

KBR, INC.  
Form DEF 14A  
April 02, 2018  
**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    Filed by a Party other than the Registrant

**Check the appropriate box:**

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to ss.240.14a-12

**KBR, 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:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth 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:

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Notice  
**of Annual Meeting of  
Stockholders**

You are cordially invited to attend KBR's annual stockholders' meeting. Below is important information about the meeting, including how you can let your voice be heard through voting. Please review our Proxy, Annual Report and Sustainability Report at the websites noted below and read the voting Q&A on page 79.

**By Order of the Board of Directors,**      **April 2,  
2018**

**Adam Kramer**  
*Secretary*

**DATE AND TIME:** Wednesday, May 16, 2018, 9:00 a.m. Central Daylight Time

**LOCATION:** The Texas Room, 601 Jefferson Street, Houston, Texas 77002

**AGENDA**

The Board of Directors asks that you consider and act upon the following matters:

1.  
Elect as directors the nominees named in the attached proxy statement.
2.  
Ratify the appointment of KPMG LLP as the independent registered public accounting firm to audit the consolidated financial statements for KBR as of and for the year ending December 31, 2018.
3.  
Consider and act upon an advisory vote to approve the named executive officer compensation as described in the Compensation Discussion and Analysis herein.
4.  
Approve the first amendment to the KBR, Inc. 2009 Employee Stock Purchase Plan, as amended and restated.
5.  
Transact any other business that properly comes before the meeting or any adjournment or postponements of the meeting.

These items are fully described in the following pages, which are made a part of this Notice.

**RECORD DATE**

The Board of Directors has set Thursday, March 22, 2018, at the close of business, as the record date for the

determination of stockholders entitled to notice of and to vote at the meeting and at any adjournment or postponement of the meeting.

HOW TO VOTE

**SHAREOWNER OF RECORD**

*(Shares held directly with KBR)*

Via the Internet at [www.proxyvote.com](http://www.proxyvote.com)  
Call toll-free (US/ Canada) at 1-800-690-6903

Mail your signed proxy card

**BENEFICIAL OWNERS**

*(Shares held through a broker or bank)*

Via the Internet at [www.proxyvote.com](http://www.proxyvote.com), if your broker or bank participates in the proxy voting program provided by Broadridge Investor Communication Services

Call toll-free (US/ Canada) at 1-800-690-6903, if your broker or bank participates in the proxy voting program provided by Broadridge Investor Communication Services

Mail your signed voting instruction form

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Proxy Summary

This summary highlights information contained elsewhere in this proxy statement. For more information about these topics, we encourage you to review the complete proxy statement prior to voting.

**GOVERNANCE HIGHLIGHTS**

We are committed to good corporate governance and to transparent communication with our stockholders and other stakeholders, which we believe is essential for the effectiveness of a dynamic corporate governance framework and for KBR’s long-term success.

**PROACTIVE**

- **Independent** Chairman of the Board

- **Refreshed** Board – recruited 3 directors and 2 directors retired over the past 3 years

- Significant **knowledge** of KBR’s industry and market including government services

- **Rotation** of 50% of all Board committee memberships and chairmen over the past 3 years

**ACCOUNTABLE**

- Annual director elections with **majority voting standards**

- Annual Board **governance review** including investor reviews and feedback

- Periodic independent director **meetings with investors**

- Downward **discretion** applied to the: (a) safety performance metrics of the 2016 and 2017 short-term incentive plans and (b) payout of the 2014 long-term incentive performance cash award with the performance period ending in 2016, resulting in a zero payout

**INDEPENDENT**

- **6 executive sessions** without management present

- Minimum of annual **Board visits** to KBR businesses or project sites

- **22 independent** Board committee meetings

- Annual **assessment** of Board leadership structure

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## **BUSINESS HIGHLIGHTS**

### **Consistent Earnings Momentum Positions KBR for Long-Term Growth**

KBR delivered strong results across all segments due to our focus on our customers and winning the right work while delivering smart, innovative and dependable results. In a challenging operating environment, we committed to staying the course and as a result we met or exceeded every financial goal set in our 2017 short-term incentive (“STI”) plan. We delivered on the strategy that our Chief Executive Officer (“CEO”) provided to our stockholders and positioned KBR for strong long-term growth with less risk and increased financial flexibility. Our drive and commitment to achieve Zero Harm in all KBR activities across the globe resulted in a remarkable decrease in our incident rate and Zero Harm Days in 2017 versus 2016.

