issuance under the 2011 Employee Stock Purchase Plan as of December 31, 2013.

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## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### *Related Party Transaction Policy*

The Company has implemented a policy covering Related Party Transaction Policies and Procedures (the Policy). Among its other duties and responsibilities, the Audit Committee of the Board of Directors reviews and monitors all related party transactions. Under the Policy, our Board of Directors is required to review and approve the material terms of all Interested Transactions involving a related party (including directors, director nominees, executive officers, greater-than-5% beneficial owners, and their respective immediate family members), subject to certain exceptions. An Interested Transaction is any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which (1) the aggregate amount involved will or may be expected to exceed \$100,000 per year or \$30,000 in any quarter, (2) the Company is a participant and (3) any related party has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity). In determining whether to approve or ratify an Interested Transaction, our Board of Directors is required to take into account, among other factors it deems appropriate, whether the Interested Transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction.

Exceptions to the Policy include Interested Transactions for which standing pre-approval has been authorized, such as the hiring of executive officers and the payment of compensation to directors, where such compensation is required to be disclosed in our annual, quarterly or current filings; transactions involving competitive bids; and regulated transactions, such as for the rendering of regulated services, for example with a public utility. At least annually, a summary of new transactions covered by the standing pre-approvals described above is provided to the Audit Committee for its review.

To ensure the Policy is being followed, the Company requires each of its non-employee directors and each of its executive officers to provide and update information about related party relationships and related party transactions on a quarterly and annual basis. This information is reviewed by our corporate accounting personnel, which also reviews its sales and purchasing transactions on an ongoing basis to identify any transactions with known related parties.

Our Related Party Transaction Policy is in writing and has been communicated by management to our employees.

### *Related Party Transactions*

*Hirsch / Secure Keyboards Settlement Agreement.* As previously disclosed, on April 8, 2009, we entered into a settlement agreement (the 2009 Settlement Agreement) with Secure Keyboards, Ltd. (Secure Keyboards), Secure Networks, Ltd. (Secure Networks), each of the respective general partners of Secure Keyboards and Secure Networks, which included Mr. Midland, currently one of our directors and a Senior Vice President of the Company, and Hirsch Electronics Corporation (the predecessor to Hirsch Electronics LLC, a wholly owned subsidiary of Identive). Mr. Midland holds a 29.93% interest in Secure Keyboards, and a 6.59% interest in Secure Networks. Under the settlement agreement, the parties resolved the disputes that had arisen between them relating to the merger between Hirsch and Identive, and a previous settlement agreement entered into among Hirsch, Secure Keyboards and Secure Networks. The settlement agreement provides that Hirsch make an annual payment to Secure Keyboards and Secure Networks of \$986,000 for 2009, and subsequent installment payments to be made in future periods through 2020. Identive has provided a limited guarantee of Hirsch's payment obligations. Hirsch's payment obligations under the settlement agreement will continue until December 31, 2020, unless Hirsch earlier elects to satisfy its obligations by making a lump-sum payment to Secure Keyboards. Hirsch paid approximately \$1.1 million under the settlement agreement in 2013. If Hirsch does not elect to earlier repay its obligations to Secure Keyboards, the aggregate amount of payments to be made under the settlement agreement from 2014 through 2020 is approximately \$9.3 million.

**OTHER MATTERS**

We do not intend to bring any matters before the Annual Meeting other than those set forth herein, and our management has no present knowledge that any other matters will or may be brought before the Annual Meeting by others. However, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as our Board of Directors may recommend.

By Order of the Board of Directors of

Identive Group, Inc.

Brian Nelson

Secretary

Fremont, California

April 28, 2014



**Annex A**

**CERTIFICATE OF AMENDMENT**

**TO THE FOURTH AMENDED AND RESTATED**

**CERTIFICATE OF INCORPORATION**

**OF IDENTIVE GROUP, INC.**

Identive Group, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the Corporation ), does hereby certify as follows:

*FIRST:* The name of the corporation is Identive Group, Inc. The original certificate of incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 13, 1996, amended and restated on December 20, 1996, amended and restated March 10, 1997, amended and restated April 9, 1997, amended and restated October 10, 1997, amended on November 9, 2009, amended on June 16, 2010, and amended on June 6, 2011 (the Certificate of Incorporation ).

*SECOND:* Article I of the Corporation s Certificate of Incorporation is amended to read in its entirety as follows:

The name of this corporation is Identiv, Inc. (hereinafter sometimes referred to as the Corporation ).

*THIRD:* Article IV of the Corporation s Certificate of Incorporation is amended to read in its entirety as follows:

The Corporation is authorized to issue two classes of shares, designated Preferred Stock and Common Stock. The total number of shares which the Corporation shall have authority to issue is 155,000,000 of which 145,000,000 shares shall be Common Stock at \$0.001 par value per share and 10,000,000 shares shall be Preferred Stock at \$0.001 par value per share.

Immediately upon the filing of this Certificate of Amendment with the Secretary of State of the State of Delaware, every [ten][nine][eight][seven][six][five][four][three] shares of the Corporation s Common Stock issued and outstanding immediately prior to such filing (the Old Common Stock ) shall be combined, reclassified and changed into one share of the Corporation s Common Stock (the New Common Stock ). The combination and conversion of the outstanding shares of Old Common Stock shall be referred to as the Reverse Stock Split.

The Reverse Stock Split shall occur automatically and without any further action on the part of the Corporation or the holders thereof and whether or not certificates representing the holders shares prior to the Reverse Stock Split are surrendered for cancellation.

No fractional interest in a share of New Common Stock shall be deliverable upon the Reverse Stock Split. All shares of Old Common Stock (including fractions thereof) held by a holder immediately prior to the Reverse Stock Split shall be aggregated for purposes of determining whether the Reverse Stock Split would result in the issuance of a fractional share. Any fractional share resulting from such aggregation of Old Common Stock upon the Reverse Stock Split shall be converted into the right to receive a cash payment in an amount equal to the fraction to which such holder would otherwise be entitled multiplied by the closing price of a share of Common Stock on the NASDAQ Capital Market immediately prior to the effective time. The Corporation shall not be obligated to issue certificates evidencing the shares of New Common Stock outstanding as a result of the Reverse Stock Split unless and until the certificates evidencing the shares held by a holder prior to the Reverse Stock Split are either delivered to the Corporation or its transfer agent, or the holder notifies the Corporation or its transfer agent that such certificates have

been lost, stolen or destroyed and executes an agreement satisfactory to the Corporation to indemnify the Corporation from any loss incurred by it in connection

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with such certificates. Each stock certificate that, immediately prior to the effective time of the Reverse Stock Split, represented shares of Old Common Stock shall, from and after the effective time of the Reverse Stock Split, automatically and without the necessity of presenting the same for exchange, represent that number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified (as well as the right to receive cash in lieu of any fractional shares of New Common Stock as set forth above), provided, however, that each holder of record of a certificate that represented shares of Old Common Stock shall receive, upon surrender of such certificate, a new certificate representing the number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified, as well as any cash in lieu of fractional shares of New Common Stock to which such holder may be entitled as set forth above.

