

INTERLEUKIN GENETICS INC  
Form DEF 14A  
June 24, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.            )

- Filed by the Registrant  x  
Filed by a Party other than the Registrant  o  
Check the appropriate box:  
 Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**INTERLEUKIN GENETICS, INC.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5)

Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

**INTERLEUKIN GENETICS, INC.**

**135 BEAVER STREET**

**WALTHAM, MA 02452**

**PROXY STATEMENT**

**JUNE 24, 2013**

Dear Stockholder,

We cordially invite you to attend our 2013 annual meeting of stockholders to be held at 10:00 a.m. on Friday, August 9, 2013 at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., our legal counsel, located at One Financial Center, Boston, Massachusetts 02111. The attached notice of annual meeting and proxy statement describe the business we will conduct at the meeting and provide information about Interleukin Genetics, Inc. that you should consider when you vote your shares.

At the annual meeting, two persons will be elected to our Board of Directors. In addition, we will ask stockholders to approve an amendment to our Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 150,000,000 to 300,000,000, to approve an amendment to our Certificate of Incorporation, as amended, to effect a reverse stock split with a ratio of not less than 1-for-5 and not more than 1-for-20 at any time prior to the earlier of (i) August 1, 2014 and (ii) the 2014 annual meeting of stockholders, with the exact ratio to be set within this range by our board of directors in its sole discretion, to approve the 2013 Employee, Director and Consultant Equity Incentive Plan, to ratify the selection of Grant Thornton LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2013, to consider an advisory vote on compensation of our named executive officers, as disclosed in this proxy statement, to consider an advisory vote on the frequency of holding an advisory vote on compensation of our named executive officers, and to transact such other business as may properly come before the annual meeting.

Under Securities and Exchange Commission rules that allow companies to furnish proxy materials to shareholders over the Internet, we have elected to deliver our proxy materials to the majority of our shareholders over the Internet. This delivery process allows us to provide shareholders with the information they need, while at the same time conserving natural resources and lowering the cost of delivery. On June 24, 2013, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access our proxy statement for our 2013 Annual Meeting of Shareholders and our annual report to shareholders. The Notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

We hope you will be able to attend the annual meeting. Whether you plan to attend the annual meeting or not, it is important that you cast your vote. When you have finished reading the proxy statement, you are urged to vote in accordance with the instructions set forth in this proxy statement. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting, whether or not you can attend.

Thank you for your continued support of Interleukin Genetics, Inc. We look forward to seeing you at the annual meeting.

Sincerely,

/s/ James M. Weaver

**JAMES M. WEAVER**  
**CHAIRMAN OF THE BOARD**

**INTERLEUKIN GENETICS, INC.**

**135 BEAVER STREET**

**WALTHAM, MA 02452**

**NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS**

**TIME:** 10:00 a.m.

**DATE:** August 9, 2013

**PLACE:** Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.  
One Financial Center, Boston, Massachusetts 02111

**PURPOSES:**

1. To elect William C. Mills III and James M. Weaver as Class I directors for a three-year term expiring at our 2016 annual meeting.

2. To approve an amendment to our Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock from 150,000,000 to 300,000,000.

3. To approve an amendment to our Certificate of Incorporation, as amended, to effect a reverse stock split by combining outstanding shares of our common stock into a lesser number of outstanding shares by a ratio of not less than 1-for-5 and not more than 1-for-20 at any time prior to the earlier of (i) August 1, 2014 and (ii) the 2014 annual meeting of stockholders, with the exact ratio to be set within this range by our board of directors in its sole discretion.

4. To approve the 2013 Employee, Director and Consultant Equity Incentive Plan.

5. To ratify the appointment of Grant Thornton LLP as our independent public accounting firm for the fiscal year ending December 31, 2013.

6. To consider an advisory vote on compensation of our named executive officers, as disclosed in this proxy statement.

7.

To consider an advisory vote on the frequency of holding an advisory vote on compensation of our named executive officers.

8. To consider any other business that is properly presented at the meeting.

**WHO MAY VOTE:**

You may vote if you were the record owner of Interleukin Genetics, Inc. stock at the close of business on June 17, 2013. A list of stockholders of record will be available at the meeting and during the 10 days prior to the meeting, at the office of the Secretary, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452.

All stockholders are cordially invited to attend the annual meeting. **Whether you plan to attend the annual meeting or not, we urge you to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum.** You may change or revoke your proxy at any time before it is voted at the meeting.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Kenneth S. Kornman

**KENNETH S. KORNMAN**  
**SECRETARY**

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**INTERLEUKIN GENETICS, INC.**

**135 BEAVER STREET**

**WALTHAM, MA 02452**

**(781) 398-0700**

**PROXY STATEMENT FOR THE INTERLEUKIN GENETICS, INC.**

**2013 ANNUAL MEETING OF STOCKHOLDERS**

This proxy statement, along with the accompanying notice of 2013 annual meeting of stockholders, contains information about the 2013 annual meeting of stockholders of Interleukin Genetics, Inc., including any adjournments or postponements of the annual meeting. We are holding the annual meeting at 10:00 a.m. on Friday, August 9, 2013 at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., our legal counsel, located at One Financial Center, Boston, Massachusetts 02111. In this proxy statement, we refer to Interleukin Genetics, Inc. as “Interleukin,” “the Company,” “we” and “us.”

This proxy statement relates to the solicitation of proxies by our Board of Directors for use at the annual meeting.

On or about June 24, 2013, we began sending the Important Notice Regarding the Availability of Proxy Materials (the “Notice”) to all stockholders entitled to vote at the annual meeting.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF  
PROXY MATERIALS FOR THE SHAREHOLDER MEETING**

This proxy statement and our 2013 annual report to stockholders are available for viewing, printing and downloading at [www.proxyvote.com](http://www.proxyvote.com). To view these materials please have your 12-digit control number(s) available that appears on your Notice or proxy card. On this website, you can also elect to receive future distributions of our proxy statements and annual reports to stockholders by electronic delivery.

Additionally, you can find a copy of our Annual Report on Form 10-K, which includes our financial statements, for the fiscal year ended December 31, 2012 on the website of the Securities and Exchange Commission, or the SEC, at



*www.sec.gov*, or in the “Financial Reports” section of the “Investors” section of our website at *www.ilgenetics.com*. You may also obtain a printed copy of our Annual Report on Form 10-K, including our financial statements, free of charge, from us by sending a written request to: Treasurer, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452. Exhibits will be provided upon written request and payment of an appropriate processing fee.

## **GENERAL INFORMATION ABOUT THE ANNUAL MEETING**

### **Why is the Company Soliciting My Proxy?**

The Board of Directors of Interleukin is soliciting your proxy to vote at the 2013 annual meeting of stockholders and any adjournments of the meeting, which we refer to as the annual meeting. The proxy statement along with the accompanying Notice of Annual Meeting of Stockholders summarizes the purposes of the meeting and the information you need to know to vote at the Annual Meeting.

We have made available to you on the Internet or have sent you this proxy statement, the Notice of Annual Meeting of Stockholders, the proxy card and a copy of our 2012 annual report because you owned shares of our stock on the record date. On or about June 24, 2013, we commenced distribution of the Notice, and, if applicable, the proxy materials to stockholders.

### **Why Did I Receive a Notice in the Mail Regarding the Internet Availability of Proxy Materials Instead of a Full Set of Proxy Materials?**

As permitted by the rules of the U.S. Securities and Exchange Commission, or the SEC, we may furnish our proxy materials to our stockholders by providing access to such documents on the Internet, rather than mailing printed copies of these materials to each stockholder. Most stockholders will not receive printed copies of the proxy materials unless they request them. We believe that this process should expedite stockholders' receipt of proxy materials, lower the costs of the annual meeting and help to conserve natural resources. If you received a Notice by mail or electronically, you will not receive a printed or email copy of the proxy materials, unless you request one by following the instructions included in the Notice. Instead, the Notice instructs you as to how you may access and review all of the proxy materials and submit your proxy on the Internet. If you requested a paper copy of the proxy materials, you may authorize the voting of your shares by following the instructions on the proxy card, in addition to the other methods of voting described in this proxy statement.

### **Who Can Vote?**

Only stockholders who owned our common stock at the close of business on June 17, 2013 are entitled to vote at the annual meeting. On this record date, there were 122,140,718 shares of our common stock outstanding.

You do not need to attend the annual meeting to vote your shares. Shares represented by valid proxies, received in time for the meeting and not revoked prior to the meeting, will be voted at the meeting. A stockholder may revoke a proxy before the proxy is voted by delivering to our Secretary a signed statement of revocation or a duly executed proxy card bearing a later date. Any stockholder who has executed a proxy card but attends the meeting in person may revoke the proxy and vote at the meeting.

### **How Many Votes Do I Have?**

Each share of our common stock that you own entitles you to one vote.

### **How Do I Vote?**

Whether you plan to attend the annual meeting or not, we urge you to vote by proxy. Voting by proxy will not affect your right to attend the annual meeting. If your shares are registered directly in your name through our stock transfer agent, Computershare Limited, or you have stock certificates, you may vote:

· **By Internet or by telephone.** Follow the instructions on the proxy card to vote by Internet or telephone.

· **By mail.** Complete and mail the enclosed proxy card in the enclosed postage prepaid envelope. Your proxy will be voted in accordance with your instructions. If you sign the proxy card but do not specify how you want your shares voted, they will be voted as recommended by our Board of Directors.

· **In person at the meeting.** If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

If your shares are held in “street name” (held in the name of a bank, broker or other nominee), you must provide the bank, broker or other nominee with instructions on how to vote your shares and can do so as follows:

· **By Internet or by telephone.** Follow the instructions you receive from your broker to vote by Internet or telephone.

· **By mail.** You will receive instructions from your broker or other nominee explaining how to vote your shares.

· **In person at the meeting.** Contact the broker or other nominee who holds your shares to obtain a broker’s proxy card and bring it with you to the meeting. You will not be able to vote at the meeting unless you have a proxy card from your broker.

### **How Does the Board of Directors Recommend That I Vote on the Proposals?**

The Board of Directors recommends that you vote as follows:

· **“FOR”** the election of William C. Mills III and James M. Weaver as Class I directors for a three-year term expiring at our 2016 annual meeting;

· **“FOR”** approval of an amendment to our Certificate of Incorporation, as amended (our “Charter”), to increase the number of authorized shares of common stock from 150,000,000 to 300,000,000;

“**FOR**” approval of an amendment to our Charter to effect a reverse stock split by combining outstanding shares of our common stock into a lesser number of outstanding shares by a ratio of not less than 1-for-5 and not more than 1-for-20 at any time prior to the earlier of (i) August 1, 2014 and (ii) the 2014 annual meeting of stockholders, with the exact ratio to be set within this range by our board of directors in its sole discretion (the “reverse stock split”);

· “**FOR**” the approval of the 2013 Employee, Director and Consultant Equity Incentive Plan;

“**FOR**” the ratification of the appointment of Grant Thornton LLP as our independent public accounting firm for the fiscal year ending December 31, 2013;

· “**FOR**” the compensation of our named executive officers, as disclosed in this proxy statement; and

· “**FOR**” holding an advisory vote on compensation of our named executive officers every year.

If any other matter is presented at the annual meeting, the proxy card provides that your shares will be voted by the proxy holder listed on the proxy card in accordance with his or her best judgment. At the time this proxy statement was printed, we knew of no matters being presented at the annual meeting, other than those discussed in this proxy statement.

### **May I Change or Revoke My Proxy?**

If you give us your proxy, you may change or revoke it at any time before it is exercised. You may change or revoke your proxy in any one of the following ways:

· by signing a new proxy card with a later date and submitting it as instructed above;

· by re-voting by Internet or by telephone as instructed above (only your latest Internet or telephone vote will be counted);

· by notifying our Secretary in writing before the annual meeting that you have revoked your proxy; or

· by attending the meeting in person and voting in person.

Attending the meeting in person will not in and of itself revoke a previously submitted proxy unless you specifically request it.

### **What if I Receive More Than One Proxy Card?**

You may receive more than one proxy card or voting instruction form if you hold shares of our common stock in more than one account, which may be in registered form or held in street name. Please vote in the manner described under “How Do I Vote?” for each account to ensure that all of your shares are voted.

### **Will My Shares be Voted if I Do Not Return My Proxy Card?**

If your shares are registered in your name, they will not be voted if you do not return your proxy card by mail or vote at the meeting as described above under “How Do I Vote?” If your shares are held in street name and you do not provide voting instructions to the bank, broker or other holder of record that holds your shares as described above under “How Do I Vote?,” the bank, broker or other holder of record has the authority to vote your unvoted shares only on (1) the approval of the amendment to our Charter to increase the number of authorized shares of common stock from 150,000,000 to 300,000,000 (Proposal 2), (2) the approval of the amendment to our Charter to effect the reverse stock split (Proposal 3) and (3) the ratification of our independent public accounting firm (Proposal 5) even if it does not receive instructions from you, but does not have such discretionary authority on any other proposal. We encourage you to provide voting instructions. This ensures your shares will be voted at the meeting in the manner you desire. If your broker cannot vote your shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter or because your broker chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a “broker non-vote.”

**What Vote is Required to Approve the Proposals and How are Votes Counted?**

**Proposal 1: Elect William C. Mills III and James M. Weaver as Class I Directors** The two nominees for director who receive the most votes (also known as a “plurality” of the votes) will be elected. You may vote either FOR Mr. Mills and Mr. Weaver or WITHHOLD your vote from both nominees or any one nominee. Votes that are withheld will not be included in the vote tally. Banks and brokerage firms do not have authority to vote customers’ unvoted shares held by the firms in street name for the election of directors. As a result, any shares not voted by a customer will be treated as a broker non-vote. Such broker non-votes will have no effect on the results of this vote.

**Proposal 2: Approval of the Amendment to Our Charter to Increase the Number of Authorized Shares of Our Common Stock** The affirmative vote of a majority of our outstanding common stock is required to approve this amendment to our Charter. Banks and brokerage firms have authority to vote customers’ unvoted shares held by the firms in street name on this proposal. If a broker does not exercise this authority, such broker non-votes will have the same effect as a vote against this proposal. Abstentions will have the same effect as a vote against this proposal.

**Proposal 3: Approval of the Amendment to Our Charter to Effect the Reverse Stock Split** The affirmative vote of a majority of our outstanding common stock is required to approve the amendment to our Charter to effect the reverse stock split. Banks and brokerage firms have authority to vote customers’ unvoted shares held by the firms in street name on this proposal. If a broker does not exercise this authority, such broker non-votes will have the same effect as a vote against this proposal. Abstentions will have the same effect as a vote against this proposal.

**Proposal 4: Approval of the 2013 Employee, Director and Consultant Equity Incentive Plan** The affirmative vote of a majority of the votes present in person or represented by proxy and entitled to vote at the annual meeting is required to approve the 2013 Employee, Director and Consultant Equity Incentive Plan. Abstentions will be treated as votes against this proposal. Banks and brokerage firms do not have authority to vote customers’ unvoted shares held by the firms in street name for this proposal. As a result, any shares not voted by a customer will be treated as a broker non-vote. Such broker non-votes will have no effect on the results of this vote.

**Proposal 5: Ratification of Appointment of Our Independent Public Accountant** The affirmative vote of a majority of the votes present in person or represented by proxy and entitled to vote at the annual meeting is required to ratify the appointment of Grant Thornton LLP as our independent public accounting firm. Abstentions will be treated as votes against this proposal. Banks and brokerage firms have authority to vote customers’ unvoted shares held by the firms in street name on this proposal. If a broker does not exercise this authority, such broker non-votes will have no effect on the results of this vote. We are not required to obtain the approval of our stockholders to select our independent accountants. However, if our stockholders do not ratify the appointment of Grant Thornton LLP as our independent accountants for 2013, our Audit Committee of the Board of Directors will reconsider its selection.

**Proposal 6:  
Consider an  
Advisory  
Vote on  
Compensation of  
Our  
Named Executive  
Officers**

The affirmative vote of a majority of the votes present in person or represented by proxy and entitled to vote at the annual meeting is required to approve, on an advisory basis, the compensation of our named executive officers, as described in this proxy statement. Abstentions will be treated as votes against this proposal. Brokerage firms do not have authority to vote customers' unvoted shares held by the firms in street name on this proposal. As a result, any shares not voted by a customer will be treated as a broker non-vote. Such broker non-votes will have no effect on the results of this vote. Although the advisory vote is non-binding, the Compensation Committee and the Board of Directors will review the voting results and take them into consideration when making future decisions regarding executive compensation.

**Proposal 7:  
Consider an  
Advisory  
Vote on the  
Frequency of  
Holding  
an Advisory  
Vote on  
Compensation  
of Our Named  
Executive  
Officers**

The frequency of holding an advisory vote on the compensation of our named executive officers—every year, every two years or every three years—receiving the majority of votes cast will be the frequency approved by our stockholders. Brokerage firms do not have authority to vote customers' unvoted shares held by the firms in street name on this proposal. As a result, any shares not voted by a customer will be treated as a broker non-vote. Such broker non-votes, as well as abstentions, will have no effect on the results of this vote. Although the advisory vote is non-binding, the Compensation Committee and the Board of Directors will review the voting results and take them into consideration when making future decisions regarding the frequency of holding an advisory vote on the compensation of our named executive officers.

**Is Voting Confidential?**

We will keep all the proxies, ballots and voting tabulations private. We will only let our Inspector of Elections, Computershare Limited, examine these documents. We will not disclose your vote to management unless it is necessary to meet legal requirements. We will, however, forward to management any written comments you make, on the proxy card or elsewhere.

**Where Can I Find the Voting Results of the Annual Meeting?**

The preliminary voting results will be announced at the Annual Meeting, and we will publish preliminary, or final results if available, in a Current Report on Form 8-K within four business days of the Annual Meeting. If final results are unavailable at the time we file the Form 8-K, then we will file an amended report on Form 8-K to disclose the final voting results within four business days after the final voting results are known. **In addition, we are required to file on a Current Report on Form 8-K no later than the earlier of one hundred fifty calendar days after the annual meeting or sixty calendar days prior to the deadline for submission of stockholder proposals set forth in this proxy statement under the heading "Stockholder Proposals and Nominations for Director" our decision on how frequently we will include a stockholder vote on the compensation of our named executive officers in our proxy materials.**

**What Are the Costs of Soliciting these Proxies?**

We will pay all of the costs of soliciting these proxies. We plan to retain Broadridge Financial Services, Inc. to assist in the distribution of proxies and accompanying materials to brokerage houses and institutions for an estimated fee of \$5,000 plus expenses. In addition, our directors and employees may solicit proxies in person or by telephone, fax or



email. We will pay these employees and directors no additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their expenses.

### **What Constitutes a Quorum for the Meeting?**

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our stock having voting power constitutes a quorum for this meeting. Votes of stockholders of record who are present at the meeting in person or by proxy, abstentions, and broker non-votes are counted for purposes of determining whether a quorum exists.

### **Attending the Annual Meeting**

The annual meeting will be held at 10:00 a.m. on Friday, August 9, 2013 at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., our legal counsel, located at One Financial Center, Boston, Massachusetts 02111. When you arrive at the meeting, signs will direct you to the appropriate meeting rooms. You need not attend the annual meeting in order to vote. Instead, you may vote your shares by marking, signing, dating and returning the enclosed proxy card.

### **Householding of Annual Disclosure Documents**

In December 2000, the Securities and Exchange Commission adopted a rule concerning the delivery of annual disclosure documents. The rule allows us or your broker to send a single set of our annual report and proxy statement to any household at which two or more of our stockholders reside, if we or your broker believe that the stockholders are members of the same family. The rule applies to our annual reports, proxy statements and information statements. We do not engage in this practice, referred to as “householding”, however your broker or other nominee may. Once you receive notice from your broker that communications to your address will be “household”, the practice will continue until you are otherwise notified or until you revoke your consent to the practice. Each stockholder will continue to receive a separate proxy card or voting instruction card.

If your household received a single set of disclosure documents this year, but you would prefer to receive your own copy, please contact our transfer agent, Computershare Trust Company, N.A., by calling them at 1-800-962-4284.

If you do not wish to participate in “householding” and would like to receive your own set of our annual disclosure documents in future years, follow the instructions described below. Conversely, if you share an address with another one of our shareholders and together both of you would like to receive only a single set of our annual disclosure documents, follow these instructions:

If your shares of our common stock are registered in your own name, please contact our transfer agent, and inform them of your request by calling them at 1-800-962-4284 or writing them at 250 Royall Street, Canton, MA. 02021.