KBR’s strong results reflect the progress we made in advancing our most important strategic priorities outlined below:

### **WINNING THE RIGHT WORK**

We were awarded several key contracts:

- In Government Services providing support to Navy bases in Diego Garcia, Djibouti, Bahrain, Europe and the Arabian Peninsula.
- An engineering services five-year indefinite-delivery / indefinite-quantity contract to support more than 20 NASA exploration missions.
- A contract to provide licensing and basic engineering to revamp an ammonia plant- originally built by KBR- located in Russia.
- A guidance study contract for the Integrity Management Process of Tension Leg Platforms in the U.S. Gulf of Mexico.
- An EPC contract at the major gas developments in Algeria.
- A project management services contract for management of the FEED phase of one of the largest sour gas field projects in Abu Dhabi.

### **INTEGRATE AND GROW BUSINESSES**

- The acquisitions of Wyle, Inc. (“Wyle”) and Honeywell Technology Solutions Inc. (“HTSI”) in the third quarter of 2016 (as discussed in Note 3 to our consolidated financial statements), moved KBR’s Government Services business into the highly technical and professional services industry for U.S. clients such as NASA, the Department of Defense and other federal agencies. As a result of these acquisitions, KBR experienced a significant increase in total revenue from contracts with the U.S. government in 2017 compared to 2016.
- During the 4th quarter we acquired Sigma Bravo Pty Ltd, a leading provider of high-end Information and Communication Technology services specializing in mission planning systems and solutions to the Australian Defence Force. The acquisition of Sigma Bravo represents KBR’s entry into classified work in Australia and is a

continued element of KBR's strategy to expand its global Government Services offerings.

- In the first quarter of 2018, we entered into a definitive agreement to purchase Stinger Ghaffarian Technologies, Inc. ("SGT"), a leading provider of technology solutions, engineering services, mission operations, and scientific and IT software solutions in the Government Services market. The addition of SGT solidifies our position as an established leader in human space exploration and opens up significant new opportunities in both civil and military space. The acquisition will also strengthen KBR's support for strategic clients and enhance our position for opportunities in the national security and commercial space markets. This strategic acquisition of SGT builds on previous acquisitions of Wyle and HTSI and will be an important accelerator to KBR's strategy to increase technology and mission capabilities.

#### **STOCKHOLDER RETURN**

- Due to our overall strong 2017 results, our 1-year total stockholder return ("TSR") was 21%, outpacing 100% of our TSR Peer Group, which comprised (in order of TSR ranking):

- |                                   |   |
|-----------------------------------|---|
| 1. <b>KBR, Inc.</b>               | 6. AECOM Technology Corporation         |
| 2. Jacobs Engineering Group, Inc. | 7. Fluor Corporation                    |
| 3. Emcor Group, Inc.              | 8. TechnipFMC                           |
| 4. Quanta Services, Inc.          | 9. McDermott International, Inc.        |
| 5. Chiyoda Corporation            | 10. Chicago Bridge & Iron Company, N.V. |

- Our TSR Peer Group is used to determine KBR's TSR performance ranking among its peers during the performance periods of our KBR Long-Term Performance Cash Awards.

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## FINANCIAL HIGHLIGHTS

### SIGNIFICANT INCREASE IN NET INCOME

		<b>2017</b>	<b>2016</b>
Revenue	2.3%	\$4,171 MM	\$4,268 MM
Net Income*	966.7%	\$442 MM	\$(51) MM

\* *Excluding net income attributable to non-controlling interests of negative \$8 million in 2017 and negative \$10 million in 2016.*

### INCREASING STOCKHOLDER RETURN AND SIGNIFICANT IMPROVEMENT OF SAFETY HOURS WORKED

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## **PAY FOR PERFORMANCE PHILOSOPHY**

In 2017, we continued to focus on executing our strategy implemented in December 2014. Despite challenging global economic conditions in the energy industry, KBR delivered on its targets and took strategic actions to ensure long-term growth with a relatively low-risk profile. The link between pay and Company performance for the past three years is illustrated below and correlates closely with our earnings per share (“EPS”) and TSR over the same time period as indicated in the graphs on the prior page.