Shares of Preferred Stock authorized by this Certificate of Incorporation may be issued from time to time in one or more series. For any wholly unissued series of Preferred Stock, the Board of Directors of the Corporation (the Board of Directors ) is authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them.

For any series of Preferred Stock having issued and outstanding shares, the Board of Directors is also authorized to decrease the number of shares of any series of Preferred Stock prior or subsequent to the issuance of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status of undesignated Preferred Stock.

*FOURTH:* The foregoing amendment to the Certificate of Incorporation has been duly approved by the Board of Directors in accordance with the provisions of Sections 141 and 242 of the General Corporation Law.

*FIFTH:* The foregoing amendment to the Certificate of Incorporation has been duly approved by the stockholders in accordance with the provisions of Sections 211 and 242 of the General Corporation Law.

**IN WITNESS WHEREOF**, the undersigned has made and signed this Certificate of Amendment this \_\_ day of May, 2014 and affirms the statements contained herein as true under penalty of perjury.

/s/ Jason Hart  
Name: Jason Hart  
Title: Chief Executive Officer

**Annex B**

**IDENTIVE GROUP, INC.**  
**2011 INCENTIVE COMPENSATION PLAN**  
**(AS AMENDED THROUGH APRIL 25, 2014)**

**IDENTIVE GROUP, INC.**

**2011 INCENTIVE COMPENSATION PLAN**

**(AS AMENDED THROUGH APRIL 25, 2014)**

|  |             |
|--|-------------|
| <b><u>1. Purpose</u></b>                                   | <b>B-1</b>  |
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| <b><u>5. Eligibility; Per-Person Award Limitations</u></b> | <b>B-7</b>  |
| <b><u>6. Specific Terms of Awards.</u></b>                 | <b>B-7</b>  |
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**IDENTIVE GROUP, INC.**  
**2011 INCENTIVE COMPENSATION PLAN**  
**(AS AMENDED THROUGH APRIL 25, 2014)**

1. **Purpose.** The purpose of this 2011 INCENTIVE COMPENSATION PLAN (the *Plan*) is to assist Identive Group, Inc., a Delaware corporation (the *Company*) and its Related Entities (as hereinafter defined) in attracting, motivating, retaining and rewarding high-quality executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its Related Entities by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company's stockholders, and providing such persons with annual and long term performance incentives to expend their maximum efforts in the creation of stockholder value.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof and elsewhere herein.

(a) **2007 Plan** means the Company's 2007 Stock Option Plan, as amended.

(b) **2010 Plan** means the Company's 2010 Bonus and Incentive Plan, as amended.

(c) **Award** means any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Share granted as a bonus or in lieu of another Award, Dividend Equivalent, Other Stock-Based Award or Performance Award, together with any other right or interest, granted to a Participant under the Plan.

(d) **Award Agreement** means any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.

(e) **Beneficiary** means the person, persons, trust or trusts that have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant's death or to which Awards or other rights are transferred if and to the extent permitted under Section 10(b) hereof. If, upon a Participant's death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(f) **Beneficial Owner and Beneficial Ownership** shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(g) **Board** means the Company's Board of Directors.

(h) **Cause** shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, *Cause* shall have the equivalent meaning or the same meaning as *cause* or *for cause* set forth in any employment, consulting, or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the failure by the Participant to perform, in a reasonable manner, his or her duties as assigned by the Company or a Related Entity, (ii) any violation or breach by the Participant of his or her employment, consulting or other similar agreement with the Company or a Related Entity, if any, (iii) any violation or breach by the Participant of any non-competition, non-solicitation, non-disclosure and/or other similar agreement with the Company or a Related Entity, (iv) any act by the Participant of dishonesty or bad faith with respect to the Company or a Related Entity, (v) use of alcohol, drugs or other similar substances in a manner

that adversely affects the Participant's work performance, or (vi) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant or the Company or any Related Entity. The good faith determination by the Committee of whether the Participant's Continuous Service was terminated by the Company for Cause shall be final and binding for all purposes hereunder.

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- (i) **Change in Control** means a Change in Control as defined in Section 9(b) of the Plan.
- (j) **Code** means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.
- (k) **Committee** means a committee designated by the Board to administer the Plan; provided, however, that if the Board fails to designate a committee or if there are no longer any members on the committee so designated by the Board, or for any other reason determined by the Board, then the Board shall serve as the Committee. While it is intended that the Committee shall consist of at least two directors, each of whom shall be (i) a non-employee director within the meaning of Rule 16b-3 (or any successor rule) under the Exchange Act, unless administration of the Plan by non-employee directors is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, (ii) an outside director within the meaning of Section 162(m) of the Code, and (iii) Independent, the failure of the Committee to be so comprised shall not invalidate any Award that otherwise satisfies the terms of the Plan.
- (l) **Consultant** means any Person (other than an Employee or a Director, 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.
- (m) **Continuous Service** means the uninterrupted provision of services to the Company or any Related Entity in any capacity of Employee, Director, Consultant or other service provider. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee, Director, Consultant or other service provider, 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, Consultant or other service provider (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.
- (n) **Covered Employee** means the Person who, as of the end of the taxable year, either is the principal executive officer of the Company or is serving as the acting principal executive officer of the Company, and each other Person whose compensation is required to be disclosed in the Company's filings with the Securities and Exchange Commission by reason of that person being among the three highest compensated officers of the Company as of the end of a taxable year, or such other person as shall be considered a covered employee for purposes of Section 162(m) of the Code.
- (o) **Director** means a member of the Board or the board of directors of any Related Entity.
- (p) **Disability** means a permanent and total disability (within the meaning of Section 22(e) of the Code), as determined by a medical doctor satisfactory to the Committee.
- (q) **Dividend Equivalent** means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.
- (r) **Effective Date** means the effective date of the Plan, which shall be April 7, 2011.
- (s) **Eligible Person** means each officer, Director, Employee, Consultant and other person who provides services to the Company or any Related Entity. The foregoing notwithstanding, only Employees of the Company, or any parent corporation or subsidiary corporation of the Company (as those terms are defined in Sections 424(e) and (f) of the Code, respectively), shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on



leave of absence may, in the discretion of the Committee, be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

