

ECHELON CORP
Form DEF 14A
August 26, 2016
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SCHEDULE 14A

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

(Amendment No. ___)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ECHELON CORPORATION

(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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1) Title of each class of securities to which transaction applies:

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3) Filing Party:

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ECHELON CORPORATION

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON October 4, 2016

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders (the Special Meeting) of Echelon Corporation, a Delaware corporation (Echelon or the Company), will be held on October 4, 2016, at 9:30 a.m. Pacific Time, at our principal executive offices, located at 2901 Patrick Henry Drive, Santa Clara, California 95054, for the following purposes, as more fully described in the proxy statement accompanying this notice:

1. To approve the adoption of the 2016 Equity Incentive Plan;
2. To ratify the appointment of Armanino LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016; and
3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on August 22, 2016 are entitled to vote at the Special Meeting. A list of stockholders of record entitled to vote at the Special Meeting will be available for inspection at our principal executive offices during the ten (10) calendar days immediately preceding the date of the Special Meeting.

All stockholders of record are cordially invited to attend the Special Meeting in person. Whether or not you plan to attend, please sign and return the Proxy Card or voting instruction card in the envelope enclosed for your convenience, or vote your shares by the Internet or by telephone as promptly as possible. Internet and telephone voting instructions can be found on the attached Proxy Card or voting instruction card.

Sincerely,

/s/ Alicia J. Moore

Alicia J. Moore
SVP, Chief Legal and Administration Officer

Santa Clara, California

August 26, 2016

YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, AND VOTE YOUR SHARES BY INTERNET, BY TELEPHONE, OR BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE AND RETURNING IT IN THE ENCLOSED ENVELOPE.

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ECHELON CORPORATION

PROXY STATEMENT

FOR

2016 SPECIAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

General

Our Board of Directors is soliciting proxies for the 2016 Special Meeting of Stockholders to be held at 2901 Patrick Henry Drive, Santa Clara, California 95054 on October 4, 2016, at 9:30 a.m. Pacific Time. The address of our principal executive office is 2901 Patrick Henry Drive, Santa Clara, California 95054 and our telephone number at this address is 408-938-5200. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters set forth in the attached Notice of Special Meeting. Please read it carefully.

Beginning on August 26, 2016, copies of this Proxy Statement were first sent to persons who were stockholders at the close of business on August 22, 2016, the Record Date for the Special Meeting.

Costs of Solicitation

Echelon will pay the costs and expenses of soliciting proxies from stockholders.

Certain of our directors, officers, employees and representatives may solicit proxies on our behalf, in person or by written communication, telephone, email, facsimile or other means of communication. We have engaged The Proxy Advisory Group, LLC to assist in the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements that are not expected to exceed \$15,500 in the aggregate. Arrangements may be made with brokerage houses, custodians, and other nominees for forwarding proxy materials to beneficial owners of shares of our common stock held of record by such nominees and for reimbursement of reasonable expenses they incur. Our costs for such services will not be significant.

Record Date and Shares Outstanding

Only stockholders of record at the close of business on August 22, 2016, are entitled to attend and vote at the Special Meeting. On the record date, 4,430,758 shares of our common stock were outstanding and held of record.

QUESTIONS AND ANSWERS REGARDING OUR SPECIAL MEETING

Although we encourage you to read this Proxy Statement in its entirety, we include this question and answer section to provide some background information and brief answers to certain questions you may have about the Special Meeting or this Proxy Statement.

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Q: *Why am I receiving these proxy materials?*

A: Our Board of Directors is providing these proxy materials to you in connection with our Special Meeting of stockholders, which will take place on October 4, 2016. Stockholders are invited to attend the Special Meeting and are requested to vote on the proposals described in this Proxy Statement.

Q: *What proposals will be voted on at the Special Meeting?*

A: There are two proposals scheduled to be voted on at the Special Meeting:

Approval of our 2016 Equity Incentive Plan; and

Ratification of the appointment of Armanino LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016.

Q: *What is Echelon's voting recommendation?*

A: Our Board of Directors unanimously recommends that you vote your shares **FOR** approval of our 2016 Equity Incentive Plan and **FOR** ratification of the appointment of Armanino LLP as our independent registered public accounting firm.

Q: *What happens if additional proposals are presented at the Special Meeting?*

A: Other than the two proposals described in this Proxy Statement, we do not expect any additional matters to be presented for a vote at the Special Meeting. If you are a stockholder of record and grant a proxy, the persons named as proxy holders, Ronald A. Sege, our Chief Executive Officer, and C. Michael Marszewski, our Chief Financial Officer, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Special Meeting.