### **Changes made to Compensation Programs in 2017**

The Compensation Committee oversees the design and administration of our compensation programs and evaluates this annually to improve the link between pay and Company performance. During the past year, the following changes were made to our compensation programs to improve the link:

- Increased STI plan EPS performance metric weighting from 25% to 40%.
- Decreased individual Key Performance Indicator (“KPI”) (formerly called Strategic Initiatives) weighting for the STI plan from 45% to 30%.
- Added more financially measurable metrics to the KPIs.
- Based the CEO’s KPIs for the STI plan solely on earnings before interest, tax, depreciation and amortization (“EBITDA”) targets.



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## **CHARITABLE GIVING – WE CARE ABOUT OUR KBR FAMILY**

Parts of the United States continue to deal with the aftermath of Hurricane Harvey, which caused historic levels of flooding throughout the Gulf Coast. The Houston area was hit particularly hard, affecting many KBR employees, some of whom lost their vehicles and homes. At KBR, we value our people, and we take our responsibility seriously to support the communities where we live and work. To support our people, KBR donated \$500,000 to the KBR Disaster Relief Fund and granted two weeks of paid time off (“PTO”) to approximately 300 affected KBR employees to give them time to start rebuilding their lives. Our employees donated approximately \$81,000 and 2,200 hours of PTO to the KBR Disaster Relief Fund to assist their colleagues.

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## **ZERO HARM – A NORM AND NOT AN ANOMALY**

Since the inception of Zero Harm in 2014, one of our fundamental beliefs is that Zero Harm is achievable. KBR's safety program incorporates three dynamic components: Zero Harm, 24/7 and Courage to Care. Our regional and business segment leadership hosts at a minimum biweekly teleconferences to discuss incidents and prevention measures, which are shared globally. The outcome of these meetings is presented in the Regional and Global Incident Review Board sessions. The inclusion of safety results in our short-term incentive plan and exercising downward discretion in the payout for any fatality during the year emphasizes the importance of safety for us. On our annual Zero Harm Day employees at all KBR offices and sites globally recognize improvements in our safety performance and reflect on the importance of being an incident free organization with demonstrations of personal and workplace safety practices. Since the Zero Harm program was implemented, safety incidents have declined by 50%, and we are proud to announce that KBR completed the month of February 2018 without a single recordable injury or illness globally. This milestone has been achieved through an all-day, every-day approach at work and at home, which has resulted in a culture of truly caring for not only ourselves but also others in a transparent interdependent work environment.

## **ASPIRE – INFLUENCING, LEADING AND LEARNING**

KBR's ASPIRE group provides our employees with a platform with a mission to cultivate women leaders and promote gender diversity through a collaborative community for the benefit of all employees and KBR. At KBR we value and respect our people and we emphasize development of each person to reach his or her full potential. ASPIRE promotes this behavior through several interactive sessions led by female leadership, brown bag sessions, webinars, networking events, panel discussions and book club sessions. Each event hosts influential leaders from KBR and from the community sharing their perspective on gender diversity and equality. A periodic newsletter with inspirational leadership insights and upcoming events is shared with employees.

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## **INVESTOR DAY AT THE NEW YORK STOCK EXCHANGE**

We rebranded our Government Services business segment as “KBRwyle” and officially shared the news during KBR’s Investor Day event at the New York Stock Exchange (“NYSE”) on May 11, 2017, which also marked the tenth anniversary of our initial public offering on the NYSE. We are proud of our KBRwyle history because, among other accomplishments, we have supported every astronaut who has gone to space with training programs, flight technology and equipment, nutrition and health-tracking, and all the other aspects that keep them alive while in space.

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Proxy Statement

General Information

The accompanying proxy is solicited by the Board of Directors of KBR, Inc. (“KBR,” the “Company,” “we” or “us”). By executing and returning the enclosed proxy or by following the enclosed voting instructions, you authorize the persons named in the proxy to represent you and vote your shares on the matters described in the Notice of Annual Meeting of Stockholders.

Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Admission to the meeting will be on a first-come, first-served basis and no guests will be admitted. Registration will begin at 8:00 a.m. CT, and the meeting will begin at 9:00 a.m. CT. Please note that you may be asked to present valid picture identification, such as a driver’s license or passport, when you check in at the registration desk.