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- (t) **Employee** means any person, including an officer or Director, who is an employee of the Company or any Related Entity. The payment of a director's fee by the Company or a Related Entity shall not be sufficient to constitute employment by the Company.
- (u) **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.
- (v) **Fair Market Value** means the fair market value of Shares, Awards or other property as determined by the Committee, or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any given date shall be the closing sale price per Share reported on a consolidated basis for stock listed on the principal stock exchange or market on which Shares are traded on the date as of which such value is being determined (or as of such later measurement date as determined by the Committee on the date the Award is authorized by the Committee), or, if there is no sale on that date, then on the last previous day on which a sale was reported.
- (w) **Good Reason** shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, Good Reason shall have the equivalent meaning or the same meaning as good reason or for good reason set forth in any employment, consulting or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the assignment to the Participant of any duties inconsistent in any material respect with the Participant's duties or responsibilities as assigned by the Company or a Related Entity, or any other action by the Company or a Related Entity which results in a material diminution in such duties or responsibilities, excluding for this purpose an action which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; (ii) any material failure by the Company or a Related Entity to comply with its obligations to the Participant as agreed upon, other than a failure which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; or (iii) the Company's or Related Entity's requiring the Participant to be based at any office or location outside of fifty miles from the location of employment or service as of the date of Award, except for travel reasonably required in the performance of the Participant's responsibilities.
- (x) **Incentive Stock Option** means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.
- (y) **Independent**, when referring to either the Board or members of the Committee, shall have the same meaning as used in the rules of the Listing Market.
- (z) **Incumbent Board** means the Incumbent Board as defined in Section 9(b)(ii) hereof.
- (aa) **Listing Market** means the NASDAQ Stock Market or any other national securities exchange on which any securities of the Company are listed for trading or, if not so listed, any automated dealer quotation system on which the securities are quoted.
- (bb) **Option** means a right granted to a Participant under Section 6(b) hereof, to purchase Shares or other Awards at a specified price during specified time periods.
- (cc) **Optionee** means a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.
- (dd) **Other Stock-Based Awards** means Awards granted to a Participant under Section 6(i) hereof.

(ee) ***Participant*** means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

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- (ff) **Performance Award** means any Award of Performance Shares or Performance Units granted pursuant to Section 6(h) hereof.
- (gg) **Performance Period** means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.
- (hh) **Performance Share** means any grant pursuant to Section 6(h) hereof of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.
- (ii) **Performance Unit** means any grant pursuant to Section 6(h) hereof of a unit valued by reference to a designated amount of property (including cash) other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.
- (jj) **Person** shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a group as defined in Section 13(d) thereof.
- (kk) **Related Entity** means any Subsidiary, and any business, corporation, partnership, limited liability company or other entity designated by the Board, in which the Company or a Subsidiary holds a substantial ownership interest, directly or indirectly.
- (ll) **Restricted Stock** means any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such risks of forfeiture and other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.
- (mm) **Restricted Stock Award** means an Award granted to a Participant under Section 6(d) hereof.
- (nn) **Restricted Stock Unit** means a right to receive Shares, including Restricted Stock, cash measured based upon the value of Shares or a combination thereof, at the end of a specified deferral period.
- (oo) **Restricted Stock Unit Award** means an Award of Restricted Stock Unit granted to a Participant under Section 6(e) hereof.
- (pp) **Restriction Period** means the period of time specified by the Committee that Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose.
- (qq) **Rule 16b-3** means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.
- (rr) **Shares** means the shares of common stock of the Company, par value \$0.001 per share, and such other securities as may be substituted (or resubstituted) for Shares pursuant to Section 10(c) hereof.

(ss) ***Stock Appreciation Right*** means a right granted to a Participant under Section 6(c) hereof.

(tt) ***Subsidiary*** means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or

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interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% or more of the assets on liquidation or dissolution.

(uu) **Substitute Awards** means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, Awards previously granted, or the right or obligation to make future Awards, by a company (i) acquired by the Company or any Related Entity, (ii) which becomes a Related Entity after the date hereof, or (iii) with which the Company or any Related Entity combines.

### 3. Administration.

(a) **Authority of the Committee.** The Plan shall be administered by the Committee, except to the extent (and subject to the limitations imposed by Section 3(b) hereof) the Board elects to administer the Plan, in which case the Plan shall be administered by only those members of the Board who are Independent members of the Board, in which case references herein to the Committee shall be deemed to include references to the Independent members of the Board. The Committee shall have full and final authority, subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award Agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person or Participant in a manner consistent with the treatment of any other Eligible Persons or Participants.

(b) **Manner of Exercise of Committee Authority.** The Committee, and not the Board, shall exercise sole and exclusive discretion (i) on any matter relating to a Participant then subject to Section 16 of the Exchange Act with respect to the Company to the extent necessary in order that transactions by such Participant shall be exempt under Rule 16b-3 under the Exchange Act, (ii) with respect to any Award that is intended to qualify as performance-based compensation under Section 162(m), to the extent necessary in order for such Award to so qualify; and (iii) with respect to any Award to an Independent Director. Any action of the Committee shall be final, conclusive and binding on all persons, including the Company, its Related Entities, Eligible Persons, Participants, Beneficiaries, transferees under Section 10(b) hereof or other persons claiming rights from or through a Participant, and stockholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any Related Entity, or committees thereof, the authority, subject to such terms and limitations as the Committee shall determine, to perform such functions, including administrative functions as the Committee may determine to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Exchange Act in respect of the Company and will not cause Awards intended to qualify as performance-based compensation under Code Section 162(m) to fail to so qualify. The Committee may appoint agents to assist it in administering the Plan.

