

GSI GROUP INC
Form DEF 14A
October 27, 2010
Table of Contents

SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

GSI Group Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (check the appropriate box):

No fee required

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

GSI GROUP INC.

125 Middlesex Turnpike

Bedford, Massachusetts 01730

(781) 266-5700

October 27, 2010

Dear Shareholder:

It is my pleasure to invite you to the annual and special meeting of shareholders of GSI Group Inc. to be held at 1:00 p.m. (EST) on Tuesday, November 23, 2010 at the offices of Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York 10022.

The purposes of the meeting are to (i) ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010, (ii) approve the GSI Group Inc. 2010 Incentive Award Plan, and (iii) approve an amendment to our Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011.

Information regarding the above matters is contained in the formal notice of meeting and management proxy circular on the following pages. The GSI Group Inc. Annual Report for the fiscal year ended December 31, 2009 accompanies this management proxy circular. We urge you to read the proxy materials in their entirety and to consider them carefully.

It is important that your shares be represented at the annual and special meeting, regardless of the size of your holdings. Accordingly, whether or not you expect to attend the meeting, we urge you to vote promptly by returning the enclosed proxy form. You may revoke your proxy at any time before it has been voted.

On behalf of the board of directors, I thank you for your participation.

Very truly yours,

Stephen W. Bershad
Chairman of the Board of Directors

Table of Contents

GSI GROUP INC.

125 Middlesex Turnpike

Bedford, Massachusetts 01730

(781) 266-5700

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON TUESDAY, NOVEMBER 23, 2010

NOTICE IS HEREBY GIVEN that the annual and special meeting of shareholders of GSI Group Inc., a New Brunswick corporation, which we refer to in this notice and in the attached management proxy circular as the Company, will be held at 1:00 p.m. (EST) on Tuesday, November 23, 2010 at the offices of Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York 10022, for the following purposes:

1. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010 (see page 5 of the accompanying management proxy circular);
2. To approve the GSI Group Inc. 2010 Incentive Award Plan (see page 7 of the accompanying management proxy circular);
3. To approve an amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles (see page 15 of the accompanying management proxy circular); and

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Only shareholders of record as of the close of business on Monday, October 18, 2010 will be entitled to attend and vote at the meeting and at any adjournment or postponement thereof, provided that a subsequent transferee of shares may vote at the meeting if the transferee establishes ownership of the shares and requests not later than ten (10) days before the meeting to be added to the list of shareholders entitled to vote at the meeting.

All shareholders are requested to complete, sign, date and return the form of proxy in the enclosed envelope to Computershare Investor Services Inc., the Company's transfer agent, at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, before 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting. If you are a shareholder of record, you may also vote by telephone or on the Internet by following the

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instructions on the enclosed proxy form, no later than 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting. Shareholders who vote by telephone or the Internet should not return a proxy form.

Table of Contents

A copy of the management proxy circular and a proxy form accompany this notice. This notice, the management proxy circular, the proxy form and the Company's 2009 annual report will be forwarded on or about Thursday, October 28, 2010 to the holders of the Company's common shares as of the close of business on Monday, October 18, 2010.

All monetary amounts listed in the proxy circular are in U.S. dollars, unless otherwise indicated.

DATED at Bedford, Massachusetts this 27th day of October 2010.

By Order of the Board of Directors

Michael E. Katzenstein
Principal Executive Officer

Table of Contents

Table of Contents

<u>Information Concerning Voting and Solicitation</u>	1
<u>Item 1. Ratification of Appointment of Independent Registered Public Accounting Firm</u>	5
<u>Item 2. Approval of the GSI Group Inc. 2010 Incentive Award Plan</u>	7
<u>Item 3. Approval of Amendment to our Articles to Effect a Reverse Stock Split</u>	15
<u>Compensation Discussion and Analysis</u>	24
<u>Executive Officer Compensation</u>	32
<u>Director Compensation</u>	42
<u>Security Ownership of Certain Beneficial Owners and Management</u>	47
<u>Other Matters</u>	50
<u>Appendix A GSI Group Inc. 2010 Incentive Award Plan</u>	A-1
<u>Appendix B Form of Amendment to Articles to Effect Reverse Stock Split</u>	B-1

Table of Contents

GSI GROUP INC.

