

CONTROL4 CORP  
Form 4  
August 09, 2013

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
CISCO SYSTEMS, INC.

2. Issuer Name and Ticker or Trading Symbol  
CONTROL4 CORP [CTRL]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)  
170 WEST TASMAN DR  
(Street)

3. Date of Earliest Transaction (Month/Day/Year)  
08/07/2013

\_\_\_\_ Director  10% Owner  
\_\_\_\_ Officer (give title below) \_\_\_\_ Other (specify below)

SAN JOSE, CA 95134-1706

4. If Amendment, Date Original Filed (Month/Day/Year)

6. Individual or Joint/Group Filing (Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

(City) (State) (Zip)

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V	Amount or Price		
Common Stock	08/07/2013		C		1,510,981 (1)	A	(1)
Common Stock	08/07/2013		X		402,928 (2)	A	\$ 9.9273 (2)
Common Stock	08/07/2013		S(2)		250,000 (2)	D	\$ 16 (2)
Common Stock	08/07/2013		X		67,154 (3)	A	\$ 9.9273 (3)
Common Stock	08/07/2013		S(3)		41,667 (3)	D	\$ 16 (3)

Stock

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)
				Code	V (A) (D)	Date Exercisable Expiration Date	Title Amount of Number of Shares
Series H Preferred Stock	(1)	08/07/2013		C	1,510,981 (1)	(1) (4)	Common Stock 1,510,981 (1)
Common Stock Warrant (right to buy)	\$ 9.9273 (2)	08/07/2013		X	402,928 (2)	01/21/2011 (5)	Common Stock 402,928 (2)
Common Stock Warrant (right to buy)	\$ 9.9273 (3)	08/07/2013		X	67,154 (3)	02/15/2011 (6)	Common Stock 67,154

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CISCO SYSTEMS, INC. 170 WEST TASMAN DR SAN JOSE, CA 95134-1706			X	

## Signatures

Cisco Systems, Inc. By: /s/ Evan Sloves, Assistant Secretary 08/09/2013

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) On August 7, 2013, effective immediately prior to the closing of the Issuer's initial public offering, each share of Series H Preferred Stock automatically converted into one share of Issuer's Common Stock for no additional consideration. The Series H Preferred Stock had no expiration date.

(2) On August 7, 2013, Reporting Person exercised a warrant to purchase 402,928 shares of Issuer's Common Stock for \$9.9273 per share. Reporting Person paid the exercise price on a cashless basis, based on Issuer's initial offering price of \$16.00 per share, resulting in the Issuer's withholding of 250,000 of the warrant shares to pay the exercise price and issuing to Reporting Person the remaining 152,928 shares.

(3) On August 7, 2013, Reporting Person exercised a warrant to purchase 67,154 shares of Issuer's Common Stock for \$9.9273 per share. Reporting Person paid the exercise price on a cashless basis, based on Issuer's initial offering price of \$16.00 per share, resulting in the Issuer's withholding of 41,667 of the warrant shares to pay the exercise price and issuing to Reporting Person the remaining 25,487 shares.

(4) None.

(5) This warrant expires upon the earlier of (i) an initial public offering of the Issuer's securities, or (ii) January 21, 2014.

(6) This warrant expires upon the earlier of (i) an initial public offering of the Issuer's securities, or (ii) February 15, 2014.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 23,788(3) 326,960

John Parry

2013 179,200 46,723 15,690(4) 241,613

Vice President-Finance, Chief Financial Officer, Treasurer, Secretary and Director

2012 179,600 35,379 17,133(4) 232,112

William H. Simpson

2013 249,700 62,297 19,469(5) 331,466

Executive Vice President and Director

2012 246,000 47,172 18,695(5) 311,867

- (1) Includes annual director fees of \$6,000 each for Mr. Clark, Mr. Parry and Mr. Simpson.
- (2) Pursuant to their employment agreements, Mr. Clark and Mr. Simpson are entitled to receive incentive compensation equal to two percent (2%) of consolidated income before income taxes and extraordinary items reported each year by the Company in its Annual Report on Form 10-K. Mr. Parry is entitled to receive incentive compensation equal to one and one-half percent (1.5%) of consolidated income before income taxes and extraordinary items. This compensation is paid out in June following the fiscal year end.
- (3) For fiscal 2013, includes \$6,750 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, \$10,200 for personal use of corporate airplane, \$4,800 for auto allowance and \$3,841 for personal auto expenses. For fiscal 2012, includes \$6,888 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, \$7,600 for personal use of corporate airplane, \$4,800 for auto allowance and \$4,500 for personal auto expenses.
- (4) For fiscal 2013, includes, \$4,962 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, \$4,800 for auto allowance and \$5,928 for personal auto expenses. For fiscal 2012, includes, \$5,233 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, \$4,800 for auto allowance and \$7,100 for personal auto expenses.
- (5) For fiscal 2013, includes \$5,732 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, \$4,800 for auto allowance, \$5,137 for personal auto expenses and \$3,800 for country club dues. For fiscal 2012, includes \$5,795 for Company matching contributions under the Air T, Inc. 401(k) Retirement Plan, \$4,800 for auto allowance, \$4,300 for personal auto expenses and \$3,800 for

country club dues.