If a broker or other nominee holds your shares, please contact the broker or other nominee directly and inform them of your request. Be sure to include your name, the name of your brokerage firm and your account number.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of May 31, 2013 for (a) the executive officers named in the Summary Compensation Table of this proxy statement, (b) each of our directors and director nominees, (c) all of our current directors and executive officers as a group, and (d) each stockholder known to us to beneficially own more than five percent of our common stock. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. We deem shares that may be acquired by an individual or group within 60 days following May 31, 2013 pursuant to the exercise of options or warrants to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as otherwise indicated, we believe that the stockholders named in the table have sole voting and investment power with respect to all shares shown to be beneficially owned by them based on information provided to us by these stockholders. Percentage ownership is based on a total of 122,140,718 shares of our common stock issued and outstanding on May 31, 2013.

| Name and Address of Beneficial Owner(1)  | Amount and Nature of Beneficial Ownership | Percent |
|--|---|---------|
| Five Percent Stockholders  |   |         |
| Pyxis Innovations Inc. (2)<br>7575 Fulton Street, East<br>Ada, MI 49355                                | 37,565,478                                | 30.8 %  |
| Bay City Capital LLC (3)<br>750 Battery Street Suite 400<br>San Francisco, CA 94111                    | 36,001,285                                | 26.2 %  |
| Growth Equity Opportunities Fund III LLC (4)<br>1954 Greenspring Drive Suite 600<br>Timonium, MD 21093 | 27,000,964                                | 20.2 %  |
| Delta Dental of Michigan, Inc. (5)<br>4100 Okemos Road<br>Okemos, MI 48864                             | 10,928,961                                | 8.9 %   |
| Merlin Nexus IV LP (6)<br>424 West 33 <sup>rd</sup> Street Suite 330<br>New York, NY 10001             | 9,000,322                                 | 7.1 %   |
| Directors and Executive Officers   |   |         |
| Lewis H. Bender (7)  | 1,066,854                                 | *       |
| Kenneth S. Kornman, DDS, Ph.D. (8)   | 1,436,196                                 | *       |
| Eliot M. Lurier (9)  | 180,622                                   | *       |
| James M. Weaver (10)   | —   | *       |
| Lionel Carnot (11)   | 36,001,285                                | *       |
| Roger C. Colman (10)   | —   | *       |
| Goran Jurkovic (12).   | —   | *       |
| William C. Mills, III (13)   | 11,250                                    | *       |
| Dayton Misfeldt (11)   | 36,001,285                                | *       |

|  |            |        |
|--|------------|--------|
| All current executive officers and directors as a Group (9 persons) (14) | 37,629,353 | 27.2 % |
|--|------------|--------|

\* Represents less than 1% of the issued and outstanding shares.

(1) Unless otherwise indicated, the address for each person is our address at 135 Beaver Street, Waltham, MA 02452.

Based on a Schedule 13D/A filed on May 31, 2013 with the SEC by Pyxis Innovations Inc. (“Pyxis”) and affiliated entities. Pyxis is a wholly-owned subsidiary of Alticor Inc. Alticor Inc. is a wholly-owned subsidiary of Solstice Holdings Inc. Solstice Holdings Inc. is a wholly-owned subsidiary of Alticor Global Holdings Inc. Pyxis reports (2) sole voting and dispositive power over the shares, however, Alticor Inc., Solstice Holdings Inc., and Alticor Global Holdings Inc. have the power to direct the voting and disposition of these securities held by Pyxis by virtue of their direct or indirect control of Pyxis.

Based on a Schedule 13D filed on May 22, 2013 with the SEC by Bay City Capital LLC (“BCC”) and affiliated entities. BCC is the manager of Bay City Capital Management V LLC (“Management V”), which is the general partner of Bay City Capital Fund V, L.P. (“Fund V”), and Bay City Capital Fund V Co-Investment Fund, L.P. (“Co-Investment V”). BCC is also an advisor to Fund V and Co-Investment V. The shares consist of (i) 20,187,464 shares of common stock and 15,140,598 shares of common stock issuable upon the exercise of warrants held by Fund V, and (ii) 384,699 shares of common stock and 288,524 shares of common stock issuable upon the exercise of warrants held by Co-Investment V.

- (3) Sixty-three percent of the shares subject to the warrants are currently exercisable and the remaining 37% will become exercisable upon stockholder approval of Proposal 2. Does not include (i) up to 8,411,443 shares of common stock and warrants to purchase up to 6,308,582 shares of common stock that may be purchased by Fund V, and (ii) up to 160,291 shares of common stock and warrants to purchase up to 120,218 shares of common stock that may be purchased by Co-Investment V pursuant to the Common Stock Purchase Agreement, dated May 17, 2013, by and among Interleukin and the Purchasers on Schedule I thereto (the “Purchase Agreement”), for a purchase price of \$0.2745 per share, subject to stockholder approval of Proposal 2.

- Based on a Schedule 13D filed on May 24, 2013 with the SEC by Growth Equity Opportunities Fund III, LLC (“GEOF”) and affiliates. The shares consist of 15,429,122 shares of common stock and 11,571,842 shares of common stock issuable upon the exercise of warrants held by GEOF. Sixty-three percent of the shares subject to (4) the warrants are currently exercisable and the remaining 37% will become exercisable upon stockholder approval of Proposal 2. Does not include up to 6,428,801 shares of common stock and warrants to purchase up to 4,821,601 shares of common stock that may be purchased by GEOF, pursuant to the Purchase Agreement for a purchase price of \$0.2745 per share, subject to stockholder approval of Proposal 2.

- (5) Based on a Schedule 13D/A filed on May 28, 2013 with the SEC by Delta Dental Plan of Michigan, Inc. (“DDMI”).

- The shares consist of 5,143,041 shares of common stock and 3,857,281 shares of common stock issuable upon the exercise of warrants held by Merlin Nexus IV, LP (“Merlin Nexus”). Sixty-three percent of the shares subject to the warrants are currently exercisable and the remaining 37% will become exercisable upon stockholder approval of (6) Proposal 2. Does not include up to 2,142,935 shares of common stock and warrants to purchase up to 1,607,201 shares of common stock that may be purchased by Merlin Nexus, pursuant to the Purchase Agreement for a purchase price of \$0.2745 per share, subject to stockholder approval of Proposal 2.

- (7) Consists of (i) 316,854 shares of common stock held by Mr. Bender and (ii) 750,000 shares of common stock issuable upon the exercise of options that are currently exercisable.

- Consists of (i) 159,473 shares of common stock held by Dr. Kornman, (ii) 898,723 shares of common stock held by a limited partnership of which Dr. Kornman is a general partner and (iii) 378,000 shares of common stock (8) issuable upon the exercise of options that are currently exercisable or become exercisable within 60 days of May 31, 2013. Dr. Kornman disclaims beneficial ownership of the shares held by the limited partnership, except to the extent of his pecuniary interest therein.

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Consists of (i) 30,622 shares of common stock held by Mr. Lurier and (ii) 150,000 shares of common stock (9) issuable upon the exercise of options that are currently exercisable or become exercisable within 60 days of May 31, 2013.

Appointed to the Board of Directors as a designee of Pyxis pursuant to the terms of the Purchase Agreement. We (10) have been advised that this director does not, directly or indirectly, have voting or dispositive power over the shares of stock held by Pyxis.

Appointed to the Board of Directors as a designee of BCC pursuant to the terms of the Purchase Agreement. Includes the shares of our common stock and shares of common stock issuable upon the exercise of warrants outstanding detailed in Note (3) above held by the entities affiliated with BCC. The voting and dispositive (11) decisions with respect to the shares held by Fund V and Co-Investment V are made by the following members of the investment committee of its general partner, Management V. Messrs. Carnot and Misfeldt serve on this investment committee. Each disclaims beneficial ownership of such shares, except to the extent of his actual pecuniary interest therein.

Appointed to the Board of Directors as a designee of DDMI pursuant to the terms of the Purchase Agreement. We (12) have been advised that this director does not, directly or indirectly, have voting or dispositive power over the shares of stock held by DDMI.

(13) Consists of 11,250 shares of common stock issuable upon the exercise of options that are currently exercisable or become exercisable within 60 days of May 31, 2013.

(14)

See Notes 8 through 13 above.

## MANAGEMENT AND CORPORATE GOVERNANCE

### The Board of Directors and Management

We are managed under the direction of our Board of Directors. Our Board of Directors currently consists of seven directors. On May 17, 2013, we entered into a Common Stock Purchase Agreement (the “Purchase Agreement”) with various accredited investors, pursuant to which we sold securities in a private placement transaction (the “Private Placement”). Prior to the Private Placement, our Board of Directors consisted of six directors. Pursuant to the terms of the Certificate of Designations, Rights and Preferences of Series A-1 Preferred Stock and Series B Preferred Stock, the holders of the Series A-1 Preferred Stock, voting together as a class, were entitled to elect up to three directors to our Board of Directors (the “Series A-1 Directors”) and the holders of Series B Preferred Stock, voting together as a class, were entitled to elect one director to our Board of Directors (the “Series B Director”). The Series A-1 Directors were nominated and elected by Pyxis Innovations Inc. (“Pyxis”), as the sole holder of shares of our Series A-1 Preferred Stock. Prior to the Private Placement, James M. Weaver and Roger C. Colman were the Series A-1 Directors (and there was one vacancy). The Series B Director was nominated and elected by Delta Dental Plan of Michigan, Inc. (“DDMI”), as the sole holder of shares of our Series B Preferred Stock. Prior to the Private Placement, Goran Jurkovic was the Series B Director. Prior to the Private Placement, the Board included three directors who were not Series A-1 or Series B Directors and who were classified into three classes as follows: (i) William C. Mills III (Class I director with a term ending at the annual meeting), (ii) Kenneth S. Kornman, our Chief Executive Officer (Class II director with a term ending at the 2014 annual meeting), and (iii) Mary E. Chowning (Class III director with a term ending at the 2015 annual meeting). Under the terms of the Purchase Agreement, following the Private Placement the Board is to consist of seven directors as follows: (i) the Company’s CEO; (ii) one independent director (was shall initially be Mr. Mills); (iii) two directors designated by Pyxis, (iv) one director designated by DDMI; and (v) two directors designated by Bay City Capital Fund V, L.P., one of the investors in the Private Placement (“BCC”). Accordingly, effective subject to and immediately following the closing of the Private Placement, James M. Weaver, Roger C. Colman, Goran Jurkovic and Mary E. Chowning resigned as directors of the Company (the “Director Resignations”).

Pursuant to the terms of the Purchase Agreement, immediately following the Director Resignations, the number of persons which constitutes our Board of Directors was set at seven, and immediately thereafter, in accordance our Bylaws, the following persons were appointed as directors to fill the vacancies on the Board and to serve in accordance with the Bylaws in the classes set forth below (with Mr. Mills (Class I) and Dr. Kornman (Class II)):

- (i) James M. Weaver was appointed as a Class I director with a term ending at the annual meeting;
- (ii) Dayton Misfeldt was appointed as a Class II director with a term ending at the 2014 annual meeting of stockholders; and
- (iii)

Goran Jurkovic, Roger C. Colman and Lionel Carnot were appointed as Class III directors with a term ending at the 2015 annual meeting of stockholders.

Messrs. Weaver and Colman were designated by Pyxis, Mr. Jurkovic was designated by DDMI and Messrs. Misfeldt and Carnot were designated by BCC.

On May 30, 2013, our Board of Directors voted to nominate William C. Mills III and James M. Weaver for re-election at the annual meeting for a term of three years to serve until the 2016 Annual Meeting of Stockholders, and until their respective successors have been elected and qualified.



Set forth below are the names of our director nominees as well as our directors whose terms do not expire this year and our executive officers, their ages, their position in the company, their principal occupations or employment for at least the past five years, the length of their tenure as directors and, for our directors, the names of other public companies in which they hold or have held directorships during the past five years.

| <b>Name</b>                    | <b>Age</b> | <b>Position with the Company</b>   |
|--------------------------------|------------|--|
| Kenneth S. Kornman, DDS, Ph.D. | 65         | Chief Executive Officer, President and Chief Scientific Officer and Director |
| Eliot M. Lurier                | 55         | Chief Financial Officer & Treasurer  |
| Scott Snyder                   | 52         | Chief Marketing Officer  |
| James M. Weaver                | 49         | Director and Chairman of the Board   |
| Lionel Carnot(1)(2)            | 46         | Director   |
| Roger C. Colman (2)(3)         | 59         | Director   |
| Goran Jurkovic (1)             | 42         | Director   |
| William C Mills III (1)(3)     | 57         | Director   |
| Dayton Misfeldt(3)             | 39         | Director   |

(1)Member of our Audit Committee

(2)Member of our Nominating Committee

(3)Member of our Compensation Committee

KENNETH S. KORNMANN, DDS, Ph.D. is Interleukin's co-founder and serves as our Chief Executive Officer, co-founder, President and Chief Scientific Officer. He was a member of our Board of Directors from August 2006 through April 2010, and in connection with our former Chief Executive Officer's resignation on August 23, 2012, the Board of Directors appointed Dr. Kornman as a director to fill the vacancy created by the former Chief Executive Officer's resignation. Prior to founding the Company in 1986, Dr. Kornman was a Department Chairman and Professor at The University of Texas Health Center at San Antonio. He has also been a consultant and scientific advisor for many major oral care and pharmaceutical companies. Dr. Kornman currently holds an academic appointment at Harvard University. He holds multiple patents in the pharmaceutical area, has published three books and more than 125 scientific papers and has lectured and consulted worldwide on the transfer of technology to clinical practice. Dr. Kornman also holds an MS (Periodontics) and Ph.D. (Microbiology-Immunology) from the University of Michigan. Our Board of Directors has concluded that Dr. Kornman should serve as a director as of the date of this report because of his prior executive management experience, his scientific expertise and his knowledge of the dental and biotechnology industries. Dr. Kornman has not served on any other public company boards in the past five years.

ELIOT M. LURIER has been our Chief Financial Officer since April 2008. He became Treasurer in July 2008. Prior to joining the Company and since April 2005, Mr. Lurier was Vice President, Finance and Administration and Chief Financial Officer of Nucryst Pharmaceuticals, where he assisted in its initial public offering and was responsible for the company's reporting to the Securities and Exchange Commission and the implementation of Sarbanes-Oxley requirements. From April 2004 to March 2005, Mr. Lurier served as Chief Financial Officer and Chief Operating

Officer for Bridge Pharmaceuticals, Inc., where he established financial policies for managing business operations. From 1983 to 2004, Mr. Lurier held a number of senior-level financial positions, including Chief Financial Officer of Admetric Biochem, Inc., and Chief Financial Officer, Treasurer and Vice President of Finance of Ascent Pediatrics, Inc. From 1981 to 1983, Mr. Lurier was an auditor at Coopers and Lybrand in Boston, MA. He earned a B.S. in Accounting from Syracuse University in 1980 and is a Certified Public Accounting in Massachusetts.

SCOTT SNYDER joined Interleukin Genetics, Inc. as Chief Marketing Officer in January 2013. Mr. Snyder brings nearly 25 years of marketing and operational management experience in life sciences and consumer healthcare. Most recently, from 2009 to 2012, Mr. Snyder served as Vice President and General Manager at Bausch & Lomb, where he guided the private, equity-led turnaround of the company's flagship contact lens care business. Previously, he spent 20 years at Johnson & Johnson (J&J) in a career spanning all of J&J's business sectors including pharmaceuticals, medical devices and consumer products. While at J&J, Mr. Snyder helped lead the post-acquisition integration of dental products company Orapharma, Inc. and reshaped the company's commercial model. Early in his career at J&J, Mr. Snyder was selected for an expatriate assignment in Europe and has held multiple global roles throughout his career. He served as a U.S. Navy Officer, holds a B.S. Degree in Communications from Northwestern University, and received an MBA from the Kellogg School of Management.

JAMES M. WEAVER joined the Board of Directors in July 2007. He has served as Chairman of our Board since September 2007. He is Vice President of Alticor Corporate Enterprises, a member of the Alticor Inc. family of companies, which is engaged in the principal business of offering products, business opportunities, and manufacturing and logistics services in more than 80 countries and territories worldwide. In this role, Mr. Weaver is responsible for managing the current portfolio of Alticor's companies and directs its acquisition and growth. Prior to joining Alticor, Mr. Weaver worked for X-Rite Inc. where he held various leadership positions, including Senior Vice President and General Manager, Vice President of marketing and software development, Vice President of marketing and product development, as well as lead executive on several acquisitions. Mr. Weaver also founded and held the position of President and Chief Executive Officer of Bold Furniture Inc, and has held various leadership positions at Steelcase Inc. and Bissell Inc. Mr. Weaver received a Bachelor's degree in general studies from the University of Michigan in Ann Arbor and serves on several non-profit and private company boards. Our Board of Directors has concluded that Mr. Weaver should serve as a director as of the date of this proxy statement because of his prior senior management experience and judgment and his extensive sales and marketing experience in the consumer product industry. Mr. Weaver has not served on any other public company boards in the past five years.

LIONEL CARNOT joined the Board of Directors in May 2013. Mr. Carnot is an Investment Partner at Bay City Capital LLC, a leading, global life sciences investment firm, and has been extensively involved in the firm's activities since he joined The Pritzker Organization in 2000. Prior to The Pritzker Organization, Mr. Carnot was a Principal at Oracle Partners, a healthcare hedge fund. He also held several positions in the pharmaceutical industry, including Product Manager for Prozac at Eli Lilly as well as several sales and marketing positions at Rhone-Poulenc Rohrer (now Sanofi). Mr. Carnot was also a strategy and management consultant to the biopharmaceutical industry while at Booz Allen & Hamilton and Accenture Strategic Services. Mr. Carnot is a member of the Board of Directors of Merus B.V., Madrigal Pharmaceuticals and Tallikut Pharmaceuticals, and is a former member of the board of Reliant Pharmaceuticals, Pathway Diagnostics, BioSeek and Nexus Dx. Mr. Carnot holds an MBA with Distinction from INSEAD and an MS with honors in Molecular Biology from the University of Geneva. Our Board of Directors has concluded that Mr. Carnot should serve as a director as of the date of this proxy statement because of his prior management, consulting and board experience in the biotechnology and diagnostic industries, coupled with scientific, technical, sales and marketing, finance, and business development expertise. Mr. Carnot has not served on any other public company boards in the past five years.

ROGER C. COLMAN joined the Board of Directors in March 2011. Mr. Colman is Vice President of Corporate Development for Alticor Corporate Enterprises a member of the Alticor family of companies. He joined Alticor in 1994 from Readi-Bake, Inc., where he held positions as an operations and distribution executive. Mr. Colman earned a Bachelor of Science degree and a Master's of Business Administration degree from Grand Valley State University in Allendale, Michigan. Our Board of Directors has concluded that Mr. Colman should serve as a director as of the date of this proxy statement because of his prior executive management experience, including assisting Amway affiliate operations in over 30 countries in diverse roles which included business process improvement and strategic planning, and prior experience serving on corporate boards. Mr. Colman has not served on any other public company boards in the past five years.

GORAN JURKOVIC joined the Board of Directors on June 29, 2012. Mr. Jurkovic is Senior Vice President and Chief Financial Officer for Delta Dental of Michigan. Prior to that, he served as controller, where he has overseen the

organization's financial operations since 2004. Mr. Jurkovic began his career at Delta Dental in 1999 and was responsible for directing the operations of the Accounting and Finance department. Before joining Delta Dental, Mr. Jurkovic was an audit associate with Plante & Moran, PLLC, a public accounting firm headquartered in Southfield, Michigan. He received a Bachelor's degree in accounting from Michigan State University and became a certified public accountant in 1996. He is a member of the American Institute of Certified Public Accountants and the Michigan Association of Certified Public Accountants. Our Board of Directors has concluded that Mr. Jurkovic should serve as a director as of the date of this report because of his prior executive management, strategic planning and financial expertise. Mr. Jurkovic has not served on any other public company boards in the past five years.

WILLIAM C. MILLS III joined the Board of Directors in April 2010. He currently serves as Chairman of the Board of Directors and interim CEO of Stereotaxis, Inc. (NASDAQ: STXS), a medical device company that markets robotic cardiology instrument navigation systems designed to enhance the treatment of arrhythmias and coronary disease. He has been a venture capitalist for over 32 years. From 2004 until 2009, Mr. Mills was a managing member of a management company conceived by EGS Healthcare Capital Partners to manage EGS Private Healthcare Partnership III. Earlier, Mr. Mills was a Partner in the Boston office of Advent International, a private equity and venture capital firm, for five years. At Advent, he was co-responsible for healthcare venture capital investments and focused on investments in the medical technology and biopharmaceutical sectors. Before joining Advent, Mr. Mills spent more than 11 years with the Venture Capital Fund of New England where he was a General Partner. Prior to that, he spent seven years at PaineWebber Ventures/Ampersand Ventures as Managing General Partner. Currently, he is Chairman of the Board of Managers of Ascension Health Ventures III, LLC. Mr. Mills received his A.B. in Chemistry, cum laude, from Princeton University, his S.M. in Chemistry from the Massachusetts Institute of Technology and his M.S. in Management from MIT's Sloan School of Management.

