

INFORMATION ANALYSIS INC
Form DEF 14A
April 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

INFORMATION ANALYSIS INCORPORATED

Name of Registrant as Specified in its Charter

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(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)(4) and 0-11

1. Title of each class of securities to which transaction applies:

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

May 13, 2010

Dear Stockholder,

We, the Board of Directors of Information Analysis Incorporated, cordially invite you to attend our 2010 annual meeting of stockholders to be held at 10:00 AM on Thursday, June 16, 2010, at our offices at 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030. The attached notice of annual meeting and proxy statement describe the business we will conduct at the meeting and provide information about Information Analysis Incorporated that you should consider when you vote your shares.

When you have finished reading the proxy statement, please promptly vote your shares by marking, signing, dating and returning the proxy card in the enclosed envelope. 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.

Sincerely

/s/ SANDOR ROSENBERG
Sandor Rosenberg
Chairman of the Board and

Chief Executive Officer

May 13, 2010

NOTICE OF 2010 ANNUAL MEETING OF STOCKHOLDERS

TIME: 10:00 AM

DATE: June 16, 2010

PLACE: Information Analysis Incorporated
11240 Waples Mill Road, Suite 201
Fairfax, Virginia 22030

PURPOSES:

1. To elect Four directors to serve terms expiring at the 2010 Annual Meeting.
2. To ratify the appointment of Reznick Group, P.C. as the company's independent public accountants for the fiscal year ending December 31, 2010.
3. 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 Information Analysis Incorporated stock at the close of business on May 10, 2010. 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 at the above address.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ RICHARD S. DeROSE
Richard S. DeRose
Secretary

INFORMATION ANALYSIS INCORPORATED

11240 WAPLES MILL ROAD, SUITE 201

FAIRFAX, VIRGINIA 22030

PROXY STATEMENT

For the 2010 ANNUAL MEETING OF STOCKHOLDERS

To be held on June 16, 2010

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (Board) of Information Analysis Incorporated (we, IAI or the Company) for use at the 2010 Annual Meeting of Stockholders (Annual Meeting) to be held on June 16, 2010 beginning at 10:00 am, local time, at our headquarters, 11240 Waples Mill Road, Suite 201, Fairfax, Virginia 22030, and at any adjournment or postponement of that meeting. On or about May 13, 2010, we are either mailing or providing notice and electronic delivery of these proxy materials together with an annual report, consisting of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the 2009 fiscal year) and other information required by the rules of the Securities and Exchange Commission.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 16, 2010

This proxy statement and our 2009 Annual Report are available for viewing, printing and downloading at www.infoa.com/Investors.php.

You may request a copy of the materials relating to our annual meetings, including the proxy statement and form of proxy for our 2010 Annual Meeting and the 2009 Annual Report, at www.infoa.com/Investors.php, by sending an email to our Investor Relations department at investor@infoa.com, or by calling (800) 829-7614 ext. 7901.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING

Why did you send me this Proxy Statement?

We sent you this proxy statement and the enclosed proxy card because IAI's Board is soliciting your proxy to vote at the 2010 Annual Meeting and any adjournments. This 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.

On May 13, 2010, we began sending this proxy statement, the attached notice of annual meeting and the enclosed proxy card to all stockholders entitled to vote at the meeting. Although not part of this proxy statement, we are also sending along with this proxy statement our 2009 annual

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report, which includes our financial statements for the 2009 fiscal year. You can also find a copy of our 2009 Annual Report on Form 10-K on the Internet through the SEC's electronic data system called EDGAR at www.sec.gov, or through the Investor Relations section of our website at www.infoa.com.

Who can vote?

Only stockholders who owned IAI common stock at the close of business on May 10, 2010, are entitled to vote at the annual meeting. On this record date, there were 11,196,760 shares of IAI common stock outstanding and entitled to vote. Information Analysis Incorporated common stock is our only class of voting stock.

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.

Who can attend the meeting?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Please note that if you hold your shares in street name (through a bank, broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership in Staples as of the record date to be allowed into the meeting.

How many votes do I have?

Each share of IAI 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, American Stock Transfer, or you have stock certificates, you may vote:

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 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 the nominees for director;

FOR ratification of the selection of independent public accountants for our fiscal year ending December 31, 2010.

If any other matter is presented, 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 that needed to be acted on at the annual meeting, other than those discussed in this proxy statement.

May I change my vote or revoke my proxy after I have returned my card?

Yes. Any proxy may be revoked by a stockholder at any time before it is exercised at the Annual Meeting by delivering to our Corporate Secretary a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the meeting.