On August 15, 2006, the Company awarded Mr. Clark and Mr. Simpson options to acquire, respectively, 50,000 and 30,000 shares of common stock. The exercise price of these options is \$8.29 per share. On December 6, 2006, the Company awarded Mr. Parry options to acquire 15,000 shares of common stock. The exercise price of these options is \$9.30 per share. These options became vested and exercisable in three equal annual installments beginning with the date of grant, or if earlier, upon a change of control of the Company or the date the employee terminates employment due to death, disability or retirement. The options expire ten years following the date of grant or, if earlier, one year from the date the executive officer terminates employment due to death, disability or retirement.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE

	Option Awards(1)				
	Number of Securities Underlying Unexercised Options # Exercisable	Number of Securities Underlying Unexercised Options # Exercisable	Option Exercise Price \$	Option Expiration Date	
	Walter Clark	50,000(2)		8.29	8/15/2016
	John Parry	15,000(3)		9.30	12/06/2016
William H. Simpson	30,000(2)		8.29	8/15/2016	

- (1) All option awards were made under the Company's 2005 Equity Incentive Plan. Under the terms of the plan, option awards were made without any corresponding transfer of consideration from the recipients.
- (2) Stock options vested at the rate of 33-1/3% per year with vesting dates of 8/15/07, 8/15/08 and 8/15/09.
- (3) Stock options vested at the rate of 33-1/3% per year with vesting dates of 12/06/07, 12/06/08 and 12/06/09.

**Executive Officer Employment Agreements**

*Chief Executive Officer.* On July 8, 2005, the Company entered into an employment agreement with Walter Clark to provide for his continued employment as the Company's Chief Executive Officer. The agreement has an initial term of two years and renews for successive additional one-year periods on each anniversary of the date of the agreement unless either the Company or Mr. Clark gives notice of non-renewal within 90 days prior to that anniversary date. The agreement provides for an annual base salary of \$200,000, subject to increases as subsequently determined by the Company's Board of Directors or its Compensation Committee. In addition, the agreement provides for annual bonus compensation equal to 2% of the Company's consolidated incomes before income taxes and extraordinary items as reported by the Company in its Annual Report on Form 10-K. Under the agreement, Mr. Clark is entitled to participate in the Company's general employee benefit plans, to receive four weeks of vacation per year, to receive a monthly automobile allowance of \$400 plus reimbursement for fuel, repair expense and insurance for his primary automobile upon presentation of documentation in accordance with the Company's expense reimbursement policies and to use corporate passenger aircraft for personal use, with the requirement that he reimburse the Company for its costs in connection with his personal use of the aircraft to the extent those costs exceed \$50,000 in any fiscal year.

*Other Executive Officers.* Effective January 1, 1996, the Company entered into an employment agreement with William H. Simpson, an Executive Vice President of the Company. In the absence of any notice from one party to the other to terminate automatic extensions of the term of the agreement, the agreement is automatically extended each December 1 so that upon each automatic extension the remaining term of the agreement is three years and four months. The agreement provided for an initial annual base salary of \$165,537, which was subsequently increased and is subject to further increases as determined by the Compensation Committee. In addition, the agreement provides for annual bonus compensation equal to 2% of the Company's consolidated income before income taxes and extraordinary items as reported by the Company in its Annual Report on Form 10-K. Under the agreement, Mr. Simpson is entitled to participate in the Company's general employee benefit plans, to receive four weeks of vacation per year and to receive a monthly automobile allowance of \$400 plus reimbursement for fuel, repair expense and insurance for his primary automobile upon presentation of documentation in accordance with the Company's expense reimbursement policies.

Effective October 6, 2006, the Company entered into an employment agreement with John Parry, Chief Financial Officer of the Company, which provides for a three-year term of employment under the terms of that agreement. The agreement provides for annual bonus compensation equal to 1.5% of the Company's consolidated income before income taxes and extraordinary items as reported by the Company in its Annual Report on Form 10-K. Under the agreement, Mr. Parry is entitled to participate in the Company's general employee benefit plans, to receive four weeks of vacation per year and to receive a monthly automobile allowance of \$400 plus reimbursement for fuel, repair expense and insurance for his primary automobile upon presentation of documentation in accordance with the Company's expense reimbursement policies.

*Severance and Change-in-control Provisions.* Mr. Clark's employment agreement provides that the Company may terminate Mr. Clark's employment at any time and for any reason. However, if the Company terminates Mr. Clark's employment other than for disability or cause, both as defined in the agreement, the Company is obligated to continue to pay Mr. Clark his then-current base salary for a period of two and one-half years, or at its election the Company can pay this amount in one lump-sum payment at the net present value of those payments, calculated by assuming an 8% discount rate. In addition, during that two and one-half year period the Company must continue to provide to Mr. Clark all health and welfare benefits as existed on the date of termination of Mr. Clark's employment or, in the event that continuation of health benefits are not permitted under the Company's health insurance policies, to pay for COBRA health insurance coverage. Mr. Clark is entitled to terminate his employment under the agreement at any time and for any reason. However, following a change in control of the Company, if, within 12 months after the occurrence of the change in control, Mr. Clark terminates his employment for good reason, which is defined in the agreement and includes a substantial reduction in responsibilities, relocation, increased travel requirements and adverse changes in annual or long-term incentive compensation plans, he is entitled to receive the same base salary payments and continued health and welfare benefits as described above. Under the employment agreement, a change of control includes a merger, consolidation or reorganization with or into the Company, or in which securities of the Company are issued, other than certain non-control transactions as defined in the agreement, the acquisition of Company common stock or other voting securities by any person resulting in such person beneficially owning 30% or more of either the then-outstanding common stock or the combined voting power of the Company's then-outstanding voting securities entitled to vote for the election of directors, and members of the Company's Board of Directors (the Board) at the time the agreement was entered into (the Incumbent Board) cease for any reason to constitute at least a majority of the members of the Board; provided that if the election, or nomination for election by the Company's common stockholders, of any new director was approved by a vote of a majority of the Incumbent Board, such new director is deemed to be a member of the Incumbent Board and provided, further, that no individual is deemed to be a member of the Incumbent Board if such individual initially assumed office as a result of an actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board (a Proxy Contest), including by reason of any agreement intended to avoid or settle any Proxy Contest. The agreement provides that these base salary payments and continued health and welfare benefits are Mr. Clark's sole remedy in connection with a termination of his employment.