DAYTON MISFELDT joined the Board of Directors in May 2013. Mr. Misfeldt is an Investment Partner at Bay City Capital LLC, a leading, global life sciences investment firm, and focuses on biopharmaceutical investment opportunities. Prior to joining Bay City Capital in May 2000, Mr. Misfeldt was a Vice President at Roth Capital Partners where he worked as a sell-side analyst covering the biopharmaceutical industry. Mr. Misfeldt has also worked as a Project Manager at LifeScience Economics. Mr. Misfeldt received a B.A. in Economics from the University of California, San Diego. Mr. Misfeldt currently serves on the Board of Directors of Sunesis Pharmaceuticals, Inc, a publicly traded biopharmaceutical company and several private company boards. Our Board of Directors has concluded that Mr. Misfeldt should serve as a director as of the date of this report because he has financial expertise and strong understanding of the biotechnology industry, which the Board believes makes him an important resource for the Board as it assesses both financial and strategic decisions. Except as noted above, Mr. Misfeldt has not served on any other public company boards in the past five years.

### **Director Independence**

Our Board of Directors has determined that the following members qualify as independent directors under the definition promulgated by The NASDAQ Stock Market LLC (“NASDAQ”): Lionel Carnot, Roger C. Colman, Goran Jurkovic, William C. Mills III, Dayton Misfeldt and James M. Weaver.

### **Committees of the Board of Directors and Meetings**

*Committees.* Our Board of Directors has established three standing committees, Audit, Compensation and Nominating, each as described below.

*Meeting Attendance.* During the fiscal year ended December 31, 2012, the Board of Directors met eight times. Each of our incumbent Directors attended at least 75% of the aggregate of the meetings of the Board of Directors and committees of which they are a member. The Board of Directors has adopted a policy under which each member is encouraged to make every reasonable effort to attend each annual meeting of our stockholders. All seven of our directors attended our 2012 annual meeting of stockholders.

### **Audit Committee and Financial Experts**

Our Audit Committee currently consists of William C. Mills III (Chair), Lionel Carnot and Goran Jurkovic. During the fiscal year ended December 31, 2012, our Audit Committee consisted of Mary C. Chowning, Thomas R. Curran, Jr. and William C. Mills III. Mr. Curran resigned in March 2013 and was replaced by Mr. Jurkovic, and Ms.

Chowning resigned in May 2013 and was replaced by Mr. Carnot. Our Audit Committee met four times during the fiscal year ended December 31, 2012. Our Audit Committee is responsible for retaining and overseeing our independent accountants, approving the services performed by them and reviewing our annual financial statements, accounting policies and our system of internal controls. All members of the Audit Committee satisfy the current independence standards promulgated by the Securities and Exchange Commission and NASDAQ, as such standards apply specifically to members of audit committees. The Board of Directors has determined that each of Mr. Jurkovic and Mr. Mills is an “audit committee financial expert” as the Securities and Exchange Commission has defined that term in Item 407 of Regulation S-K. A copy of the Audit Committee’s written charter is publicly available on our website at [www.ilgenetics.com](http://www.ilgenetics.com).

### **Compensation Committee**

Our Compensation Committee currently consists of Dayton Misfeldt (Chair), Roger C. Colman and William C. Mills III. During the fiscal year ended December 31, 2012, our Compensation Committee consisted of Roger C. Colman, Thomas R. Curran, Jr. and William C. Mills III. Mr. Curran resigned in March 2013 and Mr. Misfeldt was appointed in May 2013. Our Compensation Committee met one time during the fiscal year ended December 31, 2012 (and acted by unanimous written consent on four occasions). Our Compensation Committee reviews our compensation philosophy and programs, exercises authority with respect to the payment of salaries and incentive compensation to our directors and officers and makes recommendations to the Board of Directors regarding stock option grants and stock awards under our stock plans. The Compensation Committee is responsible for the determination of the compensation of our Chief Executive Officer, and conducts its decision making process with respect to that issue without the Chief Executive Officer present. All members of the Compensation Committee qualify as independent under the definitions promulgated by NASDAQ. A copy of the Compensation Committee’s written charter is publicly available on our website at [www.ilgenetics.com](http://www.ilgenetics.com).

## **Nominating Committee**

Our Nominating Committee currently consists of Roger C. Colman (Chair) and Lionel Carnot. During the fiscal year ended December 31, 2012, our Nominating Committee consisted of Mary C. Chowning, Roger C. Colman and Catherine Ehrenberger. Ms. Ehrenberger resigned in June 2012. Ms. Chowning resigned in May 2013 and was replaced by Mr. Carnot. Our Nominating Committee acted by unanimous written consent on one occasion during the fiscal year ended December 31, 2012. All members of the Nominating Committee qualify as independent under the definition promulgated by the NASDAQ. This committee's role is to make recommendations to the Board of Directors as to the size and composition of the Board of Directors and to make recommendations as to the particular nominees. The Nominating Committee may consider candidates recommended by stockholders, as well as from other sources, such as other directors, or officers, third party search firms or other appropriate sources. For all potential candidates, the Nominating Committee may consider all factors it deems relevant, such as a candidate's personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which we operate, possible conflicts of interest, the extent to which the candidate would fill a present need on the Board of Directors, and concern for the long-term interests of the stockholders. The Nominating Committee also considers issues of diversity among its members in identifying and considering nominees and strives, if appropriate, to achieve a diverse balance of backgrounds, perspectives and experience. In general, persons recommended by stockholders will be considered on the same basis as candidates from other sources. If a stockholder wishes to nominate a candidate to be considered for election as a director at the 2013 Annual Meeting of Stockholders using the procedures set forth in the Company's By-laws, it must follow the procedures described in "Stockholder Proposals and Nominations For Director" of this proxy statement. If a stockholder wishes simply to propose a candidate for consideration as a nominee by the Nominating Committee, it should submit any pertinent information regarding the candidate to the Chairman of the Nominating Committee by mail at Secretary, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452. A copy of the Nominating Committee's written charter is publicly available on our website at [www.ilgenetics.com](http://www.ilgenetics.com).

## **Board Leadership Structure and Role in Risk Oversight**

Our Board of Directors currently consists of seven directors, each of whom, other than Dr. Kornman, is independent under NASDAQ's independence standards. Dr. Kornman has served as our CEO and a member of our Board since August 2012. The Chairman of our Board of Directors is currently Mr. Weaver. The Board has determined that separating the positions of Chief Executive Officer and Chairman of the Board, and having an independent director serve as Chairman of the Board, is in the best interest of shareholders at this time in recognition of the differences between the two roles. Under this structure, the Chief Executive Officer is responsible for setting the strategic direction for the company and for providing the day-to-day leadership over our operations, while the Chairman of the Board provides guidance to the Chief Executive Officer, sets the agenda for Board meetings and presides over meetings of the full Board. In addition, the Chairman approves Board meeting agendas and schedules and generally approves information sent to the Board. This structure ensures a greater role for the independent directors in the oversight of the company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of the Board. In addition, our independent directors meet in executive sessions after every scheduled Board meeting.

Generally, management is responsible for managing the risks that we face. The Board of Directors is responsible for overseeing management's approach to risk management that is designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance stockholder value. The involvement of the full Board of Directors in reviewing our strategic objectives and plans is a key part of the Board's assessment of management's approach and tolerance to risk. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for us. In setting our business strategy, our Board of Directors assesses the various risks being mitigated by management and determines what constitutes an appropriate level of risk for us. While the Board of Directors has ultimate oversight responsibility for overseeing management's risk management process, various committees of the Board of Directors assist it in fulfilling that responsibility. The Audit Committee assists the Board in its oversight of risk management in the areas of financial reporting, internal controls and compliance with certain legal and regulatory requirements and the Compensation Committee assists the board in its oversight of the evaluation and management of risks related to our compensation policies and practices.

### **Shareholder Communications to the Board**

Generally, shareholders who have questions or concerns regarding Interleukin should contact Investor Relations at (781) 398-0700. However, any shareholders who wish to address questions regarding our business directly with the Board of Directors, or any individual director, should direct his or her questions in writing to the Chairman of the Board at Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452. Communications will be distributed to the Board, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communications. Items that are unrelated to the duties and responsibilities of the Board may be excluded, such as:



- junk mail and mass mailings;
- resumes and other forms of job inquiries;
  - surveys; and
- solicitations or advertisements.

In addition, any material that is unduly hostile, threatening, or illegal in nature may be excluded, provided that any communication that is filtered out will be made available to any outside director upon request.

**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth the total compensation awarded or paid to, accrued or earned during the fiscal years ended December 31, 2012 and 2011 by our former Chief Executive Officer, our current Chief Executive Officer and our Chief Financial Officer (there were no other executive officers employed by us as of December 31, 2012). We refer to these individuals as our “Named Executive Officers.”

| Name and Principal Position  | Fiscal Year | Salary (\$) | Bonus (\$) | Stock Option Awards |           | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$)(3) | Total (\$) |
|--|-------------|-------------|------------|---------------------|-----------|---|--|--------------------------------|------------|
|  |             |             |            | (1)                 | (2)       |   |  |                                |            |
| Lewis H. Bender<br>Former Chief Executive Officer(4)                                     | 2012        | \$227,539   | \$ —       | \$ —                | \$ —      | \$ —  | \$ —   | \$ 209,802                     | \$437,341  |
|  | 2011        | \$340,000   | \$ —       | \$ —                | \$138,936 | \$ —  | \$ —   | \$ 1,500                       | \$480,436  |
| Kenneth S. Kornman<br>Chief Executive Officer,<br>President and Chief Scientific Officer | 2012        | \$363,296   | \$ —       | \$ —                | \$102,000 | \$ —  | \$ —   | \$ 3,296                       | \$468,592  |
|  | 2011        | \$360,000   | \$ —       | \$ —                | \$39,801  | \$ —  | \$ —   | \$ 3,296                       | \$403,097  |
| Eliot M. Lurier<br>Chief Financial Officer   | 2012        | \$250,000   | \$ —       | \$ —                | \$68,000  | \$ —  | \$ —   | \$ 1,500                       | \$319,500  |
|  | 2011        | \$244,201   | \$ —       | \$ —                | \$31,250  | \$ —  | \$ —   | \$ 1,500                       | \$276,951  |

See Note 12 to our Financial Statements reported in our Annual Report on Form 10-K for our fiscal year ended (1) December 31, 2012 for details as to the assumptions used to determine the fair value of the stock awards and option grants.

(2) Amounts represent the grant date fair value of stock awards and option grants. The 2011 option award amount for Mr. Bender consists of the grant date fair value of options for 500,000 shares, granted in February 2011. The 2011 and 2012 option award amounts for Dr. Kornman consists of the grant date fair value of options for 100,000 and

300,000 shares granted in May 2011 and December 2012, respectively. The 2011 and 2012 option award amounts for Mr. Lurier consists of the grant date fair value of options for 100,000 and 200,000 shares granted in March 2011 and December 2012, respectively.

For Mr. Bender, 2012 amount consists of \$181,168 paid in 2012 and \$28,634 paid in 2013 under the severance agreement entered into on September 14, 2012. Mr. Bender received a \$1,500 401K company contribution in 2011.  
(3) Dr. Kornman received reimbursement of \$3,296 for life insurance in 2011 and 2012, respectively. Mr. Lurier received a \$1,500 401K company contribution in 2011 and 2012, respectively.

(4) Mr. Bender resigned effective August 23, 2012.

### Narrative Disclosure to Summary Compensation Table

The compensation paid to our named executive officers in 2012 summarized in our Summary Compensation Table above is generally determined in accordance with employment agreements that we have entered into with each of our named executive officers. The material terms of these agreements are discussed under the caption “Employment Agreements” below.

### Outstanding Equity Awards at Fiscal Year-End

The following table shows stock option awards outstanding (vested and unvested) and unvested stock awards outstanding as of December 31, 2012, including both awards subject to performance conditions and non-performance-based awards, for each of the executive officers in the Summary Compensation Table.

| Name               | Option Awards   |   |   | Equity Incentive Plan Awards: Unexercised Options |                        |  | Stock Awards  |  |   | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|--------------------|---|---|---|---|------------------------|--|---|--|---|--|
|                    | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Options Exercise Price (\$)                       | Option Expiration Date | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |   |  |
| Lewis H. Bender    | 400,000   | —   | —   | \$ 1.06   | 9/14/2013              | —  | —   | —  | — |  |
|                    | 100,000   | —   | —   | \$ 0.89   | 9/14/2013              | —  | —   | —  | — |  |
|                    | 250,000   | —   | —   | \$ 0.32   | 9/14/2013              | —  | —   | —  | — |  |
| Kenneth S. Kornman | 30,000  | —   | —   | \$ 1.65   | 3/23/2013              | —  | —   | —  | — |  |
|                    | 30,000  | —   | —   | \$ 4.70   | 12/11/2013             | —  | —   | —  | — |  |
|                    | 150,000   | —   | —   | \$ 4.70   | 12/11/2013             | —  | —   | —  | — |  |
|                    | 30,000  | —   | —   | \$ 3.65   | 12/14/2014             | —  | —   | —  | — |  |

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|                 |        |         |   |          |            |   |   |   |   |
|-----------------|--------|---------|---|----------|------------|---|---|---|---|
|                 | 20,000 | 5,000   | — | \$ 1.40  | 4/2/2018   | — | — | — | — |
|                 | 75,000 | —       | — | \$ 0.48  | 11/12/2018 | — | — | — | — |
|                 | 12,000 | 18,000  | — | \$ 0.745 | 4/06/2020  | — | — | — | — |
|                 | 25,000 | 75,000  | — | \$ 0.46  | 5/06/2021  | — | — | — | — |
|                 | —      | 300,000 | — | \$ 0.34  | 12/21/2022 | — | — | — | — |
| Eliot M. Lurier | 32,000 | 8,000   | — | \$ 1.49  | 4/30/2018  | — | — | — | — |
|                 | 18,000 | 12,000  | — | \$ 0.27  | 3/13/2019  | — | — | — | — |
|                 | 24,000 | 36,000  | — | \$ 0.745 | 4/6/2020   | — | — | — | — |
|                 | 25,000 | 75,000  | — | \$ 0.36  | 3/23/2021  | — | — | — | — |
|                 | —      | 200,000 | — | \$ 0.34  | 12/21/2022 | — | — | — | — |

## Employment Agreements

### *Lewis H. Bender*

Effective as of January 22, 2008, we entered into a two-year employment agreement with Lewis H. Bender for the position of Chief Executive Officer that provided for automatic annual renewal terms. The agreement also provided that Mr. Bender would serve as a member of our Board of Directors for as long as he served as our Chief Executive Officer. The agreement provided for a minimum annual base salary of \$340,000, a sign-on bonus of up to \$35,000 payable over the first six months of employment and annual, discretionary bonuses of up to 50% of his base salary based upon our financial performance. In addition, the agreement provided for the reimbursement of Mr. Bender's relocation and living expenses for the first twelve months of employment. Upon hire, Mr. Bender was also granted an option to purchase 500,000 shares of our common stock at an exercise price equal to \$1.06, the closing price as reported on the NYSE Amex on the effective date of the agreement, which option was to vest in equal annual installments on the option grant date and February 1 of each of the years 2009, 2011, 2012, and 2013.

On January 21, 2010, we entered into a one-year employment agreement with Mr. Bender to continue as our Chief Executive Officer. The agreement replaced and superseded the employment agreement entered into on January 22, 2008. The agreement had an initial term of one year and was automatically renewable for successive one year periods unless at least 90 days prior notice was given by either us or Mr. Bender. The agreement also provided that Mr. Bender would serve as a member of our Board of Directors for as long as he served as our Chief Executive Officer, subject to any required approval of our shareholders. The agreement provided for the continuation of Mr. Bender's annual base salary of \$340,000 and an annual discretionary bonus of up to 50% of base salary based upon our financial performance. Under the terms of the agreement, Mr. Bender was granted an option to purchase 100,000 shares of our common stock at an exercise price equal to \$0.89 per share, the closing price as reported on the NYSE Amex, LLC on the effective date of the agreement, exercisable immediately upon grant.

On February 14, 2011, we entered into a one-year employment agreement with Mr. Bender to continue as our Chief Executive Officer. The agreement replaced and superseded the employment agreement entered into on January 21, 2010. The agreement had an initial term of one year and was automatically renewable for successive one year periods unless at least 90 days prior notice was given by either us or Mr. Bender. The agreement also provided that Mr. Bender would serve as a member of our Board of Directors for as long as he served as our Chief Executive Officer, subject to any required approval of our shareholders. The agreement provided for the continuation of Mr. Bender's annual base salary of \$340,000 and an annual discretionary bonus of up to 50% of base salary based upon our financial performance. Under the terms of the agreement, Mr. Bender was granted an option to purchase 500,000 shares of our common stock at an exercise price equal to \$0.32 per share, the closing price as reported on the OTCQB on the effective date of the agreement. The option was immediately exercisable as to 125,000 shares upon grant and was to vest as to an additional 125,000 shares on each of February 14, 2012, 2013, and 2014. The agreement also included non-compete and non-solicitation provisions for a period of six months following the termination of Mr. Bender's employment.

On August 23, 2012, Mr. Bender notified the Board of Directors of his intention to resign as the Chief Executive Officer and as a member of the Board of Directors effective immediately. In connection with his resignation, on September 14, 2012, we entered into a Separation Agreement with Mr. Bender. Pursuant to the terms and conditions of the Separation Agreement, Mr. Bender received seven months of base salary, continuation of health insurance benefits through February 28, 2013 and extension of the date through which vested options at the date of his resignation can be exercised to September 14, 2013.

***Kenneth S. Kornman, DDS, Ph.D.***

On November 12, 2008, we entered into an employment agreement with Dr. Kornman, our President and Chief Scientific Officer, for a three-year term, commencing on March 31, 2009, the date his previous employment agreement expired. Effective March 31, 2012, this agreement was extended through November 30, 2012. Under this agreement, Dr. Kornman received an initial annual salary of \$360,000 and is eligible to receive annual bonuses solely at the discretion of the Board of Directors. Dr. Kornman's annual salary may be increased in the sole discretion of the Board of Directors. Under the agreement, on November 12, 2008 Dr. Kornman received a stock option to purchase

75,000 shares of common stock, at an exercise price of \$0.48 per share, which was the closing price as reported on the NYSE Amex on the grant date. The option was immediately exercisable with respect to 30,000 shares and vests with respect to an additional 15,000 shares on each of March 31, 2010, 2011, and 2012. Under the agreement, Dr. Kornman is entitled to participate in employee benefit plans that we provide or may establish for the benefit of our executive management generally. In addition, while Dr. Kornman remains employed by us, we will reimburse him \$3,296 annually for payment of life insurance premiums.

The agreement is terminable immediately by us with cause or upon thirty days prior written notice without cause. The agreement is terminable by Dr. Kornman upon thirty days prior written notice. If we terminate Dr. Kornman without cause or Dr. Kornman terminates his employment with good reason, then, in addition to payment of any accrued, but unpaid compensation prior to the termination, we must continue to pay his base salary and to provide health insurance benefits until the earlier of (1) expiration of the agreement or (2) twelve months. If we terminate Dr. Kornman in connection with a Cessation of our Business (as defined in the agreement), then, in addition to payment of any accrued, but unpaid compensation prior to the termination, we must continue to pay his base salary and to provide health insurance benefits until the earlier of (1) expiration of the agreement or (2) three months. The agreement also includes non-compete and non-solicitation provisions for a period of twelve months following the termination of Dr. Kornman's employment.

On March 31, 2010, Dr. Kornman was issued 12,500 shares of restricted stock under a restricted stock agreement dated April 30, 2008. In April 2010, as part of the year-end compensation process, the Compensation Committee granted Dr. Kornman an option to purchase 30,000 shares of our common stock. This option is exercisable at \$0.745 per share and vests as to 20% of the shares on each of the first five anniversaries of the date of grant.

In May 2011, the Compensation Committee granted Dr. Kornman an option to purchase 100,000 shares of our common stock. This option is exercisable at \$0.46 per share and vests as to 25% of the shares on each of the first four anniversaries of the date of grant.

On April 25, 2012, the Company executed an amendment, effective as of March 31, 2012, to Dr. Kornman's employment agreement to extend the term through November 30, 2012. In connection with Mr. Bender's resignation on August 23, 2012, the Board of Directors appointed Dr. Kornman as Chief Executive Officer in addition to his role as President and Chief Scientific Officer. The Board of Directors also appointed Dr. Kornman as a director to fill the vacancy created by Mr. Bender's resignation. On November 29, 2012, the Company entered into a second amendment to Dr. Kornman's employment agreement to extend the term through November 30, 2015.

In December 2012, the Compensation Committee granted Dr. Kornman an option to purchase 300,000 shares of our common stock. This option is exercisable at \$0.34 per share and vests as to 25%, 33% and 42% of the shares on each of the first three anniversaries of the date of grant. In December 2012, the Compensation Committee also adopted an executive bonus plan. See "-Executive Bonus Plan" below.

