

AECOM TECHNOLOGY CORP  
Form 10-Q/A  
May 09, 2008

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

WASHINGTON, D.C. 20549

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**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-52423

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**AECOM TECHNOLOGY CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**61-1088522**  
(I.R.S. Employer  
Identification Number)

555 South Flower Street, Suite 3700

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Los Angeles, California 90071

(Address of principal executive office and zip code)

(213) 593-8000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of February 6, 2008, 100,201,803 shares of the registrant's common stock were outstanding.







**Explanatory Note**



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AECOM Technology Corporation (the Company) is filing this Amendment No. 1 ( Amendment No. 1 ) to its Quarterly Report on Form 10-Q for the quarter ended December 31, 2007 (the Form 10-Q ) to reflect the reclassification of the Company's consolidated balance sheet and the restatement of the consolidated statement of cash flows for the quarter ended December 31, 2007 as discussed in Note 15 - Restatement of Financial Statements of the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Amendment No. 1. The restatement did not impact the Company's revenue, income from operations, net income, earnings per share, cash provided by operating activities, total current assets, total assets or stockholders' equity.





During the fiscal year 2008, the Company's management and the Audit Committee of the Board of Directors concluded that a change related to the classification of certain investments on the Company's balance sheet was appropriate. Specifically, it was determined that the fiscal 2007 issued financial statements should have presented investments of \$124 million held in auction rate securities (ARS) in current assets as marketable securities, rather than in current assets as cash equivalents, as previously reported. ARS are traditionally highly liquid investments, with interest rates that are reset through a dutch auction process that occurs every 7 to 35 days, depending on the terms of the individual security. The securities have long-term maturities. At each auction date, holders may elect to reset the interest rate on these securities at the rate determined by a market auction or to redeem the securities.



Except for Items 1 and 2 of Part I and Item 6 of Part II, no other information included in the Form 10-Q is being amended. The remaining Items contained within this Amendment No. 1 consist of all other Items originally contained in the Form 10-Q and are included for the convenience of the reader. This Amendment No. 1 does not reflect events occurring after the date of the Form 10-Q or modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Form 10-Q have not been revised to reflect events that occurred or facts that became known to the Company after the filing of the Form 10-Q, and such forward-looking statements should be read in their historical context. Accordingly, this Amendment No.1 should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the Form 10-Q.



**As required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the Company's principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications in connection with this Amendment No. 1 (but otherwise identical to their prior certifications) and are also furnishing, but not filing, Rule 13a-14(b) certifications in connection with this Amendment No. 1 (but otherwise identical to their prior certifications).**











**AECOM TECHNOLOGY CORPORATION**

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**PART I. FINANCIAL INFORMATION**



**Item 1. Financial Statements**



**AECOM Technology Corporation**

**Condensed Consolidated Balance Sheets**

**(in thousands, except share data)**

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	December 31, 2007 (Unaudited) (As Reclassified)	September 30, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 173,742	\$ 180,339
Cash in consolidated joint ventures	28,935	36,572
Total cash and cash equivalents	202,677	216,911
Marketable securities	127,579	200,783
Accounts receivable net	1,168,047	1,091,682
Prepaid expenses and other current assets	70,971	67,087
<b>TOTAL CURRENT ASSETS</b>	<b>1,569,274</b>	<b>1,576,463</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Equipment, furniture and fixtures	128,261	120,633
Leasehold improvements	55,332	48,504
Total	183,593	169,137
Accumulated depreciation and amortization	(58,713)	(50,935)
<b>PROPERTY AND EQUIPMENT NET</b>	<b>124,880</b>	<b>118,202</b>
<b>DEFERRED TAX ASSETS NET</b>	<b>60,568</b>	<b>61,594</b>
<b>INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES</b>	<b>24,145</b>	<b>23,551</b>
<b>GOODWILL NET</b>	<b>627,944</b>	<b>592,233</b>
<b>INTANGIBLE ASSETS NET</b>	<b>33,876</b>	<b>30,928</b>
<b>OTHER NON-CURRENT ASSETS</b>	<b>90,468</b>	<b>88,850</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,531,155</b>	<b>\$ 2,491,821</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term debt	\$ 3,448	\$ 1,926
Accounts payable and other current liabilities	230,427	228,350
Accrued expenses	464,182	491,989
Billings in excess of costs on uncompleted contracts	215,826	192,400
Income taxes payable		42,664
Deferred tax liability net	18,703	14,641
Current portion of long-term obligations	14,315	6,838
<b>TOTAL CURRENT LIABILITIES</b>	<b>946,901</b>	<b>978,808</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>205,652</b>	<b>174,253</b>
<b>LONG-TERM DEBT</b>	<b>30,169</b>	<b>39,186</b>
<b>MINORITY INTEREST</b>	<b>22,244</b>	<b>21,089</b>
<b>STOCKHOLDERS EQUITY:</b>		
Convertible preferred stock authorized, 7,799,780; issued and outstanding, 42,370 and 49,779 shares at December 31 and September 30, 2007; respectively, \$100 liquidation preference value	4,237	4,978
Preferred stock, Class C authorized, 200 shares; issued and outstanding, 71 and 72 shares as of December 31 and September 30, 2007, respectively; no par value, \$1.00 liquidation preference value		
Preferred stock, Class E authorized, 20 shares; issued and outstanding, 5 shares as of December 31 and September 30, 2007; no par value, \$1.00 liquidation preference value		
Common stock authorized, 150,000,000 shares of \$0.01 par value; issued and outstanding, 99,758,333 and 99,061,692, as of December 31 and September 30, 2007, respectively	998	991
Additional paid-in capital	1,244,075	1,224,164
Accumulated other comprehensive loss	(27,121)	(26,211)
Retained earnings	104,000	74,563
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>1,326,189</b>	<b>1,278,485</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 2,531,155</b>	<b>\$ 2,491,821</b>

See accompanying Notes to Condensed Consolidated Financial Statements.



## AECOM Technology Corporation

## Condensed Consolidated Statements of Income

(unaudited - in thousands, except per share data)

	Three Months Ended	
	December 31, 2007	December 31, 2006
Revenue	\$ 1,080,250	\$ 938,549
Cost of revenue	753,658	690,130
Gross profit	326,592	248,419
Equity in earnings of joint ventures	2,842	1,417
General and administrative expenses	284,902	219,828
Income from operations	44,532	30,008
Minority interest in share of earnings	1,279	1,586
Gain on sale of equity investment		11,286
Interest income (expense), net	1,433	(1,075)
Income before income tax expense	44,686	38,633
Income tax expense	15,193	13,113
Net income	\$ 29,493	\$ 25,520
Net income allocation:		
Preferred stock dividend	\$ 56	\$ 29
Net income available for common stockholders	29,437	25,491
Net income	\$ 29,493	\$ 25,520
Net income per share:		
Basic	\$ 0.30	\$ 0.44
Diluted	\$ 0.29	\$ 0.32
Weighted average shares outstanding:		
Basic	99,644	57,600
Diluted	103,025	79,036

## Condensed Consolidated Statements of Comprehensive Income

(unaudited in thousands)

	Three Months Ended	
	December 31, 2007	December 31, 2006
Net income	\$ 29,493	\$ 25,520
Other comprehensive income:		
Foreign currency translation adjustments	(910)	2,975
Comprehensive income	\$ 28,583	\$ 28,495

See accompanying Notes to Condensed Consolidated Financial Statements.