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 or if you have stock certificates, 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 nominee that holds your shares as described above under **How Do I Vote?**, the bank, broker or other nominee has the authority to vote your unvoted shares on both Proposals 1 and 2 even if it does not receive instructions from you. 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 each proposal and how are votes counted?**Proposal 1:****Election of Directors**

The nominees for director who receive the most votes (also known as a plurality of the votes) will be elected. Abstentions are not counted for purposes of electing directors. You may vote either FOR all of the nominees, WITHHOLD your vote from all of the nominees or WITHHOLD your vote from any one or more of the nominees. Votes that are withheld will not be included in the vote tally for the election of directors. Brokerage firms have authority to vote customers' unvoted shares held by the firms in street name for the election of directors. If a broker does not exercise this authority, such broker non-votes will have no effect on the results of this vote.

Proposal 2:**Ratify Selection of Independent****Public Accountants**

The affirmative vote of a majority of the votes present or represented by proxy and entitled to vote at the annual meeting is required to ratify the selection of independent public accountants. Abstentions will be treated as votes against this proposal. 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 public accountants. However, if our stockholders do not ratify the selection of Reznick Group, P.C. as our independent public accountants for 2010, our Audit Committee of our Board of Directors will reconsider its selection.

Is voting confidential?

We will keep all the proxies, ballots and voting tabulations private. We only let our Inspectors of Election, American Stock Transfer, 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.

What are the costs of soliciting these proxies?

We will pay all of the costs of soliciting these proxies. 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 Annual Meeting?

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the 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.

Are there other matters to be voted on at the meeting?

As of the date of this proxy statement, our Board does not know of any other matters which may come before the meeting, other than the matters described in this proxy statement. Should any other matter requiring a vote of our stockholders arise and be properly presented at the Annual Meeting, the proxy for the Annual Meeting confers upon the persons named in the proxy and designated to vote the shares discretionary authority to vote, or otherwise act, with respect to any such matter in accordance with their best judgment.

Our Board encourages stockholders to attend the Annual Meeting. Whether or not you plan to attend, you are urged to submit your proxy. Prompt response will greatly facilitate arrangements for the meeting and your cooperation will be appreciated. Stockholders who attend the Annual Meeting may vote their stock personally even though they have sent in their proxies.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of our common stock held as of April 26, 2010 by each person who is known by us based on schedule 13G filings to beneficially own more than 5% of the outstanding shares of our common stock, and as of April 26, 2010 by (1) each current director and nominee for director; (2) each of the named executive officers listed in the Summary Compensation Table included elsewhere in this proxy statement; and (3) by all current directors and executive officers as a group:

**SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS****TITLE OF CLASS: INFORMATION ANALYSIS
INCORPORATED COMMON STOCK**

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent Of Class |
|---|--|---------------------|
| 924 Ridge Drive McLean, VA 22101 | 1,000,000 | 8.9 |

SECURITY OWNERSHIP OF MANAGEMENT**TITLE OF CLASS: INFORMATION ANALYSIS INCORPORATED COMMON STOCK**

| Name of Beneficial Owner (1) | Amount and Nature of Beneficial Ownership (2) | Percent Of Class |
|---|--|---------------------|
| Sandor Rosenberg, Chairman, CEO, and Director | 1,832,800 | 16.4 |
| Richard S. DeRose, Executive Vice President | 480,345 (3) | 4.2 |
| Stanley A. Reese, Senior Vice President | 272,000 (4) | 2.4 |
| Charles A. May, Jr., Director | 55,000 (5) | 0.5 |
| Bonnie K. Wachtel, Director | 124,800 (5) | 1.1 |
| James D. Wester, Director | 159,947 (5) | 1.4 |
| All directors and executive officers as a group | 2,924,892 (6) | 24.9 |

- (1) The address of all beneficial holders is in care of the Company, except Ms. Wachtel, whose address of record is 1101 14th St. NW, Washington, DC 20001.
- (2) All shares are held outright by the individuals listed.
- (3) Includes 265,000 shares issuable upon the exercise of options to purchase common stock
- (4) Includes 250,000 shares issuable upon the exercise of options to purchase common stock
- (5) Includes 15,000 shares issuable upon the exercise of options to purchase common stock
- (6) Includes 560,000 shares issuable upon the exercise of options to purchase common stock

MANAGEMENT
The Board of Directors

Our Bylaws provide that our business is to be managed by or under the direction of our Board of Directors. All Directors are elected at each annual meeting of stockholders to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Our Board of Directors currently consists of four (4) members.

Our Board of Directors voted to nominate Charles A. May, Jr., Sandor Rosenberg, Bonnie K. Wachtel and James D. Wester for election at the annual meeting to serve until the 2011 annual meeting of stockholders, and until their respective successors have been elected and qualified.