#### *Eliot M. Lurier*

On April 30, 2008, we entered into an employment agreement with Eliot M. Lurier for the position of Chief Financial Officer. The agreement has an initial term of one year and is automatically renewable for successive one year periods unless at least 60 days prior notice is given by either us or Mr. Lurier. The agreement provides for an initial annual base salary of \$217,000 which may be increased in the sole discretion of the Compensation Committee of our Board. Mr. Lurier's current base salary is \$250,000. Under the agreement, Mr. Lurier is entitled to annual discretionary bonuses of up to 30% of his base salary in effect during the year for which the bonus relates. Bonuses will be determined by the Compensation Committee of the Board of Directors upon the suggestion of the Chief Executive Officer and will be based upon the employee's performance and the overall performance of the Company for the year. Mr. Lurier also received a signing bonus of \$15,000 after his first four months of employment. On April 30, 2008, Mr. Lurier was granted an option to purchase 40,000 shares of our common stock at an exercise price equal to \$1.49, which was the closing price as reported on the NYSE Amex on the grant date. The option vests in equal annual installments of 8,000 shares on each of the first five anniversaries of the grant date.

The agreement is terminable immediately by us with cause or upon thirty days prior written notice if without cause. The agreement is terminable by Mr. Lurier upon thirty days prior written notice. If we terminate Mr. Lurier without cause and at any time following the three-month anniversary of April 30, 2008, then we will pay Mr. Lurier, in addition to any accrued, but unpaid, compensation prior to the termination, an amount equal to six months of his base salary in effect at the time of the termination and six months of continued healthcare coverage, to the same extent that we provided healthcare coverage during his employment, if Mr. Lurier elects to continue participation in our health plan.



The agreement also includes non-compete and non-solicitation provisions for a period of six months following the termination of Mr. Lurier's employment.

In April 2010, as part of the year-end compensation process, the Compensation Committee granted Mr. Lurier an option to purchase 60,000 shares of our common stock. This option is exercisable at \$0.745 per share and vests as to 20% of the shares on each of the first five anniversaries of the date of grant.

In March 2011, as part of the year-end compensation process, the Compensation Committee granted Mr. Lurier an option to purchase 100,000 shares of our common stock. This option is exercisable at \$0.36 per share and vests as to 25% of the shares on each of the first four anniversaries of the date of grant.

In December 2012, the Compensation Committee granted Mr. Lurier an option to purchase 200,000 shares of our common stock. This option is exercisable at \$0.34 per share and vests as to 25%, 33% and 42% of the shares on each of the first three anniversaries of the date of grant. In December 2012, the Compensation Committee also adopted an executive bonus plan. See "-Executive Bonus Plan" below.

*Scott Snyder*

On December 26, 2012, we entered into an employment agreement with Scott Snyder for the position of Chief Marketing Officer beginning on January 2, 2013. The agreement provides for a minimum annual base salary of \$265,000, and for 2013 and 2014 he is eligible for a bonus pursuant to the Bonus Plan as described below under “-Executive Bonus Plan.” For 2015 and any subsequent year in which he is employed, he is eligible for a bonus of up to 30% of his base salary, based on factors such as evaluation of individual performance, our financial performance, economic conditions generally, and the policy terms applicable to such bonus. Mr. Snyder is entitled to a maximum of \$34,000 in expense reimbursement in calendar year 2013, and an additional \$16,000 for the six months ending June 30, 2014, for travel and housing expenses from his residence to Interleukin’s offices. Upon hire, Mr. Snyder was granted an option to purchase 200,000 shares of our common stock at an exercise price of \$0.29 on January 2, 2013, the grant date of the option. The option vests in three installments of 50,000, 66,000 and 84,000 shares on each of the first three anniversaries of the grant date.

Mr. Snyder’s agreement is terminable at will by us or Mr. Snyder. If we terminate Mr. Snyder without cause, then we will pay Mr. Snyder, in addition to any accrued, but unpaid compensation prior to termination, an amount equal to six months of his base salary in effect at the time of the termination.

**Executive Bonus Plan**

On December 21, 2012, the Compensation Committee approved a bonus plan (the “Bonus Plan”) for our executives (Dr. Kornman, Mr. Lurier and Mr. Snyder). Under the terms of the Bonus Plan:

1. The executives are not entitled to a non-discretionary bonus for the year ending December 31, 2013.

Provided Interleukin meets certain earnings and revenue targets for the six months ending June 30, 2014 and the  
2. executive is employed by us as of June 30, 2014, the executive shall receive a bonus equal to 30% of such executive’s base salary.

Provided Interleukin meets certain earnings and revenue targets for the year ending December 31, 2014 and the  
3. executive is employed by us as of December 31, 2014, Executive shall receive a bonus equal to 15% of such executive’s base salary.

**Director Compensation**

The following table shows the total compensation paid or accrued during the fiscal year ended December 31, 2012 to each of our non-executive directors.

| Name (a)                 | Fiscal Year | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | All Other Compensation (\$) | Total (\$) |
|--------------------------|-------------|----------------------------------|-------------------|--------------------|-----------------------------|------------|
| Mary E. Chowning (1)(2)  | 2012        | \$ 50,500                        | —                 | —                  | —                           | \$50,500   |
| William C. Mills III (2) | 2012        | \$ 48,000                        | —                 | —                  | —                           | \$48,000   |

(1) Ms. Chowning resigned from the Board of Directors effective May 17, 2013.

The following table shows the total number of outstanding and vested stock options, and shares of outstanding and (2)restricted common stock as of December 31, 2012, the last day of our fiscal year, that have been issued as director compensation.

| Name                 | # of Stock Options Outstanding | # of Stock Options Vested | Shares of Common Stock Restricted |
|----------------------|--------------------------------|---------------------------|-----------------------------------|
| Mary E. Chowning     | 30,000                         | 22,500                    | 5,000                             |
| William C. Mills III | 15,000                         | 7,500                     | —                                 |

On April 29, 2010, our Board of Directors adopted the following policy for compensation of non-employee directors:

· for service as a director, an annual retainer of \$20,000;

· for service as the chair of a committee, an annual retainer of \$7,500;

· for service as a non-chair member of a committee, an annual retainer of \$5,000;

· for each Board or committee meeting attended in person, by teleconference or by video, \$1,500; and

upon initial election or appointment to the Board, a grant of an option to purchase 15,000 shares of our common stock at an exercise price equal to the closing price of the common stock on the date of grant, with such option to vest in four equal annual installments on each of the first four anniversaries of the grant date.

Directors who are designated by Pyxis, DDMI and BCC are not eligible to receive the foregoing compensation. All of our directors are reimbursed for reasonable out-of-pocket expenses incurred in attending Board and committee meetings.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides certain aggregate information with respect to all of the Company's equity compensation plans in effect as of December 31, 2012.

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
| Equity compensation plans approved by security holders(1)  | 2,302,000   | \$ 1.06   | 2,764,436   |
| Equity compensation plans not approved by security holders | —   | —   | —   |
| Total  | 2,302,000   | \$ 1.06   | 2,764,436   |

These plans consist of our 2000 Employee Stock Compensation Plan (the "2000 Plan"), our 2004 Employee, Director and Consultant Stock Plan (the "2004 Plan") and our 2012 Employee Stock Purchase Plan (the "2012 ESPP"). The number of shares set forth in column (a) consists of shares subject to outstanding options under the 2000 Plan and (1) the 2004 Plan as of December 31, 2012. The number of shares set forth in column (c) consists of 2,032,780 shares remaining available for issuance under the 2004 Plan and 731,656 shares remaining available for issuance under the 2012 ESPP as of December 31, 2012. Does not include an additional 8,860,000 shares that will be available for issuance under the 2013 Employee, Director and Consultant Equity Incentive Plan if Proposal 4 is approved.

**AUDIT COMMITTEE REPORT**

The Audit Committee of the Board of Directors, which consists entirely of directors who meet the independence and experience requirements of NASDAQ, has furnished the following report.

The Audit Committee assists the Board in overseeing and monitoring the integrity of our financial reporting process, compliance with legal and regulatory requirements and the quality of internal and external audit processes. The committee's role and responsibilities are set forth in our charter adopted by the Board, which is available on our website at [www.ilgenetics.com](http://www.ilgenetics.com). The committee reviews and reassesses our charter annually and recommends any

changes to the Board for approval. The Audit Committee is responsible for overseeing our overall financial reporting process, and for the appointment, compensation, retention, and oversight of the work of Grant Thornton LLP, our independent public accountants. In fulfilling its responsibilities for the financial statements for the fiscal year ended December 31, 2012, the Audit Committee took the following actions:

Reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2012 with management and Grant Thornton LLP, our independent public accountants;

Discussed with Grant Thornton LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

Received written disclosures and the letter from Grant Thornton LLP regarding its independence as required by applicable requirements of the Public Company Accounting Oversight Board regarding Grant Thornton LLP's communications with the Audit Committee concerning independence, and the Audit Committee further discussed with Grant Thornton LLP their independence.

Based on the Audit Committee's review of the audited financial statements and discussions with management and Grant Thornton LLP, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for filing with the SEC.

**MEMBERS OF THE AUDIT COMMITTEE:<sup>1</sup>**

William C. Mills III

**COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

Our records reflect that all reports which were required to be filed pursuant to Section 16(a) of the Exchange Act were filed on a timely basis, except for a Form 3 required to be filed by Goran Jurkovic that was due on July 9, 2012, but was filed on May 30, 2012.

**CODE OF CONDUCT AND ETHICS**

We have adopted a corporate code of conduct and ethics that applies to all of our employees, including our chief executive officer and chief financial officer. The text of the corporate code of conduct and ethics is publicly available on our website at [www.ilgenetics.com](http://www.ilgenetics.com). Disclosure regarding any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to our directors, principal executive and financial officers will be posted on our website at [www.ilgenetics.com](http://www.ilgenetics.com) or included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Pursuant to the written charter of our Audit Committee, the Audit Committee is responsible for reviewing and approving, prior to our entry into any such transaction, all transactions in which we are a participant and in which any of the following persons has or will have a direct or indirect material interest: our executive officers; our directors; the beneficial owners of more than 5% of our securities; the immediate family members of any of the foregoing persons; and any other persons whom the Board determines may be considered related persons, any such person being referred to as a "related person."

The following is a description of arrangements that we have entered into with related persons since January 1, 2011. We believe that the transactions described below were made on terms no less favorable to us than could have been obtained from unaffiliated third parties.

On August 17, 2006, we entered into a stock purchase agreement and further amended the note purchase agreement with Pyxis Innovations Inc., dated October 23, 2002, to, among other things, provide for the establishment of a \$14.3 million convertible credit facility with Pyxis. Pyxis is our majority stockholder and a wholly-owned subsidiary of Altacor Inc. On June 10, 2008, we drew down \$4.0 million under the convertible credit facility, leaving \$10.3 million of available credit, and issued a convertible promissory note to Pyxis in that amount. In 2009, we drew down \$3.0 million under this credit facility, leaving \$7.3 million of remaining availability. In 2010, we drew down an additional \$2.0 million under the credit facility leaving \$3.3 million of remaining availability. In 2011, we drew down an additional \$2.0 million and in 2012 we drew \$1.3 million of remaining availability. There was no remaining availability to borrow under the credit facility and the aggregate principal amount of \$14,316,255, plus interest, was due and payable in full on March 31, 2014. Pyxis had the right to convert the principal amount into shares of common stock at a conversion price equal to \$5.68 per share, and immediately prior to the closing of the Private Placement, Pyxis converted all of the principal amount outstanding into 2,521,222 shares of our common stock.

On October 26, 2009, we entered into a Merchant Network and Channel Partner Agreement with Amway Corp. d/b/a Amway Global, a subsidiary of Altacor. Pursuant to this Agreement, Amway Global sells our Inherent Health brand of genetic tests through its e-commerce Web site via a hyperlink to our e-commerce site. Amway Global receives a commission equal to a percentage of net sales received by us from Amway Global customers. The agreement has an initial term of 12 months and is automatically renewable for successive 12-month terms. The agreement may be terminated by either party upon 120 days written notice. To date, we have paid Amway Global approximately \$2.3 million in commissions under this agreement, including \$951,000 in 2011 and \$726,000 in 2012.

<sup>1</sup> William C. Mills III is the only continuing member of the Audit Committee who participated in the reviews and discussions described in the Audit Committee Report. Mary E. Chowning and Thomas R. Curran, Jr. were the other two members of the Audit Committee at that time. Ms. Chowning resigned from the Board in May 2013 and Mr. Curran resigned from the Board in March 2013. The Audit Committee currently consists of Mr. Mills (Chair), Lionel Carnot and Goran Jurkovic.



On April 15, 2011, we entered into a contract services agreement with Alticor Corporate Enterprises Inc. and Amway International Inc., affiliates of Alticor. Pursuant to this agreement, we provided marketing, promotional and training services to Amway in connection with its marketing of our weight management genetic test. Upon execution of the agreement on April 15, 2011, the agreement received retroactive effect as of October 15, 2010 and the initial term expired on October 14, 2011. The agreement was not renewed. We received approximately \$143,000 for our services under the agreement.

On September 14, 2012, we received a purchase order from Access Business Group, LLC (“ABG”), an affiliate of Pyxis. The order consists of kits of our Weight Management genetic test to be included in a promotional product bundle to be offered by ABG to the Amway sales channel in 2013. The total amount of the order is \$1.0 million. We shipped \$0.5 million in December 2012 and the balance in the first quarter of 2013. We reflected \$0.5 million in accounts receivable with a corresponding offset to deferred revenue in our December 31, 2012 financial statements. We received payment of \$0.5 million in January 2013.

On September 21, 2012, we entered into a License Agreement with Access Business Group International LLC (“ABGI”), an affiliate of Pyxis. Pursuant to the License Agreement, we have granted ABGI and its affiliates a non-exclusive license to use the technology related to our Weight Management genetic test and to sell the Weight Management test in Europe, Russia and South Africa (the “Territories”). ABGI, or a laboratory designated by ABGI, will be responsible for processing the tests, and we will receive a royalty for each test sold, which royalty will increase if certain pending patent applications are issued. The License Agreement has an initial term of five years from the date of first commercial sale of the Weight Management test under the agreement. Thereafter, the term will automatically renew for additional one-year periods unless at least 60 days prior notice is delivered by either party. To date, no license fees have been earned from this agreement.

In connection with the execution of the License Agreement, we and ABGI also entered into a Professional Services Agreement (the “PSA”) pursuant to which we have agreed to provide services to ABGI in connection with its sale and processing of the tests within the Territories. Services will be provided pursuant to a statement of work to be entered into from time to time between the parties. Such statements of work will also specify the fees to be paid by ABGI to us for such services. The PSA has no set term and may be terminated by either party, subject to certain conditions. To date, we have been paid \$3,450 under this agreement.

On June 29, 2012, we entered into an agreement with Pyxis to exchange the 5,000,000 shares of Series A Convertible Preferred Stock then held by Pyxis for 5,000,000 shares of newly designated Series A-1 Preferred Stock. Concurrently therewith, we completed a financing with DDMI pursuant to which DDMI purchased 500,000 shares of Series B Preferred Stock for gross proceeds of \$3,000,000. The rights, preferences and privileges of the Series A-1 Preferred Stock and the Series B Preferred Stock were set forth in a certificate of designations, preferences and rights filed with the Delaware Secretary of State on June 29, 2012. Each share of Series A-1 Preferred Stock and Series B Preferred Stock was convertible at the option of the holder into such number of fully paid and nonassessable shares of common stock determined by dividing the applicable original purchase price by the Series A-1 Conversion Price (\$0.3196) or the Series B Conversion Price (\$0.2745), as applicable. Immediately prior to the closing of the Private Placement: (i)

Pyxis converted all 5,000,000 outstanding shares of Series A-1 Preferred Stock into 28,160,200 shares of our common stock and (ii) DDMI, converted all 500,000 outstanding shares of Series B Preferred Stock into 10,928,961 shares of our common stock.

We have also entered into agreements with both Pyxis and DDMI containing certain terms for allocating opportunities as permitted under Section 122(17) of the Delaware General Corporation Law. These agreements regulate and define the conduct of certain of our affairs as they may involve these stockholders and their affiliates, and the powers, rights, duties and liabilities of us and our officers and directors in connection with corporate opportunities. Except under certain circumstances, these stockholders and their affiliates have the right to engage in the same or similar activities or lines of business or have an interest in the same classes or categories of corporate opportunities as we do. If Pyxis or DDMI, their affiliates, or one of our directors appointed by Pyxis or DDMI acquire knowledge of a potential transaction or matter that may be a corporate opportunity for both such stockholder and its affiliates and us, to the fullest extent permitted by law, such stockholder and its affiliates will not have a duty to inform us about the corporate opportunity or be liable to us or to our stockholders for breach of any fiduciary duty as a stockholder of ours for not informing us of the corporate opportunity, keeping it for its own account, or referring it to another person. Additionally, except under limited circumstances, if an officer or employee of Pyxis or DDMI who is also one of our directors is offered a corporate opportunity, such opportunity shall not belong to us. In addition, we agreed that such director will have satisfied his duties to us and not be liable to us or to you in connection with such opportunity. The terms of these agreements will terminate on the date that no person who is a director, officer or employee of ours is also a director, officer, or employee of Pyxis or DDMI.

On February 25, 2013, we entered into a Preferred Participation Agreement with Renaissance Health Service Corporation (an affiliate of DDMI), for itself and on behalf of certain of its affiliates and subsidiaries (collectively “RHSC”). Pursuant to this agreement, affiliates of RHSC have agreed to reimburse us a fixed price for each PST® genetic test that we process for a customer of certain affiliates of RHSC. In addition, if, during the term of this agreement, we offer the PST® test to any other person or party for a lower price, such lower price shall then be applicable to tests processed for a customer of the affiliates of RHSC for the remainder of the term of the agreement. The pricing arrangement is subject to the satisfaction of certain milestones, including that (i) within a specified timeframe, RHSC affiliates must develop and offer dental benefit plans for which a significant portion of such affiliate’s clients are eligible that provides for use of the PST® test and reimbursement of the test at the agreed upon price (each such plan, hereinafter referred to as a “Reimbursed Dental Plan”) and (ii) prior to a specified date, RHSC affiliates shall have sold policies for Reimbursed Dental Plans for the year beginning January 1, 2014. We have agreed that for a one year period beginning on the date on which RHSC affiliates first offer a Reimbursed Dental Plan, we will make the PST® test available solely to RHSC affiliates and not to any other third party or person. This agreement has a term of three years beginning on February 25, 2013, but may be terminated earlier (i) upon the mutual written agreement of us and RHSC, (ii) if either party becomes the subject of bankruptcy, insolvency, liquidation or other similar proceedings, or (iii) in the event of an uncured breach of the agreement by either party. To date we have received no revenues under this agreement.

On May 17, 2013, we closed the Private Placement, pursuant to which we sold to various accredited investors an aggregate of 43,715,847 shares of our common stock at a price of \$0.2745 per share for gross proceeds of \$12,000,000. The investors also received warrants to purchase up to an aggregate of 32,786,885 shares of common stock an exercise price of \$0.2745 per share. The warrants were exercisable as to 63% of the shares immediately and the remaining 37% of the shares will become exercisable following receipt of stockholder approval of Proposal 2. The warrants have a term of seven years from the date they become exercisable.

In addition, each investor in the Private Placement has the right, at any time and from time to time following the date of stockholder approval of Proposal 2 and on or before June 30, 2014 (the “Expiration Date”), to purchase at one or more subsequent closings its pro rata share of up to an aggregate of \$5,000,000 of additional shares of common stock and warrants on the same terms and conditions as those set forth above (the “Additional Investment”). If, prior to the Expiration Date, investors have not purchased their entire pro rata share of the Additional Investment, investors who have purchased their entire pro rata share of the Additional Investment, will be entitled to purchase the unsold portion of the Additional Investment. The following beneficial owners of more than 5% of our securities participated in the Private Placement:

| Purchaser                                  | Initial Closing |                |                | Pro Rata Share of Additional Investment |                |                |
|--|-----------------|----------------|----------------|---|----------------|----------------|
|  | Shares          | Warrant Shares | Purchase Price | Shares                                  | Warrant Shares | Purchase Price |
| Bay City Capital Fund V, L.P.              | 20,187,464      | 15,140,598     | \$5,541,458.87 | 8,411,443                               | 6,308,582      | \$2,308,941.10 |
| Bay City Capital Fund V Co-Investment Fund | 384,699         | 288,524        | \$105,599.88   | 160,291                                 | 120,218        | \$43,999.88    |
|  | 15,429,122      | 11,571,842     | \$4,235,293.99 | 6,428,801                               | 4,821,601      | \$1,764,705.87 |

Growth Equity Opportunities

Fund III, LLC

|                     |           |           |                |           |           |              |
|---------------------|-----------|-----------|----------------|-----------|-----------|--------------|
| Merlin Nexus IV, LP | 5,143,041 | 3,857,281 | \$1,411,764.75 | 2,142,935 | 1,607,201 | \$588,235.66 |
|---------------------|-----------|-----------|----------------|-----------|-----------|--------------|

On May 17, 2013, we also entered into a Registration Rights Agreement with the investors in the Private Placement, Pyxis, DDMI and BTIG LLC (the placement agent in the Private Placement), pursuant to which we are required to file a registration statement on Form S-1 within 45 days of May 17, 2013 to cover the resale of (i) the shares sold in the Private Placement and the shares of common stock underlying the warrants issued in the Private Placement, (ii) the shares of common stock issued to Pyxis upon conversion of the Series A-1 Preferred Stock and the outstanding debt, (iii) the shares of common stock issued to DDMI upon the conversion of the Series B Preferred Stock, and (iv) the shares of Common Stock underlying warrants issued to BTIG LLC as placement agent compensation. In addition, within 45 days following the Expiration Date, we will be required to file a registration statement to cover the resale of (i) any shares of common stock sold to the investors pursuant to the Additional Investment and the shares of common stock underlying any warrants issued pursuant to the Additional Investment, and (ii) shares of common stock underlying any additional warrants issued to BTIG LLC as placement agent compensation in connection with the Additional Investment. The failure on the part of Interleukin to satisfy certain deadlines described in the Registration Rights Agreement may subject us to payment of certain monetary penalties.