## AECOM Technology Corporation

## Condensed Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Three Months Ended December 31,	
	2007 (As Restated)	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 29,493	\$ 25,520
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,567	6,970
Equity in earnings of unconsolidated joint ventures	(2,842)	(1,417)
Distribution of earnings from unconsolidated affiliates	2,262	108
Stock based compensation	5,111	7,048
Excess tax benefit from share based payment	(4,910)	
Interest income on notes from stockholders		(532)
Foreign currency translation	(46)	(954)
Gain on sale of equity investment		(11,286)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(49,665)	(8,626)
Prepaid expenses and other assets	1,624	(10,337)
Accounts payable	(3,222)	3,711
Accrued expenses and other current liabilities	(39,507)	(10,520)
Billings in excess of costs on uncompleted contracts	21,626	24,183
Other long-term liabilities	(5,215)	3,652
Income taxes receivable/payable	(1,993)	16,148
Net cash (used in) provided by operating activities	(35,717)	43,668
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for business acquisitions, net of cash acquired	(44,652)	(6,200)
Net investment in unconsolidated affiliates	(13)	(3,034)
Sales of investment securities	83,104	
Purchases of investment securities	(9,900)	
Payments for capital expenditures	(10,908)	(10,093)
Proceeds from sale of equity investment		14,683
Net cash provided by (used in) investing activities	17,631	(4,644)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings under credit agreements		2,681
Repayments of borrowings under long-term obligations	(2,718)	(7,000)
Proceeds from issuance of common stock	3,791	20,210
Proceeds from exercise of stock options	2,185	521
Payments to repurchase common stock	(4,050)	(46,846)
Proceeds from payment of notes receivable from stockholders		477
Excess tax benefit from share based payment	4,910	178
Net cash provided by (used in) financing activities	4,118	(29,779)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(266)	659
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,234)	9,904
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	216,911	127,870
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 202,677	\$ 137,774

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NON-CASH INVESTING AND FINANCING ACTIVITY

Common stock issued in acquisitions	\$	3,979	\$	800
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**AECOM Technology Corporation**

**Notes to Condensed Consolidated Financial Statements**



**(unaudited)**



## 1. Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2007, the condensed consolidated statements of income and of cash flows for the three months ended December 31, 2007 and 2006 of AECOM Technology Corporation (the Company) are unaudited and, in the opinion of management, include all adjustments necessary for a fair statement of the Company's financial position and results of operations for the periods presented. All inter-company balances and transactions are eliminated in consolidation.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K as filed with the Securities and Exchange Commission (the SEC) on December 13, 2007 for the fiscal year ended September 30, 2007.

The results of operations for the three months ended December 31, 2007 are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2008.

All share and per share amounts reflect, on a retroactive basis, the 2-for-1 stock split effected in the form of a 100% stock dividend wherein one additional share of stock was issued effective May 4, 2007 for each share outstanding as of the record date of May 4, 2007.

## 2. Adoption of Change in Accounting Principle

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in recognizing income taxes in accordance with FASB Statement No. 109 by providing detailed guidance for financial statement recognition, measurement and disclosure involving uncertain tax positions. FIN 48 requires an uncertain tax position to meet a "more-likely-than-not" recognition threshold at the effective date to be recognized both upon the adoption of FIN 48 and subsequent periods. FIN 48 is effective for fiscal years beginning after December 15, 2006. As the provisions of FIN 48 are to be applied to all tax positions upon initial adoption, the cumulative effect of applying the provision of FIN 48 were reported as an adjustment to the opening balance of retained earnings for as of October 1, 2007. Additionally, FIN 48 provides guidance on recognition or de-recognition of interest and penalties, changes in judgment in interim periods, and disclosures of uncertain tax positions. FIN 48 became effective for the Company in the first quarter of fiscal year ended September 30, 2008. The adoption of FIN 48 did not have a material effect on the Company's financial statements. For additional information on the adoption of FIN 48, see Note 12 - Income Taxes.

## 3. Initial Public Offering

In May 2007, the Company completed the initial public offering (IPO) of 40.4 million shares of common stock, which included the exercise of the underwriters' over-allotment option to purchase 5.3 million shares, at \$20.00 per share, before underwriting discounts and commissions. Of the total shares sold in the offering, 15.3 million were sold by stockholders of the Company. Proceeds to AECOM, net of underwriting discounts, commissions, and other offering related costs, were approximately \$468.3 million, of which \$75.4 million was used to fund elections by employees to diversify their holdings in the Company's stock purchase plan.

## 4. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Total cash and cash equivalents include cash in consolidated joint ventures.

**5. Accounts Receivable Net**

Net accounts receivable consisted of the following as of December 31, 2007 and September 30, 2007:

	December 31, 2007	September 30, 2007
	(in thousands)	
Billed	\$ 652,769	\$ 635,996
Unbilled	529,717	466,612
Contract retentions	40,889	40,522
Total accounts receivable gross	1,223,375	1,143,130
Allowance for doubtful accounts	(55,328)	(51,448)
Total accounts receivable net	\$ 1,168,047	\$ 1,091,682
Billings in excess of costs on uncompleted contracts	\$ 215,826	\$ 192,400

Billed accounts receivable represent amounts billed to clients that have yet to be collected. Unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end. Substantially all unbilled receivables as of December 31, 2007 and September 30, 2007 are expected to be billed and collected within twelve months of such date. Contract retentions represent amounts invoiced to clients where payments have been withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. These retention agreements vary from project to project and could be outstanding several months or years.

Allowances for doubtful accounts have been determined through specific identification of amounts considered to be uncollectible and potential write-offs, plus a non-specific allowance for other amounts for which some potential loss has been determined to be probable based on current and past experience.

Other than the U.S. government, no single client accounted for more than 10% of the Company's accounts receivable as of December 31, 2007 or September 30, 2007.

**6. Goodwill and Acquired Intangible Assets**



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The changes in the carrying value of goodwill by reporting segment for the three months ended December 31, 2007 were as follows:

	September 30, 2007	Post- Acquisition Adjustments (in thousands)	Acquired	December 31, 2007
Professional Technical Services	\$ 583,807	\$ 5,600	\$ 35,711	\$ 625,118
Management Support Services	8,426	(5,600)		2,826
<b>Total</b>	<b>\$ 592,233</b>	<b>\$</b>	<b>\$ 35,711</b>	<b>\$ 627,944</b>

The gross amounts and accumulated amortization of the Company's acquired identifiable intangible assets with finite useful lives as of December 31, 2007 and September 30, 2007, included in intangible and other assets net in the accompanying condensed consolidated balance sheets, were as follows:

	December 31, 2007		September 30, 2007	
	Gross Amount	Accumulated Amortization (in thousands)	Gross Amount	Accumulated Amortization
Backlog	\$ 31,469	\$ 26,094	\$ 28,669	\$ 24,849
Customer Relationships	32,509	5,413	30,478	4,645
Trade-Names	2,019	614	1,764	489
<b>Total</b>	<b>\$ 65,997</b>	<b>\$ 32,121</b>	<b>\$ 60,911</b>	<b>\$ 29,983</b>

At the time of an acquisition, the Company estimates the amount of the identifiable intangible assets acquired based upon historical valuations and the facts and circumstances available at the time. The Company determines the value of the identifiable intangible assets during the purchase allocation period, which does not extend beyond 12 months from the date of acquisition. However, based upon the date of acquisition, the purchase allocation period may cross into subsequent fiscal periods.

The following table presents estimated amortization expense for the remainder of fiscal 2008 and for the succeeding years:

<b>Fiscal Year</b>	<b>(in thousands)</b>
2008	\$ 6,962
2009	5,818
2010	3,637
2011	3,089
2012	2,922
Thereafter	11,448
<b>Total</b>	<b>\$ 33,876</b>

7. Disclosures About Pension Benefit Obligations





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The Company's pension cost for the three months ended December 31, 2007 and 2006 includes the following components:

### U.S. Plans

	Three Months Ended December 31,	
	2007	2006
	(in thousands)	
Service costs	\$ 563	\$ 651
Interest cost on projected benefit obligation	1,912	1,876
Expected return on plan assets	(1,778)	(1,719)
Amortization of prior service costs	(290)	(289)
Amortization of net loss	833	982
Net periodic benefit cost	\$ 1,240	\$ 1,501

### Non-U.S. Plans

	Three Months Ended December 31,	
	2007	2006
	(in thousands)	
Service costs	\$ 1,087	\$ 1,218
Interest cost on projected benefit obligation	4,898	4,282
Expected return on plan assets	(5,303)	(3,960)
Amortization of prior service costs	(103)	(97)
Amortization of net loss	795	949
Net periodic benefit cost	\$ 1,374	\$ 2,392

The total amounts of employer contributions paid for the three months ended December 31, 2007 were \$0.1 million for U.S. plans and \$3.9 million for non-U.S. plans. The expected remaining scheduled annual employer contributions for the fiscal year ending September 30, 2008 are \$3.6 million for U.S. plans and \$11.5 million for non-U.S. plans.