125 Middlesex Turnpike

Bedford, Massachusetts 01730

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MANAGEMENT PROXY CIRCULAR

INFORMATION CONCERNING VOTING AND SOLICITATION

GSI Group Inc., a New Brunswick corporation, which we refer to in this management proxy circular as the Company, will hold its annual and special meeting at 1:00 p.m. (EST) on Tuesday, November 23, 2010 at the offices of Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York 10022. This management proxy circular and the enclosed proxy form are furnished in connection with the solicitation of proxies by the board of directors of the Company for use at the meeting. The solicitation will be made by mail, but proxies may also be solicited personally by directors, officers or other employees of the Company. The cost of solicitation has been or will be borne by the Company. The Company may also pay brokers or nominees holding common shares of the Company in their names or in the names of their principals for their reasonable expenses in sending solicitation material to their principals.

The notice of the meeting, this management proxy circular, the proxy form and a copy of the Company's 2009 annual report will be forwarded on or about Thursday, October 28, 2010 to the holders of the Company's common shares as of the close of business on Monday, October 18, 2010.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE SHAREHOLDER MEETING TO BE HELD ON NOVEMBER 23, 2010

The Company's Proxy Circular and Annual Report are available at

<http://www.gsig.com/investors/shareholdermeeting.html>

The following proxy materials are available for review at:

<http://www.gsig.com/investors/shareholdermeeting.html>

the management proxy circular;
the proxy form;
the Company's annual report for the fiscal year ended December 31, 2009; and
any amendments to the foregoing materials that are required to be furnished to shareholders.

Shareholders may receive directions to attend the meeting in person by calling the Company's investor relations staff at 781-266-5137 or by emailing InvestorRelations@gsig.com.

Matters to Be Voted On

At the meeting, you will be entitled to vote on the following proposals:

1. The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010 (see page 5 of the management proxy circular);

Table of Contents

2. The approval of the GSI Group Inc. 2010 Incentive Award Plan (see page 7 of the management proxy circular);
3. The approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles (see page 15 of the management proxy circular); and
4. The transaction of any other business that may properly come before the meeting, or any adjournment or postponement thereof.

No Election of Directors

On July 23, 2010 (the Effective Date), the Company and two of its United States subsidiaries, GSI Group Corporation and MES International, Inc. (collectively, the Debtors) emerged from bankruptcy pursuant to a modified chapter 11 plan, as supplemented (the Final Chapter 11 Plan), and the Final Chapter 11 Plan became effective pursuant to its terms. Pursuant to the Final Chapter 11 Plan, on the Effective Date, Richard B. Black, Garrett A. Garrettson, Ph.D., Phillip A. Griffiths, Ph.D., Marina Hatsopoulos and Benjamin J. Virgilio resigned as members of the board of directors of the Company. Byron O. Pond, a member of our board of directors prior to the Effective Date, continued his service on the board of directors upon our emergence from bankruptcy.

On the Effective Date and pursuant to the Final Chapter 11 Plan, seven members were selected to serve on our board of directors, Stephen W. Bershad, Eugene I. Davis, Dennis J. Fortino, K. Peter Heiland, Michael Katzenstein, Ira J. Lamel and Byron O. Pond. Pursuant to the Final Chapter 11 Plan, unless removed for cause, these directors will serve for the first 12-month period following the Effective Date and, therefore, are not subject to the vote of our shareholders at this annual and special meeting.

Board Recommendations

The board of directors recommends that you vote your shares as follows:

FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010;

FOR the approval of the GSI Group Inc. 2010 Incentive Award Plan; and

FOR the approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles.

Appointment and Revocation of Proxies

The persons named in the enclosed proxy form are officers of the Company. A shareholder may appoint a person to represent him or her at the meeting, other than the persons already named in the enclosed proxy form, by inserting the name of such other person in the blank space provided in the proxy form or by completing another proper form of proxy. Such person need not be a shareholder. The completed proxy form must be deposited with the Company at its principal executive offices at 125 Middlesex Turnpike, Bedford, Massachusetts 01730, USA, or with Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, Canada, M5J 2Y1, in either case no later than 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting.

Table of Contents

If you are a shareholder of record, you may also vote by telephone or on the Internet by following the instructions on the enclosed proxy form, no later than 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting. Shareholders who vote by telephone or the Internet should not return a proxy form.

The shareholder executing the proxy form may revoke it as to any matter on which a vote has not already been cast pursuant to the authority conferred by such proxy: (a) by delivering another properly executed proxy form bearing a later date and depositing it in the manner described above; (b) by delivering an instrument in writing revoking the proxy, executed by the shareholder or by the shareholder's attorney authorized in writing: (i) at the registered office of the Company, at any time up to and including the last business day preceding the date of the meeting, or at any reconvened meeting following its adjournment or postponement, or (ii) with the chairman of the meeting on the day of the meeting, or at any reconvened meeting following its adjournment or postponement; or (c) in any other manner permitted by law.