If you hold your shares in “street name” (that is, through a broker or other nominee), you are required to bring a copy of a brokerage statement reflecting your stock ownership as of the record date.

**No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the meeting.**

If you attend the meeting, you may vote in person. If you are not present, your shares can be voted only if you have followed the instructions for voting via the Internet or by telephone or returned a properly executed proxy, and in these cases, your shares will be voted as you specify. If no specification is made, the shares will be voted in accordance with the recommendations of the Board of Directors. You may revoke the authorization given in your proxy at any time before the shares are voted at the meeting.

The record date for determination of stockholders entitled to vote at the meeting is Thursday, March 22, 2018. KBR’s common stock, par value \$0.001, is the only class of capital stock that is outstanding. As of March 22, 2018, there were 140,571,869 shares of common stock outstanding. Each of the outstanding shares of common stock is entitled to one vote on each matter submitted to the stockholders for a vote at the meeting. A complete list of stockholders entitled to vote will be kept at our offices at the address specified below for ten days prior to, and will be available at the meeting.

Votes cast by proxy or in person at the meeting will be counted by the persons appointed by us to act as election inspectors for the meeting. Except as set forth below, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter will be the act of the stockholders. Except as set forth below, shares for which a holder has elected to abstain on a matter will count for purposes of determining the presence of a quorum and will have the effect of a vote against the matter.

Directors are elected by a majority of votes cast (the number of shares voted “for” a candidate must exceed the number of shares voted “against” the candidate). Shares present but not voting on the election of directors will be disregarded, except for quorum purposes, and will have no legal effect.

The election inspectors will treat shares held in street name that cannot be voted by a broker on specific matters in the absence of instructions from the beneficial owner of the shares, known as broker non-vote shares, as shares that are present and entitled to vote for purposes of determining the presence of a quorum. In determining the outcome of any matter for which the broker does not have discretionary authority to vote, however, those shares will not have any effect on that matter. Those shares may be entitled to vote on other matters for which brokers may exercise their own discretion.

The proxy solicitor, the election inspectors, and the tabulators of all proxies, ballots, and voting tabulations that identify stockholders are independent and are not employees of KBR.

This proxy statement, the form of proxy, and voting instructions are being made available to stockholders on or about April 2, 2018, at [www.proxyvote.com](http://www.proxyvote.com). You may also request a printed copy of this proxy statement and the form of proxy by any of the following methods: (a) telephone at 1-800-579-1639; (b) Internet at [www.proxyvote.com](http://www.proxyvote.com); or (c) e-mail at [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com). Our Annual Report to Stockholders, including financial statements, for the fiscal year ended December 31, 2017, is being made available at the same time and by the same methods. The Annual Report is not to be considered as a part of the proxy solicitation material or as having been incorporated by reference.

Our principal executive office is located at 601 Jefferson Street, Suite 3400, Houston, Texas 77002 and our website address is [www.kbr.com](http://www.kbr.com). Information contained on our website, including information referred to in this proxy statement, is not to be considered as part of the proxy solicitation material and is not incorporated into this proxy statement.

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## ELECTION OF DIRECTORS

At our 2018 Annual Meeting of Stockholders, nine directors are to be elected to hold office until the 2019 Annual Meeting of Stockholders. All directors are elected annually, with each nominee standing for election to a one-year term. The members of our Board of Directors hold office until their successors are elected and qualified or until their earlier resignation or removal. The size of our Board of Directors is currently set at ten members. Mr. Curtiss has elected to retire and is not standing for re-election.

Each nominee has indicated his or her willingness to serve, if elected. If any of the nominees declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election, the proxies may be voted for such substitute nominee as we may designate. We have no reason to believe that any of the nominees will be unable to serve if elected. If a quorum is present, the nominees for director receiving the majority of votes will be elected directors.

## OUR BOARD

A top priority of the Board and the Nominating and Corporate Governance Committee is ensuring that the Board of Directors is composed of directors who bring a variety of skills relevant to our business, provide expertise that is useful to KBR and complementary to the background and experience of other Board members, and effectively represent the long-term interests of our stockholders. Below is a summary of our Board of Directors qualifications.