## 8. Reportable Segments



The Company's operations are organized into two reportable segments: Professional Technical Services and Management Support Services. This segmentation corresponds to how the Company manages its business as well as the underlying characteristics of its market. An employee who has participated in the Plan and been granted an award involving more than 200,000 shares of common stock in any calendar year. If the Amendment is approved by our stockholders, the maximum number of shares that may be issued under the Plan will be increased from 550,000 shares to 750,000 shares of common stock.

**Section 162(m) Limitations.** Section 162(m) of the Code generally disallows a tax deduction to public companies for "applicable employee remuneration" in excess of \$1,000,000 paid to chief executive officers and to any of the other four most highly compensated officers (i.e., other than the chief executive officer). Certain performance-based compensation is specifically exempt from being included in "applicable employee remuneration" if it otherwise meets the requirements of Code Section 162(m). The Board expects that benefits under the Plan will be exempt from such limit, and it does not intend to exceed such limit in applicable employee remuneration during the ten-year period of the Plan.

**Terms and Conditions of Options.** Each option will be evidenced by a stock option agreement between the Company and the recipient of the option (the "Optionee") and will be subject to the following additional terms and conditions:

(a) **Exercise Price.** The Plan Committee will determine the exercise price of options at the time the options will be granted. The exercise price of an "incentive stock option" (pursuant to the Code) may not be less than 100% of the "fair market value" of the Company's stock on the date the option is granted. If an employee owns or is deemed to own (under the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any subsidiary or parent corporation thereof and an incentive stock option is granted to such employee, the option price may not be less than 110% of the fair market value on the date of the grant. The Plan also provides price restrictions on "non-statutory stock options" (which are stock options that do not qualify under the Code as incentive stock options), so that the exercise price of a non-statutory stock option may not be less than 100% of the "fair market value" of the Company's stock on the date the option is granted. The "fair market value" of the shares will be determined by the closing price per share on any particular date as reported by the NYSE Amex or such other registered national securities exchange on which the shares may be listed. If there is no trading on such date, the fair market value shall be determined by the closing price per share on the last preceding date on which the stock was traded. If the stock is not listed on any registered national securities exchange or quoted on NASDAQ, the fair market value of the stock will be determined in good faith by the Plan Committee.

(b) Exercise of Option; Form of Consideration; and Tax Withholding. The Plan Committee will determine when options become exercisable and in its discretion may accelerate the vesting of any outstanding option. No options that are intended to be incentive stock options can become first exercisable in any calendar year for shares of common stock having an aggregate fair market value (determined as of the date of grant) that exceeds \$100,000. The means of payment for shares issued upon exercise of an option will be specified in each option agreement. The Plan permits payment to be made by (i) cash, check, wire transfer, (ii) delivery of other shares of common stock of the Company, (iii) broker assisted same-day sales, (iv) reducing the number of shares that may be issued under the option equal in value to the aggregate exercise price of the shares to which such exercise applies or (v) as otherwise determined by the Plan Committee. All required federal, state and local payroll taxes applicable to the value of any award under the Plan must be paid by the recipient at the time such value first becomes includable in the gross income of the recipient for federal income tax purposes. Each holder of an incentive stock option must notify the Company in writing immediately after making a disqualifying disposition (as defined in Section 421(b) of the Code) of any stock purchased upon exercise of an incentive stock option.

(c) Term of Option. The term of each stock option shall be fixed by the Plan Committee, however, the term of an incentive stock option may be no more than 10 years after the date the option is granted, except that if an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any subsidiary or parent corporation thereof), the term of an incentive stock option shall be no more than five years from the date of the grant.

(d) Termination of Employment (Incentive Stock Options). If an incentive stock optionee's employment terminates for any reason (other than as described below), then all unvested options held by the Optionee under the Plan generally will terminate immediately upon the optionee's termination of employment, unless otherwise determined by the Plan Committee.

(e) Death, Disability or Retirement Due to Age (Incentive Stock Options). Generally if an incentive stock optionee's employment terminates as a result of the optionee's death, then all vested incentive stock options may be exercised for one-year following the optionee's death or, if earlier, until the expiration of the term of the option. Generally if an optionee's employment terminates as a result of the optionee's disability or retirement due to age, then the optionee may exercise all vested incentive stock options within one-year after the date of such disability or retirement, provided that no option may be exercised after the expiration of its term.

(f) Termination of Non-Statutory Stock Options. Non-Statutory Stock Options contain such terms and conditions with respect to termination as the Plan Committee, in its discretion, may from time to time determine.

Restricted Stock Awards. The Plan Committee, in its discretion, may grant restricted or unrestricted stock awards to eligible persons under the Plan, entitling the recipient to acquire for a specified purchase price or as a direct award without a purchase price, shares subject, if applicable, to such restrictions and conditions as the Plan Committee may determine at the time of the grant, including, but not limited to, continued employment and/or achievement of pre-established performance goals and objectives.

Stock Appreciation Rights. The Plan Committee, in its discretion, may grant stock appreciation rights in addition to options and restricted and unrestricted stock. Each stock appreciation right will be evidenced by an agreement between the Company and the recipient of the SAR and will be subject to the following additional terms and conditions:

(a) Exercise Price. The Plan Committee will determine the exercise price of SARs at the time the SARs will be granted. The exercise price of the SAR will not be less than 100% of the "fair market value" of the Company stock on the date the SAR is granted. The "fair market value" of the shares will be determined by the closing price per share on

any particular date as reported by the NYSE Amex or such other registered national securities exchange on which the shares may be listed. If there is no trading on such date, the fair market value shall be determined by the closing price per share on the last preceding date on which the stock was traded. If the stock is not listed on any registered national securities exchange or quoted on NASDAQ, the fair market value of the stock will be determined in good faith by the Plan Committee.

(b) Exercise of SAR. The Plan Committee will determine when a SAR becomes exercisable and in its discretion may accelerate the vesting of any outstanding SAR. The form of payment for the SAR upon exercise will be specified in each SAR agreement. The Plan will permit payment to be made by (i) cash, check, wire transfer, (ii) delivery of other shares of common stock of the Company that are not subject to restriction under any Company plan, or (iii) any combination of the foregoing methods of payment, as otherwise determined by the Plan Committee. All required federal, state and local payroll taxes applicable to the exercise of the SAR under the Plan must be paid by the recipient at the time such value first becomes includable in the gross income of the recipient for federal income tax purposes.

(c) Term of SAR. The term of each SAR shall be fixed by the Plan Committee, however, the term of a SAR corresponding to an incentive stock option may be no more than 10 years after the date the SAR is granted, except that if an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any subsidiary or parent corporation thereof), the term of a SAR corresponding to an incentive stock option shall be no more than five years from the date of the grant.

(d) Termination of Employment. If the employment of a holder of a SAR corresponding to an incentive stock option terminates for any reason (other than as described below), then all unvested SARs held by the holder under the Plan generally will terminate immediately upon the holder's termination of employment, unless otherwise determined by the Plan Committee.

(e) Death, Disability or Retirement Due to Age. Generally, if the employment of a holder of a SAR corresponding to an incentive stock options terminates as a result of the holder's death, then all vested SARs may be exercised for one-year following the holder's death or, if earlier, until the expiration of the term of the SAR. Generally, if the employment of a holder of a SAR corresponding to an incentive stock option terminates as a result of the holder's disability or retirement due to age, then the holder may exercise all vested SARs within one-year after the date of such disability or retirement, provided that no SAR may be exercised after the expiration of its term.

(f) Termination of SARs Not Corresponding to an Incentive Stock Option. SARs not corresponding to an incentive stock option contain such terms and conditions with respect to termination as the Plan Committee, in its discretion, may from time to time determine.

