

Inrad Optics, Inc.  
Form DEF 14A  
April 29, 2016

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:

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**INRAD OPTICS, INC.**

(Name of Registrant as Specified In Its Certificate of Incorporation)

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

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No fee required

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(4) Date Filed

SCHEDULE 14A INFORMATION

**INRAD OPTICS, INC.**

**181 Legrand Avenue**

**Northvale, New Jersey 07647**

**Notice of Annual Meeting of Shareholders**

**To be held on Wednesday, June 15, 2016**

To The Shareholders of Inrad Optics, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of INRAD OPTICS, INC. (the "Company") will be held at the offices of the Company's counsel, Lowenstein Sandler LLP, 1251 Avenue of the Americas, 17<sup>th</sup> Floor, New York, NY 10020, on Wednesday, June 15, 2016 at 10:00 a.m. local time for the following purposes:

1. To elect two directors, named herein, to hold office for a term of three years;
2. To ratify the appointment of Baker Tilly Virchow Krause, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016;
3. To approve, as a non-binding advisory vote, our named executive officer compensation; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on April 25, 2016, as the date for determining the shareholders of record entitled to receive notice of, and to vote at, the Annual Meeting.

**We urge you to vote your shares over the Internet or through the mail at your earliest convenience.**

By Order of the Board of Directors

/s/ William J. Foote  
William J. Foote, Secretary  
Northvale, New Jersey

April 29, 2016

**INRAD OPTICS, INC.**  
**181 Legrand Avenue**  
**Northvale, NJ 07647**

**PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, June 15, 2016**

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors (the "Board") of INRAD OPTICS, INC., a New Jersey corporation with its principal offices at 181 Legrand Avenue, Northvale, New Jersey 07647 (the "Company"), to be used at the Annual Meeting of Shareholders of the Company (the "Annual Meeting") to be held at the offices of the Company's counsel, Lowenstein Sandler LLP, 1251 Avenue of the Americas, 17<sup>th</sup> Floor, New York, NY 10020 on Wednesday, June 15, 2016 at 10:00 a.m. local time. This Proxy Statement and the enclosed form of proxy are first being sent to shareholders on or about May 15, 2016.

Shareholders attending the Annual Meeting must comply with the Company's pre-registration requirements. If you are a stockholder of record and plan to attend the Annual Meeting, please contact William J. Foote, Chief Financial Officer and Corporate Secretary, by e-mail at [wfoote@inradoptics.com](mailto:wfoote@inradoptics.com) or by phone at (201) 767-1910 to register to attend the Annual Meeting. If you hold shares through an intermediary, such as a bank or broker, and you plan to attend, you must send a written request to attend either by regular mail or e-mail, along with proof of share ownership, such as a bank or brokerage firm account statement, confirming ownership to: Inrad Optics, Inc., 181 Legrand Avenue, Northvale, NJ 07647, Attn: William J. Foote, Chief Financial Officer and Corporate Secretary, or [wfoote@inradoptics.com](mailto:wfoote@inradoptics.com). In accordance with the security procedures of the building in which Lowenstein Sandler LLP's offices are located, you will be required to present a form of government-issued photograph identification (such as a drivers' license) to security on the day of the Annual Meeting. Please plan your arrival at Lowenstein Sandler's offices so that you allow a reasonable amount of time before the start time of the meeting.

**Shareholders Entitled to Vote**

Only shareholders of record at the close of business on April 25, 2016, the record date fixed by the Board of Directors, will be entitled to notice of, and to vote at, the Annual Meeting. At the close of business on the record date, there were 12,733,208 shares of the Company's Common Stock, par value \$0.01 per share (the "Common Stock"), outstanding and entitled to vote at the meeting. Each share is entitled to one vote. The presence in person or by proxy of owners of a majority of the outstanding shares of the Company's Common Stock will constitute a quorum for the transaction of business at the Company's Annual Meeting.

For purposes of determining the votes cast with respect to any matter presented for consideration at the Annual Meeting, only those cast "for" are included. Abstentions and broker non-votes are counted only for the purpose of determining whether a quorum is present at the Annual Meeting. Owners of Common Stock are not entitled to cumulative voting in the election of directors. Owners of Common Stock will not have any dissenters' rights of appraisal in connection with any of the matters to be voted on at the Company's Annual Meeting.