Mr. Simpson's employment agreement provides that if the Company terminates his employment other than for cause (as defined in the agreement), he will be entitled to receive a lump sum cash payment equal to the amount of base salary payable for the remaining term of the agreement (at the then current rate) plus one-half of the maximum incentive bonus compensation that would be payable if he continued his employment through the date of the expiration of the agreement (assuming for such purposes that the amount of incentive bonus compensation would be the same in the remaining period under the agreement as was paid for the most recent year prior to termination of employment). The agreement further provides that if any payment on termination of employment would not be deductible by the Company under Section 280G(b)(2) of the Internal Revenue Code, the amount of such payment would be reduced to the largest amount that would be fully deductible by the Company.

Mr. Parry's employment agreement provides that if the Company terminates Mr. Parry's employment other than for cause (as defined in the agreement), Mr. Parry is entitled to receive his base salary for a period of twelve months and a pro-rated incentive bonus for that fiscal year. In addition, during that twelve-month period the Company must continue to provide to Mr. Parry continued group health benefits as existed on the date of termination of Mr. Parry's employment or, in the event that continuation of health benefits are not permitted under the Company's health insurance policies, to pay for COBRA health insurance coverage.

*401(k) Plan.* The Company sponsors the Air T, Inc. 401(k) Plan (the Plan), a tax-qualified Internal Revenue Code Section 401(k) retirement savings plan, for the benefit of substantially all of its employees, including its executive officers. The Plan encourages saving for retirement by enabling participants to make contributions on a pre-tax basis and to defer taxation on earnings on funds contributed to the Plan. The Company makes matching contributions to the Plan.

#### **CERTAIN TRANSACTIONS**

The Company leases its corporate and operating facilities at the Little Mountain, North Carolina airport from Little Mountain Airport Associates, Inc. (Airport Associates), a corporation whose stock is owned by William H. Simpson, an officer and director of the Company, John J. Gioffre, a director of the Company, the estate of David Clark, of which, Walter Clark, the Company's chairman and Chief Executive Office, is a co-executor and beneficiary, and Allison Clark, a director, is a beneficiary, three unaffiliated third parties and a former executive officer. The Company paid aggregate rental payments of approximately \$173,000 to Airport Associates pursuant to such lease during the fiscal year ended March 31, 2013. The lease agreement expires if not extended by the parties in May 2014 and provides for monthly rental payments of \$14,428. The lease agreement provides that the Company shall be responsible for maintenance of the leased facilities and for utilities, ad valorem taxes and insurance. The Company believes that the terms of such leases are no less favorable to the Company than would be available from an independent third party.

#### **PROPOSAL 3 ADVISORY VOTE ON FREQUENCY OF FUTURE ADVISORY VOTES ON**

#### **EXECUTIVE COMPENSATION**

Under the Dodd-Frank Act, the Company is also required to provide stockholders with the opportunity to cast an advisory vote on whether future advisory votes on executive compensation should be held every one year, every two years or every three years. The Board believes that a frequency of every one year for the advisory vote on executive compensation is the optimal interval for conducting and responding to a say on pay vote to permit the shareholders to express their view on this matter at each annual meeting.

The proxy card provides stockholders with the opportunity to choose among four options (holding the vote every one year, every two years or every three years, or abstaining) and, therefore, stockholders will not be voting to approve or disapprove the Board's recommendation.

This advisory vote on the frequency of the say on pay vote is nonbinding on the Company. However, the Board and the Compensation Committee plan to take into account the outcome of the advisory vote when considering the frequency of future advisory votes on executive compensation.

**The Board of Directors recommends a vote for the option of Every Year for the frequency of future advisory votes on executive compensation (Item 3 on the enclosed proxy card).**

#### **PROPOSAL 4 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors recommends that the stockholders ratify the appointment of Dixon Hughes Goodman, LLP to serve as the independent registered public accounting firm for the Company and its subsidiary corporations for the fiscal year ending March 31, 2014. If the stockholders do not ratify this appointment, the Audit Committee will consider other independent registered public accounting firms.

Dixon Hughes Goodman, LLP (formerly known as Dixon Hughes PLLC) has served as the independent registered public accounting firm for the Company since November 17, 2005. Representatives of Dixon Hughes Goodman, LLP are expected to be present at the annual meeting and will have an opportunity to make a statement and will be available to respond to appropriate questions.