Q: *Who can vote at the Special Meeting?*

A: Our Board of Directors has set August 22, 2016 as the record date for the Special Meeting. All stockholders who owned Echelon common stock at the close of business on August 22, 2016 may attend and vote at the Special Meeting. Each stockholder is entitled to one vote for each share of common stock held as of the record date on all matters to be voted on. Stockholders do not have the right to cumulate votes. On August 22, 2016, there were 4,430,758 shares of our common stock outstanding. Shares held as of the record date include shares that are held directly in your name as the stockholder of record as well as those shares held for you as a beneficial owner through a broker, bank or other nominee.

Q: *What is the difference between holding shares as a stockholder of record and as a beneficial owner?*

A: Most of our stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholders of record If, at the close of business on the record date, your shares were registered directly in your name with our transfer agent, Computershare, you are considered the stockholder of record with respect to those shares, and these proxy materials have been sent directly to you. As the stockholder of

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record, you have the right to grant your voting proxy directly to the individuals listed on the Proxy Card or to vote in person at the Special Meeting.

Beneficial owners If, at the close of business on the record date, your shares were not held in your name, but rather in a stock brokerage account or by a bank or other nominee on your behalf, you are considered the beneficial owner of shares held in street name, and these proxy materials have been forwarded to you by your broker, bank or other nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee how to vote your shares by following the voting instructions your broker, bank or other nominee provides. If you do not provide your broker, bank or other nominee with instructions on how to vote your shares, your broker, bank or other nominee may, in its discretion, vote your shares with respect to routine matters but may not vote your shares with respect to any non-routine matters. Please see *What if I do not specify how my shares are to be voted?* for additional information.

Q: *Do I have to do anything in advance if I plan to attend the Special Meeting in person?*

A: *Stockholder of record* If you were a stockholder of record at the close of business on the record date, you do not need to do anything in advance to attend and/or vote your shares in person at the Special Meeting, but you will need to present government-issued photo identification for entrance to the Special Meeting.

Beneficial owners If you were a beneficial owner at the close of business on the record date, you may not vote your shares in person at the Special Meeting unless you obtain a legal proxy from your broker, bank or other nominee who is the stockholder of record with respect to your shares. You may still attend the Special Meeting even if you do not have a legal proxy. For entrance to the Special Meeting, you will need to provide proof of beneficial ownership as of the record date, such as the notice or voting instructions you received from your broker, bank or other nominee or a brokerage statement reflecting your ownership of shares as of the record date, and present government-issued photo identification.

Please note that no cameras, recording equipment, large bags, briefcases or packages will be permitted in the Special Meeting.

Q: *How do I vote and what are the voting deadlines?*

A: *Stockholder of record* If you are a stockholder of record, you can vote in one of the following ways:

Internet Stockholders of record with Internet access may submit proxies by following the *Vote by Internet* instructions on the Proxy Card or voting instruction card until 11:59 p.m., Eastern Time, on October 3, 2016, or by following the instructions at www.proxyvote.com.

Telephone You may submit your proxy by following the *Vote by Phone* instructions on the Proxy Card or voting instruction card.

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Mail You may indicate your vote by marking, signing and dating the Proxy Card in accordance with the *Vote by Mail* instructions on the Proxy Card or voting instruction card.

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In person If you plan to attend the Special Meeting in person, you may vote by delivering your completed Proxy Card in person or by completing and submitting a ballot, which will be provided at the Special Meeting.

Beneficial owners If you are the beneficial owner of shares held of record by a broker, bank or other nominee, you will receive voting instructions from your broker, bank or other nominee. You must follow the voting instructions provided by your broker, bank or other nominee in order to instruct your broker, bank or other nominee how to vote your shares. The availability of Internet and telephone voting options will depend on the voting process of your broker, bank or other nominee. As discussed above, if you are a beneficial owner, you may not vote your shares in person at the Special Meeting unless you obtain a legal proxy from your broker, bank or other nominee.

Q: *How can I change or revoke my vote?*

A: Subject to any rules your broker, bank or other nominee may have, you may change your voting instructions at any time before your shares are voted at the Special Meeting.