If you hold your shares in "street name" through a broker or other nominee, you should instruct your broker or nominee how to vote. A "broker non-vote" occurs when a nominee holding shares for a beneficial owner returns a duly executed proxy that does not include any vote with respect to a particular proposal because the nominee did not have discretionary voting power with respect to the matter being considered and did not receive voting instructions from the beneficial owner. If that happens, the nominees may vote those shares only on matters deemed "routine," such as the ratification of auditors. Only Proposal No. 2 for the ratification of the appointment of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm is considered a "routine" matter. Thus, if you do not give your broker or nominee specific voting instructions, your shares may only be voted for Proposal No. 2 and not voted for the other matters. If your shares are not voted, they will not be counted in determining the number of votes cast. However, shares represented by such "broker non-votes" will be counted for determining whether there is a quorum.

### **Votes Required to Approve Each Proposal**

The proposal to elect two director nominees will require an affirmative vote for the proposal by a plurality of the Common Stock entitled to vote at the Annual Meeting.

The proposal to ratify the appointment of Baker Tilly Virchow Krause, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016 will require an affirmative vote for the proposal by a majority of the votes cast at the Annual Meeting by the holders of shares of Common Stock entitled to vote.

The proposal to approve the non-binding advisory resolution with respect to the compensation of our named executive officers will require an affirmative vote for the proposal by a majority of the votes cast at the Annual Meeting by the holders of shares of Common Stock entitled to vote.

### **Voting: Revocation of Proxies**

A form of proxy is enclosed for use at the Annual Meeting if a shareholder is unable to attend in person. Each proxy may be revoked at any time before it is exercised by giving written notice of revocation to the Secretary of the Company, by filing a later dated proxy with the Secretary at any time prior to its exercise or by voting at the meeting. The presence at the meeting of a stockholder who has given a proxy does not revoke the proxy unless the stockholder files a notice of revocation or votes by written ballot. All shares represented by valid proxies pursuant to this solicitation (and not revoked before they are exercised) will be voted as specified in the form of proxy. If no specification is given, the shares will be voted in favor of the Board's nominees "for" director and "for" the other proposals described in this Proxy Statement.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS OF INRAD OPTICS, INC. TO BE HELD ON JUNE 15, 2016. THIS PROXY STATEMENT, THE ACCOMPANYING FORM OF PROXY CARD AND OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015, INCLUDING FINANCIAL STATEMENTS, ARE AVAILABLE AT [www.proxyvote.com](http://www.proxyvote.com). Under rules issued by the Securities and Exchange Commission (the "SEC"), we are providing access to our proxy materials both by sending you this full set of proxy materials and by notifying you of the availability of our proxy materials on the internet.**

### **Costs of Solicitation**

The entire cost of soliciting these proxies will be borne by the Company. In following up the original solicitation of proxies by mail, the Company may make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy materials to the beneficial owners of the stock and may reimburse them for their expenses in so doing. If necessary, the Company may also use its officers and their assistants to solicit proxies from the shareholders, either personally or by telephone or special letter.

## **PRINCIPAL SHAREHOLDERS**

The following table presents certain information available to the Company at the date hereof with respect to the security ownership of the Company's Common Stock by (i) each of the Company's directors and nominees, (ii) each named executive officer of the Company, (iii) all executive officers and directors as group, and (iv) each person known by the Company to beneficially own more than five percent (5%) of the Company's common stock outstanding as of April 25, 2016. Percentages that include ownership of options or convertible securities are calculated assuming exercise or conversion by each individual or entity of the options (including "out-of-the-money options"), or convertible securities owned by each individual or entity separately without considering the dilutive effect of option exercises and security conversions by any other individual or entity. Accordingly, the percentages may add to more than 100%. The address of each principal shareholder, unless otherwise indicated, is c/o Inrad Optics, Inc., 181 Legrand Avenue, Northvale, NJ 07647.