(g) Tandem Awards. SARs may be granted alone or in tandem with stock options. However, no employee may be granted SARs that are related to incentive stock options which are first exercisable in any calendar year for shares of stock having an aggregate fair market value (determined as of the date the related option is granted) that exceeds \$100,000. No tandem SAR may be exercisable or continue in existence after the expiration of the stock option to which it relates. A SAR granted in tandem with an option will provide that the SAR or option, as applicable, will expire unexercised to the extent the related award is exercised.

Amendments to the Plan. Any material amendment to this Plan shall be subject to approval by the Company's stockholders. For these purposes, a material amendment would include, but not be limited to, the following: (a) any material increase in the number of shares to be issued under the Plan (other than to reflect a reorganization, stock split, merger, spin-off or similar transaction); (b) any material increase in benefits to participants not specifically provided in the Plan; (c) any material expansion of the class of eligible persons; and (d) any expansion in the types of options or awards provided under this Plan. The increase in the number of authorized shares available for issuance under the Plan and the extension of the duration of the Plan for five years are material changes that will require the approval of the Company's stockholders.

Immediate Vesting Due to Change of Control. Each holder of an outstanding stock option, SAR or restricted stock award shall be entitled, upon exercise or vesting of such award, to receive, in lieu of shares of the Company's stock, shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of stock received in connection with a "Change of Control," which is defined by the Plan to include (i) the acquisition by a person of control of 50% or more of the combined voting securities of the Company, (ii) the merger or consolidation of the Company and any other entity where the voting securities of the Company prior to thereto do not represent more than 50% of the combined voting power of the voting securities of the Company or such surviving entity immediately after such merger or consolidation, or (iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

Federal Income Tax Consequences. A participant will not recognize any income on the grant of a non-statutory option. On exercise, the participant recognizes as ordinary income the excess of the fair market value of the stock acquired over the exercise price. The participant's tax basis in the stock is the amount paid for the stock plus any amounts included in income. Any gain or loss that a participant realizes on a subsequent disposition of the stock will be treated as long-term (or short-term) capital gain (or loss), depending on the length of time the participant held such shares. The amount of the gain (or loss) will equal the amount by which the amount received on the subsequent disposition exceeds (or is less than) the participant's tax basis in the shares. The Company will be entitled to deduct any ordinary income the participant recognizes on exercise of the non-qualified option. The Company also will be required to withhold or obtain payment from the participant for all applicable income and employment tax withholdings.



Incentive stock options are entitled to special tax treatment. A participant will not recognize taxable income on the grant or exercise of an incentive stock option. A participant will recognize taxable income when he disposes of the shares. If the disposition occurs more than two years after the grant and one year after the exercise, the participant will recognize long-term capital gain (or loss) to the extent the amount received from the disposition exceeds (or is less than) the amount the participant paid for the stock. If the stock is disposed of before two years after the grant or one year after the exercise, the participant recognizes as ordinary income the excess of the fair market value on the date of exercise over the exercise price. Any additional gain in excess of the ordinary income recognized will be treated as long-term or short-term capital gain depending on the time the participant held the shares (long-term if the stock was held more than one year and short-term if held one year or less). If the amount received on the disposition is less than the fair market value of the stock on the date of exercise, the amount of ordinary income the participant recognizes will not exceed the excess of the amount received on disposition over the exercise price. If the amount received is less than the exercise price, the participant will recognize a capital loss (long-term if the stock is held more than one year and short-term if held one year or less). The Company will not be entitled to any deduction with respect to an incentive stock option except in the case where the participant disposes of the underlying stock within one year of exercise or two years after grant. In that case, the Company will be entitled to deduct the amount of ordinary income the participant recognizes.

A participant who receives a grant of restricted stock or unrestricted stock will recognize taxable income at the time the stock is transferable and no longer subject to a substantial risk of forfeiture. When the stock becomes either transferable or no longer subject to a risk of forfeiture, the participant will recognize as ordinary income the amount by which the fair market value of the stock at that time exceeds the amount, if any, the participant paid for the stock. The participant's tax basis in the shares will be the amount included in income, and his holding period for tax purposes in the stock will begin when the stock is transferable or no longer subject to a substantial risk of forfeiture. Alternatively, the participant may elect to recognize ordinary income at the time the restricted stock is granted by making a Section 83(b) election within 30 days of the grant. In that case, the participant will recognize ordinary income equal to the amount by which the fair market value of the stock at the time of grant exceeds the amount, if any, the participant paid for the stock (even though the stock is still subject to risk of forfeiture). Then, there will not be any further tax consequences on account of the stock becoming transferable or non-forfeitable. If the participant makes such an election and subsequently forfeits the stock, the participant will not be able to deduct the amount he recognized as ordinary income. He will be entitled to a loss for the amount, if any, he paid for the stock. If the participant makes the Section 83(b) election, his holding period will begin on the date of grant. The Company will be entitled to deduct any ordinary income the participant recognizes on the grant or vesting of restricted or unrestricted stock. The Company will be required to withhold or obtain payment from the participant for applicable income and employment tax withholdings on that ordinary income.

A participant who receives a grant of a SAR will not recognize any taxable income at the time SARs are granted. Upon exercise of a SAR, the participant will recognize as ordinary income the amount of cash and the fair market value of any common stock he receives. The Company will be required to withhold or obtain payment from the participant for the amount of any applicable income and employment taxes. The Company will be entitled to deduct the amount of ordinary income the participant recognizes.

The foregoing is only a summary of various principal provisions of the Plan and certain U.S. federal income taxation consequences to recipients of awards and upon the Company with respect to the grant and exercise of awards under the Plan. It does not purport to be complete and does not discuss the tax consequences arising in the context of the employee's death or other special circumstances or the income tax laws of any municipality, state or foreign country in which the employee's income or gain may be taxable. Participants are advised to consult their own personal tax advisors on the tax consequences of awards under the Plan.

FURTHERMORE, ANY TAX ADVICE CONTAINED IN THIS DOCUMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF (I) AVOIDING ANY PENALTIES UNDER THE INTERNAL REVENUE CODE OR (II) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY TRANSACTION(S) OR TAX-RELATED MATTER(S) ADDRESSED HEREIN.

Interest of Certain Persons in Matters to be Acted Upon. Pursuant to the Plan, each of the directors and executive officers, among others, is eligible to receive awards under the Plan. Participation in the Plan is at the discretion of the Plan Committee and, accordingly, future participation by directors, executive officers and other employees under this Plan is not determinable. The Board believes that it is important to the Company's growth and long-term success to be able to continue to offer these incentives.

New Plan Benefits. Officers, directors and employees who will participate in the Plan in the future, and the amounts of their awards, will be determined by the Plan Committee. As disclosed below under "Compensation of Directors," each independent director receives an annual grant of shares of our common stock under the Plan, valued at \$20,000, rounded to the next whole share. As to future awards, since the calculation of amount of shares that may be issued under the Plan to these independent directors depends on the price of the shares at that time, the amount of shares subject to these awards are not yet determinable. Also, as no additional determinations have yet been made, it is not possible to state the terms of any individual awards which may be issued under the Plan or respective amounts payable or allocable to any participants in the Plan, other than as provided in this summary.

## Securities Authorized for Issuance under Equity Compensation Plans

Information regarding our equity compensation plan at January 31, 2011 is summarized as follows:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1)
Equity compensation plans approved by security holders	320,200	\$2.82	123,067
Equity compensation plans not approved by security holders	None	N/A	N/A
<b>Total</b>	<b>320,200</b>	<b>\$2.82</b>	<b>123,067</b>

- (1) The number of securities remaining available for future issuance under equity compensation plans is correctly reported as 123,067 in this table. The Form 10-K for the fiscal year ended January 31, 2011 also included the table “Securities Authorized for Issuance under Equity Compensation Plans” but incorrectly reported a number of 229,800 in column (c).