**The Board of Directors recommends a vote FOR the proposal to ratify the selection of Dixon Hughes Goodman, LLP as independent auditors for the fiscal year ending March 31, 2014 (Item 4 on the enclosed proxy card).**

#### **Audit Committee Pre-approval of Auditor Engagements**

It is the policy of the Audit Committee that all audit and permitted non-audit services provided to the Company by its independent registered public accounting firm are approved by the Audit Committee in advance. In addition, it is the Company's practice that any invoices not covered by the annual engagement letter that are subsequently submitted by its independent registered public accounting firm are provided to the Chairman of the Audit Committee for approval prior to payment. The independent auditor, management and the Audit Committee must meet on at least an annual basis to review the plans and scope of the audit and the proposed fees of the independent auditor.



**Audit Fees**

Fees billed to the Company by its independent registered public accounting firm, Dixon Hughes Goodman, LLP, for each of the past two fiscal years were as follows:

	2013	2012
Audit Fees(1)	\$ 116,000	\$ 121,000
Audit-Related Fees(2)	10,000	10,000
Tax Fees(3)	60,000	50,000
All Other Fees		

- (1) Audit fees consist of fees incurred for professional services rendered for the audit of our annual financial statements and review of the quarterly financial statements that are provided by Dixon Hughes Goodman, LLP in connection with regulatory filings or engagements.
- (2) Audit-related fees relate to professional services rendered that are related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. Audit-related fees also include fees associated with the audit of the Company's employee benefit plan.
- (3) Tax fees consist of professional services for tax compliance, tax advice and tax planning.

**Report of the Audit Committee**

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process. The Company's independent registered public accounting firm is responsible for expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles.

In this context, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm the audited financial statements as of and for the year ended March 31, 2013. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 114, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, as currently in effect. In addition, the Audit Committee discussed with the independent registered public accounting firm the written disclosures and letter required by Public Company Accounting Oversight Board Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, regarding the independent registered public accounting firm's communication with the Audit Committee concerning independence and discussed with them their independence from the Company and its management. The Audit Committee also has considered whether the independent registered public accounting firm provision of non-audit services to the Company is compatible with their independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended March 31, 2013 for filing with the Securities and Exchange Commission.

June 3, 2013

**AUDIT COMMITTEE**

John J. Gioffre, *Chair*  
Sam Chesnutt

George C. Prill

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**PROPOSAL 5 APPROVAL OF RIGHTS AGREEMENT**

On March 26, 2012, the Company entered into a Stockholder Rights Agreement with American Stock Transfer & Trust Company, LLC, as Rights Agent, and the Board of Directors declared a dividend of one preferred share purchase right (a Right) for each outstanding share of Company common stock, which dividend was paid to stockholders of record on April 5, 2012. On June 13, 2013, the Company entered into an amended and restated Rights Agreement to effect the amendments to the Rights Agreement contemplated by the Settlement Agreement.

Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock of the Company, par value \$1.00 per share (the Preferred Shares), at a price of \$25.00 per one one-thousandth of a Preferred Share, subject to adjustment. Under the Rights Agreement, with certain exceptions, if any person or group becomes the beneficial owner of 20% or more of the Company's common stock, then each Right *not beneficially owned by such beneficial owner* will entitle its holder to purchase, at the Rights then-current exercise price, shares of the Company's common stock having a market value of twice the Rights then-current exercise price. In addition, with certain exceptions, if, after any person or group has become a beneficial owner of 20% or more of the Company's common stock, the Company becomes involved in a merger or other business combination, each Right will entitle its holder (*other than such 20% or more beneficial owner*) to purchase, at the Rights then-current exercise price, common shares of the acquiring company having a value of twice the Rights then-current exercise price. The Rights Agreement is described in greater detail below. See Description of the Rights Agreement.

In the Settlement Agreement, the Company agreed to submit a proposal at the 2013 annual meeting for the stockholders to approve the Rights Agreement. The Rights Agreement provides that it will expire at the final adjournment of the 2013 annual meeting if the proposal to approve the Rights Agreement has not been approved by the stockholders by a vote in which more votes are cast in favor of the proposal than are cast against the proposal.

**Statement of the Board in Favor of Approval of the Rights Agreement**

The Board of Directors approved the Rights Agreement because the Rights Agreement is designed to protect against potential coercive or abusive takeover techniques and to help ensure that the Company's stockholders are not deprived of the opportunity to realize full and fair value on their investment. The Rights Agreement, which was adopted following evaluation and consultation by the Board of Directors with outside legal and financial advisors, is similar to agreements adopted by numerous publicly traded companies. The Rights Agreement is intended to deter, among other potentially abusive takeover techniques, a creeping takeover of the Company, in which an investor acquires a controlling interest in the Company's shares in market or private transactions and does not offer or pay to the stockholders the premium price associated with obtaining control—that is, the amount that a buyer is usually willing to pay over the current market price of a publicly traded company to obtain control of the company. In such a situation, the Rights Agreement enables the Board of Directors to negotiate an acquisition price available to all stockholders that reflects an appropriate control premium and to deter an effort to obtain control that does not offer the stockholders full value for control.

At the time the Board of Directors adopted the Rights Agreement, AO Partners was aggressively accumulating shares of Company common stock in market transactions, having increased its common stock ownership level from 5.2% to 10.2% of the outstanding shares in less than two months. AO Partners indicated to the Company that it did not intend to make a bid to acquire all of the outstanding shares. AO Partners has since increased its ownership level to 14.9% of the outstanding shares, which was only slightly below the 15% triggering threshold under the Rights Agreement before the June 13, 2013 amendment and restatement of the Rights Agreement increased that threshold to 20%.