Voting of Proxies

The officers named in the proxy form enclosed with this management proxy circular will vote or withhold from voting the common shares of the Company in respect of which they are appointed proxy in accordance with the directions of the shareholder appointing them and, if a shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted accordingly. In the absence of such direction, the shares will be voted:

FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010;

FOR the approval of the GSI Group Inc. 2010 Incentive Award Plan; and

FOR the approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles.

Voting and Ownership of Shares

At the close of business on the record date, the Company had 100,026,395 common shares outstanding and entitled to vote. Each share is entitled to one vote. The failure of any shareholder to receive a notice of meeting of shareholders does not deprive the shareholder of a vote at the meeting.

The following votes are required to approve each of the proposals at the meeting.

The vote for the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010 requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective.

The vote to approve the GSI Group Inc. 2010 Incentive Award Plan requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective.

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The vote for the approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles requires the approval of not less than two-thirds of the common shares represented and cast in respect of such matter to be effective.

Table of Contents

No votes may be taken at the meeting, other than a vote to adjourn, unless a quorum has been constituted consisting of the representation of at least thirty-three and one-third percent (33 1/3%) of the outstanding shares as of the record date. Votes will be tabulated by the Company's transfer agent, Computershare Investor Services Inc., which is also serving as the inspectors of election for the meeting.

The enclosed proxy form confers discretionary authority on the persons named therein with respect to such other matters that may properly come before the meeting or any adjournment or postponement thereof. At the date of this management proxy circular, the management of the Company knows of no such other matters to be presented at the meeting.

Counting of Votes

For purposes of determining the presence or absence of a quorum, abstentions and broker non-votes will be counted as present. With respect to the approval of any particular proposal, abstentions and broker non-votes will not be counted in determining the number of votes cast. A broker non-vote occurs when a broker submits a proxy form with respect to common shares held in a fiduciary capacity (typically referred to as being held in street name), but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the ratification of the independent registered public accounting firm. Non-routine matters include matters such as approval of our incentive award plan and the amendment to our Articles to effect a reverse stock split.

Table of Contents

**ITEM 1. - RATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the board of directors, subject to shareholder ratification, has selected and appointed the firm of Ernst & Young LLP of Boston, Massachusetts, to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010. Ernst & Young LLP has served as the Company's independent registered public accountants since 1993.

We expect a representative of Ernst & Young LLP to be present at the meeting to answer appropriate questions and to have an opportunity to make a statement if desired. If shareholders do not ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the current fiscal year ending December 31, 2010, the Audit Committee will evaluate what would be in the best interests of the Company and its shareholders, and consider whether to select a new independent registered public accounting firm for the current fiscal year or whether to wait until the completion of the audit for the current fiscal year before changing independent registered public accounting firms.

The board of directors recommends a vote FOR ratification of this appointment.

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the fees for professional audit services rendered by Ernst & Young LLP, the Company's independent registered public accounting firm, for the audit of the Company's consolidated annual financial statements for the years-ended December 31, 2009 and 2008, and fees for other services rendered by Ernst & Young LLP with respect to those periods.

	2009	2008
Audit Fees (1)	\$ 1,893,000	\$ 4,980,000
Audit-Related Fees (2)	-	572,000
Tax Fees (3)	40,000	423,000
All Other Fees (4)	-	2,000
Total	\$ 1,933,000	\$ 5,977,000

- (1) Consists of fees billed for professional services rendered for the audit of the Company's annual consolidated financial statements and review of the Company's interim consolidated financial statements included in quarterly reports, audit of the Company's effectiveness of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002 as of December 31, 2008 and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements. Additional audit fees were incurred for the 2008 audit as the result of the change of the audit scope due to revenue recognition errors discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- (2) Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit and review of the Company's consolidated financial statements and are not reported under Audit Fees. In 2008, such fees related to services performed by Ernst & Young LLP in connection with the Company's acquisition of Excel Technology, Inc.

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- (3) Consists of fees billed for professional services rendered for tax compliance, tax advice and tax planning.

- (4) Represents fees billed for Ernst & Young LLP's online research tool.