Stockholders of record If you are a stockholder of record, you may change your vote by (1) filing with our Chief Legal and Administration Officer, prior to your shares being voted at the Special Meeting, a written notice of revocation or a duly executed Proxy Card, in either case dated later than the prior Proxy Card relating to the same shares, or (2) attending the Special Meeting and voting in person (although attendance at the Special Meeting will not, by itself, revoke a proxy). Any written notice of revocation or subsequent Proxy Card must be received by our Chief Legal and Administration Officer prior to the taking of the vote at the Special Meeting. Such written notice of revocation or subsequent Proxy Card should be hand delivered to our Chief Legal and Administration Officer or should be sent so as to be delivered to our principal executive offices, Attention: Chief Legal and Administration Officer.

Beneficial owners If you are a beneficial owner of shares held in street name, you may change your vote (1) by submitting new voting instructions to your broker, bank or other nominee, or (2) by attending the Special Meeting and voting in person if you have obtained a legal proxy giving you the right to vote the shares from the broker, bank or other nominee who holds your shares.

In addition, a stockholder of record or a beneficial owner who has voted via the Internet or by telephone may also change his, her or its vote by making a timely and valid later Internet or telephone vote no later than 11:59 p.m., Eastern Time, on October 3, 2016.

Q: *What if I do not specify how my shares are to be voted?*

A: *Stockholder of record* If you are a stockholder of record and you submit a proxy but you do not provide voting instructions, your shares will be voted:

FOR approval of our 2016 Equity Incentive Plan;

FOR the ratification of the appointment of Armanino LLP as our independent registered public accounting firm; and

In the discretion of the named proxy holders regarding any other matters properly presented for a vote at the Special Meeting.

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Beneficial owners If you are a beneficial owner and you do not provide your broker, bank or other nominee that holds your shares with voting instructions, then your broker, bank or other nominee will determine if it has discretion to vote on each matter. Brokers do not have discretion to vote on non-routine matters. Proposal One (approval of our 2016 Equity Incentive Plan) is a non-routine matter, while Proposal Two (ratification of appointment of independent registered public accounting firm) is a routine matter. As a result, if you do not provide voting instructions to your broker, bank or other nominee, then your broker, bank or other nominee may not vote your shares with respect to Proposal One, which would result in a broker non-vote, but your broker, bank or other nominee may, in its discretion, vote your shares with respect to Proposal Two. For additional information regarding broker non-votes, see *What are the effects of abstentions and broker non-votes?* below.

Q: *What is a quorum?*

A: A quorum is the minimum number of shares required to be present at the Special Meeting for the meeting to be properly held under our Amended and Restated Bylaws and Delaware law. A majority of the shares of common stock outstanding and entitled to vote, in person or by proxy, constitutes a quorum for the transaction of business at the Special Meeting. If there is no quorum, a majority of the shares present at the Special Meeting may adjourn the meeting to a later date.

Q: *What are the effects of abstentions and broker non-votes?*

A: An abstention represents a stockholder's affirmative choice to decline to vote on a proposal. If a stockholder indicates on its Proxy Card that it wishes to abstain from voting its shares, or if a broker, bank or other nominee holding its customers' shares of record causes abstentions to be recorded for shares, these shares will be considered present and entitled to vote at the Special Meeting. As a result, abstentions will be counted for purposes of determining the presence or absence of a quorum and will also count as votes against a proposal in cases where approval of the proposal requires the affirmative vote of a majority of the shares present and entitled to vote at the Special Meeting (i.e., both Proposal One and Proposal Two).

A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to such proposal and has not received voting instructions from the beneficial owner of the shares. Broker non-votes will be counted for purposes of calculating whether a quorum is present at the Special Meeting but will not be counted for purposes of determining the number of votes cast. Therefore, a broker non-vote will make a quorum more readily attainable but will not otherwise affect the outcome of the vote on any proposal.

Q: *How many votes are needed for approval of each proposal?*

A: The votes required for each proposal are as follows:

Proposal One The approval of the 2016 Equity Incentive Plan requires the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the Special Meeting and entitled to vote thereon. You may vote FOR, AGAINST, or ABSTAIN. If you ABSTAIN from voting on Proposal One, the abstention will have the same effect as a vote AGAINST the proposal.

Proposal Two The ratification of the appointment of Armanino LLP as our independent registered public accounting firm requires the affirmative vote of a majority of the shares of our common stock present in person or by proxy at the Special Meeting and entitled to vote

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thereon. You may vote FOR, AGAINST, or ABSTAIN. If you ABSTAIN from voting on Proposal Two, the abstention will have the same effect as a vote AGAINST the proposal.