**Beneficial Ownership of Common Stock (1)**

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock
Luke P. LaValle, Jr.	38,827 (2)	*
Dennis G. Romano	26,666 (3)	*
N.E. Rick Strandlund	26,666 (4)	*
Jan M. Winston	36,327 (5)	*
Amy Eskilson	72,966 (6)(14)	*
William J. Foote	59,039 (7)(14)	*
George Murray	37,467 (8)	*
All Directors and Executive Officers as a group (9 persons)	319,749 (9)	2.5 %
Clarex Ltd. & Welland Ltd. Bay Street and Rawson Square P.O. Box N 3016 Nassau, Bahamas	8,557,539 (10)	49.8 %
Emancipation Management LLC 825 Third Ave New York, NY 10022	3,880,906 (11)	30.5 %
Minerva Advisors LLC 50 Monument Road, Suite 201 Bala Cynwyd, PA 19004	1,240,392 (12)	9.7 %
William Nicklin 3 Rivers Edge Newburgh, NY 12550	947,000 (13)	7.4 %
Inrad Optics, Inc. Employees 401(k) Plan Amy Eskilson and William J. Foote, as Trustees 181 Legrand Avenue Northvale, NJ 07647	915,516 (14)	7.2 %
V. Adah Nicklin 3 Rivers Edge, Newburgh, NY 12550	827,580 (15)	6.5 %

\* Less than 1%

(1) Unless otherwise indicated, each of the shareholders named in the table has sole voting and investment power with respect to the shares beneficially owned, subject to the information contained in the footnotes to the table.

(2) Including 36,327 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(3) Including 26,666 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(4) Including 26,666 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(5) Including 36,327 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(6) Including 57,966 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(7) Including 56,877 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(8) Including 37,467 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

(9) Including 298,212 shares issuable upon exercise of options exercisable within 60 days of April 25, 2016.

Including 2,500,000 shares and warrants to purchase an additional 1,875,000 shares at \$1.35 per share which are (10) issuable upon conversion of convertible promissory notes and 65,625 shares issuable upon conversion of accrued interest on convertible promissory notes.

(11) These figures are based upon information set forth in Schedule 13G filed February 16, 2016 on behalf of each of the following reporting persons:

Emancipation Management LLC (a)

Circle N Advisors, LLC (a)

Charles Frumberg (a)

(a) Each of these reporting persons is deemed a beneficial owner of 3,880,906 shares of Inrad Optics, Inc. with shared investment power but no voting power with respect to these 3,880,906 shares.

(12) These figures are based upon information set forth in Schedule 13G filed February 5, 2016 on behalf of each of the following reporting persons:

Minerva Advisors LLC (a) (b)

Minerva Group, LP (a)

Minerva GP, LP

Minerva GP, Inc. (a)

David P. Cohen (a) (b)

- (a) Each of these reporting persons is deemed a beneficial owner of 1,229,392 shares of Inrad Optics, Inc. held by Minerva Group, L.P. with both investment power and voting power with respect to these 1,229,392 shares.

- (b) In addition to his deemed beneficial ownership of the 1,229,392 shares described in footnote (12)(a) above, David P. Cohen is deemed a beneficial owner of the 11,000 shares of Inrad Optics, Inc. beneficially owned by Minerva Advisors, LLC. David P. Cohen and Minerva Advisors, LLC have shared investment power and voting power with respect to these 11,000 shares.

- (13) These figures are based upon information set forth in Schedule 13G filed September 16, 2014. William Nicklin has sole investment power and voting power with respect to these 947,000 shares.

- (14) These figures are based upon information provided by Amy Eskilson and William J. Foote, the trustees of the Inrad Optics, Inc. 401(k) Plan (the "401(k) Plan"). Amy Eskilson and William J. Foote, as trustees of the 401(k) Plan, share voting power with respect to the shares held by the 401(k) Plan, but do not have dispositive power over such shares. Ms. Eskilson and Mr. Foote disclaim beneficial ownership of the shares held by the 401(k) Plan and such shares are not reflected in the amounts of shares listed as being beneficially held in their respective individual capacities in this table.

- (15) These figures are based upon information set forth in Schedule 13G filed February 16, 2016. V. Adah Nicklin has sole investment power and sole voting power with respect to these 827,580 shares.