Table of Contents

Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by the Company's independent registered public accounting firm. This policy generally provides that the Company will not engage its independent registered public accounting firm to render audit or non-audit services unless the Audit Committee specifically approves the service in advance, or the engagement is entered into pursuant to the pre-approval procedure described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to the Company by its independent registered public accounting firm during the next twelve months. An example of pre-approved services would be assistance to the Company in filing foreign statutory accounts or preparing foreign tax returns. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount. Additionally, de minimis non-audit services may instead be approved in accordance with applicable rules of the Securities and Exchange Commission (SEC). The prior approval of the Audit Committee was obtained for all services provided by Ernst & Young LLP in fiscal 2009.

Table of Contents

ITEM 2. - APPROVAL OF THE GSI GROUP INC. 2010 INCENTIVE AWARD PLAN

Our board of directors is submitting for shareholder approval the GSI Group Inc. 2010 Incentive Award Plan (the "2010 Incentive Plan"). There are 8,695,841 shares available for future grants under the 2010 Incentive Plan, subject to adjustment as described below.

The 2010 Incentive Plan provides equity compensation to our board of directors, employees and consultants and is necessary in order to maintain competitive compensation practices and to align the interests of our board of directors, employees and consultants with our shareholders, in accordance with our executive compensation philosophy. Pursuant to the Final Chapter 11 Plan, the Company's previous equity incentive plans were cancelled upon the Company's emergence from bankruptcy on July 23, 2010. The Final Chapter 11 Plan requires the Company to establish and implement a new management incentive plan under which shares in an amount not to exceed 8% of the fully-diluted common stock will be reserved for issuance thereunder, and the 2010 Incentive Plan has been approved by the board of directors to satisfy this requirement. If the 2010 Incentive Plan is not approved, we will be limited in the ability to use equity compensation as a tool for aligning our board of directors', employees' and consultants' interests with our shareholders' interests.

We believe the 2010 Incentive Plan properly balances its compensatory design with shareholder interests by having the following characteristics:

Grants of options or stock appreciation rights ("SARs") with an exercise or base price that is less than fair market value on the grant date are generally prohibited;

Repricing of options or SARs to reduce price per share is prohibited without prior shareholder approval;

No dividends or dividend equivalents are paid on unvested performance awards; and

Shares used to pay option exercise prices or to satisfy tax withholdings are not recycled back into the 2010 Incentive Plan, and the 2010 Incentive Plan does not have other "liberal share counting" practices as defined by ISS.

On October 13, 2010, the board of directors approved and adopted the 2010 Incentive Plan, subject to approval by our shareholders. The principal features of the 2010 Incentive Plan are summarized below, but the summary is qualified in its entirety by reference to the 2010 Incentive Plan itself, which is included as [Appendix A](#).

The 2010 Incentive Plan provides for the grant of incentive stock options ("ISOs"), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), non-qualified stock options, restricted stock, restricted stock units, SARs, deferred stock, deferred stock units, dividend equivalents, performance awards and stock payments (collectively referred to as "Awards") to employees, consultants and directors.

Shares Subject to the 2010 Incentive Plan

Under the 2010 Incentive Plan, the aggregate number of common shares that may be granted is 8,695,841, subject to adjustment as described below. This number of common shares is equal to approximately 8% of the outstanding common stock of the Company as of the Effective Date. The 2010 Incentive Plan provides for specific limits on the number of shares that may be subject to different types of Awards and the amount of cash that can be paid with respect to different types of Awards:

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No more than 3,260,940 shares, subject to adjustment as described below, may be granted as Awards to any one individual during any calendar year;

No more than \$2,500,000 may be paid in cash with respect to one or more Awards to any one individual during any calendar year.

Table of Contents

The shares subject to the 2010 Incentive Plan, the limitations on the number of shares that may be awarded under the 2010 Incentive Plan and the amount of cash paid with respect to one or more Awards under the 2010 Incentive Plan, and shares and option prices subject to Awards outstanding under the 2010 Incentive Plan, will be adjusted as the 2010 Incentive Plan administrator (the Administrator) deems appropriate to reflect stock dividends, stock splits (including, without limitation, the reverse stock split proposed for shareholder approval at this meeting (see Item 3 Approval of Amendment to our Articles to Effect a Reverse Stock Split below), if approved by the shareholders and implemented by the board of directors), combinations or exchanges of shares, merger, consolidation, or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the common shares or the price per share of the common shares other than an equity restructuring.

Notwithstanding any provision in the 2010 Incentive Plan to the contrary, no option may be awarded to reduce the per share exercise price of the shares subject to the option below the exercise price as of the date the option is granted, and no option may be granted in exchange for, or in connection with, the cancellation or surrender of an option having a higher per share exercise price (other than an option awarded in connection with an Award granted under the 2010 Incentive Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock (a Substitute Award)).