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For additional information regarding the qualifications the Nominating and Corporate Governance Committee and the Board consider in the nomination process, see “Corporate Governance — Nominating and Corporate Governance Committee — Qualifications of Directors.”

The Board of Directors recommends that you vote FOR the election of all the director nominees listed below. Properly dated and signed proxies, and proxies properly submitted over the Internet and by telephone, will be so voted unless stockholders specify otherwise.

Directors are elected by a majority of votes cast (the number of shares voted “For” a candidate must exceed the number of shares voted “Against” the candidate). Shares present but not voting on the election of directors will be disregarded, except for quorum purposes, and will have no effect on the election of directors.

The following biographical information is furnished with respect to each of the director nominees for election at the meeting. The information includes age as of March 22, 2018, present position, if any, with KBR, period served as director, and other business experience during at least the past five years.

**Nominees for Director – Term Ending 2018**

**Mark E. Baldwin**

Director since: October 2014

Age: 64

Board Committees: Audit Committee (Chair) and Health, Safety, Security, Environment and Social Responsibility Committee

Other Public Company Boards: Nine Energy Service, Inc. (Audit Chair) and TETRA Technologies, Inc. (Audit Chair)

Key Qualifications and Skills:

Prior Business Experience

- Executive Vice President and Chief Financial Officer of Dresser-Rand Group, Inc.
- Executive Vice President, Chief Financial Officer, and Treasurer of Veritas DGC Inc.
- Operating Partner at First Reserve Corporation
- Executive Vice President and Chief Financial Officer for NextiraOne



- Chairman of the Board and Chief Executive Officer for Pentacon Inc.

- Variety of finance and operations positions with Keystone International Inc., including Treasurer, Chief Financial Officer, and President of the Industrial Valves and Controls Group

Education

- B.S. (Mechanical Engineering), Duke University

- M.B.A, Tulane University

- Graduate of the Stanford Executive Program

**James R. Blackwell**

Director since: August 2014

Age: 59

Board Committees: Compensation Committee and Nominating and Corporate Governance Committee

Other Public Company Boards: None

Current Memberships: Harbour Energy Ltd. (Director)

Previous Memberships: Center for Strategic and International Studies (“CSIS”) U.S.-Association of Southeast Asian Nations Strategy Commission (Commissioner); CSIS U.S.-China Policy Advisory Roundtable (Member); National Action Council for Minorities in Engineering, Inc. (Director); National Bureau of Asian Research (Director); and Saint Mary’s College of California (Trustee)

Key Qualifications and Skills:

**Prior Business Experience**

- Executive Vice President, Technology and Services for Chevron

- President, Chevron Asia Pacific Exploration and Production Company

- Various positions of increasing responsibility following start of career as an offshore roustabout for Gulf Oil

**Education**

- B.S. (Biology and Environmental Technology), University of Southern Mississippi
- M.S. (Petroleum Engineering), Tulane University
- Graduate of the Columbia Senior Executive Program

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**Stuart J. B. Bradie**

President and Chief Executive Officer for KBR, Inc. since: June 2014

Director since: October 2014

Age: 51

Board Committees: None (the CEO may not serve on any committees of the Board)

Other Public Company Boards: None

Key Qualifications and Skills:

Prior Business Experience

- Group Managing Director – Operations and Delivery for WorleyParsons
- Managing Director across Europe, Africa, Asia and the Middle East for WorleyParsons
- Managing Director for PT Kvaerner Indonesia
- Country Manager for Kvaerner Philippines
- Global experience across over 40 countries in the hydrocarbons, mining and chemicals, power and infrastructure sectors

Education

- B.S. (Mechanical Engineering), Aberdeen University
- M.B.A, Edinburgh Business School, Heriot Watt University

**Loren K. Carroll**

Chairman of the Board

Director since: April 2007

Age: 74

Other Public Company Boards: None

Previous Memberships: CGG (Audit) and Forest Oil Corporation (NCG Chair and Compensation)

**Key Qualifications and Skills:**

**Prior Business Experience**

- Independent Consultant and Business Advisor (current)
- President and Chief Executive Officer of M-I SWACO
- Executive Vice President and Chief Financial Officer of Smith International, Inc.
- Managing Partner with Arthur Andersen & Co.