(c) **Limitation of Liability.** The Committee and the Board, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or Employee, the Company's independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee and the Board, and any officer or Employee acting at the direction or on behalf of the Committee or the Board, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

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4. *Shares Subject to Plan.*

(a) ***Limitation on Overall Number of Shares Available for Delivery Under Plan.*** Subject to adjustment as provided in Section 10(c) hereof, the total number of Shares reserved and available for delivery under the Plan shall be 18,599,561, consisting of an initial fixed authorization of 4,000,000 Shares, plus the 2,106,603 Shares and 2,492,958 Shares that remained available for delivery under the 2007 Plan and the 2010 Plan, respectively, on June 6, 2011 (the ***Initial Stockholder Approval Date*** ), plus an additional 10,000,000 Shares authorized for issuance under the Plan at the Company's 2014 Annual Meeting of Stockholders. Any Shares delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) ***Application of Limitation to Grants of Awards.*** No Award may be granted if the number of Shares to be delivered in connection with such an Award exceeds the number of Shares remaining available for delivery under the Plan, minus the number of Shares deliverable in settlement of or relating to then outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of Shares actually delivered differs from the number of Shares previously counted in connection with an Award.

(c) ***Availability of Shares Not Delivered under Awards and Adjustments to Limits.***

(i) If any Awards are forfeited, expire or otherwise terminate without issuance of such Shares, or any Award is settled for cash or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award, the Shares to which those Awards were subject, shall, to the extent of such forfeiture, expiration, termination, cash settlement or non-issuance, again be available for delivery with respect to Awards under the Plan, subject to Section 4(c)(iv) below.

(ii) In the event that any Option or other Award granted hereunder is exercised through the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, or withholding tax liabilities arising from such option or other award are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then only the number of Shares issued net of the Shares tendered or withheld shall be counted for purposes of determining the maximum number of Shares available for grant under the Plan.

(iii) Substitute Awards shall not reduce the Shares authorized for delivery under the Plan or authorized for delivery to a Participant in any period. Additionally, in the event that a company acquired by the Company or any Related Entity or with which the Company or any Related Entity combines has shares available under a pre-existing plan approved by its stockholders, the shares available for delivery pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for delivery under the Plan; if and to the extent that the use of such Shares would not require approval of the Company's stockholders under the rules of the Listing Market.

(iv) Any Share that again becomes available for delivery pursuant to this Section 4(c) shall be added back as one (1) Share.

(v) Notwithstanding anything in this Section 4(c) to the contrary but subject to adjustment as provided in Section 10(c) hereof, the maximum aggregate number of Shares that may be delivered under the Plan as a result of the exercise of the Incentive Stock Options shall be 18,599,561 Shares.

(d) ***Awards Under the 2007 Plan and the 2010 Plan.*** This Plan will serve as the successor to the 2007 Plan. Awards granted under the 2007 Plan prior to the Initial Stockholder Approval Date shall continue to be governed by the terms of the 2007 Plan; however, no further awards shall be made under the 2007 Plan after the



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Initial Stockholder Approval Date. For the avoidance of doubt, securities issuable in connection with awards granted under the 2010 Plan after the Initial Stockholder Approval Date shall be issued in accordance with and governed by the terms of the 2011 Plan.

**5. Eligibility; Per-Person Award Limitations.** Awards may be granted under the Plan only to Eligible Persons. Subject to adjustment as provided in Section 10(c), in any fiscal year of the Company during any part of which the Plan is in effect, no Participant may be granted (i) Options or Stock Appreciation Rights with respect to more than 1,500,000 Shares or (ii) Restricted Stock, Restricted Stock Units, Performance Shares and/or Other Stock-Based Awards with respect to more than 1,500,000 Shares. In addition, the maximum dollar value payable to any one Participant with respect to Performance Units is (x) \$3,000,000 with respect to any 12 month Performance Period (pro-rated for any Performance Period that is less than 12 months based upon the ratio of the number of days in the Performance Period as compared to 365), and (y) with respect to any Performance Period that is more than 12 months, \$3,000,000 multiplied by the number of full 12 month periods that are in the Performance Period.

**6. Specific Terms of Awards.**

(a) **General.** Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of the Participant's Continuous Service and terms permitting a Participant to make elections relating to his or her Award. Except as otherwise expressly provided herein, the Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of Delaware law, no consideration other than services may be required for the grant (as opposed to the exercise) of any Award.

(b) **Options.** The Committee is authorized to grant Options to any Eligible Person on the following terms and conditions:

(i) **Exercise Price.** Other than in connection with Substitute Awards, the exercise price per Share purchasable under an Option shall be determined by the Committee, provided that such exercise price shall not, in the case of Incentive Stock Options, be less than 100% of the Fair Market Value of a Share on the date of grant of the Option and shall not, in any event, be less than the par value of a Share on the date of grant of the Option. If an Employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and an Incentive Stock Option is granted to such Employee, the exercise price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value of a Share on the date such Incentive Stock Option is granted.

(ii) **Time and Method of Exercise.** The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the methods by which the exercise price may be paid or deemed to be paid (including in the discretion of the Committee a cashless exercise procedure), the form of such payment, including, without limitation, cash, Shares (including without limitation the withholding of Shares otherwise deliverable pursuant to the Award), other Awards or awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis provided that such deferred payments are not in violation of Section 13(k) of the Exchange Act, or

any rule or regulation adopted thereunder or any other applicable law), and the methods by or forms in which Shares will be delivered or deemed to be delivered to Participants.

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(iii) **Incentive Stock Options.** The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Right issued in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code, unless the Participant has first requested, or consents to, the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) the Option shall not be exercisable for more than ten years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant; and

(B) The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company (and any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) that become exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed \$100,000.

(iv) **Non-Discretionary Options for Certain Directors.** In addition to any other Options that any Director who is not an Employee may be granted on a discretionary basis under the Plan, each Director who is not an Employee shall be automatically granted without the necessity of action by the Board or the Committee, Options subject to the following terms and conditions:

(A) **Initial Grant.** On the date that a Director who is not an Employee commences service on the Board, an initial grant of Options that are not intended to be designated as Incentive Stock Options ( Non-Qualified Stock Options), shall automatically be made to that Director who is not an Employee (the Initial Grant ). The number of Shares subject to this Initial Grant and other terms governing this Initial Grant shall be as determined by the Board in its sole discretion. If the Board does not establish the number of Shares subject to the Initial Grant for a given newly-elected Director who is not an Employee prior to the date of grant for such Initial Grant, then the number shall be ten thousand (10,000) Shares. If at the time a Director who is also an Employee or does not otherwise qualify as an outside director within the meaning of Section 162(m) of the Code (an Outside Director ), commences service on the Board, such Director shall be entitled to an Initial Grant at such time as such Director subsequently is no longer an Employee or qualifies as an Outside Director and if such Director remains a Director.