See also “Management and Corporate Governance – Corporate Opportunity Agreement” and “Security Ownership of Certain Beneficial Owners and Management.”

## **PROPOSAL 1**

### **TO ELECT WILLIAM C. MILLS III AND JAMES M. WEAVER AS CLASS I DIRECTORS**

Our Board of Directors currently consists of seven members, classified into three classes as follows:

- (i) William C. Mills III and James M. Weaver are Class I directors with a term ending at the annual meeting;
- (ii) Dayton Misfeldt and Kenneth S. Kornman, DDS, Ph.D. are Class II directors with terms ending at the 2014 annual meeting of stockholders; and
- (iii) Goran Jurkovic, Roger C. Colman and Lionel Carnot are Class III directors with terms ending at the 2015 annual meeting of stockholders.

Messrs. Weaver and Colman were designated by Pyxis, Mr. Jurkovic was designated by DDMI and Messrs. Misfeldt and Carnot were designated by BCC.

On March 30, 2013, the Board of Directors voted to nominate William C. Mills III and James M. Weaver for election at the annual meeting for a term of three years to serve until the 2016 annual meeting of stockholders, and until their successors have been elected and qualified, or until their earlier death, resignation, retirement or removal. Unless authority to vote for any of these nominees is withheld, the shares represented by a validly executed proxy will be voted FOR the election as directors of Mr. Weaver and Mr. Mills. In the event that either nominee should become unable or unwilling to serve, the shares represented by a validly executed proxy will be voted for the election of such other person as the Board of Directors may recommend in his place, unless the Board chooses to reduce the number of directors serving on the Board. We have no reason to believe that either nominee will be unable or unwilling to serve as a director.

### **Required Vote for Approval**

A plurality of the shares voted at the annual meeting is required to elect each nominee as a director.

**The Board of Directors recommends a vote "FOR" the election of William C. Mills III and James M. Weaver as Class I directors, and proxies solicited by the Board will be voted in favor, unless a stockholder indicates otherwise on the proxy.**

**PROPOSAL 2:**

**APPROVAL OF AN AMENDMENT TO OUR CHARTER TO INCREASE  
THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK**

Our Board of Directors has determined that it is advisable to increase our authorized shares of common stock from 150,000,000 shares to 300,000,000 shares, and has voted to recommend that the stockholders adopt an amendment to our Charter effecting the proposed increase.

As of June 1, 2013, we had 150,000,000 authorized shares of common stock, par value \$0.001 per share, of which 149,961,669 shares were outstanding or reserved for issuance. Of those, 122,140,718 shares were outstanding; 2,430,400 shares were reserved for issuance upon exercise of outstanding stock options; 2,547,656 shares were reserved for issuance under our stock plans and employee stock purchase plan; 1,750,000 shares were reserved for the exercise of outstanding warrants to purchase common stock at an exercise price of \$1.30 per share; 437,158 shares were reserved for the exercise of outstanding warrants to purchase common stock at an exercise price of \$0.2745 per share; and 20,655,737 shares were reserved for the exercise of outstanding warrants to purchase common stock at an exercise price of \$0.2745 per share issued in the Private Placement.

In connection with the Private Placement, we also issued warrants to purchase up to 14,426,230 shares of common stock at an exercise price of \$0.2745 per share that become exercisable only upon stockholder approval of this Proposal 2. In addition, pursuant to the Purchase Agreement, each investor in the Private Placement has the right, at any time and from time to time following the date of stockholder approval of this Proposal 2 and on or before June 30, 2014 (the "Expiration Date"), to purchase at one or more subsequent closings its pro rata share of up to an aggregate of 18,214,936 additional shares of common stock at a purchase price of \$0.2745 per share and warrants to purchase up to an aggregate of 13,661,201 shares of common stock at an exercise price of \$0.2745 per share (the "Additional Investment"). If, prior to the Expiration Date, investors have not purchased their entire pro rata share of the Additional Investment, investors who have purchased their entire pro rata share of the Additional Investment, will be entitled to purchase the unsold portion of the Additional Investment. Furthermore, if Proposal 3 is approved, we will reserve up to 8,860,000 shares of common stock for issuance under the 2013 Employee, Director and Consultant Equity Incentive Plan. We currently have no other specific understandings, arrangements or agreements with respect to any financings, investment opportunities, stock splits or dividends, or acquisitions or for other corporate purposes that would require us to issue a material amount of new shares of our common stock.

The Board of Directors believes that the currently available unissued shares do not provide sufficient flexibility for corporate action in the future. The Board of Directors believes it is in our best interest to have sufficient additional authorized but unissued shares of common stock available in order to provide flexibility for corporate action in the future. Management believes that the availability of additional authorized shares for issuance from time to time in the

Board of Directors' discretion in connection with future financings, investment opportunities, stock splits or dividends, possible acquisitions or for other corporate purposes is desirable in order to avoid repeated separate amendments to our Charter and the delay and expense incurred in holding special meetings of the stockholders to approve such amendments. The Board of Directors believes that the currently available unissued shares do not provide sufficient flexibility for corporate action in the future.

We will not solicit further authorization by vote of the stockholders for the issuance of the additional shares of common stock proposed to be authorized, except as required by law, regulatory authorities or rules of any stock exchange on which our shares may then be listed. The issuance of additional shares of common stock could have the effect of diluting existing stockholder earnings per share, book value per share and voting power. Our common stockholders do not have any preemptive right to purchase or subscribe for any part of any new or additional issuance of our securities.

The form of the proposed amendment to our Charter to increase the number of authorized shares of common stock is attached as Annex A to this proxy statement.

#### **Required Vote for Approval**

The affirmative vote of a majority of our outstanding common stock is required to approve this amendment to our Charter. On May 17, 2013, we entered into a Voting Agreement and Irrevocable Proxy with Pyxis, pursuant to which Pyxis has agreed to vote the 37,565,478 shares of common stock it owns in favor of this Proposal 2.

**The Board of Directors recommends a vote "FOR" approval of the amendment to our charter to increase the number of authorized shares of common stock, and proxies solicited by the Board will be voted in favor of such approval unless a stockholder indicates otherwise on the proxy.**



### **PROPOSAL 3**

#### **APPROVAL OF AN AMENDMENT TO OUR CHARTER TO EFFECT A REVERSE STOCK SPLIT OF OUR COMMON STOCK AT A RATIO IN THE RANGE OF 1-FOR-5 TO 1-FOR-20**

##### **General**

At the annual meeting, our stockholders will be asked to approve an amendment to our Charter to effect a reverse stock split of the issued and outstanding shares of our common stock (such split to combine any whole number of shares of outstanding common stock between and including five (5) and twenty (20) into one (1) share of common stock). Upon the effectiveness of the amendment to our Charter effecting the reverse stock split, the outstanding shares of our common stock will be reclassified and combined into a lesser number of shares such that one share of our common stock will be issued for a specified number of shares.

If this Proposal 3 is approved by the stockholders as proposed, the Board would have the sole discretion to effect the amendment and reverse stock split at any time prior to the earlier of (i) August 1, 2014 and (ii) the 2014 annual meeting of stockholders, and to fix the specific ratio for the reverse stock split, provided that the ratio would be not less than 1-for-5 and not more than 1-for-20. By approving the reverse stock split, our stockholders are approving individual amendments to our Charter for each number in such range. After the Board has selected the whole number in such range to effect the reverse stock split, we will abandon all amendments to the Charter except the amendment with respect to the number selected by the Board. The Board would also have the discretion to abandon the amendment entirely prior to its effectiveness. We believe that enabling the board to fix the specific ratio of the reverse stock split within the stated range will provide us with the flexibility to implement it in a manner designed to maximize the anticipated benefits for our stockholders. The Board's determination of the ratio of the reverse stock split will be based on a number of factors, including market conditions, existing and expected trading prices for our common stock and The NASDAQ Capital Market or NYSE MKT initial listing requirements. Even if the stockholders approve the reverse stock split, we reserve the right not to effect the reverse stock split if the Board does not deem the reverse stock split to be in the best interests of Interleukin and its stockholders.

The reverse stock split, if approved by our stockholders, would become effective upon the filing of an amendment to our Charter with the Secretary of State of the State of Delaware, or at the later time set forth in the amendment. The exact timing of the amendment will be determined by the Board based on its evaluation as to when such action will be the most advantageous to Interleukin and its stockholders. In addition, the Board reserves the right, notwithstanding stockholder approval and without further action by the stockholders, to abandon the amendment and the reverse stock split if, at any time prior to the effectiveness of the filing of the amendment with the Secretary of State, the Board, in its sole discretion, determines that it is no longer in our best interest and the best interests of our stockholders to proceed.

The form of the proposed amendment to our Charter to effect the reverse stock split is attached as *Annex A* to this proxy statement. Any amendment to our Charter to effect the reverse stock split will include the reverse stock split ratio fixed by the board, within the range approved by our stockholders. The amendment to our Charter will not change the number of authorized shares, or the par value, of our common stock.

### **Reasons for the Proposed Amendment**

The Purchase Agreement related to the Private Placement requires us to use commercially reasonable efforts to qualify for and obtain a full national market listing of our common stock on either The NASDAQ Capital Market or the NYSE MKT, including effecting a reverse split of our common stock subject to stockholder approval. The Board's other primary reasons for approving and recommending the reverse stock split are that the Board believes that:

the reverse stock split is the most effective means of increasing the per-share market price of our common stock in order to become eligible for listing on The NASDAQ Capital Market or the NYSE MKT; and

a higher per-share market price of our common stock could encourage investor interest in Interleukin and promote greater liquidity for our stockholders.

Our common stock is currently listed on the OTCQB™ under the symbol "ILIU." We believe that becoming listed on The NASDAQ Capital Market or the NYSE MKT will support and maintain the liquidity of our common stock for our stockholders. In order for our common stock to be eligible for listing on The NASDAQ Capital Market, we must satisfy the initial listing requirements established by NASDAQ, including, among other requirements, a minimum bid price of at least \$4.00 per share for our common stock. In order for our common stock to be eligible for listing on the NYSE MKT, we must satisfy the initial listing requirements established by NYSE, including, among other requirements, a minimum price of \$4.00 per share for our common stock.

An objective of the Board in proposing the reverse stock split is to increase the per-share market price of our common stock in order to become eligible for listing on The NASDAQ Capital Market or the NYSE MKT. Effecting the reverse stock split would reduce our total shares of common stock outstanding, which the Board believes will increase the price per share of our common stock and therefore, better enable us to list our common stock on The NASDAQ Capital Market or the NYSE MKT. However, the effect of the reverse stock split on the market value of our common stock cannot be predicted with any certainty, and there can be no assurance that the market price per post-split share will either exceed or remain in excess of the minimum closing price for a sustained period of time. The reverse stock split itself does not affect our market value, and the market price of our common stock may also be based on other factors that are unrelated to the number of shares outstanding, including our future performance.

### Effects of the Reverse Stock Split

The reverse stock split will be effected simultaneously for all outstanding shares of our common stock. The reverse stock split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in the company, except to the extent that the reverse stock split results in any of our stockholders owning a fractional share. Common stock issued pursuant to the reverse stock split will remain fully paid and nonassessable. The reverse stock split will not affect our continuing to be subject to the periodic reporting requirements of the SEC.

As of the effective time of the reverse stock split, we will adjust and proportionately decrease the number of shares of our common stock reserved for issuance upon exercise of, and adjust and proportionately increase the exercise price of, all options and warrants and other rights to acquire our common stock. In addition, as of the effective time of the reverse stock split, we will adjust and proportionately decrease the total number of shares of our common stock that may be the subject of the future grants under our stock plans.

Assuming reverse stock split ratios of 1-for-5 and 1-for-20, which are ratios based on whole numbers of shares at the high end and low end of the range that our stockholders are being asked to approve, the following table sets forth the number of shares of our common stock that would be (i) issued and outstanding and (ii) reserved for issuance (1) pursuant to outstanding options or warrants and under our stock plans and (2) for the Additional Investment, in each case, after the reverse stock split, based on information as of June 1, 2013, and assuming Proposals 2 and 4 are approved:

|   | Reverse Stock Split Ratio of<br>1-for-5 | Reverse Stock Split Ratio of<br>1-for-20 |
|---|---|--|
| Number of Shares of Common Stock Issued and Outstanding | 24,428,143                              | 6,107,035                                |
| Number of Shares of Common Stock Reserved for Issuance  | 16,596,663                              | 4,149,165                                |

After the effective time of the reverse stock split, the post-split market price of our common stock may be less than the pre-split price multiplied by the reverse stock split ratio. In addition, a reduction in number of shares outstanding may impair the liquidity for our common stock, which may reduce the value of our common stock.

### **Procedure for Effecting the Reverse Stock Split and Exchange of Stock Certificates**

If our stockholders approve the proposal to effect the reverse stock split, and if the Board still believes that a reverse stock split is in the best interests of Interleukin and its stockholders, the Board will determine the ratio of the reverse stock split to be implemented. We will file the certificate of amendment with the Secretary of State of the State of Delaware. The Board may delay effecting the reverse stock split without resoliciting stockholder approval. Beginning on the effective date of the reverse stock split, each certificate representing pre-split shares will be deemed for all corporate purposes to evidence ownership of post-split shares.

As soon as practicable after the effective date of the reverse stock split, stockholders will be notified that the reverse stock split has been effected. We expect that our transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-split shares will be asked to surrender to the exchange agent certificates representing pre-split shares in exchange for certificates representing post-split shares in accordance with the procedures to be set forth in a letter of transmittal to be sent by us. No new certificates will be issued to a stockholder until such stockholder has surrendered such stockholder's outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent. Any pre-split shares submitted for transfer, whether pursuant to a sale or other disposition, or otherwise, will automatically be exchanged for post-split shares. **STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY CERTIFICATE(S) UNLESS AND UNTIL REQUESTED TO DO SO.**

### **Fractional Shares**

We will not issue fractional shares in connection with the reverse stock split. Instead, stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares not evenly divisible by the reverse stock split ratio will be entitled, upon surrender to the exchange agent of certificates representing such shares, to a cash payment in lieu thereof at a price equal to the fraction to which the stockholder would otherwise be entitled multiplied by the closing price of the common stock, as reported in the Wall Street Journal, on the last trading day prior to the effective date of the split (or if such price is not available, the average of the last bid and asked prices of the common stock on such day or other price determined by the Board of Directors). The ownership of a fractional interest will not give the holder thereof any voting, dividend, or other rights except to receive payment therefor as described herein.

### **Accounting Matters**

The reverse stock split will not affect the par value of our common stock. As a result, at the effective time of the reverse stock split, the stated capital on our balance sheet attributable to the common stock will be reduced in the same proportion as the reverse stock split ratio, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. The per share net income or loss and net book value of our common stock will be increased because there will be fewer shares of our common stock outstanding. Prior periods' per share amounts will be restated to reflect the reverse stock split.

### **Appraisal Rights**

Under the Delaware General Corporation Law, our stockholders are not entitled to appraisal rights with respect to the reverse stock split, and we do not intend to independently provide stockholders with any such right.

### **Certain Material U.S. Federal Income Tax Consequences of the Reverse Stock Split**

The following summary describes certain material U.S. federal income tax consequences of the reverse stock split to holders of our common stock. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing Treasury Regulations and current administrative rulings and court decisions, all of which are subject to change and to differing interpretations, possibly with retroactive effect.

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This summary addresses the tax consequences only to a “U.S. person,” which is a beneficial owner of our common stock that is either:

- a citizen or resident of the United States;

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; and

- a trust if either (i) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust or (ii) the trust has a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of our common stock, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common stock, you should consult your tax advisor.

This summary assumes that our stockholders hold their shares of our common stock as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). No attempt has been made to comment on all U.S. federal income tax consequences of the reverse stock split that may be relevant to particular holders, including holders:

who are subject to special treatment under U.S. federal income tax rules such as dealers in securities, financial institutions, non-U.S. persons, mutual funds, regulated investment companies, real estate investment trusts, insurance companies, tax-exempt entities, U.S. expatriates, or traders in securities who elect to mark to market;

who acquired their shares in connection with stock option or stock purchase plans or in other compensatory transactions;

- who hold their shares as qualified small business stock within the meaning of Section 1202 of the Code;

who hold their shares as part of an integrated investment such as a hedge or as part of a hedging, straddle or other risk reduction strategy; or

- who do not hold their shares as capital assets.

In addition, the following discussion does not address the tax consequences of the reverse stock split under state, local and foreign tax laws or under the alternative minimum tax provisions of the Code. Furthermore, the following discussion does not address any of the tax consequences of transactions effectuated before, after or at the same time as the reverse stock split, whether or not they are in connection with the reverse stock split, including, without limitation, transactions in which shares of our common stock are acquired or disposed of.

**Accordingly, holders of our common stock are advised and expected to consult their own tax advisors regarding the U.S. federal income tax consequences of the reverse stock split to them in light of their personal circumstances and the consequences of the reverse stock split under state, local and foreign tax laws.**

The reverse stock split is intended to qualify as a “reorganization” under Section 368 of the Code. Assuming the reverse stock split qualifies as a reorganization, and subject to the note below regarding the receipt of an additional fraction of a share, a U.S. holder generally will not recognize gain or loss upon the exchange of pre-split shares for post-split shares. The aggregate tax basis of the post-split shares received by a U.S. holder in the reverse stock split will be the same as the aggregate tax basis in the pre-split shares surrendered by such U.S. holder. The holding period for the post-split shares received by a U.S. holder in the reverse stock split will include the period during which the pre-split shares surrendered by such U.S. holder in the reverse stock split were held.

As noted above, we will not issue fractional shares in connection with the reverse stock split. Instead, stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares not evenly divisible by the reverse stock split ratio will automatically be entitled to receive an additional fraction of a share of common stock to round up to the next whole post-split share. The U.S. federal income tax consequences of the receipt of such an additional fraction of a share of common stock is not clear. If the receipt of such an additional fraction of a share of

common stock is taxed as a dividend, however, any tax liability associated with such receipt is not expected to be material.

### **Required Vote for Approval**

The affirmative vote of a majority of our outstanding common stock is required to approve this amendment to our Charter.

**The Board of Directors recommends a vote “FOR” approval of the amendment to our charter to effect the reverse stock split, and proxies solicited by the Board will be voted in favor of such approval unless a stockholder indicates otherwise on the proxy.**



## PROPOSAL 4

### APPROVAL OF THE 2013 EMPLOYEE, DIRECTOR AND CONSULTANT EQUITY INCENTIVE PLAN

On May 30, 2013, our Board unanimously approved, subject to stockholder approval at the annual meeting, the adoption of the 2013 Employee, Director and Consultant Equity Incentive Plan (the “2013 Plan”). The 2013 Plan will allow for the issuance of up to 8,860,000 additional shares of our common stock pursuant to awards granted under the 2013 Plan and will allow for the issuance of up to a maximum of 2,435,500 shares of common stock that are represented by options outstanding under our 2004 Employee, Director and Consultant Stock Plan (the “2004 Plan”), that expire or are cancelled without delivery of shares of common stock on or after the date of stockholder approval of the 2013 Plan.

The 2013 Plan is being submitted to you for approval at the annual meeting in order to ensure (i) favorable federal income tax treatment for grants of incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) continued eligibility to receive a federal income tax deduction for certain compensation paid under the 2013 Plan by complying with Rule 162(m) of the Code. Approval of stock plans by stockholders is also required by the listing rules of The NASDAQ Capital Market and the NYSE MKT.

As of June 1, 2013, options to purchase approximately 2,435,500 shares of our common stock were outstanding under the 2004 Plan, and approximately an additional 1,843,780 shares were available for future option grants under the 2004 Plan. If the 2013 Plan is approved by our stockholders, all outstanding options under the 2004 Plan will remain in effect, however, the 2004 Plan will be cancelled and no additional awards will be allowed to be made thereunder. Generally shares of common stock reserved for awards under the 2013 Plan that lapse or are canceled will be added back to the share reserve available for future awards at the same rate as they were deducted from the authorized shares. However, shares of common stock tendered in payment for an award or shares of common stock withheld for taxes will not be available again for grant.