In addition, the Rights Agreement includes provisions, commonly referred to as a chewable feature, that would make certain fully-financed offers to acquire all of the outstanding shares eligible for exemption from the operation of the Rights Agreement under certain conditions. In the event the Company receives such an offer, and within a 90-business day evaluation period, the Board does not either redeem the outstanding Rights, exempt the offer from the terms of the Rights Agreement or call a special meeting of stockholders to vote on whether to exempt the offer, then holders of at least 10% of the Company's common stock (excluding shares beneficially owned by the offeror and its affiliates and associates) may request that the Board call a special meeting of the stockholders for the purpose of holding a vote to exempt the offer. The Rights Agreement further provides that, if the Board fails to call the requested special meeting of stockholders within a specified period, the offer is deemed to be exempted from the Rights Agreement. Accordingly, the Rights Agreement permits stockholders the opportunity to vote to determine whether qualified offers to acquire all of the outstanding shares may proceed if the Board does not act to exempt that offer from the Rights Agreement. See Description of the Rights Agreement Chewable Feature.

Because the Rights Agreement is designed to deter potentially abusive takeover techniques, including a creeping takeover of the Company that does not offer the stockholders full value for control, and also permits stockholders the opportunity to exempt qualified offers from the Rights Agreement, the Board of Directors believes that maintaining the Rights Agreement is in the best interests of the Company and its stockholders.

**The Board of Directors recommends a vote FOR the proposal to approve the Rights Agreement (Item 5 on the enclosed proxy card).**

### **Statement of AO Partners in Opposition to Approval of the Right Agreement**

In the Settlement Agreement, the Company agreed to include in this proxy statement a statement from AO Partners stating why it intends to vote against the proposal to approve the Rights Agreement. That statement of AO Partners is set forth below in italics.

*AO Partners urges stockholders to **VOTE AGAINST** adoption of the resolution approving the Rights Agreement (sometimes referred to as a poison pill), as we believe it leads to entrenchment of the Board of Directors and a lack of accountability, which adversely affects stockholder value. When a poison pill is in place, the consequences of poor decision making may be allowed to fester because current directors know that the poison pill provides them with significant protections from ever being challenged by large outside stockholders.*

*While the Board of Directors has indicated that it put the poison pill in place in order to protect stockholders from coercive or otherwise unfair takeover tactics, AO Partners believes that it is equally true that the plan could be used to block an offer which stockholders would find attractive. This denies stockholders the chance to tender shares at a favorable price, and a withdrawn offer can also result in a significant decline in the share price.*

*Moreover, we fear that by enacting a pre-emptive poison pill in response to the acquisition of stock by a large shareholder, the board may have left the impression that the Company is closed to outside influence, and hostile to bids for the whole company. This impression alone likely discourages potential bidders from developing plans to buy the Company. Such an impression is likely reinforced by the onerous Qualified Offer clause in the poison pill.*

*AO Partners note that there are significant and effective protections for stockholders without the poison pill. For example, we note the disclosure and substantive requirements of the Williams Act (e.g., Sections 13(d), 14(d) and 14(e) of the Securities Exchange Act of 1934) and Delaware's anti-takeover law (Section 203 of the Delaware General Corporation Law, Delaware's Business Combination Statute) and provisions of the Company's certificate of incorporation and bylaws that regulate how shareholders may present proposals or nominate directors for election at stockholders' meetings and authorize the Board of Directors to issue preferred stock in one or more series, without shareholder approval. We believe these laws and charter provisions provide adequate protections against unfair or coercive offers.*

*AO Partners is pleased that the Company has recently taken positive steps to become more stockholder friendly, steps we believe have largely resulted from our prolonged efforts to push the Company to become more focused on increasing shareholder value, as many of our stockholder-favorable proposals have been adopted. However, we believe that this stockholder-focused reform will not be complete until stockholders **VOTE AGAINST** the poison pill, which will eliminate any impression that the board is hostile to outside influence and bidders for the Company and allow for more robust trading in the Company's common stock. AO Partners believes that the presence of the poison pill can depress the market for Company shares by preventing stockholders from selling to large stockholders at mutually beneficial prices.*

*AO Partners believes the elimination of the poison plan will complete the stockholder-focused reform the Company has been implementing (adopting many of the stockholder favorable proposals we have encouraged the Company to adopt), enhance the accountability of the Board of Directors of the Company by eliminating a significant hurdle to large outside stockholders challenging the directors, improve trading in Company shares by allowing stockholders to sell to large stockholders at mutually beneficial prices, and give the Company's stockholders an improved ability to determine for themselves how to respond to any offer, solicited or unsolicited, that might be made. AO Partners urges you to **VOTE AGAINST** adoption of the resolution approving the Rights Agreement.*

**Description of the Right Agreement**

The following summarizes the material terms of the Rights Agreement, which governs the terms of the Rights. The Rights Agreement was filed by the Company as Exhibit 10.1 to the second Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission (the SEC) on June 13, 2013 and is available at SEC's website, <http://www.sec.gov>.