## Vote Required and Recommendation of Board of Directors.

The affirmative vote of a majority of the majority of the shares present in person or represented by proxy at the 2011 Annual Meeting of the Stockholders and entitled to vote on the proposal is required to approve the amendment of the Plan as described herein, provided that a quorum exists.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF THE AMENDMENT TO THE AEROSONIC CORPORATION 2004 STOCK INCENTIVE PLAN, AS PREVIOUSLY AMENDED AND RESTATED ON JULY 26, 2007, AND AS AMENDED ON JULY 13, 2009, AS SET FORTH ABOVE.

## STOCKHOLDER PROPOSALS FOR 2012 PROXY STATEMENT

In accordance with Rule 14a-8 of the Securities Exchange Act of 1934, as amended, any stockholder proposals intended to be included in the proxy statement and presented at the 2012 Annual Meeting of Stockholders of the Company must be received by the Company no later than February 10, 2012. The proposal should be sent to our offices and be addressed to: Corporate Secretary, Aerosonic Corporation, 1212 N. Hercules Avenue, Clearwater, FL 33765. In addition, the Company has established an advance notice procedure with regard to certain matters, including stockholder proposals not included in the Company's proxy statement, to be brought before an annual meeting of stockholders. In order to be considered for inclusion in the annual meeting to be held in 2012, stockholder proposals must be submitted to our Corporate Secretary at our offices at 1212 N. Hercules Avenue, Clearwater, FL 33765, not less than 90 days nor more than 120 days in advance of July 15, 2012. In addition, stockholder proposals must meet other applicable criteria set forth in our Bylaws in order to be considered at the 2012 annual meeting. The Board will review any stockholder proposals that are filed as required and will determine whether they meet applicable criteria for consideration at the 2012 annual meeting.

## OTHER MATTERS

We have no information that any other matter will be brought before the meeting. If other matters are presented, it is the intention of the persons named in the accompanying form of proxy to vote the proxy in accordance with their best judgment, discretionary authority to do so being included in the proxy.

## SOLICITATION AND EXPENSES

We will pay all costs associated with the solicitation of your proxy. In addition to the solicitation of proxies by mail, proxies may be solicited by our directors and officers, by personal interview, telephone, telegraph and mail. Brokerage houses, banks and other fiduciaries will be requested to forward the soliciting material to their principals and obtain authorization for the execution of proxies and will be reimbursed for their reasonable out-of-pocket expenses.

## HOUSEHOLDING

"Householding" is a program, approved by the Securities and Exchange Commission (the "SEC"), which allows companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports by delivering only one package of stockholder proxy material to any household at which two or more stockholders reside. If you and other residents at your mailing address own shares of our common stock in street name, your broker or bank may have notified you that your household will receive only one copy of our proxy materials. Once you have received notice from your broker that they will be "householding" materials to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account. If you hold shares of our common stock in your own name as a holder of record, "householding" will not apply to your shares.

We will deliver promptly upon written or oral request a separate copy of our annual report and/or proxy statement to a stockholder at a shared address to which a single copy of either document was delivered. For copies of either or both documents, stockholders should write to the Corporate Secretary, Aerosonic Corporation, 1212 North Hercules Avenue, Clearwater, Florida 33765 or call 727.461.3000.

May 31, 2011  
Clearwater, Florida

1212 North Hercules Avenue  
Clearwater, Florida 33765  
727-461-3000 phone  
727-447-5926 fax  
[www.aerosonic.com](http://www.aerosonic.com)

AEROSONIC CORPORATION  
2004 STOCK INCENTIVE PLAN  
(As Amended and Restated on July 26, 2007)

SECTION 1. GENERAL PROVISIONS.

- (a) Establishment of Plan. Aerosonic Corporation, a Delaware corporation (the “Company”), previously established an equity incentive compensation plan to be known as the Aerosonic Corporation 2004 Stock Incentive Plan (the “Plan”). The Plan has been amended and restated on July 26, 2007, contingent on shareholder approval.
- (b) Purpose of the Plan. The purpose of the Plan is to encourage and enable officers, other employees and non-employee directors of the Company and its Subsidiaries to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company’s welfare will assure a closer identification and alignment of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company’s behalf and strengthening their desire to remain with the Company, and to assist in the recruitment of new employees.
- (c) Types of Awards. Awards under the Plan may be made to Eligible Persons in the form of: (i) Incentive Stock Options, (ii) Non-Statutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock, and (v) Unrestricted Stock, except that only employees of the Company (and not Non-Employee Directors) may receive Awards of Incentive Stock Options.
- (d) Effective Date and Term of the Plan. The amended and restated Plan shall be effective upon approval by the Company’s stockholders and shall continue in effect for five years from its original July 14, 2004 effective date (the “Effective Date”), unless earlier terminated or extended by an amendment to the Plan.

SECTION 2. DEFINITIONS.

The following terms shall be defined as set forth below:

- (a) “Award” or “Awards”, except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Statutory Stock Options, Stock Appreciation Rights, Restricted Stock Awards and Unrestricted Stock Awards.
- (b) “Award Agreement” means any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.
- (c) “Board” means the Board of Directors of the Company.
- (d) “Cause” shall mean, with respect to any Award holder, a determination by the Company (including the Board) or any Subsidiary that the Holder’s employment or other relationship with the Company or any such Subsidiary should be terminated as a result of (i) a material breach by the Award holder of any agreement to which the Award holder and the Company (or any such Subsidiary) are parties, (ii) any act (other than retirement) or omission to act by the Award holder that may have a material and adverse effect on the business of the Company, such Subsidiary or any other Subsidiary or on the Award holder’s ability to perform services for the Company or any such Subsidiary, including, without limitation, the proven or admitted commission of any crime (other than an ordinary traffic violation), or (iii) any material misconduct or material neglect of duties by the Award holder in connection with the business or affairs

of the Company or any such Subsidiary.

(e) “Change of Control” shall have the meaning set forth in Section 14 hereof.

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- (f) “Code” means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.
- (g) “Committee” shall have the meaning set forth in Section 3(a) hereof.
- (h) “Corresponding SARs” shall have the meaning set forth in Section 6 hereof.
- (i) “Disability” means the inability of an Eligible Person to perform substantially his or her duties and responsibilities to the Company or to any Subsidiary by reason of a physical or mental disability or infirmity (i) for a continuous period of one hundred eighty (180) days, or (ii) at such earlier time as the Eligible Person submits medical evidence satisfactory to the Committee that the Eligible Person has a physical or mental disability or infirmity that will likely prevent the Eligible Person from returning to the performance of the Eligible Person’s work duties for one hundred eighty (180) days or longer. The commencement date of such Disability shall be the last day of such one hundred eighty (180) days period or the day on which the Eligible Person submits such satisfactory medical evidence, as the case may be.
- (j) “Eligible Persons” shall have the meaning set forth in Section 5 hereof.
- (k) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.
- (l) “Fair Market Value” on any given date means the closing price per share of the Stock on such date as reported by the American Stock Exchange or such other registered national securities exchange on which the Stock may be listed, or, if the Stock is not listed on such an exchange, as quoted on NASDAQ; provided, that, if there is no trading on such date, Fair Market Value shall be deemed to be the closing price per share on the last preceding date on which the Stock was traded. If the Stock is not listed on any registered national securities exchange or quoted on NASDAQ, the Fair Market Value of the Stock shall be determined in good faith by the Committee.
- (m) “Incentive Stock Options” means any Stock Options designated and qualified as “incentive stock options” as defined in Section 422 of the Code.
- (n) “Independent Director” means any director who meets the independence requirements of Section 121 of the American Stock Exchange Company Guide or the comparable requirements of any other national securities exchange or automated quotation system on which the Stock may be listed or quoted.
- (o) “Non-Employee Director” means any director who: (i) is not currently an officer of the Company or a Subsidiary, or otherwise currently employed by the Company or a Subsidiary, (ii) does not receive compensation, either directly or indirectly, from the Company or a Subsidiary, for services rendered as a consultant or in any capacity other than as a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Rule 404(a) of Regulation S-K promulgated by the SEC, (iii) does not possess an interest in any other transaction for which disclosure would be required pursuant to Rule 404(a) of Regulation S-K, and (iv) is not engaged in a business relationship for which disclosure would be required pursuant to Rule 404(b) of Regulation S-K.
- (p) “Non-Statutory Stock Options” mean any Stock Options that are not Incentive Stock Options.
- (q) “Normal Retirement” means retirement in good standing from active employment with the Company and its Subsidiaries in accordance with the retirement policies of the Company and its Subsidiaries then in effect.
- (r) “Outside Director” means any director who (i) is not an employee of the Company or of any “affiliated group,” as such term is defined in Section 1504(a) of the Code, (an “Affiliated Group Member”), (ii) is not a former employee of



the Company or any Affiliated Group Member who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company's or any Affiliated Group Member's taxable year, (iii) has not been an officer of the Company or any Affiliated Group Member and (iv) does not receive remuneration from the Company or any Affiliated Group Member, either directly or indirectly, in any capacity other than as a director. "Outside Director" status also shall be determined in accordance with Section 162(m) of the Code and the Treasury Regulations issued thereunder.