Our Board of Directors, the Compensation Committee and management all believe that the effective use of stock-based long-term incentive compensation is vital to our ability to achieve strong performance in the future. The 2013 Plan will maintain and enhance the key policies and practices adopted by our management, Compensation Committee and Board of Directors to align employee and stockholder interests. The 2013 Plan will provide an essential component of the total compensation package, reflecting the importance that we place on aligning the interests of key individuals with those of our stockholders. In addition, our future success depends, in large part, upon our ability to maintain a competitive position in attracting, retaining and motivating key personnel. We believe that the 2013 Plan is essential to provide us with a sufficient number of shares to permit us to continue to provide long-term, equity-based incentives to present and future key employees, consultants and directors, and to give us the flexibility we need to make various types of awards. Accordingly, our Board of Directors believes adoption of the 2013 Plan is in our best interests and those of our stockholders and recommends a vote “FOR” the approval of the 2013 Plan.

The following is a brief summary of the 2010 Plan. This summary is qualified in its entirety by reference to the text of the 2010 Plan, a copy of which is attached as Annex B to this proxy statement.

### **Material Features of the 2013 Plan**

**Eligibility.** The 2013 Plan allows us, under the direction of our Compensation Committee, to make grants of stock options, restricted and unrestricted stock awards and other stock-based awards to employees, consultants and directors who, in the opinion of the Compensation Committee, are in a position to make a significant contribution to our long-term success. The purpose of these awards is to attract and retain key individuals, further align employee and stockholder interests, and to closely link compensation with our performance. The 2013 Plan provides an essential component of the total compensation package, reflecting the importance that we place on aligning the interests of key individuals with those of our stockholders. All employees, directors and consultants of Interleukin and its affiliates are eligible to participate in the 2013 Plan. As of June 1, 2013, there were 19 individuals eligible to participate.

**Stock Options.** Stock options granted under the 2013 Plan may either be incentive stock options, which are intended to satisfy the requirements of Section 422 of the Code, or non-qualified stock options, which are not intended to meet those requirements. Incentive Stock Options may be granted to employees of the Company and its affiliates. Non-qualified options may be granted to employees, directors and consultants of the Company and its affiliates. The exercise price of a stock option may not be less than 100% of the fair market value of our common stock on the date of grant. If an incentive stock option is granted to an individual who owns more than 10% of the combined voting power of all classes of our capital stock, the exercise price may not be less than 110% of the fair market value of our common stock on the date of grant and the term of the option may not be longer than five years.

Award agreements for stock options include rules for exercise of the stock options after termination of service. Options may not be exercised unless they are vested, and no option may be exercised after the end of the term set forth in the award agreement. Generally, stock options will be exercisable for three months after termination of service for any reason other than death or total and permanent disability, and for 12 months after termination of service on account of death or total and permanent disability.

**Restricted Stock.** Restricted stock is common stock that is subject to restrictions, including a prohibition against transfer and a substantial risk of forfeiture, until the end of a “restricted period” during which the grantee must satisfy certain vesting conditions. If the grantee does not satisfy the vesting conditions by the end of the restricted period, the restricted stock is forfeited.

During the restricted period, the holder of restricted stock has the rights and privileges of a regular stockholder, except that the restrictions set forth in the applicable award agreement apply. For example, the holder of restricted stock may vote and receive dividends on the restricted shares; but he or she may not sell the shares until the restrictions are lifted.

**Other Stock-Based Awards.** The 2013 Plan also authorizes the grant of other types of stock-based compensation including, but not limited to stock appreciation rights, phantom stock awards, and stock unit awards.

**Plan Administration.** In accordance with the terms of the 2013 Plan, our Board of Directors has authorized our Compensation Committee to administer the 2013 Plan. The Compensation Committee may delegate part of its authority and powers under the 2013 Plan to one or more of our directors and/or officers, but only the Compensation Committee can make awards to participants who are directors or executive officers of the Company. In accordance with the provisions of the 2013 Plan, our Compensation Committee determines the terms of awards, including:

- which employees, directors and consultants will be granted awards;
- the number of shares subject to each award;
- the vesting provisions of each award;
- the termination or cancellation provisions applicable to awards; and
- all other terms and conditions upon which each award may be granted in accordance with the 2013 Plan.

In addition, our Compensation Committee may, in its discretion, amend any term or condition of an outstanding award provided (i) such term or condition as amended is permitted by the 2013 Plan, and (ii) any such amendment shall be made only with the consent of the participant to whom such award was made, if the amendment is adverse to the participant.

**Stock Dividends and Stock Splits.** If our common stock shall be subdivided or combined into a greater or smaller number of shares or if we issue any shares of common stock as a stock dividend, the number of shares of our common stock deliverable upon exercise of an option issued or upon issuance of an award shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

**Corporate Transactions.** Upon a merger or other reorganization event, our Board, may, in its sole discretion, take any one or more of the following actions pursuant to the 2013 Plan, as to some or all outstanding awards:

- provide that all outstanding options shall be assumed or substituted by the successor corporation;
- upon written notice to a participant provide that the participant's unexercised options will terminate immediately prior to the consummation of such transaction unless exercised by the participant;

in the event of a merger pursuant to which holders of our common stock will receive a cash payment for each share surrendered in the merger, make or provide for a cash payment to the participants equal to the difference between the merger price times the number of shares of our common stock subject to such outstanding options, and the aggregate exercise price of all such outstanding options, in exchange for the termination of such options;

provide that outstanding awards shall be assumed or substituted by the successor corporation, become realizable or deliverable, or restrictions applicable to an award will lapse, in whole or in part, prior to or upon the merger or reorganization event.

**Amendment and Termination.** The 2013 Plan may be amended by our stockholders. It may also be amended by our Board, provided that any amendment approved by our Board which is of a scope that requires stockholder approval as required by the rules of any applicable stock exchange, in order to ensure favorable federal income tax treatment for any incentive stock options under Code Section 422, or for any other reason is subject to obtaining such stockholder approval. The 2013 Plan expires on June 5, 2023.

## **Federal Income Tax Considerations**

The material federal income tax consequences of the issuance and exercise of stock options and other awards under the 2013 Plan, based on the current provisions of the Code and regulations, are as follows. Changes to these laws could alter the tax consequences described below. This summary assumes that all awards granted under the 2013 Plan are exempt from or comply with, the rules under Section 409A of the Code related to nonqualified deferred compensation.

**Incentive Stock Options:** Incentive stock options are intended to qualify for treatment under Section 422 of the Code. An incentive stock option does not result in taxable income to the optionee or deduction to us at the time it is granted or exercised, provided that no disposition is made by the optionee of the shares acquired pursuant to the option within two years after the date of grant of the option nor within one year after the date of issuance of shares to the optionee (referred to as the “ISO holding period”). However, the difference between the fair market value of the shares on the date of exercise and the option price will be an item of tax preference includible in “alternative minimum taxable income” of the optionee. Upon disposition of the shares after the expiration of the ISO holding period, the optionee will generally recognize long term capital gain or loss based on the difference between the disposition proceeds and the option price paid for the shares. If the shares are disposed of prior to the expiration of the ISO holding period, the optionee generally will recognize taxable compensation, and we will have a corresponding deduction, in the year of the disposition, equal to the excess of the fair market value of the shares on the date of exercise of the option over the option price. Any additional gain realized on the disposition will normally constitute capital gain. If the amount realized upon such a disqualifying disposition is less than fair market value of the shares on the date of exercise, the amount of compensation income will be limited to the excess of the amount realized over the optionee’s adjusted basis in the shares.

**Non-Qualified Options:** Options otherwise qualifying as incentive stock options, to the extent the aggregate fair market value of shares with respect to which such options are first exercisable by an individual in any calendar year exceeds \$100,000, and options designated as non-qualified options will be treated as options that are not incentive stock options.

A non-qualified option ordinarily will not result in income to the optionee or deduction to us at the time of grant. The optionee will recognize compensation income at the time of exercise of such non-qualified option in an amount equal to the excess of the then value of the shares over the option price per share. Such compensation income of optionees may be subject to withholding taxes, and a deduction may then be allowable to us in an amount equal to the optionee’s

compensation income.

An optionee's initial basis in shares so acquired will be the amount paid on exercise of the non-qualified option plus the amount of any corresponding compensation income. Any gain or loss as a result of a subsequent disposition of the shares so acquired will be capital gain or loss.

**Stock Grants:** With respect to stock grants under the 2013 Plan that result in the issuance of shares that are either not restricted as to transferability or not subject to a substantial risk of forfeiture, the grantee must generally recognize ordinary income equal to the fair market value of shares received. Thus, deferral of the time of issuance will generally result in the deferral of the time the grantee will be liable for income taxes with respect to such issuance. We generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the grantee.

With respect to stock grants involving the issuance of shares that are restricted as to transferability and subject to a substantial risk of forfeiture, the grantee must generally recognize ordinary income equal to the fair market value of the shares received at the first time the shares become transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier. A grantee may elect to be taxed at the time of receipt of shares rather than upon lapse of restrictions on transferability or substantial risk of forfeiture, but if the grantee subsequently forfeits such shares, the grantee would not be entitled to any tax deduction, including as a capital loss, for the value of the shares on which he previously paid tax. The grantee must file such election with the Internal Revenue Service within 30 days of the receipt of the shares. We generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the grantee.

**Stock Units:** The grantee recognizes no income until the issuance of the shares. At that time, the grantee must generally recognize ordinary income equal to the fair market value of the shares received. We generally will be entitled to a deduction in an amount equal to the ordinary income recognized by the grantee.

#### **New Plan Benefits**

The amounts of future grants under the 2013 Plan are not determinable as awards under the 2013 Plan and will be granted at the sole discretion of our Board of Directors, the Compensation Committee, or other delegated persons and we cannot determine at this time either the persons who will receive awards under the 2013 Plan or the amount or types of any such awards.

#### **Required Vote for Approval**

The affirmative vote of a majority of the votes present in person or represented by proxy and entitled to vote at the annual meeting is required to approve the 2013 Plan.

**The Board of Directors recommends a vote “FOR” approval of the 2013 Employee, Director and Consultant Equity Incentive Plan, and proxies solicited by the Board will be voted in favor of such approval unless a stockholder indicates otherwise on the proxy.**

**PROPOSAL 5****RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANT**

The Audit Committee of the Board has appointed Grant Thornton LLP as our independent public accountant for the fiscal year ending December 31, 2013. The Board proposes that the stockholders ratify this appointment. Grant Thornton LLP has audited our financial statements since 2002. We expect that representatives of Grant Thornton LLP will be present at the meeting, will be able to make a statement if they so desire, and will be available to respond to appropriate questions.

**Principal Accountant Fees and Services**

The following table presents fees for professional audit services rendered by Grant Thornton, LLP for the audit of our annual financial statements for the years ended December 31, 2012 and December 31, 2011 and fees billed for other services rendered by Grant Thornton LLP during those periods.

|                    | 2012      | 2011      |
|--------------------|-----------|-----------|
| Audit fees(1)      | \$155,742 | \$157,879 |
| Audit related fees | —         | —         |
| Tax fees           | —         | —         |
| All other fees     | —         | —         |
| Total              | \$155,742 | \$157,879 |

Audit fees consist of fees for professional services rendered for the audit of our annual financial statements, review (1) of the interim financial statements included in the quarterly reports and fees associated with the review of certain non-recurring transactions.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors**

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the



Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to the engagement of the independent auditor for the next year's audit, management will submit to the Audit Committee for approval a summary of the services expected to be rendered during that year for each of four categories of services.

1. **Audit** services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards.

2. **Audit-Related** services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. **Tax** services include all services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. **Other Fees** are those associated with services not captured in the other categories. The Company generally does not request such services from the independent auditor.

Prior to the engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Neither our Bylaws nor other governing documents or law require stockholder ratification of the appointment of Grant Thornton LLP as our independent public accountant. However, the Board is submitting the appointment of Grant Thornton LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the Audit Committee of the Board will reconsider whether to retain Grant Thornton LLP as the Company's independent public accountant. Even if the selection is ratified, the Audit Committee of the Board in its discretion may direct the appointment of a different independent public accountant at any time during the year if the Audit Committee determines that such a change would be in the best interests of the company and its stockholders.

#### **Required Vote for Approval**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the appointment of Grant Thornton LLP as our independent public accountant.

**The Board of Directors recommends a vote "FOR" ratification of the appointment of Grant Thornton LLP as our independent public accountant, and proxies solicited by the Board will be voted in favor of such ratification unless a stockholder indicates otherwise on the proxy.**

## **PROPOSAL 6**

### **CONSIDER AN ADVISORY VOTE ON COMPENSATION**

#### **FOR OUR NAMED EXECUTIVE OFFICERS**

We are seeking your advisory vote as required by Section 14A of the Securities Exchange Act of 1934, as amended, on the approval of the compensation of our named executive officers as described in this proxy statement. Because your vote is advisory, it will not be binding on our Compensation Committee or our Board of Directors. However, the Compensation Committee and the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation. The timing of the next advisory vote to approve the compensation of our named executive officers will be determined based, in part, on the advisory vote in Proposal 7.

Our compensation philosophy is designed to align each executive's compensation with our short-term and long-term performance and to provide the compensation and incentives needed to attract, motivate and retain key executives who are crucial to our long-term success. Before voting on this Proposal 7, you are urged to read the section of this proxy statement entitled "Executive Compensation."

In accordance with the rules adopted by the SEC, the following resolution, commonly known as a "say-on-pay" vote, is being submitted for a stockholder vote at the Annual Meeting:

"RESOLVED, that the compensation paid to the named executive officers of Interleukin Genetics, Inc., as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation tables and the related material disclosed in this proxy statement, is hereby APPROVED."

#### **Required Vote for Approval**

The affirmative vote of a majority of the votes present in person or represented by proxy and entitled to vote at the annual meeting is required to approve, on an advisory basis, the compensation of our named executive officers, as described in this proxy statement.

**The Board of Directors recommends a vote “FOR” an advisory vote on compensation for our named executive officers, and proxies solicited by the Board will be voted in favor of such approval unless a stockholder indicates otherwise on the proxy.**

## **PROPOSAL 7**

### **CONSIDER AN ADVISORY VOTE ON THE FREQUENCY OF HOLDING AN ADVISORY VOTE ON COMPENSATION FOR THE CORPORATION'S NAMED EXECUTIVE OFFICERS**

We are seeking your input with regard to the frequency of holding future stockholder advisory votes on the compensation of our named executive officers. In particular, we are asking whether the advisory vote on the compensation of our named executive officers (Proposal 6) should occur every year, every two years or every three years. Because your vote is advisory, it will not be binding on our Compensation Committee or our Board of Directors. However, the Compensation Committee and the Board will review the voting results and take them into consideration when making future decisions regarding how frequently it should present the advisory vote on the compensation of our named executive officers to our stockholders.

After careful consideration, our Board of Directors has determined that holding an advisory vote on executive compensation every year is the most appropriate policy for Interleukin at this time, and recommends that stockholders vote for future advisory votes on executive compensation to occur every year. In formulating its recommendation, our Board of Directors considered that an annual advisory vote on executive compensation will allow our stockholders to provide us with their direct input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year. However, stockholders should note that because the advisory vote on executive compensation occurs well after the beginning of the compensation year, and because the different elements of our executive compensation programs are designed to operate in an integrated manner and to complement one another, in many cases it may not be appropriate or feasible to change our executive compensation programs in consideration of any one year's advisory vote on executive compensation by the time of the following year's annual meeting of stockholders.

#### **Required Vote for Approval**

The proxy card provides stockholders with the opportunity to choose among four options (holding the vote every one, two or three years, or abstaining) and, therefore, stockholders will not be voting to approve or disapprove the Board's recommendation. The affirmative vote of a majority of the shares voted for this proposal—every year, every two years or every three years—will be the frequency approved, on an advisory basis, by our stockholders. However, because the vote on the frequency of holding future advisory votes on the compensation of our named executive officers is not binding, if none of the frequency options receives a majority vote, the option receiving the greatest number of votes will be considered the frequency preferred by our stockholders.

**The Board of Directors recommends a vote to approve, on an advisory basis, the frequency of holding a vote on the compensation of our named executive officers every year, and proxies solicited by the Board will be voted in favor of such frequency unless a stockholder indicates otherwise on the proxy card.**

## **OTHER MATTERS**

The Board of Directors knows of no other business which will be presented at the annual meeting. If any other business is properly brought before the annual meeting, proxies in the enclosed form will be voted in accordance with the judgment of the persons named therein.

## **STOCKHOLDER PROPOSALS AND NOMINATIONS FOR DIRECTOR**

To be considered for inclusion in the proxy statement relating to our 2014 Annual Meeting of Stockholders, stockholder proposals, including nominations for director, must be received no later than March 26, 2014; provided, however, that if the date of the 2014 annual meeting is more than 30 days from the first anniversary of the date of the 2013 annual meeting, to be timely, such proposals must be received a reasonable time before we begin to print and mail proxy materials for the 2014 annual meeting. To be considered for presentation at the 2014 annual meeting, although not included in the proxy statement, proposals must be received no later than June 10, 2014 and not before May 11, 2014; provided, however, that if the date of the 2014 annual meeting is more than 30 days prior to or 60 days after the first anniversary of the date of the 2013 annual meeting, to be timely, such proposals must be received not earlier than 90 days prior to the 2014 annual meeting and not later than the later of (x) 60 days prior to the 2014 annual meeting or (y) 10 days after the date that the 2014 annual meeting is first disclosed to the public. Proposals not received in a timely manner will not be voted on at the 2014 Annual Meeting. If a timely proposal is received, the proxies that management solicits for the meeting may still exercise discretionary voting authority on the proposal under circumstances consistent with the proxy rules of the SEC. All stockholder proposals and nominations for director should be marked for the attention of Secretary, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452.

**Waltham, Massachusetts**

**June 24, 2013**

**Our Annual Report on Form 10-K, which includes our financial statements, for the fiscal year ended December 31, 2011, and which provides additional information about us can be found on the website of the Securities and Exchange Commission at *www.sec.gov*. It is also available on our website at *www.ilgenetics.com*. You may obtain a printed copy of our Annual Report on Form 10-K, including our financial statements, free of charge, from us by sending a written request to: Investor Relations, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452. Exhibits will be provided upon written request and payment of an appropriate processing fee.**

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**ANNEX A**

**CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION  
OF  
INTERLEUKIN GENETICS, INC.**

It is hereby certified that:

**FIRST:** The name of the corporation is **Interleukin Genetics, Inc.** (the “Corporation”).

The Certificate of Incorporation of the Corporation filed with the Secretary of State of the State of  
**SECOND:** Delaware on March 28, 2000, as amended to date, is hereby further amended by striking out the first paragraph of Article 4 in its entirety and by substituting in lieu thereof the following:

“ARTICLE 4. The total number of shares of all classes of stock which the Corporation shall have authority to issue is 306,000,000 shares, consisting of 300,000,000 shares of common stock, \$0.001 par value per share (the “Common Stock”) and 6,000,000 shares of Preferred Stock, \$0.001 par value per share (the “Preferred Stock”). Upon the effectiveness of the certificate of amendment to the restated certificate of incorporation containing this sentence, each [\*] shares of the Common Stock issued and outstanding as of the date and time immediately preceding [date on which the certificate of amendment is filed], the effective date of a reverse stock split (the “Split Effective Date”), shall be automatically changed and reclassified, as of the Split Effective Date and without further action, into one (1) fully paid and non-assessable share of Common Stock. A holder of record of Common Stock on the Split Effective Date who would otherwise be entitled to a fraction of a share shall, in lieu thereof, be entitled to receive a cash payment in an amount equal to the fraction to which the stockholder would otherwise be entitled multiplied by the closing price of the Common Stock, as reported in the Wall Street Journal, on the last trading day prior to the Split Effective Date (or if such price is not available, the average of the last bid and asked prices of the Common Stock on such day or other price determined by the Corporation’s board of directors).”

**THIRD:** The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.



**IN WITNESS WHEREOF**, the Corporation has caused this Certificate of Amendment to be signed this \_\_\_\_ day of \_\_\_\_\_.

**INTERLEUKIN  
GENETICS, INC.**

By:

Kenneth S. Kornman  
Chief Executive Officer

\* By approving this amendment, stockholders will approve the combination of any whole number of shares of common stock between and including five (5) and twenty (20) into one (1) share. The certificate of amendment filed with the Secretary of State of the State of Delaware will include only that number determined by the Board of Directors to be in the best interests of the Corporation and its stockholders.