(B) **Annual Grant.** An annual grant of Non-Qualified Stock Options (the Annual Grant ) shall automatically be made to each Director who (i) is re-elected to the Board or who otherwise continues as a Director, (ii) qualifies as an Outside Director on the relevant grant date and (iii) has served as a Director for at least six months. The number of Shares subject to this Annual Grant and other terms governing this Annual Grant shall be as determined by the Board in its sole discretion. If the Board does not establish the number of Shares subject to the Annual Grant, then the number shall be five thousand (5,000) Shares. The date and time of grant of an Annual Grant is the date of the annual meeting of the Company's stockholders and the time shall be immediately upon the adjournment of the annual meeting of the Company's stockholders.

(C) **Vesting.** Non-Qualified Stock Options received by the Participant as an Initial Grant or an Annual Grant (collectively the Director Non-Discretionary Options ) shall vest and become exercisable in

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twelve (12) equal monthly installments on each monthly anniversary of the grant date, such that the Award is fully vested after one year of Continuous Service on the Board from the grant date.

(D) **Termination of Continuous Service as a Director.** In the event a Participant's Continuous Service as a Director terminates for any reason other than death, the Participant may exercise his or her Director Non-Discretionary Options to the extent that the Participant was entitled to exercise such Director Non-Discretionary Options as of the date of termination of the Participant's Continuous Service as a Director, but only within ninety (90) calendar days following the date of such termination of the Participant's Continuous Service as a Director (and in no event later than the expiration of the term of such Director Non-Discretionary Options as set forth in the applicable Award Agreement(s)). This period may be adjusted by the Board in its discretion, provided that the affected Participant shall be recused from such decision of the Board. If Participant's Continuous Service as a Director terminates due to death, the Participant's estate, a person who acquired the right to exercise the Director Non-Discretionary Options by bequest or inheritance, or a person designated to exercise the Director Non-Discretionary Options upon the Participant's death pursuant to Section 10(b) of the Plan must exercise the Director Non-Discretionary Options to the extent that the Participant was entitled to exercise such Director Non-Discretionary Options as of the date of termination of the Participant's Continuous Service as a Director, but only within twelve (12) months following the date of such termination of the Participant's Continuous Service as a Director (and in no event later than the expiration of the term of such Director Non-Discretionary Options as set forth in the applicable Award Agreement(s)). This period may be adjusted by the Board in its discretion. If, after termination of the Participant's Continuous Service as a Director, the Director Non-Discretionary Options are not exercised within ninety (90) calendar days or twelve months, as applicable, following the date of such termination of the Participant's Continuous Service as a Director, the Director Non-Discretionary Options shall terminate.

(c) **Stock Appreciation Rights.** The Committee may grant Stock Appreciation Rights to any Eligible Person in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option (a Tandem Stock Appreciation Right), or without regard to any Option (a Freestanding Stock Appreciation Right), in each case upon such terms and conditions as the Committee may establish in its sole discretion, not inconsistent with the provisions of the Plan, including the following:

(i) **Right to Payment.** A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise over (B) the grant price of the Stock Appreciation Right as determined by the Committee. The grant price of a Stock Appreciation Right shall not be less than 100% of the Fair Market Value of a Share on the date of grant, in the case of a Freestanding Stock Appreciation Right, or less than the associated Option exercise price, in the case of a Tandem Stock Appreciation Right.

(ii) **Other Terms.** The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right.

(iii) **Tandem Stock Appreciation Rights.** Any Tandem Stock Appreciation Right may be granted at the same time as the related Option is granted or, for Options that are not Incentive Stock Options, at any time thereafter before exercise or expiration of such Option. Any Tandem Stock Appreciation Right related to an Option may be exercised only when the related Option would be exercisable and the Fair Market Value of the Shares subject to the related Option exceeds the exercise price at which Shares can be acquired pursuant to the Option. In addition, if a Tandem

Stock Appreciation Right exists with respect to less than the full number of

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Shares covered by a related Option, then an exercise or termination of such Option shall not reduce the number of Shares to which the Tandem Stock Appreciation Right applies until the number of Shares then exercisable under such Option equals the number of Shares to which the Tandem Stock Appreciation Right applies. Any Option related to a Tandem Stock Appreciation Right shall no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised, and any Tandem Stock Appreciation Right shall no longer be exercisable to the extent the related Option has been exercised.

(d) **Restricted Stock Awards.** The Committee is authorized to grant Restricted Stock Awards to any Eligible Person on the following terms and conditions:

(i) **Grant and Restrictions.** Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in this Plan during the Restriction Period. The terms of any Restricted Stock Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award Agreement relating to a Restricted Stock Award, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the period that the Restriction Stock Award is subject to a risk of forfeiture, subject to Section 10(b) below and except as otherwise provided in the Award Agreement, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable Restriction Period, the Participant's Restricted Stock that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to Restricted Stock Awards shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) **Certificates for Stock.** Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) **Dividends and Splits.** As a condition to the grant of a Restricted Stock Award, the Committee may require or permit a Participant to elect that any cash dividends paid on a Share of Restricted Stock be automatically reinvested in additional Shares of Restricted Stock or applied to the purchase of additional Awards under the Plan. Unless otherwise determined by the Committee, Shares distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Shares or other property have been distributed.

(e) **Restricted Stock Unit Award.** The Committee is authorized to grant Restricted Stock Unit Awards to any Eligible Person on the following terms and conditions:

(i) **Award and Restrictions.** Satisfaction of a Restricted Stock Unit Award shall occur upon expiration of the deferral period specified for such Restricted Stock Unit Award by the Committee (or, if



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permitted by the Committee, as elected by the Participant). In addition, a Restricted Stock Unit Award shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. A Restricted Stock Unit Award may be satisfied by delivery of Shares, cash equal to the Fair Market Value of the specified number of Shares covered by the Restricted Stock Unit, or a combination thereof, as determined by the Committee at the date of grant or thereafter. Prior to satisfaction of a Restricted Stock Unit Award, a Restricted Stock Unit Award carries no voting or dividend or other rights associated with Share ownership.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Restricted Stock Unit Award), the Participant's Restricted Stock Unit Award that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to a Restricted Stock Unit Award shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of any Restricted Stock Unit Award.

(iii) **Dividend Equivalents.** Unless otherwise determined by the Committee at the date of grant, any Dividend Equivalents that are granted with respect to any Restricted Stock Unit Award shall be either (A) paid with respect to such Restricted Stock Unit Award at the dividend payment date in cash or in Shares of unrestricted stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Restricted Stock Unit Award and the amount or value thereof automatically deemed reinvested in additional Restricted Stock Units, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect. The applicable Award Agreement shall specify whether any Dividend Equivalents shall be paid at the dividend payment date, deferred or deferred at the election of the Participant. If the Participant may elect to defer the Dividend Equivalents, such election shall be made within 30 days after the grant date of the Restricted Stock Unit Award, but in no event later than 12 months before the first date on which any portion of such Restricted Stock Unit Award vests (or at such other times prescribed by the Committee as shall not result in a violation of Section 409A of the Code).