Shares subject to Awards that have expired, been forfeited or settled in cash, or repurchased by the Company by reason of a forfeiture provision may be added back to the 2010 Incentive Plan and may be granted as new Awards. Shares that are used to pay the exercise price for an option, shares withheld to pay taxes, shares subject to an SAR that are not issued in connection with the stock settlement of the SAR on exercise thereof, and shares purchased on the open market with the cash proceeds from the exercise of options will be cancelled and will not be added back to the number of shares available for grant under the 2010 Incentive Plan. Shares granted under the 2010 Incentive Plan may be previously authorized but unissued shares or shares bought on the open market or otherwise.

On October 6, 2010, the closing price of a common share on the Pink OTC Markets Inc. was \$2.50.

Administration

Generally, the Compensation Committee of our board of directors (the Committee) will act as Administrator. Unless otherwise determined by our board of directors, the Committee will consist of at least two members of the board of directors who are non-employee directors for purposes of Section 16(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), independent directors under the rules of any securities exchange or automated quotation system on which the shares are listed, and outside directors under Section 162(m) of the Code. The Administrator has the authority to, among other things:

select the individuals who will receive Awards;

determine the type or types of Awards to be granted;

determine the number of Awards to be granted and the number of shares to which the Award relates;

determine the terms and conditions of any Award, including the exercise price and vesting;

determine the terms of settlement of any Award;

prescribe the form of Award agreement;

establish, adopt or revise rules for administration of the 2010 Incentive Plan;

interpret the terms of, and any matters arising pursuant to, the 2010 Incentive Plan, any Award and any related programs; and

Table of Contents

make all other decisions and determinations that may be required pursuant to the 2010 Incentive Plan or as the Administrator deems necessary or advisable to administer the 2010 Incentive Plan.

The Committee may delegate its authority to grant or amend Awards with respect to participants other than individuals who are subject to Section 16 of the Exchange Act, employees who are, or could be, covered by Section 162(m) of the Code or the officers to whom the authority to grant or amend Awards has been delegated, subject to any limitations under Section 162(m) of the Code, applicable securities laws or rules of any securities exchange or automated system on which the shares are listed, quoted or traded. In addition, the full board of directors, acting by majority, will conduct the general administration of the 2010 Incentive Plan with respect to Awards granted to directors who are not employees of the Company.

The Committee or the board of directors may also amend the 2010 Incentive Plan. Amendments to the 2010 Incentive Plan are subject to shareholder approval to the extent required by law, or the rules of any securities exchange or automated system on which the shares are listed, quoted or traded. Additionally, shareholder approval will be specifically required to increase the number of shares available for issuance under the 2010 Incentive Plan, allow for the grant of options or stock appreciation rights with an exercise price that is below fair market value on the date of grant, extend the term of an option or a stock appreciation right beyond ten years, or cancel any option or SAR in exchange for cash or another Award when such option or SAR price per share exceeds the fair market value of the underlying shares.

The board of directors may exercise the rights and duties of the Committee, except with respect to matters which are required to be determined in the sole discretion of the Committee under Rule 16b-3 of the Exchange Act, Section 162(m) of the Code, or the rules of any securities exchange or automated quotation system on which the shares are listed, quoted or traded.

Eligibility

Awards under the 2010 Incentive Plan may be granted to individuals who are our employees or employees of our affiliates, our directors and our consultants or consultants of our affiliates. However, options which are intended to qualify as ISOs may only be granted to employees.

Awards

The following will briefly describe the principal features of the various Awards that may be granted under the 2010 Incentive Plan.

Options. Options provide for the right to purchase common shares at a specified price, and usually will become exercisable in the discretion of the Administrator in one or more installments after the grant date. The option exercise price may be paid in cash, by check, shares of common shares which have been held by the option holder for such period of time as may be required by the Administrator to avoid adverse accounting consequences, through a broker-assisted cash-less exercise, a loan, provided such loan does not otherwise violate Section 13(k) of the Exchange Act, or such other methods as the Administrator may accept from time to time. The Administrator may substitute SARs for options granted under the 2010 Incentive Plan at anytime prior to or upon exercise of such options.

Options may be granted for any term specified by the Administrator, but shall not exceed ten years. Options may not be granted at an exercise price that is less than the fair market value of our common shares on the date of grant (other than in connection with Substitute Awards). For purposes of the 2010 Incentive Plan, fair market value is defined as the closing price for our common shares on the securities exchange or automated quotation system on which the shares are listed, quoted or traded on the applicable date (or if no sale occurred on such date, then on the first immediately preceding date during which a sale occurred), as reported in the *Wall Street Journal* (or another similar reliable source). Additionally, the Administrator may not, without shareholder approval, re-price any options, including the cancellation of options in exchange for options with a lower exercise price.