#### OTHER MATTERS

At the time this Proxy Statement was mailed to shareholders, management was not aware that any other matter will be presented for action at the Annual Meeting. If other matters properly come before the Meeting, it is intended that the shares represented by proxies will be voted with respect to those matters in accordance with the best judgment of the persons voting them.

**PROPOSAL ONE**

**ELECTION OF DIRECTORS**

The Board is divided into three classes (Class I, Class II and Class III) with directors of the Board (collectively, “Directors”) in each class serving staggered three-year terms. At each annual meeting of shareholders, the terms of Directors in one of these three classes expire. At that annual meeting of shareholders, Directors are elected to a Class to succeed the Directors whose terms are then expiring, with the terms of that Class of Directors so elected to expire at the third annual meeting of shareholders, thereafter. There are currently five members of the Board: two Class III Directors whose terms will expire at the 2016 Annual Meeting of Shareholders, two Class I Directors whose terms will expire at the 2017 Annual Meeting of Shareholders and one Class II Director whose term will expire at the 2018 Annual Meeting of Shareholders.

The following table sets forth the name and age of the Class III nominees for election to the Board of Directors, the principal occupation or employment of the nominees for the past five or more years, the principal business of the organization in which said occupation is or was carried on, the name or any other public corporation for which the nominees serve or served during the past five years as a Board member, and the period during which the nominees have served as a director of the Company.

**Nominated for Election to Board of Directors:**

**Name and Age      Since   Positions; Business Experience**

***Class III Directors -- Term to Expire in 2019***

Amy Eskilson, 55	2012	Director of the Company (October 2012 - present) President and Chief Executive Officer of the Company (October 2012 - present) Vice President of Sales and Marketing for the Company (February 2011-September 2012) Director of Business Development, Thorlabs Inc. (2001-2011) Sales, Technical Support and Marketing roles, Thor Labs, Inc. (1992-2000)
Jan M. Winston, 79	2000	Chairman of the Board of Directors of the Company (2009 - present) Director of the Company (2000 - present) Management Consultant (1997 - present) Division Director/General Manager IBM Corporation (1981 - 1997) Executive positions held in Development, Finance and Marketing



Senior Vice President of Business Development, Defense Business Unit, Washington Group International, a provider of engineering, construction and technical services (2002 – 2007)  
Vice President, Business Strategy and Development, Northrop Grumman Corporation (1999 - 2001)  
Various Senior and Executive Level Positions, Marketing, Business Development and Strategy, Northrop Grumman Corporation (1995 - 1999)  
Vice President of Business Development, Grumman Aircraft Engineering Corporation (1993 - 1995)  
Marketing and Business Development, Grumman Aircraft Engineering Corporation (1974 - 1993)  
Aircrew member, flight test organization, Grumman Aircraft Engineering Corporation (1968 - 1974)  
Avionics Technician, Grumman Aircraft Engineering Corporation (1964 - 1968)  
Chairman of the Board of Directors, Check-6 International, Inc. (2013 – present)

N.E. Rick  
Strandlund, 72

2009 Director of the Company (January 2009 - present)

Chairman, President and CEO, Nanoproducts Corporation, a producer and developer of nanoproduct materials and technologies (2005 - 2013)  
President and CEO, Research Electro-Optics, Inc., a manufacturer of thin-film coatings and components (2002 - 2004)  
President and COO, Research Electro-Optics Inc. (1997 - 2002)  
Vice-President/General Manager, Santa Rosa Division, Optical Coating Laboratory, Inc. (1993 - 1996)  
Vice President/General Manager, Commercial Products Division, Optical Coating Laboratory, Inc. (1986 - 1993)

***Class II Director -- Term to Expire in 2018***

Luke P. LaValle,  
Jr., 74

2005 Director of the Company (2005 - present)

President and Chief Executive Officer, American Capital Management Inc. (1980 - present)  
Senior Investment Officer, United States Trust Company of NY (1967 - 1980)  
Lt. Colonel, US Army Reserve (Retired)

The Board believes that the above-mentioned experience, along with the other experience, qualifications, attributes and skills of the Board members described in the summary below, provide the Company with the perspectives and judgment necessary to guide the Company's strategies and monitor their execution.