(f) **Bonus Stock and Awards in Lieu of Obligations.** The Committee is authorized to grant Shares to any Eligible Persons as a bonus, or to grant Shares or other Awards in lieu of obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, including, without limitation, annual Director fees payable to a Director that has elected to receive some or all of such annual Director fees payable to him or her in the form of Shares; provided that, in the case of Eligible Persons subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Shares or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Shares or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee.

(g) **Dividend Equivalents.** The Committee is authorized to grant Dividend Equivalents to any Eligible Person entitling the Eligible Person to receive cash, Shares, other Awards, or other property equal in value to the dividends paid with respect to a specified number of Shares, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify. Any such determination by the Committee shall be made at the grant date of the applicable Award.



(h) **Performance Awards.** The Committee is authorized to grant Performance Awards to any Eligible Person payable in cash, Shares, or other Awards, on terms and conditions established by the Committee, subject to the provisions of Section 8 if and to the extent that the Committee shall, in its sole discretion, determine that an Award shall be subject to those provisions. The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. Except as provided in Section 9 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 8(b), or in the case of an Award that the Committee determines shall not be subject to Section 8 hereof, any other criteria that the Committee, in its sole discretion, shall determine should be used for that purpose. The amount of the Award to be distributed shall be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis in a manner that does not violate the requirements of Section 409A of the Code.

(i) **Other Stock-Based Awards.** The Committee is authorized, subject to limitations under applicable law, to grant to any Eligible Person such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan. Other Stock-Based Awards may be granted to Participants either alone or in addition to other Awards granted under the Plan, and such Other Stock-Based Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan. The Committee shall determine the terms and conditions of such Awards. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(i) shall be purchased for such consideration, (including without limitation loans from the Company or a Related Entity provided that such loans are not in violation of Section 13(k) of the Exchange Act, or any rule or regulation adopted thereunder or any other applicable law) paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards or other property, as the Committee shall determine.

#### **7. Certain Provisions Applicable to Awards.**

(a) **Stand-Alone, Additional, Tandem, and Substitute Awards.** Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity, in which the value of Shares subject to the Award is equivalent in value to the cash compensation (for example, Restricted Stock or Restricted Stock Units), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Shares minus the value of the cash compensation surrendered (for example, Options or Stock Appreciation Right granted with an exercise price or grant price discounted by the amount of the cash compensation surrendered), provided that any such determination to grant an Award in lieu of cash compensation must be made in compliance with Section 409A of the Code.

(b) **Term of Awards.** The term of each Award shall be for such period as may be determined by the Committee; provided that in no event shall the term of any Option or Stock Appreciation Right exceed a period of ten years (or in the case of an Incentive Stock Option such shorter term as may be required under Section 422 of the Code).

(c) **Form and Timing of Payment Under Awards; Deferrals.** Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Related Entity upon the exercise of an

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Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Shares, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis, provided that any determination to pay in installments or on a deferred basis shall be made by the Committee at the date of grant. Any installment or deferral provided for in the preceding sentence shall, however, be subject to the Company's compliance with applicable law and all applicable rules of the Listing Market, and in a manner intended to be exempt from or otherwise satisfy the requirements of Section 409A of the Code. Subject to Section 7(e) hereof, the settlement of any Award may be accelerated, and cash paid in lieu of Shares in connection with such settlement, in the sole discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Any such settlement shall be at a value determined by the Committee in its sole discretion, which, without limitation, may in the case of an Option or Stock Appreciation Right be limited to the amount if any by which the Fair Market Value of a Share on the settlement date exceeds the exercise or grant price. Installment or deferred payments may be required by the Committee (subject to Section 7(e) of the Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award Agreement) or permitted at the election of the Participant on terms and conditions established by the Committee. The Committee may, without limitation, make provision for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Shares.

(d) ***Exemptions from Section 16(b) Liability.*** It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt from Section 16 pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award Agreement does not comply with the requirements of Rule 16b-3 then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b).

(e) ***Code Section 409A.***

(i) The Award Agreement for any Award that the Committee reasonably determines to constitute a Section 409A Plan, as defined in Section 7(e)(ii) hereof, and the provisions of the Plan applicable to that Award, shall be construed in a manner consistent with the applicable requirements of Section 409A, and the Committee, in its sole discretion and without the consent of any Participant, may amend any Award Agreement (and the provisions of the Plan applicable thereto) if and to the extent that the Committee determines that such amendment is necessary or appropriate to comply with the requirements of Section 409A of the Code.

(ii) If any Award constitutes a nonqualified deferred compensation plan under Section 409A of the Code (a Section 409A Plan), then the Award shall be subject to the following additional requirements, if and to the extent required to comply with Section 409A of the Code:

(A) Payments under the Section 409A Plan may not be made earlier than the first to occur of (u) the Participant's separation from service, (v) the date the Participant becomes disabled, (w) the Participant's death, (x) a specified time (or pursuant to a fixed schedule) specified in the Award Agreement at the date of the deferral of such compensation, (y) a change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the Company, or (z) the occurrence of an unforeseeable emergency;

(B) The time or schedule for any payment of the deferred compensation may not be accelerated, except to the extent provided in applicable Treasury Regulations or other applicable guidance issued by the Internal Revenue Service;

(C) Any elections with respect to the deferral of such compensation or the time and form of distribution of such deferred compensation shall comply with the requirements of Section 409A(a)(4) of the Code; and

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(D) In the case of any Participant who is a specified employee, a distribution on account of a separation from service may not be made before the date which is six months after the date of the Participant's separation from service (or, if earlier, the date of the Participant's death).

For purposes of the foregoing, the terms in quotations shall have the same meanings as those terms have for purposes of Section 409A of the Code, and the limitations set forth herein shall be applied in such manner (and only to the extent) as shall be necessary to comply with any requirements of Section 409A of the Code that are applicable to the Award.

(iii) Notwithstanding the foregoing, or any provision of this Plan or any Award Agreement, the Company does not make any representation to any Participant or Beneficiary that any Awards made pursuant to this Plan are exempt from, or satisfy, the requirements of, Section 409A, and the Company shall have no liability or other obligation to indemnify or hold harmless the Participant or any Beneficiary for any tax, additional tax, interest or penalties that the Participant or any Beneficiary may incur in the event that any provision of this Plan, or any Award Agreement, or any amendment or modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A.