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- (s) “Options” or “Stock Options” means any options to purchase shares of Stock granted pursuant to Section 6 hereof.
- (t) “Participants” means those persons selected from the Eligible Persons who have received Awards under the Plan.
- (u) “Restricted Stock” and “Restricted Stock Award” means Awards granted pursuant to Section 7 hereof.
- (v) “SEC” means the Securities and Exchange Commission or any successor authority.
- (w) “Stock” means the Company’s common stock, \$0.40 par value per share, which is subject to adjustments pursuant to Section 4 hereof.
- (x) “Stock Appreciation Rights” or “SARs” means any stock appreciation rights that entitle the holder to receive cash or Stock equal to the increase in the Fair Market Value of the Stock underlying the stock appreciation rights during a stated period specified by the Committee. References to SARs include both SARs that are granted in relation to particular Options and can be exercised only upon the surrender to the Company, unexercised, of that portion of the Options to which the exercised SARs relate and SARs granted independently of Options, unless the context requires otherwise. Notwithstanding the foregoing, no holder may be entitled to receive under a SAR an amount greater than the excess of the Fair Market Value of the Stock on exercise of the SAR over such Fair Market Value on the date of the grant.
- (y) “Subsidiary” or “Subsidiaries” means any corporation of which 50% or more of the total combined voting power of all classes of its capital stock is owned by the Company directly or indirectly through one or more other Subsidiaries.
- (z) “Unrestricted Stock Awards” mean Awards granted pursuant to Section 8 hereof.

**SECTION 3. ADMINISTRATION OF PLAN; COMMITTEE’S AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS.**

- (a) **Committee.** The Plan shall be administered by a committee of the Board (the “Committee”) consisting of not less than three (3) persons each of whom qualifies as an Independent Director, an Outside Director and a Non-Employee Director, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not an Independent Director, an Outside Director, or a Non-Employee Director. The members of the Committee shall be appointed originally, and as vacancies occur, by the Board, to serve at the pleasure of the Board. Except for those powers as specifically reserved to the Board under the terms of the Plan, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company.
- (b) **Powers of Committee.** The Plan shall be administered in accordance with the requirements of Section 162(m) of the Code (but only to the extent necessary and desirable to maintain qualification of Awards under the Plan under Section 162(m) of the Code) and, to the extent applicable, Rule 16b-3 under the Exchange Act (“Rule 16b-3”), by the Committee or, if necessary to so qualify the Awards, by the Board. The Committee shall have the power and authority to grant and modify Awards consistent with the terms of the Plan, including the power and authority:
  - (i) to select the persons to whom Awards may from time to time be granted (“Participants”);

- (ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Statutory Stock Options, Stock Appreciation Rights, Restricted Stock and Unrestricted Stock, or any combination of the foregoing, granted to any one or more Participants;
- (iii) to determine the number of shares to be covered by any Award;
- (iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and Participants, and to approve the form of written instruments evidencing the Awards; provided, however, that no such action shall adversely affect rights under any outstanding Award without the Participant's consent; to accelerate the exercisability or vesting of all or any portion of any Award;
- (v) to extend the period in which any outstanding Stock Option or Stock Appreciation Right may be exercised;
- (vi) to allow Participants to satisfy withholding tax amounts by electing to have the Company withhold from the shares of Stock to be issued upon exercise of a Nonstatutory Stock Option or vesting of an Award that number of shares of Stock having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the shares of Stock to be withheld shall be determined in such manner and on such date that the Committee shall determine or, in the absence of provision otherwise, on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have shares of Stock withheld for this purpose shall be made in such form and under such conditions as the Board may provide;
- (vii) to provide, either at the time an Award is granted or by subsequent action, that an Award shall contain as a term thereof, a right, either in tandem with the other rights under the Award or as an alternative thereto, of the Participant to receive, without payment to the Company, a number of shares of Stock, cash or a combination thereof, the amount of which is determined by reference to the value of the Award;
- (viii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan. The Committee may delegate to one or more individuals the day-to-day administration of the Plan. Such delegation may be revoked at any time.

A majority of the members of the Committee may determine its actions and fix the time and place of its meetings.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan Participants. No member or former member of the Committee or the Board shall be liable for any action or determination made in good faith with respect to this Plan.

#### SECTION 4. STOCK TO BE ISSUED UNDER THE PLAN; MERGERS; SUBSTITUTION.

(a) Shares Issuable. The maximum number of shares of Stock which may be issued in respect of Awards granted under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in this Section 3, shall be 400,000 shares. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise), shares that are tendered in payment of the exercise price of any Award and shares that are tendered or withheld for tax withholding obligations shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

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(b) Limitation on Awards. In no event may any Plan Participant be granted Awards with respect to more than 200,000 shares of Stock in any calendar year. The number of shares of Stock relating to an Award granted to a Plan Participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year. In addition, if the exercise price of an Award is subsequently reduced, the transaction shall be deemed a cancellation of the original Award and the grant of a new one so that both transactions shall count toward the maximum shares issuable in the calendar year of each respective transaction.

(c) Stock Dividends, Mergers etc. In the event that after approval of the Plan by the stockholders of the Company in accordance with Section 16, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities with respect to which Awards may thereafter be granted (including without limitation the limitations set forth in Sections 4(a) and (b) above), (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 14. Notwithstanding any of the foregoing, in no event may any change be made to an Incentive Stock Option which would constitute a modification within the meaning of Section 424(h) (3) of the Code or any Award that would cause the Award to not be exempt from, or out of compliance with, Section 409A of the Code.

(d) Substitute Awards. The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

#### SECTION 5. ELIGIBILITY.

Awards may be granted to officers, directors (including Non-Employee Directors) and employees of the Company and its Subsidiaries ("Eligible Persons").

#### SECTION 6. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS.

The Committee may grant to Eligible Persons Options to purchase Stock ("Stock Options") and Stock Appreciation Rights ("SARs").

Any Stock Options or SARs granted under the Plan shall be in such form as the Committee may from time to time approve but in all events shall designate the Eligible Person to whom the Award is granted and the number of shares of Stock covered by the Award.

Stock Options granted under the Plan may be either Incentive Stock Options (subject to compliance with applicable law) or Non-Statutory Stock Options. Unless otherwise so designated, an Option shall be a Non-Statutory Stock Option. To the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a Non-Statutory Stock Option.

SARs may be granted under the Plan in relation to a particular Stock Option such that the SARs or related Options can only be exercised upon the surrender to the Company, unexercised, of that portion of the related Award to which the Award being exercised relates (“Corresponding SARs”) or granted independently of Stock Options.

No Incentive Stock Option or SAR granted in relation to an Incentive Stock Option shall be granted under the Plan after the tenth anniversary of the date of adoption of the Plan by the Board.

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The Committee in its discretion may determine the effective date of Stock Options and SARs, provided, however, that grants of Incentive Stock Options and Corresponding SARs shall be made only to persons who are, on the effective date of the grant, employees of the Company or a Subsidiary. Stock Options and SARs granted pursuant to this Section 6 shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable. In addition, Incentive Stock Options and Corresponding SARs shall contain such other provisions as may be necessary to meet the requirements of the Code and the rulings and regulations issued thereunder with respect to Incentive Stock Options.