Q: *Who are the proxies and what do they do?*

A: The two persons named as proxies on the Proxy Card, Ronald A. Sege, our Chief Executive Officer, and C. Michael Marszewski, our Chief Financial Officer, were designated by our Board of Directors. All properly executed proxies will be voted (except to the extent that authority to vote has been withheld) and, where a choice has been specified by the stockholder of record as provided in the Proxy Card, it will be voted in accordance with the instructions indicated on the Proxy Card. If you are a stockholder of record and submit a signed Proxy Card but do not indicate your voting instructions, your shares will be voted as recommended by our Board of Directors. If any matters not described in this Proxy Statement are properly presented at the Special Meeting, the proxy holders will use their own judgment to determine how to vote your shares. If the Special Meeting is postponed or adjourned, the proxy holders can vote your shares on the new meeting date, unless you have properly revoked your proxy, as described above.

Q: *Who counts the votes?*

A: Voting results are tabulated and certified by Broadridge Financial Solutions, Inc.

Q: *Where can I find the voting results of the Special Meeting?*

A: The preliminary voting results will be announced at the Special Meeting. The final results will be reported in a current report on Form 8-K filed within four business days after the date of the Special Meeting.

Q: *What should I do if I receive more than one set of proxy materials?*

A: You may receive more than one set of proxy materials, including multiple copies of this Proxy Statement and multiple Proxy Cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one Proxy Card. Please complete, sign, date and return each Proxy Card and voting instruction card that you receive

Q: *How may I obtain a separate set of proxy materials?*

A: The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders, unless the company has received contrary instructions from one or more of the stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers household proxy materials, delivering a single set of materials per household, even if more than one stockholder resides in that household. If your proxy statement is being householded and you would like to receive separate copies, you may contact our Investor Relations department (i) by mail at 2901 Patrick Henry Drive, Santa Clara, California 95054, (ii) by calling us at 408-938-5252, or (iii) by sending an email to mlarsen@echelon.com. Alternatively, stockholders

who share an address and receive multiple copies of our proxy materials may request to receive a single copy by following the instructions above.

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Q: *Is my vote confidential?*

A: Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Echelon or to third parties except (i) as necessary to meet applicable legal requirements, (ii) to allow for the tabulation of votes and certification of the vote, or (iii) to facilitate a successful proxy solicitation by our Board of Directors.

DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS FOR 2017 ANNUAL MEETING

Requirements for stockholder proposals to be considered for inclusion in the Company's proxy materials.

Pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, proposals of our stockholders that are intended to be presented by such stockholders at our 2017 annual meeting and that such stockholders desire to have included in our proxy materials relating to such meeting must be received by us at our offices at 2901 Patrick Henry Drive, Santa Clara, California 95054, Attn: Chief Legal and Administration Officer, no later than December 7, 2016, which is 120 calendar days prior to the anniversary of the date on which the proxy statement relating to our 2016 annual meeting was distributed to our stockholders. Such proposals must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the proxy statement and form of proxy for that meeting.

Requirements for stockholder proposals to be brought before an annual meeting.

Our Amended and Restated Bylaws establish an advance notice procedure with regard to specified matters to be brought before an annual meeting of stockholders. In general, written notice must be received by the Chief Legal and Administration Officer of the Company not less than twenty (20) days nor more than sixty (60) days prior to an annual meeting and must contain specified information concerning the matters to be brought before such meeting and concerning the stockholder proposing such matters. Therefore, to be presented at our 2017 annual meeting, such a proposal must be received by our Chief Legal and Administration Officer no earlier than sixty (60) days nor later than twenty (20) days prior to the 2017 annual meeting of stockholders. If less than thirty (30) days' notice or prior public disclosure of the date of the 2017 annual meeting is given or made to stockholders, notice by the stockholder, in order to be timely, must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the 2017 annual meeting was mailed or such public disclosure was made. Our Amended and Restated Bylaws also specify requirements as to the form and content of a stockholder's notice.

The chairman of the 2017 annual meeting may refuse to acknowledge the introduction of any stockholder proposal if it is not made in compliance with the applicable notice provisions.

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PROPOSAL ONE

APPROVAL OF THE 2016 EQUITY INCENTIVE PLAN

We are asking our stockholders to approve a new 2016 Equity Incentive Plan and its material terms to allow us to continue to offer competitive equity compensation awards to our existing and new hire employees and other service providers.

Our future success is substantially dependent on our ability to attract, retain and motivate the members of our management team and other key employees throughout our organization. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where we have a substantial presence and need for highly skilled employees. The ability to offer equity awards as part of our compensation packages is critical for us to succeed in this competitive environment.