#### **8. Code Section 162(m) Provisions.**

(a) **Covered Employees.** Unless otherwise specified by the Committee, the provisions of this Section 8 shall be applicable to any Performance Award granted to an Eligible Person who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee.

(b) **Performance Criteria.** If a Performance Award is subject to this Section 8, then the payment or distribution thereof or the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be contingent upon achievement of one or more objective performance goals. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being substantially uncertain. One or more of the following business criteria for the Company, on a consolidated basis, and/or for Related Entities, or for business or geographical units of the Company and/or a Related Entity (except with respect to the total stockholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Awards: (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) economic value added; (7) direct contribution; (8) net income; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income or income from operations; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any ongoing bonus plans of the Company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total stockholder return; (13) debt reduction; (14) market share; (15) entry into new markets, either geographically or by business unit; (16) customer retention and satisfaction; (17) strategic plan development and implementation, including turnaround plans; and/or (18) the Fair Market Value of a Share. Any of the above goals may be determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of companies that are comparable to the Company. In determining the achievement of the performance goals, unless otherwise specified by the Committee at the time the performance goals are set, the Committee shall exclude the impact of any (i) restructurings, discontinued operations, extraordinary items (as defined pursuant to generally accepted accounting principles), and other unusual or non-recurring charges, (ii) event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, (iii) change in



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accounting standards required by generally accepted accounting principles; or (iv) such other exclusions or adjustments as the Committee specifies at the time the Award is granted.

(c) **Performance Period; Timing For Establishing Performance Goals.** Achievement of performance goals in respect of Performance Awards shall be measured over a Performance Period specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any Performance Period applicable to such Performance Awards, or at such other date as may be required or permitted for performance-based compensation under Section 162(m) of the Code.

(d) **Adjustments.** The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with Awards subject to this Section 8, but may not exercise discretion to increase any such amount payable to a Covered Employee in respect of an Award subject to this Section 8. The Committee shall specify the circumstances in which such Awards shall be paid or forfeited in the event of termination of Continuous Service by the Participant prior to the end of a Performance Period or settlement of Awards.

(e) **Committee Certification.** No Participant shall receive any payment under the Plan that is subject to this Section 8 unless the Committee has certified, by resolution or other appropriate action in writing, that the performance criteria and any other material terms previously established by the Committee or set forth in the Plan, have been satisfied to the extent necessary to qualify as performance based compensation under Section 162(m) of the Code.

#### 9. **Change in Control.**

(a) **Effect of Change in Control.** If and only to the extent provided in any employment or other agreement between the Participant and the Company or any Related Entity, or in any Award Agreement, or to the extent otherwise determined by the Committee, as constituted immediately before the Change in Control, in its sole discretion and without any requirement that each Participant be treated consistently, upon the occurrence of a Change in Control, as defined in Section 9(b):

(i) Any Option or Stock Appreciation Right that was not previously vested and exercisable as of the time of the Change in Control, shall become immediately vested and exercisable, subject to applicable restrictions set forth in Section 10(a) hereof.

(ii) Any restrictions, deferral of settlement, and forfeiture conditions applicable to a Restricted Stock Award, Restricted Stock Unit Award or an Other Stock-Based Award subject only to future service requirements granted under the Plan shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 10(a) hereof.

(iii) With respect to any outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, in its discretion, deem such performance goals and conditions as having been met as of the date of the Change in Control.

(iv) Notwithstanding the foregoing, in the event of a termination of the Participant's Continuous Service with the Company (if it is the surviving entity in the Change in Control) or the successor company (other than a termination of the Participant's Continuous Service for Cause by the Company or the successor company, as applicable, by the Participant without Good Reason, or by reason of the Participant's death or Disability) within 24 months following such Change in Control, the Participant's Award(s) shall become immediately vested.



(b) **Definition of Change in Control** . Unless otherwise specified in any employment agreement between the Participant and the Company or any Related Entity, or in an Award Agreement, a **Change in Control** shall mean the occurrence of any of the following:

(i) The acquisition by any Person of Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of either (A) the value of then outstanding equity securities of the Company (the **Outstanding Company Stock** ) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the **Outstanding Company Voting Securities**) (the foregoing Beneficial Ownership hereinafter being referred to as a **Controlling Interest** ); provided, however, that for purposes of this Section 9(b), the following acquisitions shall not constitute or result in a **Change in Control**: (v) any acquisition directly from the Company; (w) any acquisition by the Company; (x) any acquisition by any Person that as of the Effective Date owns Beneficial Ownership of a **Controlling Interest**; (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Related Entity; or (z) any acquisition by any entity pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) below; or

(ii) During any period of two (2) consecutive years (not including any period prior to the Effective Date) individuals who constitute the Board on the Effective Date (the **Incumbent Board** ) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the **Incumbent Board** shall be considered as though such individual were a member of the **Incumbent Board**, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or equity of another entity by the Company or any of its Subsidiaries (each a **Business Combination** ), in each case, unless, following such **Business Combination**, (A) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the **Outstanding Company Stock** and **Outstanding Company Voting Securities** immediately prior to such **Business Combination** beneficially own, directly or indirectly, more than fifty percent (50%) of the value of the then outstanding equity securities and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of members of the board of directors (or comparable governing body of an entity that does not have such a board), as the case may be, of the entity resulting from such **Business Combination** (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such **Business Combination** of the **Outstanding Company Stock** and **Outstanding Company Voting Securities**, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such entity resulting from such **Business Combination** or any Person that as of the Effective Date owns Beneficial Ownership of a **Controlling Interest**) beneficially owns, directly or indirectly, fifty percent (50%) or more of the value of the then outstanding equity securities of the entity resulting from such **Business Combination** or the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the **Business Combination** and (C) at least a majority of the members of the Board of Directors or other governing body of the entity resulting from such **Business Combination** were members of the **Incumbent Board** at the time of the execution of the initial agreement, or of the action of the Board, providing for such **Business Combination**; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.