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**ANNEX B**

**INTERLEUKIN GENETICS, INC.**

**2013 EMPLOYEE, DIRECTOR AND CONSULTANT EQUITY INCENTIVE PLAN**

1. DEFINITIONS.

Unless otherwise specified or unless the context otherwise requires, the following terms, as used in this Interleukin Genetics, Inc. 2013 Employee, Director and Consultant Equity Incentive Plan, have the following meanings:

Administrator means the Board of Directors, unless it has delegated power to act on its behalf to the Committee, in which case the Administrator means the Committee.

Affiliate means a corporation which, for purposes of Section 424 of the Code, is a parent or subsidiary of the Company, direct or indirect.

Agreement means an agreement between the Company and a Participant delivered pursuant to the Plan and pertaining to a Stock Right, in such form as the Administrator shall approve.

Board of Directors means the Board of Directors of the Company.

Cause means, with respect to a Participant (a) dishonesty with respect to the Company or any Affiliate, (b) insubordination, substantial malfeasance or non-feasance of duty, (c) unauthorized disclosure of confidential information, (d) breach by a Participant of any provision of any employment, consulting, advisory, nondisclosure, non-competition or similar agreement between the Participant and the Company or any Affiliate, and (e) conduct substantially prejudicial to the business of the Company or any Affiliate; provided, however, that any provision in an agreement between a Participant and the Company or an Affiliate, which contains a conflicting definition of Cause for termination and which is in effect at the time of such termination, shall supersede this definition with respect to that Participant. The determination of the Administrator as to the existence of Cause will be conclusive on the Participant and the Company.

Code means the United States Internal Revenue Code of 1986, as amended including any successor statute, regulation and guidance thereto.

Committee means the committee of the Board of Directors to which the Board of Directors has delegated power to act under or pursuant to the provisions of the Plan.

Common Stock means shares of the Company's common stock, \$.001 par value per share.

Company means Interleukin Genetics, a Delaware corporation.

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Consultant means any natural person who is an advisor or consultant that provides bona fide services to the Company or its Affiliates, provided that such services are not in connection with the offer or sale of securities in a capital raising transaction, and do not directly or indirectly promote or maintain a market for the Company's or its Affiliates' securities.

Disability or Disabled means permanent and total disability as defined in Section 22(e)(3) of the Code.

Employee means any employee of the Company or of an Affiliate (including, without limitation, an employee who is also serving as an officer or director of the Company or of an Affiliate), designated by the Administrator to be eligible to be granted one or more Stock Rights under the Plan.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Fair Market Value of a Share of Common Stock means:

(1) If the Common Stock is listed on a national securities exchange or traded in the over-the-counter market and sales prices are regularly reported for the Common Stock, the closing or, if not applicable, the last price of the Common Stock on the composite tape or other comparable reporting system for the trading day on the applicable date and if such applicable date is not a trading day, the last market trading day prior to such date;

(2) If the Common Stock is not traded on a national securities exchange but is traded on the over-the-counter market, if sales prices are not regularly reported for the Common Stock for the trading day referred to in clause (1), and if bid and asked prices for the Common Stock are regularly reported, the mean between the bid and the asked price for the Common Stock at the close of trading in the over-the-counter market for the trading day on which Common Stock was traded on the applicable date and if such applicable date is not a trading day, the last market trading day prior to such date; and

(3) If the Common Stock is neither listed on a national securities exchange nor traded in the over-the-counter market, such value as the Administrator, in good faith, shall determine.

ISO means an option intended to qualify as an incentive stock option under Section 422 of the Code.

Non-Qualified Option means an option which is not intended to qualify as an ISO.

Option means an ISO or Non-Qualified Option granted under the Plan.

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Participant means an Employee, director or Consultant of the Company or an Affiliate to whom one or more Stock Rights are granted under the Plan. As used herein, “Participant” shall include “Participant’s Survivors” where the context requires.

Plan means this Interleukin Genetics, Inc. 2013 Employee, Director and Consultant Equity Incentive Plan.

Securities Act means the Securities Act of 1933, as amended.

Shares means shares of the Common Stock as to which Stock Rights have been or may be granted under the Plan or any shares of capital stock into which the Shares are changed or for which they are exchanged within the provisions of Paragraph 3 of the Plan. The Shares issued under the Plan may be authorized and unissued shares or shares held by the Company in its treasury, or both.

Stock-Based Award means a grant by the Company under the Plan of an equity award or an equity based award which is not an Option or a Stock Grant.

Stock Grant means a grant by the Company of Shares under the Plan.

Stock Right means a right to Shares or the value of Shares of the Company granted pursuant to the Plan — an ISO, a Non-Qualified Option, a Stock Grant or a Stock-Based Award.

Survivor means a deceased Participant’s legal representatives and/or any person or persons who acquired the Participant’s rights to a Stock Right by will or by the laws of descent and distribution.

## 2. PURPOSES OF THE PLAN.

The Plan is intended to encourage ownership of Shares by Employees and directors of and certain Consultants to the Company and its Affiliates in order to attract and retain such people, to induce them to work for the benefit of the Company or of an Affiliate and to provide additional incentive for them to promote the success of the Company or of an Affiliate. The Plan provides for the granting of ISOs, Non-Qualified Options, Stock Grants and Stock-Based Awards.

3. SHARES SUBJECT TO THE PLAN.

(a) The number of Shares which may be issued from time to time pursuant to this Plan shall be the sum of: (i) 8,860,000 shares of Common Stock and (ii) any shares of Common Stock that are represented by awards granted under the Company's 2004 Employee, Director and Consultant Stock Plan that are forfeited, expire or are cancelled without delivery of shares of Common Stock or which result in the forfeiture of shares of Common Stock back to the Company on or after August 9, 2013, or the equivalent of such number of Shares after the Administrator, in its sole discretion, has interpreted the effect of any stock split, stock dividend, combination, recapitalization or similar transaction in accordance with Paragraph 24 of this Plan; provided, however, that no more than 2,435,500 Shares shall be added to the Plan pursuant to subsection (ii).

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(b) If an Option ceases to be “outstanding”, in whole or in part (other than by exercise), or if the Company shall reacquire (at not more than its original issuance price) any Shares issued pursuant to a Stock Grant or Stock-Based Award, or if any Stock Right expires or is forfeited, cancelled, or otherwise terminated or results in any Shares not being issued, the unissued or reacquired Shares which were subject to such Stock Right shall again be available for issuance from time to time pursuant to this Plan. Notwithstanding the foregoing, if a Stock Right is exercised, in whole or in part, by tender of Shares or if the Company or an Affiliate’s tax withholding obligation is satisfied by withholding Shares, the number of Shares deemed to have been issued under the Plan for purposes of the limitation set forth in Paragraph 3(a) above shall be the number of Shares that were subject to the Stock Right or portion thereof, and not the net number of Shares actually issued. However, in the case of ISOs, the foregoing provisions shall be subject to any limitations under the Code.

#### 4. ADMINISTRATION OF THE PLAN.

The Administrator of the Plan will be the Board of Directors, except to the extent the Board of Directors delegates its authority to the Committee, in which case the Committee shall be the Administrator. Subject to the provisions of the Plan, the Administrator is authorized to:

- (a) Interpret the provisions of the Plan and all Stock Rights and to make all rules and determinations which it deems necessary or advisable for the administration of the Plan;
- (b) Determine which Employees, directors and Consultants shall be granted Stock Rights;
- (c) Determine the number of Shares for which a Stock Right or Stock Rights shall be granted, provided, however, that in no event shall Stock Rights with respect to more than 5,000,000 Shares be granted to any Participant in any fiscal year;
- (d) Specify the terms and conditions upon which a Stock Right or Stock Rights may be granted;
- (e) Amend any term or condition of any outstanding Stock Right other than reducing the exercise price or purchase price, including, without limitation, to accelerate the vesting schedule or extend the expiration date, provided that (i) such term or condition as amended is permitted by the Plan; (ii) any such amendment shall not impair the rights of a Participant under any Stock Right previously granted without such Participant’s consent or in the event of death of the Participant the Participant’s Survivors; and (iii) any such amendment shall be made only after the Administrator determines whether such amendment would cause any adverse tax consequences to the Participant, including, but not limited to, the annual vesting limitation contained in Section 422(d) of the Code and described in



Paragraph 6(b)(iv) below with respect to ISOs and pursuant to Section 409A of the Code; and

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(f) Adopt any sub-plans applicable to residents of any specified jurisdiction as it deems necessary or appropriate in order to comply with or take advantage of any tax or other laws applicable to the Company, any Affiliate or to Participants or to otherwise facilitate the administration of the Plan, which sub-plans may include additional restrictions or conditions applicable to Stock Rights or Shares issuable pursuant to a Stock Right;

provided, however, that all such interpretations, rules, determinations, terms and conditions shall be made and prescribed in the context of not causing any adverse tax consequences under Section 409A of the Code and preserving the tax status under Section 422 of the Code of those Options which are designated as ISOs. Subject to the foregoing, the interpretation and construction by the Administrator of any provisions of the Plan or of any Stock Right granted under it shall be final, unless otherwise determined by the Board of Directors, if the Administrator is the Committee. In addition, if the Administrator is the Committee, the Board of Directors may take any action under the Plan that would otherwise be the responsibility of the Committee.

To the extent permitted under applicable law, the Board of Directors or the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any portion of its responsibilities and powers to any other person selected by it. The Board of Directors or the Committee may revoke any such allocation or delegation at any time. Notwithstanding the foregoing, only the Board of Directors or the Committee shall be authorized to grant a Stock Right to any director of the Company or to any "officer" of the Company as defined by Rule 16a-1 under the Exchange Act.

#### 5. ELIGIBILITY FOR PARTICIPATION.

The Administrator will, in its sole discretion, name the Participants in the Plan; provided, however, that each Participant must be an Employee, director or Consultant of the Company or of an Affiliate at the time a Stock Right is granted. Notwithstanding the foregoing, the Administrator may authorize the grant of a Stock Right to a person not then an Employee, director or Consultant of the Company or of an Affiliate; provided, however, that the actual grant of such Stock Right shall be conditioned upon such person becoming eligible to become a Participant at or prior to the time of the execution of the Agreement evidencing such Stock Right. ISOs may be granted only to Employees who are deemed to be residents of the United States for tax purposes. Non-Qualified Options, Stock Grants and Stock-Based Awards may be granted to any Employee, director or Consultant of the Company or an Affiliate. The granting of any Stock Right to any individual shall neither entitle that individual to, nor disqualify him or her from, participation in any other grant of Stock Rights or any grant under any other benefit plan established by the Company or any Affiliate for Employees, directors or Consultants.

#### 6. TERMS AND CONDITIONS OF OPTIONS.

Each Option shall be set forth in writing in an Option Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Administrator may provide that Options be

granted subject to such terms and conditions, consistent with the terms and conditions specifically required under this Plan, as the Administrator may deem appropriate including, without limitation, subsequent approval by the shareholders of the Company of this Plan or any amendments thereto. The Option Agreements shall be subject to at least the following terms and conditions:

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(a) Non-Qualified Options: Each Option intended to be a Non-Qualified Option shall be subject to the terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company, subject to the following minimum standards for any such Non-Qualified Option:

Exercise Price: Each Option Agreement shall state the exercise price (per share) of the Shares covered by each (i) Option, which exercise price shall be determined by the Administrator and shall be at least equal to the Fair Market Value per share of Common Stock on the date of grant of the Option.

(ii) Number of Shares: Each Option Agreement shall state the number of Shares to which it pertains.

Option Periods: Each Option Agreement shall state the date or dates on which it first is exercisable and the date (iii) after which it may no longer be exercised, and may provide that the Option rights accrue or become exercisable in installments over a period of months or years, or upon the occurrence of certain conditions or the attainment of stated goals or events.

Option Conditions: Exercise of any Option may be conditioned upon the Participant's execution of a Share (iv) purchase agreement in form satisfactory to the Administrator providing for certain protections for the Company and its other shareholders, including requirements that:

A. The Participant's or the Participant's Survivors' right to sell or transfer the Shares may be restricted; and

B. The Participant or the Participant's Survivors may be required to execute letters of investment intent and must also acknowledge that the Shares will bear legends noting any applicable restrictions.

(v) Term of Option: Each Option shall terminate not more than ten years from the date of the grant or at such earlier time as the Option Agreement may provide.

(b) ISOs: Each Option intended to be an ISO shall be issued only to an Employee who is deemed to be a resident of the United States for tax purposes, and shall be subject to the following terms and conditions, with such additional restrictions or changes as the Administrator determines are appropriate but not in conflict with Section 422 of the Code and relevant regulations and rulings of the Internal Revenue Service:

(i) Minimum standards: The ISO shall meet the minimum standards required of Non-Qualified Options, as described in Paragraph 6(a) above, except clause (i) and (v) thereunder.

(ii) Exercise Price: Immediately before the ISO is granted, if the Participant owns, directly or by reason of the applicable attribution rules in Section 424(d) of the Code:

10% or less of the total combined voting power of all classes of stock of the Company or an Affiliate, the  
A. exercise price per share of the Shares covered by each ISO shall not be less than 100% of the Fair Market Value per share of the Common Stock on the date of grant of the Option; or

More than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, the  
B. exercise price per share of the Shares covered by each ISO shall not be less than 110% of the Fair Market Value per share of the Common Stock on the date of grant of the Option.

(iii) Term of Option: For Participants who own:

10% or less of the total combined voting power of all classes of stock of the Company or an Affiliate, each ISO  
A. shall terminate not more than ten years from the date of the grant or at such earlier time as the Option Agreement may provide; or

More than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, each ISO  
B. shall terminate not more than five years from the date of the grant or at such earlier time as the Option Agreement may provide.

(iv) Limitation on Yearly Exercise: The Option Agreements shall restrict the amount of ISOs which may become exercisable in any calendar year (under this or any other ISO plan of the Company or an Affiliate) so that the aggregate Fair Market Value (determined on the date each ISO is granted) of the stock with respect to which ISOs are exercisable for the first time by the Participant in any calendar year does not exceed \$100,000.

## 7. TERMS AND CONDITIONS OF STOCK GRANTS.

Each Stock Grant to a Participant shall state the principal terms in an Agreement duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Agreement shall be in a form approved by the Administrator and shall contain terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company, subject to the following minimum standards:

(a) Each Agreement shall state the purchase price per share, if any, of the Shares covered by each Stock Grant, which purchase price shall be determined by the Administrator but shall not be less than the minimum consideration required by the Delaware General Corporation Law, if any, on the date of the grant of the Stock Grant;

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- (b) Each Agreement shall state the number of Shares to which the Stock Grant pertains; and
- (c) Each Agreement shall include the terms of any right of the Company to restrict or reacquire the Shares subject to the Stock Grant, including the time and events upon which such rights shall accrue and the purchase price therefor, if any.

#### 8. TERMS AND CONDITIONS OF OTHER STOCK-BASED AWARDS.

The Administrator shall have the right to grant other Stock-Based Awards based upon the Common Stock having such terms and conditions as the Administrator may determine, including, without limitation, the grant of Shares based upon certain conditions, the grant of securities convertible into Shares and the grant of stock appreciation rights, phantom stock awards or stock units. The principal terms of each Stock-Based Award shall be set forth in an Agreement, duly executed by the Company and, to the extent required by law or requested by the Company, by the Participant. The Agreement shall be in a form approved by the Administrator and shall contain terms and conditions which the Administrator determines to be appropriate and in the best interest of the Company.

The Company intends that the Plan and any Stock-Based Awards granted hereunder be exempt from the application of Section 409A of the Code or meet the requirements of paragraphs (2), (3) and (4) of subsection (a) of Section 409A of the Code, to the extent applicable, and be operated in accordance with Section 409A so that any compensation deferred under any Stock-Based Award (and applicable investment earnings) shall not be included in income under Section 409A of the Code. Any ambiguities in the Plan shall be construed to effect the intent as described in this Paragraph 8.

#### 9. EXERCISE OF OPTIONS AND ISSUE OF SHARES.

An Option (or any part or installment thereof) shall be exercised by giving written notice to the Company or its designee (in a form acceptable to the Administrator, which may include electronic notice), together with provision for payment of the aggregate exercise price in accordance with this Paragraph for the Shares as to which the Option is being exercised, and upon compliance with any other condition(s) set forth in the Option Agreement. Such notice shall be signed by the person exercising the Option (which signature may be provided electronically in a form acceptable to the Administrator), shall state the number of Shares with respect to which the Option is being exercised and shall contain any representation required by the Plan or the Option Agreement. Payment of the exercise price for the Shares as to which such Option is being exercised shall be made (a) in United States dollars in cash or by check, or (b) at the discretion of the Administrator, through delivery of shares of Common Stock held for at least six months (if required to avoid negative accounting treatment) having a Fair Market Value equal as of the date of the exercise to the aggregate cash exercise price for the number of Shares as to which the Option is being exercised, or (c) at the discretion of the Administrator, by having the Company retain from the Shares otherwise issuable upon exercise of the Option, a number of Shares having a Fair Market Value equal as of the date of exercise to the aggregate exercise price

for the number of Shares as to which the Option is being exercised, or (d) at the discretion of the Administrator (after consideration of applicable securities, tax and accounting implications), by delivery of the grantee's personal recourse note bearing interest payable not less than annually at no less than 100% of the applicable Federal rate, as defined in Section 1274(d) of the Code, or (e) at the discretion of the Administrator, in accordance with a cashless exercise program established with a securities brokerage firm, and approved by the Administrator, or (f) at the discretion of the Administrator, by any combination of (a), (b), (c), (d) and (e) above or (g) at the discretion of the Administrator, by payment of such other lawful consideration as the Administrator may determine. Notwithstanding the foregoing, the Administrator shall accept only such payment on exercise of an ISO as is permitted by Section 422 of the Code.

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The Company shall then reasonably promptly deliver the Shares as to which such Option was exercised to the Participant (or to the Participant's Survivors, as the case may be). In determining what constitutes "reasonably promptly," it is expressly understood that the issuance and delivery of the Shares may be delayed by the Company in order to comply with any law or regulation (including, without limitation, state securities or "blue sky" laws) which requires the Company to take any action with respect to the Shares prior to their issuance. The Shares shall, upon delivery, be fully paid, non-assessable Shares.

10. PAYMENT IN CONNECTION WITH THE ISSUANCE OF STOCK GRANTS AND STOCK-BASED AWARDS AND ISSUE OF SHARES.

Any Stock Grant or Stock-Based Award requiring payment of a purchase price for the Shares as to which such Stock Grant or Stock-Based Award is being granted shall be made (a) in United States dollars in cash or by check, or (b) at the discretion of the Administrator, through delivery of shares of Common Stock held for at least six months (if required to avoid negative accounting treatment) and having a Fair Market Value equal as of the date of payment to the purchase price of the Stock Grant or Stock-Based Award, or (c) at the discretion of the Administrator (after consideration of applicable securities, tax and accounting implications), by delivery of the grantee's personal recourse note bearing interest payable not less than annually at no less than 100% of the applicable Federal rate, as defined in Section 1274(d) of the Code, or (d) at the discretion of the Administrator, by any combination of (a), (b) and (c) above; or (e) at the discretion of the Administrator, by payment of such other lawful consideration as the Administrator may determine.

The Company shall when required by the applicable Agreement, reasonably promptly deliver the Shares as to which such Stock Grant or Stock-Based Award was made to the Participant (or to the Participant's Survivors, as the case may be), subject to any escrow provision set forth in the applicable Agreement. In determining what constitutes "reasonably promptly," it is expressly understood that the issuance and delivery of the Shares may be delayed by the Company in order to comply with any law or regulation (including, without limitation, state securities or "blue sky" laws) which requires the Company to take any action with respect to the Shares prior to their issuance.

11. RIGHTS AS A SHAREHOLDER.

No Participant to whom a Stock Right has been granted shall have rights as a shareholder with respect to any Shares covered by such Stock Right except after due exercise of an Option or issuance of Shares as set forth in any Agreement, tender of the aggregate exercise or purchase price, if any, for the Shares being purchased and registration of the Shares in the Company's share register in the name of the Participant.

12. ASSIGNABILITY AND TRANSFERABILITY OF STOCK RIGHTS.

By its terms, a Stock Right granted to a Participant shall not be transferable by the Participant other than (i) by will or by the laws of descent and distribution, or (ii) as approved by the Administrator in its discretion and set forth in the applicable Agreement provided that no Stock Right may be transferred by a Participant for value. Notwithstanding the foregoing, an ISO transferred except in compliance with clause (i) above shall no longer qualify as an ISO. The designation of a beneficiary of a Stock Right by a Participant, with the prior approval of the Administrator and in such form as the Administrator shall prescribe, shall not be deemed a transfer prohibited by this Paragraph. Except as provided above during the Participant's lifetime a Stock Right shall only be exercisable by or issued to such Participant (or his or her legal representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of any Stock Right or of any rights granted thereunder contrary to the provisions of this Plan, or the levy of any attachment or similar process upon a Stock Right, shall be null and void.