**Education**

- B.S. (Accounting), California State University

**Umberto della Sala**

Director since: January 2015

Age: 69

Board Committees: Compensation Committee and Health, Safety, Security, Environment and Social Responsibility Committee

Other Public Company Boards: Trevi Finanziaria Industriale SPA

Current Memberships: Ansaldo Energia SPA (Director); Fondo FSI SGR (Industrial Partner); and Kedrion SPA (Director)

Previous Memberships: Ansaldo Energia SPA (Chairman); Foster Wheeler AG (Director); and Stork Technical

Services (Supervisory Board)

Key Qualifications and Skills:

Prior Business Experience

- President and Chief Operating Officer for Foster Wheeler AG
- Interim Chief Executive Officer for Foster Wheeler AG
- Various positions of increasing responsibility following start of career as process engineer of Foster Wheeler's environmental division

Education

- Laurea in Chemical Engineering from Politecnico di Milano

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**General Lester L. Lyles, USAF (Ret.)**

Director since: November 2007

Age: 71

Board Committees: Health, Safety, Security, Environment and Social Responsibility Committee (Chair) and Compensation Committee

Other Public Company Boards: General Dynamics Corporation (Audit)

Current Memberships: Battelle Memorial Institute (Director); NASA Advisory Council (Member); and United Services Automobile Association (Chair)

Previous Memberships: Defense Science Board in the Pentagon (Member); International Security Advisory Board at the U.S. Department of State (Member); Precision Castparts Corp. (Director); and President's Intelligence Advisory Board in the White House (Member)

Key Qualifications and Skills:

Prior Business Experience

- Independent Consultant (current)
- Retired Four-Star General of the U.S. Air Force
- Commander of the U.S. Air Force Materiel Command
- Vice Chief of Staff of the Headquarters of the U.S. Air Force
- Director of the Ballistic Missile Defense Organization
- Commander of the Space and Missile Systems Center

Education

- B.S. (Mechanical Engineering), Howard University
-

M.S. (Mechanical and Nuclear Engineering), Air Force Institute of Technology Program, New Mexico State University

- Defense Systems Management College, Fort Belvoir, Virginia
- Armed Forces Staff College, Norfolk, Virginia
- National War College, Fort Lesley J. McNair, Washington, D.C.
- National and International Security Management Course at Harvard University
- Honorary Doctor of Laws degrees from New Mexico State University and Urbana University
- Inducted into the National Academy of Engineering

**General Wendy M. Masiello, USAF (Ret.)**

Director since: August 2017

Age: 59

Board Committees: Audit Committee and Health, Safety, Security, Environment and Social Responsibility Committee

Other Public Company Boards: None

Current Memberships: National Contract Management Association (Board of Advisors) and Public Spend Forum (Board of Advisors)

Key Qualifications and Skills:

Prior Business Experience

- Independent Consultant (current)
- Retired Three-Star General of the U.S. Air Force
- Director of the Defense Contract Management Agency

- Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary of the Air Force for Acquisition
- Program Executive Officer for the Air Force's \$30 billion Service Acquisition portfolio
- Deployment to Iraq to lead contracting support for military forces in Iraq and Afghanistan

Education

- B.B.A. (Marketing), Texas Tech University
- M.S. (Logistics Management), Air Force Institute of Technology
- Defense Systems Management College, Fort Belvoir, Virginia
- M.S. (National Resource Strategy), Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
- Senior Acquisition Course, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
- Joint and Combined Warfighting School, Joint Forces Staff College, Norfolk, Virginia
- Harvard Kennedy School's Senior Managers in Government

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**Jack B. Moore**

Director since: January 2012

Age: 64

Board Committees: Compensation Committee (Chair) and Nominating and Corporate Governance Committee

Other Public Company Boards: Occidental Petroleum Corporation; ProPetro Holding Corp.; and Rowan Companies plc

Current Memberships: MAM (Director); United Way of Greater Houston (Executive Committee); and University of Houston System Board of Regents (Member)

Previous Memberships: American Petroleum Institute (Director); Cameron International Corporation (Chair); and University of Houston's Board of Visitors (Director)

Key Qualifications and Skills:

Prior Business Experience

- President and Chief Executive Officer for Cameron International Corporation
- President and Chief Operating Officer for Cameron International Corporation
- President, Western Hemisphere of Drilling & Production Systems group for Cameron International Corporation
- Vice President and General Manager, Western Hemisphere of Drilling & Production Systems group for Cameron International Corporation
- Various management positions at Baker Hughes Incorporated

Education

- B.B.A., University of Houston
- Graduate of the Advanced Management Program at Harvard Business School

**Ann D. Pickard**

Director since: December 2015

Age: 62

Board Committees: Audit Committee and Health, Safety, Security, Environment and Social Responsibility Committee

Other Public Company Boards: Woodside Petroleum Ltd. (Sustainability Chair)

Current Memberships: The University of Wyoming Foundation (Budget/Audit) and Chief Executive Women (Member)

Previous Memberships: Advisory Council of the Eurasia Foundation (Member); Catalyst (Board of Advisors); Global Agenda Council on the Arctic for the World Economic Forum (Member); and Westpac Banking Corporation (Director)

Key Qualifications and Skills:

Prior Business Experience

- Executive Vice President, Arctic for Royal Dutch Shell plc
- Executive Vice President, Exploration and Production for Royal Dutch Shell plc
- Country Chair, Australia for Royal Dutch Shell plc
- Regional Executive Vice President, Sub Saharan Africa for Royal Dutch Shell plc
- Director, Global Businesses and Strategy and a member of the Shell Gas & Power Executive Committee for Royal Dutch Shell plc
- 11-year tenure with Mobil prior to its merger with Exxon
- Significant business experience throughout South America, Australia, the countries of the former Soviet Union, the Middle East, and Africa

Education

- B.A., University of California San Diego

- M.A., University of Pennsylvania

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**The Following Director with a Term Ending in 2018 is Retiring and Elected Not to Stand for Re-Election**

**Jeffrey E. Curtiss**

Director since: November 2006

Age: 69

Board Committees: Nominating and Corporate Governance Committee (Chair) and Audit

Other Public Company Boards: None

Current Memberships: CFA Society of Houston (President)

Previous Memberships: Houston Chapter of Financial Executives International (Director)

Key Qualifications and Skills:

Prior Business Experience

- Private Investor (current)
- Senior Vice President and Chief Financial Officer of Service Corporation International
- Senior Vice President and Chief Financial Officer of Browning-Ferris Industries, Inc.

Education

- Law degrees from two universities
- CPA, Colorado
- CFA charterholder

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## Security Ownership of Certain Beneficial Owners and Management

The table below sets forth certain information, as of March 15, 2018, regarding the beneficial ownership of KBR's common stock by persons known by KBR to beneficially own more than five percent of its outstanding common stock, each director or nominee, each of the named executive officers referenced in the Summary Compensation Table contained in this Proxy Statement, and all directors and executive officers as a group. Information regarding five percent stockholders in the table and footnotes is based on the most recent Statement on Schedule 13G or 13D or amendment thereto filed by each such person with the Securities and Exchange Commission (the "SEC"), except as otherwise known to KBR. To our knowledge, except as otherwise noted in the footnotes to this table or as provided by applicable community property laws, each individual has sole voting and investment power with respect to the shares of common stock listed in the second column below as beneficially owned by the individual.

Name and Address of Beneficial Owner <sup>(1)</sup>	Shares of KBR Common Stock Beneficially Owned		
	Number of <sup>(2)</sup> Shares		Percentage of Class
BlackRock, Inc. <sup>(3)</sup>			
55 East 52nd Street, New York City, New York 10055	14,740,863	10.5	%
The Vanguard Group <sup>(4)</sup>			
100 Vanguard Boulevard, Malvern, Pennsylvania 19355	12,766,260	9.11	%
FMR LLC <sup>(5)</sup>			
245 Summer Street, Boston, Massachusetts 02210	10,900,979	7.771	%
Stuart J. B. Bradie <sup>(6)(7)</sup>	324,056	*	
Brian K. Ferraioli <sup>(6)</sup>	61,209	*	
K. Graham Hill <sup>(6)(7)</sup>	70,714	*	
J. Jay Ibrahim <sup>(6)(7)</sup>	53,892	*	
Farhan Mujib <sup>(6)(7)</sup>	161,033	*	
Mark W. Sopp <sup>(6)(7)</sup>	25,012	*	
Mark E. Baldwin <sup>(6)(7)</sup>	28,329	*	
James R. Blackwell <sup>(6)(7)</sup>	27,740	*	
Loren K. Carroll <sup>(6)(7)</sup>	53,024	*	
Jeffrey E. Curtiss <sup>(6)(7)</sup>	64,190	*	
Umberto della Sala <sup>(6)(7)</sup>	22,551	*	
Lester L. Lyles <sup>(6)(7)</sup>	43,599	*	
Wendy M. Masiello <sup>(6)(7)</sup>	5,587	*	
Jack B. Moore <sup>(6)(7)</sup>	34,043	*	
Ann D. Pickard <sup>(6)(7)</sup>	20,810	*	
All directors and executive officers as a group (19 persons) <sup>(6)(7)(8)</sup>	1,096,372	*	