Table of Contents

Options may take two forms, non-qualified stock options (NSOs) and ISOs.

ISOs will be designed to comply with the provisions of the Code and will be subject to certain restrictions contained in the Code in order to qualify as ISOs. Among such restrictions, ISOs must:

have an exercise price not less than the fair market value of common stock on the date of grant, or if granted to certain individuals who own or are deemed to own at least 10% of the total combined voting power of all of our classes of stock (10% shareholders), then such exercise price may not be less than 110% of the fair market value of common stock on the date of grant;

be granted only to our employees and employees of our subsidiary corporations;

expire within a specified time following the option holder's termination of employment;

be exercised within ten years after the date of grant, or with respect to 10% shareholders, no more than five years after the date of grant; and

not be first exercisable for more than \$100,000 worth of value, determined based on the exercise price.

If an Award purported to be an ISO fails to meet the requirements of the Code, then the Award will instead be considered to be an NSO.

Restricted Stock. A restricted stock award is the grant of common shares at a price determined by the Administrator (which price may be zero), is generally nontransferable and unless otherwise determined by the Administrator at the time of award, may be forfeited upon termination of employment or service during a restricted period. The Administrator also determines in the Award agreement whether the participant will be entitled to vote the shares of restricted stock and/or receive dividends on such shares.

Stock Appreciation Rights. SARs provide for the payment to the holder based upon increases in the price of common shares over a set base price, which may not be less than the fair market value of a common share on the date of grant (other than with respect to Substitute Awards). Payment for SARs may be made in cash, common shares or any combination of the two. The Administrator may not without shareholder approval re-price any SARs, including the cancellation of SARs in exchange for options or SARs with a lower exercise price. SARs become exercisable in the discretion of the Administrator. SARs may be granted for any term specified by the Administrator, but shall not exceed ten years.

Restricted Stock Units. Restricted stock units represent the right to receive common shares (or the fair market value of such shares in cash) at a specified date in the future, subject to forfeiture of such right. If the restricted stock unit has not been forfeited, then on the date specified in the restricted stock unit award we shall deliver to the holder of the restricted stock unit, unrestricted common shares, which will be freely transferable (or the fair market value of such shares in cash). The Administrator will specify the purchase price, if any, to be paid by the holder for the common shares.

Dividend Equivalents. Dividend equivalents represent the value of the dividends per common share paid by the Company, calculated with reference to the number of shares covered by an Award (other than a dividend equivalent award) held by the participant. No dividends or dividend equivalent awards will be paid on unvested performance awards. No dividend equivalents shall be payable with respect to options or SARs.

Stock Payments. Payments to participants of bonuses or other compensation may be made under the 2010 Incentive Plan in the form of common shares. The number of shares will be determined by the Administrator, and may be based upon performance criteria, including the Performance Criteria (as defined in the 2010 Incentive Plan).

Table of Contents

Deferred Stock. Deferred stock typically is awarded without payment of consideration and may be subject to vesting or other conditions, including satisfaction of performance criteria, including the Performance Criteria. Like restricted stock, deferred stock generally may not be sold or otherwise transferred until the vesting and/or other conditions are removed or expire. Unlike restricted stock, deferred stock is not actually issued until the deferred stock award (or portion thereof) has vested and is no longer subject to any other conditions, as applicable. Unless otherwise determined by the Administrator, recipients of deferred stock have no voting or dividend rights prior to the time when the vesting or other conditions are met and the deferred stock is delivered.

Deferred Stock Units. Deferred stock units typically are awarded without payment of consideration and may be subject to vesting or other conditions, including satisfaction of performance criteria, including the Performance Criteria. A deferred stock unit shall entitle the recipient thereof to receive one share of common stock on the date such deferred stock unit becomes vested (and other conditions are removed or expire, if applicable) or upon a specified settlement date thereafter (which settlement date may (but is not required to be) be the date of the recipient's termination of service at the Company or its affiliates). Deferred stock units generally may not be sold or otherwise transferred until the vesting and/or other conditions are removed or expire and/or following a specified settlement date thereafter. Unless otherwise determined by the Administrator, recipients of deferred stock units have no voting or dividend rights prior to the time when the vesting and/or other conditions are met and the shares of common stock are delivered.