(a) **Exercise Price.** The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 6 shall be determined by the Committee at the time of grant but shall not be less than one hundred percent (100%) of Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price shall be not less than one hundred ten percent (110%) of Fair Market Value on the date of grant.

(b) **Term.** The term of each Stock Option or SAR shall be fixed by the Committee, but no Incentive Stock Option or Corresponding SAR shall be exercisable more than ten (10) years after the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any subsidiary or parent corporation and an Incentive Stock Option (with or without a Corresponding SAR) is granted to such employee, the term of such award shall be no more than five (5) years from the date of grant.

(c) **Exercise Rights; Rights of a Stockholder.** Stock Options and SAR shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option or SAR. A Participant shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option or SAR and not as to unexercised Stock Options or SARs.

(d) **Method of Exercise.** Stock Options and SARs may be exercised in whole or in part, by delivering written notice of exercise to the Company, specifying the number of shares with respect to which the Award is being exercised. Payment of the exercise price for Options may be made by delivery of cash or bank check or other instrument acceptable to the Committee in an amount equal to the exercise price of such Options, or, to the extent provided in the applicable Award Agreement, by one or more of the following methods:

(i) by delivery to the Company of shares of Stock of the Company that either have been purchased by the Participant on the open market, or shares of Stock that have been beneficially owned by the Participant for a period of at least six months (or such other period as established from time to time by the Committee in order to avoid adverse accounting treatment applying generally accepted accounting principles) and are not then subject to restriction under any Company plan ("Mature Shares"); and such surrendered shares have a Fair Market Value equal in amount to the exercise price of the Options being exercised;

(ii) as long as the Stock is registered under the Exchange Act at such time, by delivery to the Company of a properly executed exercise notice along with irrevocable instructions to a broker to deliver promptly to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event that the Participant chooses to pay the purchase price as so provided, the Participant and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure; (This method of exercise shall include, in the case of a Participant who is an executive officer of the Company, such procedures and agreements as the Committee deems appropriate in order to

avoid any extension of credit in the form of a personal loan to such officer. Furthermore, the Company need not act upon such exercise notice until the Company receives full payment of the exercise price.) by reducing the number of Award shares otherwise issuable to the Participant upon exercise of the Award by a number of shares of Stock having a Fair Market Value equal to such aggregate exercise price; provided, however, that the Participant otherwise holds an equal number of Mature Shares;

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- (iii) by any combination of such methods of payment; or
- (iv) as otherwise determined by the Committee.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt by the Company from the Participant (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) of the full purchase price for such shares and the fulfillment of any other requirements contained in the Award Agreement for the Option or imposed by applicable law.

(e) **Non-transferability of Options.** Except as the Committee may provide with respect to a Non-Statutory Stock Option or a SAR other than a Corresponding SAR granted in relation to an Incentive Stock Option, no Stock Option or SAR shall be transferable other than by will or by the laws of descent and distribution and all Stock Options and SARs shall be exercisable, during the Participant's lifetime, only by the Participant.

(f) **Annual Limit on Incentive Stock Options.** Notwithstanding the designation "Incentive Stock Option" in an Award Agreement, if and to the extent that the aggregate Fair Market Value of the shares of Stock with respect to which Incentive Stock Options or Corresponding SARs granted in relation to Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any of its Subsidiaries) exceeds \$100,000, such Options shall be treated as Non-Statutory Stock Options with respect to the number of shares of Stock that exceed the limit. For purposes of this Section 6(f), Incentive Stock Options and Corresponding SARs shall be taken into account in the order in which they were granted, and the Fair Market Value of the shares of Stock shall be determined as of the date of grant.

#### SECTION 7. RESTRICTED STOCK AWARDS.

(a) **Nature of Restricted Stock Award.** The Committee in its discretion may grant Restricted Stock Awards to any Eligible Person, entitling the recipient to acquire, for such purchase price, if any, as may be determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Restricted Stock"), including continued employment and/or achievement of pre-established performance goals and objectives. Certain shares of Restricted Stock granted under this Section may, at the discretion of the Committee, be granted to a Participant in a manner which is intended to be "performance-based compensation" within the meaning of Code 162(m). Any such awards designated to be "performance-based compensation" shall be conditioned on the achievement of one or more performance measures, to the extent required by Code Section 162(m).

(b) **Acceptance of Award.** A Participant who is granted a Restricted Stock Award shall have no rights with respect to such Award unless the Participant shall have accepted the Award within sixty (60) days (or such shorter date as the Committee may specify) following the award date by making payment to the Company of the specified purchase price, if any, of the shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions applicable to the Restricted Stock in such form as the Committee shall determine.

(c) **Rights as a Stockholder.** Upon complying with Section 7(b) above, a Participant shall have all the rights of a stockholder with respect to the Restricted Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture rights described in this Section 7 and subject to such other conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Committee shall otherwise determine, certificates evidencing shares of Restricted Stock shall remain in the possession of the Company until such shares are vested as provided in Section 7(e) below.



(d) **Restrictions.** Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment of a Participant by the Company or its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause), the Company shall have the right, at the discretion of the Committee, to repurchase the Participant's shares of Restricted Stock which have not then vested at their purchase price, or to require forfeiture of such shares to the Company if acquired at no cost, from the Participant or the Participant's legal representative. The Company must exercise such right of repurchase or forfeiture within ninety (90) days following such termination of employment (unless otherwise specified in the written instrument evidencing the Restricted Stock Award).

(e) **Vesting of Restricted Stock.** The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed "vested." The Committee at any time may accelerate such date or dates and otherwise waive or, subject to Section 12 hereof, amend any conditions of the Award.

(f) **Waiver, Deferral and Reinvestment of Dividends.** The written instrument evidencing the Restricted Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

#### SECTION 8. UNRESTRICTED STOCK AWARDS.

(a) **Grant or Sale of Unrestricted Stock.** The Committee in its discretion may grant or sell to any Eligible Person shares of Stock free of any restrictions under the Plan ("Unrestricted Stock") at a purchase price determined by the Committee. Shares of Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration.

(b) **Restrictions on Transfers.** The right to receive unrestricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

#### SECTION 9. TERMINATION OF STOCK OPTIONS AND SARs.

(a) **Incentive Stock Options and Corresponding SARs.**

(i) **Termination by Death.** If any Participant's employment by the Company and its Subsidiaries terminates by reason of death, any Incentive Stock Option and Corresponding SAR owned by such Participant may thereafter be exercised to the extent exercisable at the date of death, by the legal representative or legatee of the Participant, for a period of one year (or such longer period as the Committee shall specify at any time) from the date of death, or until the expiration of the stated term of the Award, if earlier.

(ii) **Termination by Reason of Disability or Normal Retirement.**

(A) Any Incentive Stock Option and Corresponding SAR held by a Participant whose employment by the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of one year (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Award, if earlier.

(B) Any Incentive Stock Option and Corresponding SAR held by a Participant whose employment by the Company and its Subsidiaries has terminated by reason of Normal Retirement may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of one year (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

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(C) The Committee shall have sole authority and discretion to determine whether a Participant's employment has been terminated by reason of Disability or Normal Retirement.

(iii) Termination for Cause. If any Participant's employment by the Company and its Subsidiaries has been terminated for Cause, any Incentive Stock Option and Corresponding SAR held by such Participant shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Award can be exercised, to the extent it was exercisable at the time of such termination, for a period of up to thirty (30) days (or such longer period as the Committee shall specify at any time) from the date of termination of employment, or until the expiration of the stated term of the Award, if earlier.

(iv) Other Termination. Unless otherwise determined by the Committee, if a Participant's employment by the Company and its Subsidiaries terminates for any reason other than death, Disability, Normal Retirement or for Cause, any Incentive Stock Option and Corresponding SAR held by such Participant shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Award can be exercised, to the extent it was exercisable on the date of termination of employment, for a period of up to thirty (30) days (or such other period as the Committee shall specify at any time) from the date of termination of employment, or until the expiration of the stated term of the Award, if earlier.