*Distribution Date; Exercisability*

The Rights are initially evidenced by the certificates evidencing shares of Company common stock ( Common Shares ) or book-entries representing uncertificated shares until the earlier (the Distribution Date ) of: (i) the close of business on the date that is ten business days after the first date (the Share Acquisition Date ) of public announcement that a person (other than the Company, a subsidiary or employee benefit or stock ownership plan of the Company or any of its affiliates or associates or an exempt person (as defined below)), together with its affiliates and associates, has acquired beneficial ownership of 20% or more of the outstanding Common Shares (any such person being

hereinafter called an Acquiring Person ) or (ii) the close of business on the date specified by the Board following the commencement or first public disclosure of a tender offer or exchange offer by any person (other than the Company, a subsidiary or employee benefit or stock ownership plan of the Company or any of its affiliates or associates), whether such commencement or first public disclosure occurs before or after the date of the Rights Agreement, the consummation of which would result in beneficial ownership by such person of 20% or more of the outstanding Common Shares. An exempt person means each person that beneficially owns as of the date of the Rights Agreement 20% or more of the outstanding Common Shares, except that each such person will be considered an exempt person only if and so long as the Common Shares that are beneficially owned by such person do not exceed the number of shares which are beneficially owned by such person on the date of the Rights Agreement, plus any additional Common Shares representing not more than 1% of the Common Shares then outstanding, and except that a person will cease to be an exempt person immediately at such time as such person ceases to be the beneficial owner of more than 20% of the Common Shares then outstanding.

Until the Distribution Date, the Rights may be transferred with and only with the Common Shares. Until the Distribution Date (or earlier redemption or expiration of the Rights), any certificate or, in the case of uncertificated shares, any initial transaction statement or subsequent period statement evidencing Common Shares of the Company issued upon transfer or new issuance of the Common Shares will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any certificates evidencing Common Shares or the registration of transfer of ownership of Common Shares in the share register of the Company will also constitute the transfer of the Rights associated with such certificates.

As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ( Right Certificates ) will be mailed to holders of record of Common Shares as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights. Rights will be exercisable only after the Distribution Date.

The Preferred Shares issuable upon exercise of the Rights will not be redeemable. If issued, each outstanding Preferred Share will be entitled, in connection with the declaration of a dividend on the Common Shares, to a preferential dividend payment equal to the greater of (i) \$1.00 per share and (ii) an amount equal to 1,000 times the related dividend declared per Common Share. Subject to customary anti-dilution provisions, in the event of liquidation, the holders of Preferred Shares will be entitled to a preferential liquidation payment equal to the greater of (a) \$100 per share and (b) an amount equal to 1,000 times the liquidation payment made per Common Share. Because of the nature of the Preferred Shares dividend, voting and liquidation rights, the value of the one one-thousandth interest in a Preferred Share purchasable upon exercise of a Right should approximate the value of one Common Share.

#### *Flip-in Event*

In the event (a Flip-in Event ) that (i) any person becomes an Acquiring Person, (ii) any Acquiring Person or any affiliate or associate of such person merges into or combines with the Company and the Company is the surviving corporation, (iii) any Acquiring Person or any affiliate or associate of such person effects certain other transactions with the Company, or (iv) during such time as there is an Acquiring Person the Company effects certain transactions, in each case as described in the Rights Agreement, then, in each such case, proper provision will be made so that from and after the occurrence of such event, each holder of a Right, other than Rights that are or were owned beneficially by an Acquiring Person or any affiliate or associate of such person (which, from and after the date of a Flip-in Event, will be null and void), will have the right to receive, upon exercise thereof at the then-current exercise price of a Right, that number of Common Shares (or, under certain circumstances, an economically equivalent security of the Company or other assets) that at the time of such Flip-in Event have a market value of two times the exercise price of the Right.

*Flip-over Event*

In the event (a Flip-over Event ) that, at any time after a person has become an Acquiring Person, (i) the Company merges with or into any person and the Company is not the surviving corporation, (ii) any person merges with or into the Company and the Company is the surviving corporation, but all or part of the Common Shares are changed or exchanged for stock or other securities of any other person or cash or any other property, or (iii) 50% or more of the Company's assets or earning power, including securities creating obligations of the Company, are sold, in each case as described in the Rights Agreement, then, and in each such case, proper provision will be made so that each holder of a Right, other than Rights which have become void, will thereafter have the right to receive, upon the exercise thereof at the then-current exercise price of the Right, that number of Common Shares (or, under certain circumstances, an economically equivalent security or securities) of such other person that at the time of such Flip-over Event have a market value of two times the exercise price of the Right.

*Exchange Feature*

At any time after the earlier of the Share Acquisition Date and the Distribution Date and prior to the acquisition by any person or group of affiliated or associated persons of 50% or more of the outstanding Common Shares, the Company may exchange the Rights (other than any Rights that have become null and void), in whole or in part, at an exchange ratio of one Common Share per Right (subject to adjustment).

*Chewable Feature*

The Rights Agreement includes a chewable feature that would permit a Qualifying Offer eligible for exemption from the operation of the Rights Agreement under conditions described below. In general, a Qualifying Offer is a fully financed all-cash tender offer or exchange offer for any and all outstanding Common Shares that includes a commitment by the offeror to promptly consummate any second step transaction needed to acquire all remaining Common Shares for the same consideration (subject only to stockholders' exercise of statutory appraisal rights) and that meets other requirements specified in the Rights Agreement. In the event the Company receives a Qualifying Offer, and within 90 business days of the commencement of such Qualifying Offer (the Board Evaluation Period ), the Board has not redeemed the outstanding Rights, exempted the Qualifying Offer from the terms of the Rights Agreement or called a special meeting of stockholders to vote on whether to exempt the Qualifying Offer from the terms of the Rights Agreement, holders of at least 10% of the Common Shares (excluding shares beneficially owned by the offeror and its affiliates and associates) may request that the Board call a special meeting for this purpose. If, subject to the conditions specified in the Rights Agreement, the special meeting is not convened by the 60th business day following the last day of the Board Evaluation Period or the special meeting is convened and a majority of Common Shares outstanding as of the record date for the special meeting (excluding shares beneficially owned by the offeror and its affiliates and associates) are voted in favor of exempting the Qualifying Offer, the Qualifying Offer will be deemed exempt from the Rights Agreement.