Set forth below are the names of the persons nominated as directors, their ages, their offices in the Company, if any, their principal occupations or employment for the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

| Name of Nominee | Age | Director Since | Position with the Company |
|------------------------|------------|-----------------------|--|
| Charles A. May, Jr. | 72 | 1997 | Director |
| Sandor Rosenberg | 63 | 1979 | Chairman of the Board, Chief Executive Officer and President |
| Bonnie K. Wachtel | 54 | 1992 | Director |
| James C. Wester | 71 | 1985 | Director |

Charles A. May, Jr., 72, is a consultant focusing on national security and strategic business planning issues. In 1992, he retired as a Lt. General from the Air Force where he last served as Assistant Vice Chief of Staff, Headquarters US Air Force, Washington, D.C. He is a graduate of the U.S. Air Force Academy, where he once served as an Associate Professor of Political Science. General May has also graduated from the NATO Defense College and has completed the University of Pittsburgh's Management Program for Executives.

Sandor Rosenberg, 63, is the founder of the Company and has been Chairman of the Board and Chief Executive Officer of the Company since 1979, and President since 1998. Mr. Rosenberg holds a B.S. degree in Aerospace Engineering from Rensselaer Polytechnic Institute, and has done graduate studies in Operations Research at George Washington University.

Bonnie K. Wachtel, 54, is a principal of Wachtel & Co., Inc., a boutique investment firm based in Washington, DC. Ms. Wachtel has been a director of several local companies since joining her firm in 1984, and currently serves on the Boards of Integral Systems Inc. and VSE Corporation, both providers of services to federal government clients. Ms. Wachtel holds BA and MBA degrees from the University of Chicago and a JD from the University of Virginia. She is a Certified Financial Analyst.

James D. Wester, 71, was president of Results, Inc., a computer services marketing consulting firm, for more than 15 years. Mr. Wester holds a BME degree from Auburn University and an MBA from George Washington University.

Our Board has determined that the following members of the Board qualify as independent under the definition promulgated by the NASDAQ Stock Market:

Charles A. May, Jr.

Bonnie K. Wachtel

James D. Wester

There are no family relationships between any directors or executive officers of the Company.

Committees of the Board of Directors and Meetings

Meeting Attendance. During the fiscal year ended December 31, 2009 there were two meetings of our Board of Directors. All directors attended the meetings of the Board and of committees of the Board on which he or she served during fiscal 2009. The Board has adopted a policy under which each member of the Board is strongly encouraged to attend each annual meeting of our stockholders.

Audit Committee. Our Audit Committee met one time during 2009. This committee currently has two members, Bonnie K. Wachtel (Chairman) and Charles A. May, Jr. Our Audit Committee has the authority to retain and terminate the services of our independent public accountants, reviews annual financial statements, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. All members of the Audit Committee satisfy the current independence standards promulgated by the Securities and Exchange Commission and by the NASDAQ Stock Market; as such standards apply specifically to members of audit committees. The Board has determined that Ms. Wachtel is our audit committee financial expert, as the Securities and Exchange Commission has defined that term in Item 407 of Regulation S-K. Please also see the report of the Audit Committee set forth elsewhere in this proxy statement. The current audit committee charter is available for viewing on our Web site at www.infoa.com under the Investor Relations section of the Company Profile.

Compensation Committee. Our Compensation Committee met one time during 2009. This committee currently has two members, Ms. Wachtel (Chairman) and Mr. May. This committee does not operate under a charter. Our Compensation Committee reviews, approves and makes recommendations regarding our compensation policies, practices and procedures to ensure that legal and fiduciary responsibilities of the Board of Directors are carried out and that such policies, practices and procedures contribute to our success. The Compensation Committee is responsible for the determination of the compensation of our Executive Officers, and shall conduct its decision-making process with respect to that issue without the executive officers present. All members of the Compensation Committee qualify as independent under the definition promulgated by the NASDAQ Stock Market.

Nominating Committee. Our Nominating Committee met one time during 2009 and has four members, Mr. Rosenberg (Chairman), Ms. Wachtel, and Messrs. May and Wester. This committee does not operate under a charter. This committee's role is to make recommendations to the full Board as to the size and composition of the Board and its committees, and to evaluate and make recommendations as to potential candidates. All members of the Nominating Committee qualify as independent under the definition promulgated by the NASDAQ Stock Market except for Mr. Rosenberg. 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, diversity, the extent to which the candidate would fill a present need on the Board, and concern for the long-term interests of the stockholders. 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 2011 Annual Meeting of Stockholders, it must follow the procedures described in Stockholder Proposals and Nominations For Director.