The Board adopted the 2016 Equity Incentive Plan on August 13, 2016, subject to the approval of our stockholders at the Special Meeting. If approved by our stockholders, the 2016 Equity Incentive Plan will replace our current 1997 Stock Plan (the 1997 Plan), and the 2016 Equity Incentive Plan will continue in effect until 2026 unless earlier terminated by the Board or the Compensation Committee. Effective as of immediately prior to the effectiveness of the 2016 Equity Incentive Plan, the 1997 Plan will terminate. The termination of the 1997 Plan will not affect outstanding awards previously issued thereunder, and such awards will continue to be governed by the terms of the 1997 Plan.

Share referred to throughout this proposal means a share of our common stock, as adjusted for dividend or other distribution recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of our common stock or other securities, or other change in our corporate structure affecting our common stock.

If our stockholders do not approve the 2016 Equity Incentive Plan, we will continue to use our 1997 Plan but will be restricted in our ability to successfully attract and retain highly skilled employees, including members of our management team. As of July 31, 2016, there were 501,801 Shares available for grant under the 1997 Plan. We do not believe these Shares will be sufficient to meet our anticipated needs over the next several years, as discussed in greater detail below. The Share amounts reflected in this paragraph and throughout this proposal reflect adjustments resulting from the 1-for-10 reverse stock split of the Company in December 2015.

We are asking for approval of a Share reserve under the 2016 Equity Incentive Plan of (i) 500,000 Shares plus (ii) any Shares subject to awards granted under the 1997 Plan that, after the termination of the 1997 Plan, expire or otherwise terminate without having vested or without having been exercised in full and any Shares issued pursuant to awards granted under the 1997 Plan that are forfeited to or repurchased by us. No awards will be granted under the 1997 Plan following its termination, and none of the Shares that remain available for grant under the 1997 Plan as of its termination, if any, will become available for grant under the 2016 Equity Incentive Plan.

If our stockholders approve the 2016 Equity Incentive Plan, we currently anticipate that the Shares available under the 2016 Equity Incentive Plan will be sufficient to meet our expected needs for approximately three (3) years. In determining the number of Shares to be reserved for issuance under the 2016 Equity Incentive Plan, the Board considered the following:

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Remaining Competitive by Attracting and Retaining Talent. Our future success is substantially dependent on our ability to attract, retain and motivate the members of our management team and other key employees throughout our organization. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where we have a substantial presence and need for highly skilled personnel. The Board believes that the ability to offer equity awards as part of the Company's compensation packages is critical for the Company to succeed in this competitive environment.

Number of Shares Available for Grant under the 1997 Plan. As of July 31, 2016, 501,801 Shares remained available for issuance under the 1997 Plan, and 328,427 Shares were subject to outstanding equity awards previously granted under the 1997 Plan. The Board does not believe the current Share reserve is sufficient to recruit and retain high quality employees over the next few years.

Limitations of Inducement Plan. In April 2016, we adopted our 2016 Inducement Equity Incentive Plan (the Inducement Plan), which allows us to grant equity awards for limited purposes in accordance with NASDAQ Listing Rule 5635(c)(4). Under the terms of the Inducement Plan, we may only grant equity awards to new hire employees as a material inducement to such individuals' entry into employment with us. Each time an award is granted, we are required to issue a press release announcing the award and submit a notice to NASDAQ. As a result, the Inducement Plan cannot serve as a retention tool for our existing employees and is cumbersome to administer even for the limited purpose of attracting new employees. We typically make new hire grants under the Inducement Plan on the 10th day of each month. As of August 10, 2016, there were 130,000 Shares reserved for future grants under the Inducement Plan.

Overhang. Overhang measures the potential dilution to which our existing stockholders are exposed due to outstanding equity awards. As of July 31, 2016, we had 403,427 Shares subject to outstanding equity awards, of which 325,383 were subject to outstanding options, with a weighted-average exercise price per Share of \$19.03, and 78,044 were subject to outstanding full-value awards. 76% of our outstanding options had an exercise price higher than the closing price of our Common Stock on the NASDAQ Stock Market as of July 31, 2016. As a result, while our outstanding equity awards collectively represented approximately 9.1% of our outstanding Shares as of July 31, 2016, 76% of this amount is attributable to outstanding options that are unlikely to be exercised unless the trading price of our Common Stock increases above the exercise price of the options.

Burn Rate. Burn rate measures our usage of Shares for our equity incentive plans as a percentage of our outstanding Common Stock. For 2015, 2014, and 2013, our burn rate was 4.01%, 1.72%, and 5.12%, respectively. We have been advised by independent consultants that our average annual burn rate of 3.61% over this three-year period is considered reasonable by most institutional stockholders for a company of our size in our industry. For more information, including the methodology used to calculate our burn rate, see the disclosure below under the heading "Historical Burn Rate for Options and Performance Shares under Equity Incentive Plans."