*Equitable Adjustment*

The Purchase Price payable, and the number of Preferred Shares or other securities issuable, upon exercise of the Rights will be subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Shares, (ii) upon

the grant to holders of Preferred Shares of certain rights, options or warrants to subscribe for or purchase the Preferred Shares at a price, or securities convertible into the Preferred Shares with a conversion price, less than the then-current market price of the Preferred Shares, or (iii) upon the distribution to holders of the Preferred Shares of evidences of indebtedness, cash (excluding regular periodic cash dividends), assets, stock (excluding dividends payable in the Preferred Shares) or subscription rights or warrants (other than those referred to above). The number of outstanding Rights and the number of one one-thousandths of the Preferred Shares issuable upon exercise of each Right will be subject to adjustment in the event of a stock dividend on the Common Shares payable in Common Shares or a subdivision, combination or reclassification of Common Shares occurring, in any such case, prior to the Distribution Date.

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment in the Purchase Price of at least 1%. The Company will not be required to issue fractional Preferred Shares (other than fractions that are integral multiples of one one-thousandth of a Preferred Share, which may, at the option of the Company, be evidenced by depositary receipts) or fractional Common Shares or other securities issuable upon the exercise of Rights. In lieu of issuing such securities, the Company may make a cash payment, as provided in the Rights Agreement.

#### *Expiration*

The Rights will expire on the earliest of (i) April 5, 2015, (ii) the final adjournment of the 2013 annual meeting of shareholders if a proposal to approve the Right Agreement has not been approved by a vote in which more votes are cast in favor of such proposal than are cast against such proposal, (iii) the time at which the Rights are redeemed, and (iv) the time at which all exercisable Rights are exchanged as described above in Exchange Feature (the Expiration Date).

#### *Redemption of Rights*

The Company may, at its option, redeem the Rights in whole, but not in part, at a price of \$0.01 per Right, subject to adjustment (the Redemption Price), at any time prior to the earlier of (i) the close of business on the Share Acquisition Date and (ii) the close of business on the Expiration Date. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

#### *Amendment of Rights*

Prior to the time at which the Rights cease to be redeemable, the Rights Agreement may be amended by the Company without the approval of any holders of Rights, including amendments that increase or decrease the Purchase Price, that add other events requiring adjustment to the Purchase Price payable and the number of the Preferred Shares or other securities issuable upon the exercise of the Rights or that modify procedures relating to the redemption of the Rights, except that no amendment may be made that decreases the stated Redemption Price to an amount less than \$0.01 per Right.

#### *Miscellaneous*

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including the right to vote or to receive dividends. The Board will have the exclusive power and authority to administer the Rights Agreement and to exercise all rights and powers specifically granted to the Board or to the Company therein, or as may be necessary or advisable in the administration of the Rights Agreement, including without limitation the right and power to interpret the provisions of the Rights Agreement and to make all determinations deemed necessary or advisable for the administration of the Rights Agreement (including any determination to redeem or not redeem the Rights or to amend or not amend the Rights Agreement).

*Certain Anti-Takeover Effects*

The Rights Agreement may have the effect of deterring unsolicited takeover proposals, as the Rights would cause substantial dilution to an Acquiring Person who is not exempted from the Rights Agreement. The Rights will not prevent a takeover of the Company, but may delay attempts to gain control of the Company.

**ADDITIONAL INFORMATION**

**THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER OF THE COMPANY, AND TO EACH PERSON REPRESENTING THAT AS OF THE RECORD DATE FOR THE MEETING HE OR SHE WAS A BENEFICIAL OWNER OF SHARES ENTITLED TO BE VOTED AT THE MEETING, IF SOLICITED BY WRITTEN REQUEST, A COPY OF THE COMPANY'S 2013 ANNUAL REPORT ON FORM 10-K TO THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE FINANCIAL STATEMENTS. SUCH WRITTEN REQUESTS SHOULD BE DIRECTED TO AIR T, INC., 3524 AIRPORT ROAD, MAIDEN, NORTH CAROLINA 28650, ATTENTION: MR. JOHN PARRY, SECRETARY.**

**IN ADDITION, THE COMPANY HAS A DEDICATED WEBSITE AT [WWW.AIRT.NET/SHAREHOLDERDIRECT.HTML](http://WWW.AIRT.NET/SHAREHOLDERDIRECT.HTML) WHERE IT POSTS ALL ANNUAL MEETING MATERIALS INCLUDING THE ANNUAL REPORT ON FORM 10-K, ANNUAL REPORT AND PROXY STATEMENT.**

**STOCKHOLDER COMMUNICATIONS**

The Board of Directors has established a process for stockholders and other interested parties to communicate with the Board of Directors or a particular director. Such individual may send a letter to Air T, Inc., Attention: Corporate Secretary, 3524 Airport Road, Maiden, North Carolina 28650. The mailing envelope should contain a clear notation indicating that the enclosed letter is a Board Communication or Director Communication. All such letters should state whether the intended recipients are all members of the Board or just certain specified individual directors. The Secretary of the Company will circulate the communications (with the exception of commercial solicitations) to the appropriate director or directors. Communications marked Confidential will be forwarded unopened.