Shareholder Communications to the Board

Generally, shareholders who have questions or concerns should contact our Investor Relations department at (703) 383-3000. 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:

Board of Directors of Information Analysis Incorporated

ATTN: (Chairman of the Board/Board member name)

11240 Waples Mill Road, Suite 201

Fairfax, Virginia 22030

Shareholder communications addressed to the Board, but not addressed to a specific Board member, will be relayed to the Chairman of the Board, and from there will be distributed to the Chairperson of the committee that oversees the subject matter of the communication.

Compensation of Directors

The Company pays each non-employee director an annual fee of \$2,000 to serve on the Board, payable quarterly. Expenses incurred in attending Board of Director meetings and committee meetings may be reimbursed. The following Table describes all compensation for each director for the year ended December 31, 2009.

| Name | Director Compensation | | | | Total |
|---------------------|-----------------------------|--------------|-------------------|------------------------|-------|
| | Fees Earned or Paid in Cash | Stock Awards | Option Awards | All Other Compensation | |
| (a) | (\$) | (\$) | (\$) ¹ | (\$) | (\$) |
| (a) | (b) | (c) | (d) | (g) | (j) |
| Charles A. May, Jr. | 2,000 | | | | 2,000 |
| Bonnie K. Wachtel | 2,000 | | | | 2,000 |
| James D. Wester | 2,000 | | | | 2,000 |

There were no options to purchase shares of our common stock issued to directors in 2009.

Executive Officers

The following table sets forth certain information regarding our executive officers who are not also directors.

| Name | Age | Position |
|-------------------|-----|--|
| Richard S. DeRose | 71 | Executive Vice President, Secretary, and Chief Financial Officer |
| Stanley A. Reese | 53 | Senior Vice President and Chief Operating Officer |

Richard S. DeRose, 71, has been Executive Vice President since 1991. Prior to that, he served as the President and CEO of DHD Services, Inc., a company he founded, from 1979 until DHD's acquisition by the Company in 1991. Prior to DHD, Mr. DeRose held several management positions in the information technology and telecommunications industries at RCA, Burroughs, and MCI. Mr. DeRose holds a BS degree in Science from the US Naval Academy and an MS degree in Computer Systems Management from the US Naval Postgraduate School, Monterey.

Stanley A. Reese, 53, joined the Company in 1993. Mr. Reese has been Senior Vice President since 1997 and Chief Operating Officer since March 1999. From 1992 to 1993, he served as Vice President, Technical Services at Tomco Systems, Inc. Prior to Tomco Systems, he served as Senior Program manager at ICF Information Technology, Inc. Mr. Reese has over 20 years experience managing and marketing large scale mainframe and PC-based applications. Mr. Reese holds a BA in History from George Mason University.

EXECUTIVE COMPENSATION

The Summary Compensation Table below sets forth individual compensation information for the Chief Executive Officer and the other executive officers serving as executive officers as of December 31, 2009 (collectively "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

| Name and principal position | Year | Salary | Bonus | Stock Awards | Option Awards ¹ | All Other Compensation ² | Total |
|--|------|---------|-------|--------------|----------------------------|-------------------------------------|---------|
| | | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| (a) | (b) | (c) | (d) | (e) | (f) | (i) | (j) |
| Sandor Rosenberg Chairman of the Board | 2009 | 142,500 | | | | | 142,500 |
| and Chief Executive Officer | 2008 | 142,500 | | | | | 142,500 |
| Richard S. DeRose Executive Vice President | 2009 | 70,000 | | | | | 70,000 |
| | 2008 | 113,279 | | | | 1,219 | 114,498 |
| Stanley A. Reese Chief Operating Officer | 2009 | 150,361 | | | | 1,856 | 152,217 |
| | 2008 | 154,854 | | | 3,750 | 1,670 | 160,274 |

¹ The assumptions used in calculating the value of Option Awards are detailed in the financial statement footnotes in our 2009 Annual Report on Form 10-K as filed with the SEC on March 31, 2010.

² All references to All Other Compensation are for employer contributions to each individual's 401(k) defined contribution account under our company-wide 401(k) Pension and Profit Sharing Plan.

On May 5, 2008, Mr. Reese was awarded an option to purchase 25,000 shares of our common stock. The exercise price of each share is \$0.28, that day's closing price. The options expire ten years from the issue date. Options to purchase 12,500 shares vest over a period of twelve months, and options to purchase 12,500 shares vest over twenty-four months. The grant date fair value was \$0.15 per share.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | OPTION AWARDS | |
|------|---|---|
| | Exercisable | Unexercisable |
| (a) | (b) | (c) |
| | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) |