**Other Experience, Qualification, Attributes and Skills of Board Members**

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The Board considered the following experience, qualifications, attributes and skills of its nominees and the other continuing elected directors in determining that each should serve as a director of the Company:

Amy Eskilson

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Over 20 years' experience in operations, senior management and executive level positions in the photonics industry in both domestic and global manufacturing environment.

Broad and deep experience in acquisitions; facilitated 8 transactions in the photonics sector over a 9 year period prior to joining Inrad Optics, Inc.

Founding team member experience involving privately funded high technology start-ups and R & D institutional spin-off companies.

Extensive experience working with government and university research facilities; defense, aerospace, and technology corporations, small businesses and start-ups.

Expertise in corporate and public relations, technology licensing, contracts, marketing and export control/ITAR, corporate real estate and facilities management.

Proven leadership and business building skills including strategic planning, manufacturing management, corporate culture building and change management.

Jan M. Winston

Extensive background in high technology sector and over 35 years with IBM in a variety of managerial and executive positions primarily in the development of new computer systems and new software products such as the personal computer and speech recognition software

Diverse experience gained through senior level roles in the areas of product development, marketing, finance, planning and strategy, including general management and profit and loss responsibilities in both the domestic and international area

AB degree from Princeton University and attendance at the Columbia Graduate School of Business Administration

Experience as a management consultant serving clients such as IBM, as well as smaller manufacturing organizations, covering various projects such as product management, strategic and financial planning, and management systems.

Served as Chairman of the Audit Committee, Chairman of the Compensation Committee and is the current Chairman of the Board

Dennis G. Romano

Global business experience in business development as Chief Business Development Officer of a business unit of Washington Group International

Over 20 years of experience in business and strategy development for U.S. and International government clients

Senior executive leadership for multiple business development organizations with a large international presence

Operational management experience and joint leadership, in a \$700 million business unit in the defense sector with Washington Group International

Extensive background in business development, marketing and strategic development and implementation  
Chairman of the Company's Nominating Committee

N.E. Rick Strandlund

- Global business experience as President and CEO of NanoProducts Corporation
- Thin-film optical coating experience as VP and General Manager of Optical Coating Laboratory, Inc.
- Board experience as Chairman of the Board of NanoProducts and as a former director of Research Electro-Optics, Inc.
- Strategic and business development leadership of two global high-tech, photonics related manufacturing organizations
- Prior leadership experience in new product and new technology development
- MBA in Management and Bachelor of Science in Aerospace Engineering
- Chairman of the Company's Compensation Committee

Luke P. LaValle, Jr.

Investment professional with over 40 years of experience in analyzing, researching and investing in smaller public growth companies with U.S. Trust Co of NY and American Capital Management, Inc. Senior analyst and membership in the NY Society of Security Analysts

Extensive board experience with V Band Corporation, a public company, from 1992 to 1995 and several private companies including Benmarl Wine Company, Ltd. (1982-1992) and Westhampton Yacht Squadron, Ltd. (1985-1995)

Military experience with rank of Lieutenant Colonel, Military Intelligence, USAR (retired) and previous assignments to Army Staff, Office of Operations, Plans and Strategy, The Pentagon and Intelligence Officer, 101<sup>st</sup> Airborne Division

Business and military experience includes analysis of tactical and strategic issues, the formation of operational plans based upon situational experience and the development and assessment of alternative courses of action with practical application to planning, direction, guidance and control of the operations of smaller sized organizations like Inrad Optics, Inc.

Chairman of the Company's Audit Committee

***The Board of Directors unanimously recommends that you vote FOR the election of the Board's nominees for Class III director: Amy Eskilson and Jan M. Winston***

## PROPOSAL TWO

### **RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Baker Tilly Virchow Krause, LLP served as the Company's independent registered public accounting firm during the fiscal year ended December 31, 2015 and has been appointed by the Company's Audit Committee to serve as the Company's independent registered public accountants for the current fiscal year ending December 31, 2016.