**STOCKHOLDER PROPOSALS AND NOMINATIONS FOR 2014 MEETING**

Proposals by stockholders intended to be presented at the 2014 annual meeting of stockholders must be received by the Company's Corporate Secretary no later than March 24, 2014 in order to be included in the proxy statement and on the proxy card that will be solicited by the Board of Directors in connection with that meeting. The inclusion of any proposal will be subject to applicable rules of the SEC. In addition, the Company's by-laws establish an advance notice requirement for any proposal of business to be considered at an annual meeting of stockholders, including the nomination of any person for election as director. In general, written notice must be received by the Company's Corporate Secretary at the Company's principal executive office, 3524 Airport Road, Maiden, North Carolina 28650, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting and must contain specified information concerning the matter to be brought before such meeting and concerning the stockholder proposing such a matter. Accordingly, to be considered at the 2014 annual meeting of stockholders, proposals must be received by the Corporate Secretary no earlier



than May 2, 2014 and no later than June 1, 2014. Any waiver by the Company of these requirements with respect to the submission of a particular stockholder proposal shall not constitute a waiver with respect to the submission of any other stockholder proposal nor shall it obligate the Company to waive these requirements with respect to future submissions of the stockholder proposal or any other stockholder proposal. Any stockholder desiring a copy of the Company's by-laws will be furnished one without charge upon written request to the Corporate Secretary at 3524 Airport Road, Maiden, North Carolina 28650.

Individuals appointed as proxies in connection with the annual meeting of stockholders to be held in 2014 will have discretion under applicable SEC rules to vote on any proposal presented at the meeting by a stockholder unless the stockholder gives the Company written notice of the proposal no later than June 1, 2014 and other provisions of the applicable SEC rules are satisfied.

#### **OTHER MATTERS**

The Board of Directors knows of no other matters that may be presented at the meeting.

AIR T, INC.

July 22, 2013

AIR T, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD AUGUST 30, 2013

AND

PROXY STATEMENT

July 22, 2013

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AIR T, INC.

IMPORTANT ANNUAL MEETING INFORMATION 000004

ENDORSEMENT\_LINE \_\_\_\_\_ SACKPACK \_\_\_\_\_

MR A SAMPLE

DESIGNATION (IF ANY)

ADD 1

ADD 2

ADD 3

ADD 4

ADD 5

ADD 6

Using a black ink pen, mark your votes with an X as shown in this example. Please do not write outside the designated areas.

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Electronic Voting Instructions

You can vote by Internet or telephone!

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by

5:00 p.m., Eastern Time, on August 29, 2013.

Vote by Internet

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Log on to the Internet and go to

<http://proxy.georgeson.com/>

Follow the steps outlined on the secured website.

Vote by telephone

Call toll free 1-877-456-7915 within the USA, US territories & Canada any time on a touch tone telephone. There is NO CHARGE to you for the call.

Follow the instructions provided by the recorded message.

Annual Meeting Proxy Card 1234 5678 9012 345

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A Proposals The Board of Directors recommends a vote FOR ALL of the nominees listed, FOR Proposals 2, 4 and 5 and EVERY YEAR on Proposal 3.

1. Election of Directors:

01 - Seth G. Barkett

02 - Walter Clark

03 - John J. Gioffre

04 - Andrew L. Osborne

05 - John A. Reeves

06 - Nicholas J. Swenson

07 - William R. Foudray

Mark here to vote

FOR all nominees

Mark here to WITHHOLD

vote from all nominees

For All EXCEPT - To withhold authority to vote for any nominee(s), write the name(s) of such nominee(s) below.

2. On an advisory basis, to approve the compensation to the Company's named executive officers as disclosed in the proxy statement:

For Against Abstain

4. To ratify the selection of Dixon Hughes Goodman, LLP to

serve as the independent registered public accounting firm

for the Company

For Against Abstain

3. On an advisory basis, whether future advisory votes

**Explanation of Responses:**

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to approve executive compensation should be held:

EVERY

YEAR

EVERY 2

YEARS

EVERY 3

YEARS Abstain

5. To adopt a resolution to approve the Amended and Restated Rights Agreement, dated as of June 13, 2013, between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent

For Against Abstain

B Non-Voting Items

Change of Address Please print new address below.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as your name(s) appear(s) on this Proxy. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

C 1234567890 J N T

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

Copies of the Notice of Annual Meeting, the Proxy Statement and the 2013 Annual Report to Stockholders are available at [www.airt.net/shareholderdirect.html](http://www.airt.net/shareholderdirect.html).

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

REVOCABLE PROXY AIR T, INC.

Annual Meeting of Stockholders

To be held on August 30, 2013

This proxy is solicited by the Board of Directors

The undersigned hereby appoints Walter Clark, John Parry and Cheryl Sigmon as proxies, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Air T, Inc. common stock that the undersigned is entitled to vote at, and, in their discretion, to vote upon such other business as may properly come before, the 2013 Annual Meeting of Stockholders of the Company to be held on Friday, August 30, 2013 or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the meeting.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations, except that with respect to Item 5 this proxy will be voted ABSTAIN.

(Continued and to be signed on reverse side.)