Forecasted Grants. In determining our projected Share utilization, the Board considered a forecast that included the following factors: (i) the Shares needed for retention of key employees, including crucial technical and leadership talent; (ii) the need for increased headcount to support our strategic initiatives,

particularly in the lighting business; (iii) the alignment of our strategic plan, long term performance and shareholder value creation; (iv) the Shares available for issuance under the 1997

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Plan and Inducement Plan (excluding Shares already subject to outstanding awards that, if forfeited, may become available for issuance again); (v) the Shares that would be available for grant under the 2016 Equity Incentive Plan, if the stockholders approve the 2016 Equity Incentive Plan (excluding Shares already subject to outstanding awards granted under the 1997 Plan that, if forfeited, would be added to the number of Shares reserved under the 2016 Equity Incentive Plan); (vi) the estimated number of Shares to be added to the 2016 Equity Incentive Plan from forfeited awards under the 1997 Plan; and (vii) forecasted future grants.

Proxy Advisory Firm Guidelines. The Board considered proxy advisory firm guidelines.

Reasons Why You Should Vote to Approve the 2016 Equity Incentive Plan

Long-Term Stock Ownership is a Key Component of our Compensation Objective

Our overall compensation objective is to compensate our executives and other employees in a manner that attracts and retains the caliber of individuals needed to manage and staff our business in a competitive industry. Our employees are our most valuable asset, and we strive to provide them with compensation packages that are not only competitive but also that reward personal performance, help meet our retention needs and incentivize them to manage our business as owners, thereby aligning their interests with those of our stockholders.

To achieve these objectives, we historically have provided a significant portion of our key employees' total compensation in the form of equity awards through our equity incentive programs, the value of which depends on our stock performance. Our goal is for equity awards to continue to represent a significant portion of our employees' total compensation. We believe this approach helps to encourage long-term focus and commitment from our employees and provides us with an important retention tool for key employees, as awards generally are subject to vesting over an extended period of time subject to continued service with us on each vesting date. In addition, we believe we must continue to use equity awards to help attract, retain and motivate employees and other service providers to continue to grow our business and ultimately increase stockholder value as we compete for a limited pool of talented people and face challenges in hiring and retaining such talent.

We believe that our future success depends, in large part, upon our ability to maintain a competitive position in attracting, retaining, and motivating key personnel. Our stock award program is a primary vehicle for offering long-term incentives to the best possible employees. Our named executive officers and directors have an interest in this proposal, as they will be eligible to receive stock awards under the 2016 Equity Incentive Plan, if it is approved.

Reserving Shares Available for Granting Stock Awards is Important for Meeting our Future Compensation Needs

Under the 1997 Plan, we have granted a combination of stock options, stock appreciation rights, and performance shares, including performance shares that vest solely on a time-based vesting schedule. Equity awards provide incentives to and motivate performance by our executives and employees because (i) they can focus performance on specific objectives; (ii) they can be tied to achievement of certain key financial or operational goals, (iii) they can be subject to time-based vesting requirements, increasing employee retention, and (iv) the value of the awards increases if and as the value of our Common Stock appreciates. This design is intended to further strengthen the alignment between the holders of equity awards under the 1997 Plan and our stockholders, and to meet our retention objectives.

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The alternative to using stock awards for retention and incentive purposes would be to increase cash compensation. We do not believe increasing cash compensation to make up for any shortfall in stock awards would be practicable or advisable because we believe that a combination of stock awards and cash compensation provide a more effective compensation vehicle than cash alone for attracting, retaining, and motivating our employees and that stock awards align employees and stockholder interests. Any significant increase in cash compensation in lieu of stock awards could substantially increase our operating expenses and reduce our cash flow from operations, which may adversely affect our business and operating results. We also do not believe that such a program would be likely to have significant long-term retention value and would not serve to align our employees' interests as closely to those of our stockholders in the absence of stock incentives.

Outstanding Equity Awards Currently Have Little to No Value, and Approving the 2016 Equity Incentive Plan Will Enable the Company to Build Long-Term Value

We have had significant volatility and depression in our stock price over the last several years. As a result, outstanding option awards have little to no current realizable value and offer limited retention incentives for our valuable employees. In adopting the 2016 Equity Incentive Plan and requesting an increase in the number of Shares for employee equity awards, we are seeking the ability to grant additional equity awards to retain and attract key employees. The success of our company rests with our employees, and providing them with valuable equity awards ties their compensation to the appreciation of our Shares.