Performance Award. Performance awards are payable in cash, stock or a combination of both, and may be linked to satisfaction of performance criteria, including the Performance Criteria. The Committee has the authority to reduce the amount otherwise payable under a performance award upon attainment of the Performance Criteria.

Change in Control

In the event of a Change in Control (as defined in the 2010 Incentive Plan), the Administrator is authorized to, among other things, provide that the Awards granted under the 2010 Incentive Plan are assumed by a successor in such Change in Control or provide that the Awards are exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the 2010 Incentive Plan or an applicable Award agreement.

Adjustments Upon Certain Events

The number and kind of securities subject to an Award, terms and conditions (including performance targets or criteria) and the exercise price or base price of outstanding Awards will be proportionately adjusted as the Administrator deems appropriate, in its discretion, to reflect any stock dividends, stock split (including, without limitation, the reverse stock split proposed for shareholder approval at this meeting (see

Item 3 Approval of Amendment to our Articles to Effect a Reverse Stock Split below), if approved by the shareholders and implemented by the board of directors), combination or exchange of shares, merger, consolidation, or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the common shares or the share price of the common shares other than an equity restructuring. In the event of any other change in the capitalization of the Company, including an equity restructuring, the Administrator will make proportionate and equitable adjustments in the number and class of shares and the per share grant or exercise price for outstanding Awards as the Administrator deems appropriate in its discretion to prevent dilution or enlargement of rights. In the event of any pending stock dividend, stock split (including, without limitation, the reverse stock split proposed for shareholder approval at this meeting (see Item 3 Approval of Amendment to our Articles to Effect a Reverse Stock Split below), if approved by the shareholders and implemented by the board of directors), combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the shares or share price of common shares, including an equity restructuring, the Company may in its sole discretion refuse to permit the exercise of any Award for a period of 30 days prior to the consummation of any such transaction.

Table of Contents

Awards Not Transferable

Generally, the Awards may not be pledged, assigned or otherwise transferred other than by will or by laws of descent and distribution or pursuant to beneficiary designation procedures approved by the Administrator. The Administrator may allow Awards other than ISOs to be transferred for estate or tax planning purposes to members of the holder's family or trusts for the benefit of family members.

Miscellaneous

As a condition to the issuance or delivery of stock or payment of other compensation pursuant to the exercise or lapse of restrictions on any Award, the Company requires participants to discharge all applicable withholding tax obligations. Shares held by or to be issued to a participant may also be used to discharge minimum statutory tax withholding obligations, subject to the discretion of the Administrator to disapprove of such use.

The 2010 Incentive Plan will expire and no further Awards may be granted after November 23, 2020, the tenth anniversary of its approval by shareholders.

Certain United States Federal Income Tax Consequences

The United States Federal income tax consequences of the 2010 Incentive Plan under current Federal income tax law are summarized in the following discussion which deals with the general tax principles applicable to the 2010 Incentive Plan, and is intended for general information only. In addition, the tax consequences described below are subject to the limitations of Section 162(m) of the Code, as discussed in further detail below. Alternative minimum tax and other Federal taxes and foreign, state and local income taxes are not discussed, and may vary depending on individual circumstances and from locality to locality.

Non-Qualified Stock Options. For Federal income tax purposes, the recipient of NSOs granted under the 2010 Incentive Plan will not have taxable income upon the grant of the option, nor will the Company then be entitled to any deduction. Generally, upon exercise of NSOs the optionee will realize ordinary income, and the Company will be entitled to a deduction, in an amount equal to the difference between the option exercise price and the fair market value of the common shares at the date of exercise.

Incentive Stock Options. An optionee generally will not recognize taxable income upon either the grant or exercise of an ISO. However, the amount by which the fair market value of the shares at the time of exercise exceeds the exercise price will be an item of tax preference for the optionee. Generally, upon the sale or other taxable disposition of the common shares acquired upon exercise of an ISO, the optionee will recognize income taxable as capital gains in an amount equal to the excess, if any, of the amount realized in such disposition over the option exercise price, provided that no disposition of the shares has taken place within either (a) two years from the date of grant of the ISO or (b) one year from the date of exercise. If the common shares are sold or otherwise disposed of before the end of the one-year and two-year periods specified above, the difference between the Award exercise price and the fair market value of the shares on the date of exercise generally will be taxable as ordinary income; the balance of the amount realized from such disposition, if any, generally will be taxed as capital gain. If the common shares are disposed of before the expiration of the one-year and two-year periods and the amount realized is less than the fair market value of the shares at the date of exercise, the optionee's ordinary income generally is limited to the excess, if any, of the amount realized in such disposition over the option exercise price paid. The Company (or other employer corporation) generally will be entitled to a tax deduction only to the extent the optionee has ordinary income upon sale or other disposition of the common shares.