13. EFFECT ON OPTIONS OF TERMINATION OF SERVICE OTHER THAN FOR CAUSE OR DEATH OR DISABILITY.

Except as otherwise provided in a Participant's Option Agreement, in the event of a termination of service (whether as an Employee, director or Consultant) with the Company or an Affiliate before the Participant has exercised an Option, the following rules apply:

(a) A Participant who ceases to be an Employee, director or Consultant of the Company or of an Affiliate (for any reason other than termination for Cause, Disability, or death for which events there are special rules in Paragraphs 14, 15, and 16, respectively), may exercise any Option granted to him or her to the extent that the Option is exercisable on the date of such termination of service, but only within such term as the Administrator has designated in a Participant's Option Agreement.

(b) Except as provided in Subparagraph (c) below, or Paragraph 15 or 16, in no event may an Option intended to be an ISO, be exercised later than three months after the Participant's termination of employment.

(c) The provisions of this Paragraph, and not the provisions of Paragraph 15 or 16, shall apply to a Participant who subsequently becomes Disabled or dies after the termination of employment, director status or consultancy; provided, however, in the case of a Participant's Disability or death within three months after the termination of employment, director status or consultancy, the Participant or the Participant's Survivors may exercise the Option within one year after the date of the Participant's termination of service, but in no event after the date of expiration of the term of the Option.

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(d) Notwithstanding anything herein to the contrary, if subsequent to a Participant's termination of employment, termination of director status or termination of consultancy, but prior to the exercise of an Option, the Administrator determines that, either prior or subsequent to the Participant's termination, the Participant engaged in conduct which would constitute Cause, then such Participant shall forthwith cease to have any right to exercise any Option.

(e) A Participant to whom an Option has been granted under the Plan who is absent from the Company or an Affiliate because of temporary disability (any disability other than a Disability as defined in Paragraph 1 hereof), or who is on leave of absence for any purpose, shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated such Participant's employment, director status or consultancy with the Company or with an Affiliate, except as the Administrator may otherwise expressly provide; provided, however, that, for ISOs, any leave of absence granted by the Administrator of greater than ninety days, unless pursuant to a contract or statute that guarantees the right to reemployment, shall cause such ISO to become a Non-Qualified Option on the 181<sup>st</sup> day following such leave of absence.

(f) Except as required by law or as set forth in a Participant's Option Agreement, Options granted under the Plan shall not be affected by any change of a Participant's status within or among the Company and any Affiliates, so long as the Participant continues to be an Employee, director or Consultant of the Company or any Affiliate.

#### 14. EFFECT ON OPTIONS OF TERMINATION OF SERVICE FOR CAUSE.

Except as otherwise provided in a Participant's Option Agreement, the following rules apply if the Participant's service (whether as an Employee, director or Consultant) with the Company or an Affiliate is terminated for Cause prior to the time that all his or her outstanding Options have been exercised:

(a) All outstanding and unexercised Options as of the time the Participant is notified his or her service is terminated for Cause will immediately be forfeited.

(b) Cause is not limited to events which have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of Cause occur prior to termination. If the Administrator determines, subsequent to a Participant's termination of service but prior to the exercise of an Option, that either prior or subsequent to the Participant's termination the Participant engaged in conduct which would constitute Cause, then the right to exercise any Option is forfeited.

#### 15. EFFECT ON OPTIONS OF TERMINATION OF SERVICE FOR DISABILITY.

Except as otherwise provided in a Participant's Option Agreement:

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(a) A Participant who ceases to be an Employee, director or Consultant of the Company or of an Affiliate by reason of Disability may exercise any Option granted to such Participant:

- (i) To the extent that the Option has become exercisable but has not been exercised on the date of the Participant's termination of service due to Disability; and

In the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of the Participant's termination of service due to Disability of any additional vesting rights that would have accrued on (ii) the next vesting date had the Participant not become Disabled. The proration shall be based upon the number of days accrued in the current vesting period prior to the date of the Participant's termination of service due to Disability.

(b) A Disabled Participant may exercise the Option only within the period ending one year after the date of the Participant's termination of service due to Disability, notwithstanding that the Participant might have been able to exercise the Option as to some or all of the Shares on a later date if the Participant had not been terminated due to Disability and had continued to be an Employee, director or Consultant or, if earlier, within the originally prescribed term of the Option.

(c) The Administrator shall make the determination both of whether Disability has occurred and the date of its occurrence (unless a procedure for such determination is set forth in another agreement between the Company and such Participant, in which case such procedure shall be used for such determination). If requested, the Participant shall be examined by a physician selected or approved by the Administrator, the cost of which examination shall be paid for by the Company.

#### 16. EFFECT ON OPTIONS OF DEATH WHILE AN EMPLOYEE, DIRECTOR OR CONSULTANT.

Except as otherwise provided in a Participant's Option Agreement:

(a) In the event of the death of a Participant while the Participant is an Employee, director or Consultant of the Company or of an Affiliate, such Option may be exercised by the Participant's Survivors:

- (i) To the extent that the Option has become exercisable but has not been exercised on the date of death; and
- (ii)

In the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of death of any additional vesting rights that would have accrued on the next vesting date had the Participant not died. The proration shall be based upon the number of days accrued in the current vesting period prior to the Participant's date of death.

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(b) If the Participant's Survivors wish to exercise the Option, they must take all necessary steps to exercise the Option within one year after the date of death of such Participant, notwithstanding that the decedent might have been able to exercise the Option as to some or all of the Shares on a later date if he or she had not died and had continued to be an Employee, director or Consultant or, if earlier, within the originally prescribed term of the Option.

17. EFFECT OF TERMINATION OF SERVICE ON STOCK GRANTS AND STOCK-BASED AWARDS.

In the event of a termination of service (whether as an Employee, director or Consultant) with the Company or an Affiliate for any reason before the Participant has accepted a Stock Grant or a Stock-Based Award and paid the purchase price, if required, such grant shall terminate.

For purposes of this Paragraph 17 and Paragraph 18 below, a Participant to whom a Stock Grant has been issued under the Plan who is absent from work with the Company or with an Affiliate because of temporary disability (any disability other than a Disability as defined in Paragraph 1 hereof), or who is on leave of absence for any purpose, shall not, during the period of any such absence, be deemed, by virtue of such absence alone, to have terminated such Participant's employment, director status or consultancy with the Company or with an Affiliate, except as the Administrator may otherwise expressly provide.

In addition, for purposes of this Paragraph 17 and Paragraph 18 below, any change of employment or other service within or among the Company and any Affiliates shall not be treated as a termination of employment, director status or consultancy so long as the Participant continues to be an Employee, director or Consultant of the Company or any Affiliate.

18. EFFECT ON STOCK GRANTS OF TERMINATION OF SERVICE OTHER THAN FOR CAUSE OR DEATH OR DISABILITY.

Except as otherwise provided in a Participant's Stock Grant Agreement, in the event of a termination of service (whether as an Employee, director or Consultant), other than termination for Cause, Disability, or death for which events there are special rules in Paragraphs 19, 20, and 21, respectively, before all forfeiture provisions or Company rights of repurchase shall have lapsed, then the Company shall have the right to cancel or repurchase that number of Shares subject to a Stock Grant as to which the Company's forfeiture or repurchase rights have not lapsed.

19. EFFECT ON STOCK GRANTS OF TERMINATION OF SERVICE FOR CAUSE.



Except as otherwise provided in a Participant's Stock Grant Agreement, the following rules apply if the Participant's service (whether as an Employee, director or Consultant) with the Company or an Affiliate is terminated for Cause:

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(a) All Shares subject to any Stock Grant whether or not then subject to forfeiture or repurchase shall be immediately subject to repurchase by the Company at the lesser of Fair Market Value or the purchase price, thereof.

(b) Cause is not limited to events which have occurred prior to a Participant's termination of service, nor is it necessary that the Administrator's finding of Cause occur prior to termination. If the Administrator determines, subsequent to a Participant's termination of service, that either prior or subsequent to the Participant's termination the Participant engaged in conduct which would constitute Cause, then all Shares subject to any Stock Grant that remained subject to forfeiture provisions or as to which the Company had a repurchase right on the date of termination shall be immediately forfeited to the Company.

## 20. EFFECT ON STOCK GRANTS OF TERMINATION OF SERVICE FOR DISABILITY.

Except as otherwise provided in a Participant's Stock Grant Agreement, the following rules apply if a Participant ceases to be an Employee, director or Consultant of the Company or of an Affiliate by reason of Disability: to the extent the forfeiture provisions or the Company's rights of repurchase have not lapsed on the date of Disability, they shall be exercisable; provided, however, that in the event such forfeiture provisions or rights of repurchase lapse periodically, such provisions or rights shall lapse to the extent of a pro rata portion of the Shares subject to such Stock Grant through the date of Disability as would have lapsed had the Participant not become Disabled. The proration shall be based upon the number of days accrued prior to the date of Disability.

The Administrator shall make the determination both as to whether Disability has occurred and the date of its occurrence (unless a procedure for such determination is set forth in another agreement between the Company and such Participant, in which case such procedure shall be used for such determination). If requested, the Participant shall be examined by a physician selected or approved by the Administrator, the cost of which examination shall be paid for by the Company.

## 21. EFFECT ON STOCK GRANTS OF DEATH WHILE AN EMPLOYEE, DIRECTOR OR CONSULTANT.

Except as otherwise provided in a Participant's Stock Grant Agreement, the following rules apply in the event of the death of a Participant while the Participant is an Employee, director or Consultant of the Company or of an Affiliate: to the extent the forfeiture provisions or the Company's rights of repurchase have not lapsed on the date of death, they shall be exercisable; provided, however, that in the event such forfeiture provisions or rights of repurchase lapse periodically, such provisions or rights shall lapse to the extent of a pro rata portion of the Shares subject to such Stock Grant through the date of death as would have lapsed had the Participant not died. The proration shall be based upon the number of days accrued prior to the Participant's date of death.

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22. PURCHASE FOR INVESTMENT.

Unless the offering and sale of the Shares shall have been effectively registered under the Securities Act, the Company shall be under no obligation to issue Shares under the Plan unless and until the following conditions have been fulfilled:

(a) The person who receives a Stock Right shall warrant to the Company, prior to the receipt of Shares, that such person is acquiring such Shares for his or her own account, for investment, and not with a view to, or for sale in connection with, the distribution of any such Shares, in which event the person acquiring such Shares shall be bound by the provisions of the following legend (or a legend in substantially similar form) which shall be endorsed upon the certificate evidencing the Shares issued pursuant to such exercise or such grant:

“The shares represented by this certificate have been taken for investment and they may not be sold or otherwise transferred by any person, including a pledgee, unless (1) either (a) a Registration Statement with respect to such shares shall be effective under the Securities Act of 1933, as amended, or (b) the Company shall have received an opinion of counsel satisfactory to it that an exemption from registration under such Act is then available, and (2) there shall have been compliance with all applicable state securities laws.”

(b) At the discretion of the Administrator, the Company shall have received an opinion of its counsel that the Shares may be issued in compliance with the Securities Act without registration thereunder.

23. DISSOLUTION OR LIQUIDATION OF THE COMPANY.

Upon the dissolution or liquidation of the Company, all Options granted under this Plan which as of such date shall not have been exercised and all Stock Grants and Stock-Based Awards which have not been accepted, to the extent required under the applicable Agreement, will terminate and become null and void; provided, however, that if the rights of a Participant or a Participant's Survivors have not otherwise terminated and expired, the Participant or the Participant's Survivors will have the right immediately prior to such dissolution or liquidation to exercise or accept any Stock Right to the extent that the Stock Right is exercisable or subject to acceptance as of the date immediately prior to such dissolution or liquidation. Upon the dissolution or liquidation of the Company, any outstanding Stock-Based Awards shall immediately terminate unless otherwise determined by the Administrator or specifically provided in the applicable Agreement.

24. ADJUSTMENTS.

Upon the occurrence of any of the following events, a Participant's rights with respect to any Stock Right granted to him or her hereunder shall be adjusted as hereinafter provided, unless otherwise specifically provided in a Participant's Agreement:

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(a) Stock Dividends and Stock Splits. If (i) the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, or (ii) additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Common Stock, each Stock Right and the number of shares of Common Stock deliverable thereunder shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made including, in the exercise or purchase price per share, to reflect such events. The number of Shares subject to the limitations in Paragraph 3(a) and 4(c) shall also be proportionately adjusted upon the occurrence of such events.

(b) Corporate Transactions. If the Company is to be consolidated with or acquired by another entity in a merger, consolidation, or sale of all or substantially all of the Company's assets other than a transaction to merely change the state of incorporation (a "Corporate Transaction"), the Administrator or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board"), shall, as to outstanding Options, either (i) make appropriate provision for the continuation of such Options by substituting on an equitable basis for the Shares then subject to such Options either the consideration payable with respect to the outstanding shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity; or (ii) upon written notice to the Participants, provide that such Options must be exercised (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such Options being made partially or fully exercisable for purposes of this Subparagraph), within a specified number of days of the date of such notice, at the end of which period such Options which have not been exercised shall terminate; or (iii) terminate such Options in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of Common Stock into which such Option would have been exercisable (either (A) to the extent then exercisable or, (B) at the discretion of the Administrator, any such Options being made partially or fully exercisable for purposes of this Subparagraph) less the aggregate exercise price thereof. For purposes of determining the payments to be made pursuant to Subclause (iii) above, in the case of a Corporate Transaction the consideration for which, in whole or in part, is other than cash, the consideration other than cash shall be valued at the fair value thereof as determined in good faith by the Board of Directors.

With respect to outstanding Stock Grants, the Administrator or the Successor Board, shall make appropriate provision for the continuation of such Stock Grants on the same terms and conditions by substituting on an equitable basis for the Shares then subject to such Stock Grants either the consideration payable with respect to the outstanding Shares of Common Stock in connection with the Corporate Transaction or securities of any successor or acquiring entity. In lieu of the foregoing, in connection with any Corporate Transaction, the Administrator may provide that, upon consummation of the Corporate Transaction, each outstanding Stock Grant shall be terminated in exchange for payment of an amount equal to the consideration payable upon consummation of such Corporate Transaction to a holder of the number of shares of Common Stock comprising such Stock Grant (to the extent such Stock Grant is no longer subject to any forfeiture or repurchase rights then in effect or, at the discretion of the Administrator, all forfeiture and repurchase rights being waived upon such Corporate Transaction).

In taking any of the actions permitted under this Paragraph 24(b), the Administrator shall not be obligated by the Plan to treat all Stock Rights, all Stock Rights held by a Participant, or all Stock Rights of the same type, identically.

(c) Recapitalization or Reorganization. In the event of a recapitalization or reorganization of the Company other than a Corporate Transaction pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, a Participant upon exercising an Option or accepting a Stock Grant after the recapitalization or reorganization shall be entitled to receive for the price paid upon such exercise or acceptance if any, the number of replacement securities which would have been received if such Option had been exercised or Stock Grant accepted prior to such recapitalization or reorganization.

(d) Adjustments to Stock-Based Awards. Upon the happening of any of the events described in Subparagraphs (a), (b) or (c) above, any outstanding Stock-Based Award shall be appropriately adjusted to reflect the events described in such Subparagraphs. The Administrator or the Successor Board shall determine the specific adjustments to be made under this Paragraph 24, including, but not limited to the effect of any, Corporate Transaction and, subject to Paragraph 4, its determination shall be conclusive.

(e) Modification of Options. Notwithstanding the foregoing, any adjustments made pursuant to Subparagraph (a), (b) or (c) above with respect to Options shall be made only after the Administrator determines whether such adjustments would (i) constitute a “modification” of any ISOs (as that term is defined in Section 424(h) of the Code) or (ii) cause any adverse tax consequences for the holders of Options, including, but not limited to, pursuant to Section 409A of the Code. If the Administrator determines that such adjustments made with respect to Options would constitute a modification or other adverse tax consequence, it may refrain from making such adjustments, unless the holder of an Option specifically agrees in writing that such adjustment be made and such writing indicates that the holder has full knowledge of the consequences of such “modification” on his or her income tax treatment with respect to the Option. This paragraph shall not apply to the acceleration of the vesting of any ISO that would cause any portion of the ISO to violate the annual vesting limitation contained in Section 422(d) of the Code, as described in Paragraph 6(b)(iv).

## 25. ISSUANCES OF SECURITIES.

Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Stock Rights. Except as expressly provided herein, no adjustments shall be made for dividends paid in cash or in property (including without limitation, securities) of the Company prior to any issuance of Shares pursuant to a Stock Right.

26. FRACTIONAL SHARES.

No fractional shares shall be issued under the Plan and the person exercising a Stock Right shall receive from the Company cash in lieu of such fractional shares equal to the Fair Market Value thereof.

27. CONVERSION OF ISOs INTO NON-QUALIFIED OPTIONS; TERMINATION OF ISOs.

The Administrator, at the written request of any Participant, may in its discretion take such actions as may be necessary to convert such Participant's ISOs (or any portions thereof) that have not been exercised on the date of conversion into Non-Qualified Options at any time prior to the expiration of such ISOs, regardless of whether the Participant is an Employee of the Company or an Affiliate at the time of such conversion. At the time of such conversion, the Administrator (with the consent of the Participant) may impose such conditions on the exercise of the resulting Non-Qualified Options as the Administrator in its discretion may determine, provided that such conditions shall not be inconsistent with this Plan. Nothing in the Plan shall be deemed to give any Participant the right to have such Participant's ISOs converted into Non-Qualified Options, and no such conversion shall occur until and unless the Administrator takes appropriate action. The Administrator, with the consent of the Participant, may also terminate any portion of any ISO that has not been exercised at the time of such conversion.

28. WITHHOLDING.

In the event that any federal, state, or local income taxes, employment taxes, Federal Insurance Contributions Act ("F.I.C.A.") withholdings or other amounts are required by applicable law or governmental regulation to be withheld from the Participant's salary, wages or other remuneration in connection with the issuance of a Stock Right or Shares under the Plan or for any other reason required by law, the Company may withhold from the Participant's compensation, if any, or may require that the Participant advance in cash to the Company, or to any Affiliate of the Company which employs or employed the Participant, the statutory minimum amount of such withholdings unless a different withholding arrangement, including the use of shares of the Company's Common Stock or a promissory note, is authorized by the Administrator (and permitted by law). For purposes hereof, the fair market value of the shares withheld for purposes of payroll withholding shall be determined in the manner set forth under the definition of Fair Market Value provided in Paragraph 1 above, as of the most recent practicable date prior to the date of exercise. If the Fair Market Value of the shares withheld is less than the amount of payroll withholdings required, the Participant may be required to advance the difference in cash to the Company or the Affiliate employer. The Administrator in its discretion may condition the exercise of an Option for less than the then Fair Market Value on the Participant's payment of such additional withholding.



29. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION.

Each Employee who receives an ISO must agree to notify the Company in writing immediately after the Employee makes a Disqualifying Disposition of any Shares acquired pursuant to the exercise of an ISO. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any disposition (including any sale or gift) of such Shares before the later of (a) two years after the date the Employee was granted the ISO, or (b) one year after the date the Employee acquired Shares by exercising the ISO, except as otherwise provided in Section 424(c) of the Code. If the Employee has died before such Shares are sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

30. TERMINATION OF THE PLAN.

The Plan will terminate on May 30, 2023, the date which is ten years from the earlier of the date of its adoption by the Board of Directors and the date of its approval by the shareholders of the Company. The Plan may be terminated at an earlier date by vote of the shareholders or the Board of Directors of the Company; provided, however, that any such earlier termination shall not affect any Agreements executed prior to the effective date of such termination. Termination of the Plan shall not affect any Stock Rights theretofore granted.

31. AMENDMENT OF THE PLAN AND AGREEMENTS.

The Plan may be amended by the shareholders of the Company. The Plan may also be amended by the Administrator, including, without limitation, to the extent necessary to qualify any or all outstanding Stock Rights granted under the Plan or Stock Rights to be granted under the Plan for favorable federal income tax treatment as may be afforded incentive stock options under Section 422 of the Code (including deferral of taxation upon exercise), and to the extent necessary to qualify the Shares issuable under the Plan for listing on any national securities exchange or quotation in any national automated quotation system of securities dealers. Any amendment approved by the Administrator which the Administrator determines is of a scope that requires shareholder approval shall be subject to obtaining such shareholder approval. Any modification or amendment of the Plan shall not, without the consent of a Participant, adversely affect his or her rights under a Stock Right previously granted to him or her. With the consent of the Participant affected, the Administrator may amend outstanding Agreements in a manner which may be adverse to the Participant but which is not inconsistent with the Plan. In the discretion of the Administrator, outstanding Agreements may be amended by the Administrator in a manner which is not adverse to the Participant.

32. EMPLOYMENT OR OTHER RELATIONSHIP.

Nothing in this Plan or any Agreement shall be deemed to prevent the Company or an Affiliate from terminating the employment, consultancy or director status of a Participant, nor to prevent a Participant from terminating his or her own employment, consultancy or director status or to give any Participant a right to be retained in employment or

other service by the Company or any Affiliate for any period of time.

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33. GOVERNING LAW.

This Plan shall be construed and enforced in accordance with the law of the State of Delaware.

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