The 2016 Equity Incentive Plan Combines Compensation and Governance Best Practices

The 2016 Equity Incentive Plan includes provisions that are designed to protect our stockholders' interests:

Administration. The 2016 Equity Incentive Plan will be administered by the Compensation Committee of the Board, which is comprised entirely of independent non-employee directors.

Exchange and Repricing Programs. The 2016 Equity Incentive Plan prohibits the repricing or other exchange of awards without prior stockholder approval.

No Discount Stock Options or Stock Appreciation Rights. All stock options and stock appreciation rights will have an exercise price equal to at least the fair market value of Shares on the date the stock option or stock appreciation right is granted, except in certain situations in which we are assuming or replacing options granted by another company that we are acquiring.

Limits on Awards to Non-Employee Directors. The 2016 Equity Incentive Plan sets reasonable limits as to the maximum number of awards that could be granted in each fiscal year of the Company to non-employee directors.

No Single Trigger Vesting Acceleration on Change in Control. The 2016 Equity Incentive Plan provides that upon a change in control, outstanding awards may be treated as provided by the administrator, and that, other than with respect to outside directors, only in the event an award is not assumed or substituted will the

award vest on a change in control. The 2016 Equity Incentive Plan also provides certain double trigger vesting acceleration rights for options upon an involuntary termination following a change in control.

Limited Transferability. In general, awards may not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of

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law, unless otherwise approved by the Board or a committee of the Board administering the 2016 Equity Incentive Plan.

No Tax Gross-Ups. The 2016 Equity Incentive Plan does not provide for any tax gross-ups.

Limits on Vesting. Subject to certain limited exceptions, the 2016 Equity Incentive Plan provides that no options or stock appreciation rights granted thereunder shall become vested and exercisable earlier than one year after the grant date and that all other awards granted thereunder shall have a vesting period of at least one year.

The 2016 Equity Incentive Plan is also designed to provide us the ability to grant awards that are fully deductible for federal income tax purposes. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid to the chief executive officer and other covered employees, as determined under Section 162(m) of the Code and applicable guidance. However, certain types of compensation, including performance-based compensation, are generally excluded from this deductibility limit. To enable compensation in connection with stock options, stock appreciation rights and certain restricted stock grants, restricted stock units, performance shares and performance units awarded under the 2016 Equity Incentive Plan to qualify as performance-based within the meaning of Section 162(m), the 2016 Equity Incentive Plan imposes the same limits on the sizes of such awards as the limits in the 1997 Plan, as further described below. By approving the 2016 Equity Incentive Plan, our stockholders will be approving eligibility requirements for participation in the 2016 Equity Incentive Plan, the other material terms of the 2016 Equity Incentive Plan and awards granted under the 2016 Equity Incentive Plan, including limits on the numbers of shares or compensation that could be made to participants, and re-approving, among other things, performance measures upon which specific performance goals applicable to certain awards would be based. Notwithstanding the foregoing, we retain the ability to grant equity awards under the 2016 Equity Incentive Plan that do not qualify as performance-based compensation within the meaning of Section 162(m).

Our executive officers and directors have an interest in the approval of the 2016 Equity Incentive Plan by our stockholders because they would be eligible to receive awards under the 2016 Equity Incentive Plan.

Description of the 2016 Equity Incentive Plan

The following paragraphs provide a summary of the principal features of the 2016 Equity Incentive Plan and its operation. However, this summary is not a complete description of all of the provisions of the 2016 Equity Incentive Plan and is qualified in its entirety by the specific language of the 2016 Equity Incentive Plan. A copy of the 2016 Equity Incentive Plan is provided as [Appendix A](#) to this Proxy Statement.

Purposes. The purposes of the 2016 Equity Incentive Plan are to promote the success of our business, attract and retain the best available personnel for positions of substantial responsibility, and provide additional incentive to employees, directors, and consultants. These incentives will be provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and performance shares as the administrator of the 2016 Equity Incentive Plan may determine.

Authorized Shares and Market Price of Shares Available under the 2016 Equity Incentive Plan. Our stockholders are being asked to approve a number of Shares for issuance under the 2016 Equity Incentive Plan, subject to the adjustment provisions contained in the 2016 Equity Incentive Plan, equal to the sum of (i) 500,000 Shares plus (ii) any

Shares subject to awards granted under our 1997 Plan that, after the termination of the 1997 Plan, expire or otherwise terminate without having vested or without having been exercised in full

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and any Shares issued pursuant to awards granted under the 1997 Plan that are forfeited or repurchased by the Company, provided that the maximum number of Shares that may be added to the 2016 Equity Incentive Plan with respect to clause (ii) equals 830,228. These amounts are subject to adjustment upon certain capitalization events.