(b) Non-Statutory Stock Options and SARs. Any Non-Statutory Stock Option or SAR other than a Corresponding SAR granted in relation to an Incentive Stock Option granted under the Plan shall contain such terms and conditions with respect to its termination as the Committee, in its discretion, may from time to time determine.

#### SECTION 10. TAX WITHHOLDING.

(a) Payment by Participant. Each Participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the Participant for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any federal, state, local and payroll taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(b) Payment in Shares. A Participant may elect, with the consent of the Committee, to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to an Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due with respect to such Award, or (ii) delivering to the Company a number of Mature Shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due.

(c) Notice of Disqualifying Disposition. Each holder of an Incentive Option shall agree to notify the Company in writing immediately after making a disqualifying disposition (as defined in Section 421(b) of the Code) of any Stock purchased upon exercise of an Incentive Stock Option.

#### SECTION 11. TRANSFER AND LEAVE OF ABSENCE.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary to the Company or from the Company to a Subsidiary, or from one Subsidiary to another;

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

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## SECTION 12. AMENDMENTS AND TERMINATION.

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award (or provide substitute Awards at the same or reduced exercise or purchase price or with no exercise or purchase price, but such price, if any, must satisfy the requirements which would apply to the substitute or amended Award if it were then initially granted under this Plan) for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award or result in a loss of exemption from or noncompliance with the rules of Section 409A of the Code, without the holder's consent.

Notwithstanding the above, any material amendment to this Plan shall be subject to approval by the Company's stockholders. For these purposes, a material amendment would include, but not be limited to, the following: (a) any material increase in the number of shares to be issued under the Plan (other than to reflect a reorganization, stock split, merger, spin-off or similar transaction); (b) any material increase in benefits to Participants not specifically provided herein; (c) any material expansion of the class of Eligible Persons; and (d) any expansion in the types of Options or Awards provided under this Plan.

This Plan shall terminate as of the fifth anniversary of its Effective Date. The Board may terminate this Plan at any earlier time for any reason. No Award may be granted after the Plan has been terminated. No Award granted while this Plan is in effect shall be altered or impaired by termination of this Plan, except upon the consent of the holder of such Award. The power of the Committee to construe and interpret this Plan and the Awards granted prior to the termination of this Plan shall continue after such termination.

## SECTION 13. STATUS OF PLAN.

With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a Participant, a Participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provision of the foregoing sentence.

## SECTION 14. CHANGE OF CONTROL PROVISIONS.

(a) Upon the occurrence of Change Control as defined in this Section :

(i) each holder of an outstanding Stock Option, SAR or Restricted Stock Award shall be entitled, upon exercise or vesting of such Award, to receive, in lieu of shares of Stock, shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of Stock received in connection with the Change of Control; and

(ii) the time for the exercise of each unexercised and unexpired Stock Option or SAR or the time for vesting of each unexpired Restricted Stock Award shall be accelerated, and all conditions and restrictions then in effect shall be waived, effective upon the effective date of such Change of Control.

(b) "Change of Control" shall mean the occurrence of any one of the following events:

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) becomes, after the Effective Date of this Plan, a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Exchange Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the

Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities;  
or

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(ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

#### SECTION 15. GENERAL PROVISIONS.

(a) **No Distribution; Compliance with Legal Requirements.** No Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Committee in its sole discretion has determined that any such offer, if made, would comply with the applicable requirements of the U.S. federal securities laws and any other laws to which such offer, if made, would be subject. The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof. No shares of Stock shall be issued pursuant to an Award until all applicable securities laws and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) **Delivery of Stock Certificates.** Delivery of stock certificates to Participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the Participant, at the Participant's last known address on file with the Company.

(c) **Other Compensation Arrangements; No Employment Rights.** Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Subsidiary or limit in any way the right of the Company or any Subsidiary to terminate an Employee's employment or Optionee's service, at any time, with or without cause.

(d) Any Award shall contain a provision that it may not be exercised at a time when the exercise thereof of the issuance of shares there under would constitute a violation of any federal or state law or listing requirements of the American Stock Exchange for such shares.

(e) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(f) With respect to Participants subject to Section 16 of the Exchange Act ("Insiders") who receive Stock Options, transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent that compliance with any Plan provision applicable solely to such Insiders that is included solely for the purposes of complying with Rule 16b-3 is not required in order to bring a transaction by such Insiders in compliance with Rule 16b-3, it shall be deemed null and void as to such transaction, to the extent permitted

by law and deemed advisable by the Committee. To the extent any provision in the Plan or action by the Committee involving such Insiders is deemed not to comply with an applicable condition of Rule 16b-3, it shall be deemed null and void as to such Insiders to the extent permitted by law and deemed advisable by the Committee.

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SECTION 16. EFFECTIVE DATE OF PLAN.

This Plan shall become effective upon approval by the Company's stockholders at the Company's next annual meeting of stockholders or at a special meeting of stockholders to consider the Plan. This Plan shall be submitted to the stockholders of the Company for approval no later than 12 months after its adoption by the Board. Awards granted under the Plan before this amendment and restatement shall continue to be administered under this Plan, except that the terms of Awards granted before this amendment and restatement shall continue as before this amendment and restatement and shall not be changed or amended to the extent changes in this Plan differ from the terms of those previous Awards. If the Plan does not become effective upon approval by the Company's stockholders, the amended and restated Plan shall be null and void and the Plan shall continue pursuant to its terms before this amendment and restatement.

SECTION 17. GOVERNING LAW.

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of Florida without regard to its principles of conflicts of laws and any and all disputes between an optionee and the Company or a Subsidiary relating to an award shall be brought only in a state or federal court of competent jurisdiction sitting in Pinellas County or Hillsborough County, Florida.

SECTION 18. DEFERRED COMPENSATION PROVISIONS.

Except as is otherwise specifically provided by the Committee, Awards under the plan are intended to be exempt from the applicable requirements of Section 409(a) of the Code and shall be construed and interpreted accordingly. Notwithstanding the preceding, however, Participants are solely responsible for the payment of any tax liability (including any taxes and penalties that may arise under Section 409(a) of the Code) that may result from any Award. The Company and its Subsidiaries shall not be liable to any Participant or any other person if the Internal Revenue Service or any court or other authority having jurisdiction over such matter determines for any reason that an Award is subject to taxes, penalties or interest as a result of failing to comply with Section 409(a) of the Code.

AMENDMENT TO  
AEROSONIC CORPORATION  
2004 STOCK INCENTIVE PLAN  
(Effective as of July 13, 2009)

The 2004 Stock Incentive Plan of Aerosonic Corporation, as amended and restated on July 26, 2007, is hereby amended as follows:

Section 1(d) shall now read in its entirety as follows:

“(d) Effective Date and Term of the Plan. The amended and restated Plan shall be effective upon approval by the Company’s stockholders and shall continue in effect for ten years from its original July 14, 2004 effective date (the “Effective Date”), unless earlier terminated or extended by an amendment to the Plan.”

Section 4(a) shall now read in its entirety as follows:

“(a) Shares Issuable. The maximum number of shares of Stock which may be issued in respect of Awards granted under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in this Section 3, shall be 550,000 shares. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise), shares that are tendered in payment of the exercise price of any Award and shares that are tendered or withheld for tax withholding obligations shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.”

AMENDMENT TO  
AEROSONIC CORPORATION  
2004 STOCK INCENTIVE PLAN  
(Effective as of July 14, 2011)

The 2004 Stock Incentive Plan of Aerosonic Corporation, as amended and restated on July 26, 2007, and as amended on July 13, 2009, is hereby amended as follows:

Section 4(a) shall now read in its entirety as follows:

“(a) Shares Issuable. The maximum number of shares of Stock which may be issued in respect of Awards granted under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in this Section 4, shall be 750,000 shares. For purposes of this limitation, the share of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise), shares that are tendered in payment of the exercise price of any Award and shares that are tendered or withheld for tax withholding obligations shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.”

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