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## 10. *General Provisions.*

(a) ***Compliance With Legal and Other Requirements.*** The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Shares or payment of other benefits under any Award until completion of such registration or qualification of such Shares or other required action under any federal or state law, rule or regulation, listing or other required action with respect to the Listing Market, or compliance with any other obligation of the Company, as the Committee, may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Shares or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(b) ***Limits on Transferability; Beneficiaries.*** No Award or other right or interest granted under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party, or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) may be transferred to one or more Beneficiaries or other transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee pursuant to the express terms of an Award Agreement (subject to any terms and conditions which the Committee may impose thereon). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

### (c) *Adjustments.*

(i) ***Adjustments to Awards.*** In the event that any extraordinary dividend or other distribution (whether in the form of cash, Shares, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Shares and/or such other securities of the Company or any other issuer such that a substitution, exchange, or adjustment is determined by the Committee to be appropriate, then the Committee shall, in such manner as it may deem equitable, substitute, exchange or adjust any or all of (A) the number and kind of Shares which may be delivered in connection with Awards granted thereafter, (B) the number and kind of Shares by which annual per-person Award limitations are measured under Section 4 hereof, (C) the number and kind of Shares subject to or deliverable in respect of outstanding Awards, (D) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (E) any other aspect of any Award that the Committee determines to be appropriate.

(ii) ***Adjustments in Case of Certain Transactions.*** In the event of any merger, consolidation or other reorganization in which the Company does not survive, or in the event of any Change in Control, any outstanding Awards may be dealt with in accordance with any of the following approaches, without the requirement of obtaining any consent or agreement of a Participant as such, as determined by the agreement effectuating the transaction or, if and to the extent not so determined, as determined by the Committee: (a) the continuation of the outstanding Awards by the Company, if the Company is a surviving entity, (b) the assumption or substitution for, as those terms are defined below, the outstanding Awards by the surviving entity or its parent or subsidiary, (c) full exercisability or vesting and accelerated expiration of the outstanding Awards, or (d) settlement of the value of the outstanding Awards in cash or cash equivalents or other property followed by cancellation of such Awards (which value, in the case of Options or Stock Appreciation Rights, shall be

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measured by the amount, if any, by which the Fair Market Value of a Share exceeds the exercise or grant price of the Option or Stock Appreciation Right as of the effective date of the transaction). For the purposes of this Agreement, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award, for each Share subject thereto, will be solely common stock of the successor company or its parent or subsidiary substantially equal in fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding. The Committee shall give written notice of any proposed transaction referred to in this Section 10(c)(ii) at a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Participants may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Awards that are then exercisable (including any Awards that may become exercisable upon the closing date of such transaction). A Participant may condition his exercise of any Awards upon the consummation of the transaction.

(iii) **Other Adjustments.** The Committee (and the Board if and only to the extent such authority is not required to be exercised by the Committee to comply with Section 162(m) of the Code) is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards, or performance goals and conditions relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Related Entity or any business unit, or the financial statements of the Company or any Related Entity, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Related Entity or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that such authority or the making of such adjustment would cause Options, Stock Appreciation Rights, Performance Awards granted pursuant to Section 8(b) hereof to Participants designated by the Committee as Covered Employees and intended to qualify as performance-based compensation under Code Section 162(m) and the regulations thereunder to otherwise fail to qualify as performance-based compensation under Code Section 162(m) and regulations thereunder. Adjustments permitted hereby may include, without limitation, increasing the exercise price of Options and Stock Appreciation Rights, increasing performance goals, or other adjustments that may be adverse to the Participant. Notwithstanding the foregoing, no adjustments may be made with respect to any Performance Awards subject to Section 8 if and to the extent that such adjustment would cause the Award to fail to qualify as performance-based compensation under Section 162(m) of the Code.

(d) **Taxes.** The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company or any Related Entity and Participants to satisfy obligations for the payment of withholding



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taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee.

(e) ***Changes to the Plan and Awards.*** The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of stockholders or Participants (including in a manner adverse to the rights of a Participant under an outstanding Award), except that any amendment or alteration to the Plan shall be subject to the approval of the Company's stockholders not later than the annual meeting next following such Board action if such stockholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3 or Code Section 162(m)) or the rules of the Listing Market, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award Agreement relating thereto. Notwithstanding anything to the contrary, the Committee shall be authorized to amend any outstanding Option and/or Stock Appreciation Right to reduce the exercise price or grant price without the prior approval of the stockholders of the Company. In addition, the Committee shall be authorized to cancel outstanding Options and/or Stock Appreciation Rights replaced with Awards having a lower exercise price without the prior approval of the stockholders of the Company.

(f) ***Limitation on Rights Conferred Under Plan.*** Neither the Plan nor any action taken hereunder or under any Award shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Related Entity; (ii) interfering in any way with the right of the Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Company including, without limitation, any right to receive dividends or distributions, any right to vote or act by written consent, any right to attend meetings of stockholders or any right to receive any information concerning the Company's business, financial condition, results of operation or prospects, unless and until such time as the Participant is duly issued Shares on the stock books of the Company in accordance with the terms of an Award. None of the Company, its officers or its directors shall have any fiduciary obligation to the Participant with respect to any Awards unless and until the Participant is duly issued Shares pursuant to the Award on the stock books of the Company in accordance with the terms of an Award. Neither the Company nor any of the Company's officers, directors, representatives or agents is granting any rights under the Plan to the Participant whatsoever, oral or written, express or implied, other than those rights expressly set forth in this Plan or the Award Agreement.

(g) ***Unfunded Status of Awards; Creation of Trusts.*** The Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the unfunded status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(h) ***Nonexclusivity of the Plan.*** Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements and awards which do not qualify under Section 162(m) of the Code.

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(i) ***Payments in the Event of Forfeitures; Fractional Shares.*** Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) ***Governing Law.*** The validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to principles of conflict of laws, and applicable federal law.

(k) ***Non-U.S. Laws.*** The Committee shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Related Entities may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

(l) ***Plan Effective Date and Stockholder Approval; Termination of Plan.*** The Plan shall become effective on the Effective Date, subject to subsequent approval, within 12 months of its adoption by the Board, by stockholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Code Sections 162(m) (if applicable) and 422, Rule 16b-3 under the Exchange Act (if applicable), applicable requirements under the rules of any stock exchange or automated quotation system on which the Shares may be listed or quoted, and other laws, regulations, and obligations of the Company applicable to the Plan. Awards may be granted subject to stockholder approval, but may not be exercised or otherwise settled in the event the stockholder approval is not obtained. The Plan shall terminate at the earliest of (a) such time as no Shares remain available for issuance under the Plan, (b) termination of this Plan by the Board, or (c) the tenth anniversary of the Effective Date. Awards outstanding upon expiration of the Plan shall remain in effect until they have been exercised or terminated, or have expired.