The Company's Audit Committee has the responsibility to select, retain and oversee the work of outside auditors and, when appropriate, to replace the outside auditors. Stockholder ratification of the appointment of Baker Tilly Virchow Krause, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016 is not required by law or by the Company's Certificate of Incorporation or by-laws. However, the Board of Directors is submitting the selection of Baker Tilly Virchow Krause, LLP to the Company's stockholders for ratification as a matter of good corporate governance and practice. If the stockholders fail to ratify the appointment, the Company will reconsider whether or not to retain that firm. Even if the selection is ratified, the Company may appoint a different independent registered public accounting firm during the year if the Audit Committee of the Board of Directors determines that such a change would be in the best interests of the Company and its stockholders. A representative of Baker Tilly Virchow Krause, LLP is not expected to be present at the Annual Meeting but will be available by telephone to respond to appropriate questions from the stockholders.

*The Board of Directors unanimously recommends that you vote FOR the proposal to ratify the appointment of Baker Tilly Virchow Krause, LLP as the Company's independent registered public accounting firm during the fiscal year ending December 31, 2016.*

## **PROPOSAL THREE**

### **ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION**

The Board of Directors is asking shareholders to approve an advisory resolution on our named executive officer compensation as disclosed in this Proxy Statement. Our Compensation Committee has structured our executive compensation program to attract, motivate and retain highly qualified employees, to align our executives' interests with those of our shareholders and to provide our executives with certain additional compensation when superior financial results are achieved. The Compensation Committee and the Board of Directors believe that our compensation policies and procedures are effective in achieving our goals.

The Board of Directors is urging shareholders to read the "Executive Compensation" section of this Proxy Statement beginning on page 17 of this Proxy Statement, which includes the "Summary Compensation Table" and other related compensation tables, notes and narrative related to the compensation of our named executive officers.

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act and Section 14A of the Exchange Act, as amended, and as a matter of good corporate governance, the Board of Directors is asking shareholders to approve the following resolution at the 2015 Annual Meeting of Shareholders:

RESOLVED, that the shareholders of Inrad Optics, Inc. (the "Company") approve the compensation of the Company's named executive officers as disclosed in the Proxy Statement for the Company's 2016 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the SEC (which includes the Executive Compensation section, the Summary Compensation Table and related narrative discussion).

Although this proposal, commonly referred to as a "say-on-pay" vote, is an advisory vote that will not be binding on the Board of Directors or the Compensation Committee, the Board of Directors and the Compensation Committee will consider the results of this advisory vote when making future decisions regarding our named executive compensation program.

*The Board of Directors unanimously recommends that you vote FOR the approval, on an advisory basis, of the compensation of our named executive officers.*



## Compensation of Directors

Compensation for non-employee directors consists of two components: cash (i.e. meeting attendance fees, retainer and cash bonuses) and awards under the Company's 2010 Equity Compensation Program (the "Program"). Under the Program, stock option grants and restricted stock unit grants may be made by the Compensation Committee which serves as the Program Administrator. Equity-based grants are intended to align the interests of the Company's directors with that of other shareholders. The Company does not require its directors to own stock.

Fees paid to non-employee directors were \$500 during fiscal year 2015 for each board or committee meeting attended in person, and \$250 for each meeting in which they participated via telephone.

In addition, each non-employee director is paid an annual retainer fee, in quarterly installments. For 2015, the annual retainer was \$15,000 for the Chairman and \$10,000 for each of the other outside directors.

The Company provides for reimbursement of expenses for all directors in the performance of their duties, including reasonable travel expenses incurred attending meetings.

Directors, who are also employees of the Company, do not receive any additional fees for such services.

The table that follows provides information on components of non-employee director compensation in 2015.

### Director Compensation in Fiscal Year 2015

Name	Fees earned or paid in cash (\$)	Option Awards (\$) (1)	Total (\$)
Luke P. LaValle, Jr.	14,250	1,800	16,050
Dennis G. Romano	14,250	1,800	16,050
N.E. Rick Strandlund	14,250	1,800	16,050
Jan M. Winston	19,250	1,800	21,050

(1) The value of stock option awards is computed in accordance with FASB ASC Topic 718. These amounts reflect the aggregate grant date fair value of the awards. The Company granted 10,000 stock options with an exercise price of \$0.19 per share to each of the directors on January 13, 2015. The stock options had a fair value \$0.18 per share on the grant date. The number of stock options which vested in 2015 to each non-employee director was as follows: Luke P. LaValle, Jr., 3,333; Dennis G. Romano, 3,333; N.E. Rick Strandlund, 3,333 and Jan M. Winston, 3,333. As of December 31, 2015, the aggregate number of option awards outstanding for each non-employee director then serving as a director was as follows: Luke P. LaValle, Jr., 48,611; Dennis G. Romano, 35,000; N.E. Rick Strandlund, 35,000; and Jan M. Winston, 48,611.