Restricted Stock. Generally, a participant will not be taxed upon the grant or purchase of restricted stock that is subject to a substantial risk of forfeiture, within the meaning of Section 83 of the Code, until such time

Table of Contents

as the restricted stock is no longer subject to the substantial risk of forfeiture. At that time, the participant will be taxed on the difference between the fair market value of the common shares and the amount the participant paid, if any, for such restricted stock. However, the recipient of restricted stock under the 2010 Incentive Plan may make an election under Section 83(b) of the Code to be taxed with respect to the restricted stock as of the date of transfer of the restricted stock rather than the date or dates upon which the restricted stock is no longer subject to a substantial risk of forfeiture.

Stock Appreciation Rights. No taxable income is generally recognized upon the receipt of a SAR. Upon exercise of a SAR, the cash or the fair market value of the shares received generally will be taxable as ordinary income in the year of such exercise. The Company generally will be entitled to a compensation deduction for the same amount which the recipient recognizes as ordinary income.

Restricted Stock Units. A participant will generally not recognize taxable income upon grant of a restricted stock unit. However, when the shares (or the fair market value of such shares in cash) are delivered to the participant, then the value of such shares (or cash) at that time will be taxable to the participant as ordinary income. Generally the Company will be entitled to a deduction for an amount equal to the amount of ordinary income recognized by the participant.

Dividend Equivalents. A participant will recognize taxable ordinary income on dividend equivalents as they are paid and the Company generally will be entitled a corresponding deduction.

Stock Payments. A participant will recognize taxable ordinary income on the fair market value of the common shares delivered as payment of bonuses or other compensation under the 2010 Incentive Plan and generally the Company will be entitled to a corresponding deduction.

Deferred Stock. A participant will recognize taxable ordinary income on the fair market value of the shares on the date shares are delivered under a deferred stock award, and generally the Company will be entitled to a corresponding deduction.

Deferred Stock Units. A participant will recognize taxable ordinary income on the fair market value of the shares on the date shares are delivered under a deferred stock unit award, and generally the Company will be entitled to a corresponding deduction.

Performance Awards. A participant will recognize taxable ordinary income on the amount of cash paid (or value of stock received) under the performance award, and generally the Company will be entitled to a corresponding deduction.

Section 409A of the Code. Certain Awards under the 2010 Incentive Plan, depending in part on particular Award terms and conditions, may be considered non-qualified deferred compensation subject to the requirements of Section 409A of the Code. If the terms of such Awards do not meet the requirements of Section 409A of the Code, then the violation may result in an additional 20% tax obligation, plus penalties and interest for such participant.

Section 162(m) of the Code

Under Section 162(m) of the Code, in general, income tax deductions of publicly traded companies may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises) for certain executive officers exceeds \$1 million in any one taxable year. However, under Section 162(m) of the Code, the deduction limit does not apply to certain performance-based compensation established by an independent compensation committee which conforms to certain restrictive conditions stated under the Code and related regulations. The 2010 Incentive Plan has been structured with the intent that Awards granted under the 2010 Incentive Plan may meet the requirements for performance-based compensation and Section 162(m) of

Table of Contents

the Code. To the extent granted at an exercise price not less than the value of our common shares, options and SARs granted under the 2010 Incentive Plan are intended to qualify as performance-based under Section 162(m) of the Code. Restricted stock, restricted stock units, deferred stock and deferred stock units under the 2010 Incentive Plan may qualify as performance-based under Section 162(m) of the Code if they vest or become payable based solely upon attainment of pre-established goals based on the Performance Criteria. Performance awards may qualify as performance-based under Section 162(m) of the Code to the extent payable based solely on attainment of pre-established goals based on the Performance Criteria.

We have attempted to structure the 2010 Incentive Plan in such a manner that the Committee can determine the terms and conditions of Awards granted thereunder in order to determine whether the remuneration attributable to such Awards will be subject to the \$1 million limitation. We have not, however, requested a ruling from the IRS or an opinion of counsel regarding this issue. This discussion will neither bind the IRS nor preclude the IRS from taking a contrary position with respect to the 2010 Incentive Plan.

Equity Compensation Plans

The following table sets forth information regarding the common stock that may be issued upon the exercise of options and rights under all of our equity compensation plans existing as of December 31, 2009.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted- Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity Compensation Plans approved by security holders (1)	263,500 (2)	\$ 9.82	