Shares may be authorized, but unissued, or reacquired shares of common stock. If an option or stock appreciation right expires or becomes unexercisable without having been exercised in full, or if Shares subject to other types of awards are forfeited to or repurchased by us due to failure to vest, those Shares will become available for issuance again under the 2016 Equity Incentive Plan. To the extent that we pay out an award in cash rather than Shares, such cash payment will not reduce the number of Shares available for issuance under the 2016 Equity Incentive Plan. In addition, the following Shares will not become available for future grant under the 2016 Equity Incentive Plan: (i) Shares tendered by a participant or withheld by the Company in payment of the purchase price of an option, (ii) Shares tendered by a Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an award, (iii) Shares repurchased by the Company with option proceeds, and (iv) Shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right on exercise of the stock appreciation right.

In addition, 95% of the Shares reserved for issuance under the 2016 Equity Incentive Plan may be issued only through awards that cannot become fully vested in less than one year from the date of grant.

As of August 22, 2016, the closing price of our Common Stock on the NASDAQ Stock Market was \$5.261 per share.

Plan Administration. The Compensation Committee will administer the 2016 Equity Incentive Plan. With respect to awards granted or to be granted to certain officers and key employees intended to be an exempt transaction under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (Rule 16b-3), the members of the committee administering the 2016 Equity Incentive Plan with respect to those awards must qualify as non-employee directors under Rule 16b-3 will administer the 2016 Equity Incentive Plan with respect to such awards. In the case of awards intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, the committee administering the 2016 Equity Incentive Plan with respect to those awards will consist of two or more outside directors within the meaning of Section 162(m).

Subject to the provisions of the 2016 Equity Incentive Plan, the administrator will have the power to determine the award recipients and the terms of the awards, including the exercise price, the number of Shares subject to each such award, the exercisability of the awards, and the form of consideration, if any, payable upon exercise. The administrator also will have the authority to amend existing awards, to prescribe rules and to construe and interpret the 2016 Equity Incentive Plan and awards granted under the 2016 Equity Incentive Plan, to establish rules and regulations, including sub-plans for satisfying, or qualifying for favorable tax treatment under, applicable laws in jurisdictions outside of the U.S., and to make all other determinations necessary or advisable for administering the 2016 Equity Incentive Plan. The administrator will also have the authority to determine whether awards will be adjusted for dividend equivalents; *provided, however*, that in no event will a dividend equivalent be attached to an option, stock appreciation right, or full-value award, in each case, with performance-based vesting conditions.

The administrator will not have the ability to institute and determine the conditions of a program providing participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator, exchange awards for awards of the same type, awards of a different

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type, and/or cash, or have the exercise price of awards increased or reduced without prior approval from our stockholders.

Eligibility. We will be able to grant all types of awards under the 2016 Equity Incentive Plan to our employees, consultants, and non-employee directors and employees and consultants of our parent or subsidiary corporations. However, we do not typically grant equity awards to consultants. We will be able to grant incentive stock options under the 2016 Equity Incentive Plan only to individuals who, as of the time of grant, are employees of ours or of any parent or subsidiary corporation of ours. As of July 31, 2016, the Company had four non-employee directors and approximately 84 employees (including six executive officers).

Stock Options. We will be able to grant stock options under the 2016 Equity Incentive Plan. Each option will be evidenced by an award agreement that specifies the exercise price, the term of the option, forms of consideration for exercise, and such other terms and conditions as the administrator determines, subject to the terms of the 2016 Equity Incentive Plan. The exercise price of options granted under the 2016 Equity Incentive Plan must be at least equal to the fair market value of our common stock on the date of grant, except in special, limited circumstances as set forth in the 2016 Equity Incentive Plan. The maximum term of an option will be specified in an award agreement, provided that an incentive stock option must have a term not exceeding 10 years. However, with respect to any participant who owns more than 10% of the voting power of all classes of outstanding stock of ours or of any parent or subsidiary of ours, the term must not exceed five years and the per share exercise price must equal at least 110% of the fair market value of a Share on the grant date. Generally, the fair market value of our common stock is the closing sales price on the relevant date as quoted on The NASDAQ Stock Market. Options will be exercisable at