## **THE BOARD OF DIRECTORS AND ITS COMMITTEES**

### **Board of Director**

#### *Composition of the Board*

The Board of Directors in 2015 consisted of four independent directors, and the Company's President and CEO, Amy Eskilson.

The Board of Directors has determined that each of its four outside directors, Mr. Luke P. LaValle, Jr., Mr. Dennis G. Romano, Mr. N.E. Rick Strandlund and Mr. Jan M. Winston has no material relationship with the Company (other than as director) and is therefore “independent” within the meaning of the current listing standards of the Nasdaq Stock Market and applicable SEC rules. In its annual review of director independence, the Board of Directors considers all commercial, banking, consulting, legal, accounting or other business relationships any director may have with the Company. The Board of Directors considers a “material relationship” to be one that impairs or inhibits, or has the potential to impair or inhibit, a director’s exercise of critical and disinterested judgment on behalf of the Company and its shareholders. When assessing the “materiality” of a director’s relationship with the Company, the Board of Directors considers all relevant facts and circumstances not only from the standpoint of the director in his or her individual capacity, but also from the standpoint of the persons to whom the director is related and organizations with which the director is affiliated.

Ms. Eskilson does not serve on any Committees of the Board. Mr. Jan M. Winston served as Chairman of the Board during the year. The Board met 10 times during fiscal year 2015, including five meetings by telephone. Board members are encouraged, but not required by any specific Board policy, to attend the Company’s Annual Meeting. During 2015 each non-employee director of the Company was also a member of each Committee of the Board of Directors and each attended all of the meetings of the Board and the respective committees of the Board on which they served in fiscal 2015.

The Bylaws of the Company provide for a range of no less than four and no more than six directors.

The Board does not have a policy on whether or not the roles of Chief Executive Officer and Chairman of the Board should be separate and, if they are to be separate, whether the Chairman of the Board should be selected from the non-employee directors or be an employee. The Board believes that it should be free to make a choice from time to time in any manner that is in the best interests of the Company and its shareholders.

Currently, Mr. Winston serves as the Chairman of the Board and Ms. Eskilson serves as a director and Chief Executive Officer. The Board of Directors believes this is the most appropriate structure for the Company at this time because it makes the best use of Mr. Winston’s skills and experience, including 15 years as a director of the Company.

#### *Board’s Role in the Oversight of Risk Management*

Companies face a variety of risks, including credit risk, liquidity risk, and operational risk. In fulfilling its risk oversight role, the Board focuses on the adequacy of the Company’s risk management process and overall risk management system. The Board believes an effective risk management system will (1) adequately identify the

material risks that the Company faces in a timely manner, (2) implement appropriate risk management strategies that are responsive to the Company's risk profile and specific material risk exposures, (3) integrate consideration of risk and risk management into business decision-making throughout the Company, and (4) include policies and procedures that adequately transmit necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant committee.

The Audit Committee has been designated to take the lead in overseeing risk management at the Board level. Accordingly, the Audit Committee schedules time for periodic review of risk management, in addition to its other duties. In this role, the Audit Committee receives reports from management and other advisors, and strives to generate serious and thoughtful attention to the Company's risk management process and system, the nature of the material risks the Company faces, and the adequacy of the Company's policies and procedures designed to respond to and mitigate these risks.

Although the Board's primary risk oversight has been assigned to the Audit Committee, the full Board also periodically receives information about the Company's risk management system and the most significant risks that the Company faces. This is principally accomplished through Audit Committee reports to the Board and summary versions of the briefings provided by management and advisors to the Committee.

In addition, the Board and the Audit Committee encourage management to promote a corporate culture that understands risk management and incorporates it into the overall corporate strategy and day-to-day business operations. The Company's risk management structure also includes an ongoing effort to assess and analyze the most likely areas o