\*

Less than one percent (1%).

(1)

The address of each of the named executive officers and directors is c/o KBR, Inc., 601 Jefferson Street, Suite 3400, Houston, Texas 77002.

(2)

Beneficial ownership means the sole or shared power to vote, or to direct the voting of, shares of KBR common stock, or investment power with respect to KBR common stock, or any combination of the foregoing. Each director and executive officer and the directors and executive officers as a group beneficially own less than 1% of the outstanding shares of KBR common stock.

(3)

Based solely on a Schedule 13G filed January 19, 2018, BlackRock, Inc. is deemed to be the beneficial owner of 14,740,863 shares as a result of being a parent holding company or control person in accordance with §240.13d-1(b)(1)(ii)(G).

(4)

Based solely on a Schedule 13G filed February 9, 2018, The Vanguard Group is deemed to be the beneficial owner of 12,766,260 shares as a result of being an investment adviser in accordance with §240.13d-1(b)(1)(ii)(E).

(5)

Based solely on a Schedule 13G filed March 12, 2018, FMR LLC is deemed to be the beneficial owner of 10,900,979 shares as a result of being a parent holding company in accordance with §240.13d-1(b)(1)(ii)(G).

(6)

Includes the following shares of restricted stock and/or restricted stock units that have vested or will vest on or before May 14, 2018: Mr. Bradie, 200,880; Mr. Ferraioli, 61,209; Mr. Hill, 43,341; Mr. Ibrahim, 31,702; Mr. Mujib, 70,339; Mr. Sopp, 10,012; Mr. Baldwin, 28,329; Mr. Blackwell, 27,740; Mr. Carroll, 53,024; Mr. Curtiss, 64,190; Mr. della Sala, 22,551; General Lyles, 43,599 (4,269 of which were deferred into the nonqualified elective deferral plan for non-executive directors); General Masiello, 5,587; Mr. Moore, 34,043; Ms. Pickard, 20,810; and all executive officers as a group, 215,471. Includes the following shares that may be acquired upon the exercise of options that are exercisable or will become exercisable on or before May 14, 2018: Mr. Bradie, 123,176; Mr. Hill, 27,373; Mr. Ibrahim, 22,190; Mr. Mujib, 90,694; and all executive officers as a group, 241,972. Includes 15,000 shares of common stock purchased by Mr. Sopp on March 7, 2017, and March 8, 2017.

(7)

Does not include the following shares of restricted stock units as to which the holder has no voting power and no investment power, but which convert to common stock on a 1-to-1 ratio upon vesting, which for some restricted stock units requires that certain performance measures be met: Mr. Bradie, 289,392; Mr. Ibrahim, 36,683; Mr. Mujib, 61,733; Mr. Sopp, 49,398; and all executive officers and directors as a group, 705,480.

(8)

All directors and executive officers as a group refers to the current 10 directors (General Masiello, Ms. Pickard, and Messrs. Baldwin, Blackwell, Bradie, Carroll, Curtiss, della Sala, Lyles, and Moore) and the current 9 executive officers, excluding Mr. Bradie (Ms. Akerson and Messrs. Bright, Carney, Conlon, Derbyshire, Ibrahim, Mackey, Mujib, and Sopp).

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Executive Officers

The following biographical information is furnished with respect to each of KBR's executive officers. The information includes age as of March 22, 2018, present position, KBR employment history, and other business experience.

**Eileen G. Akerson**

Executive Vice President and General Counsel

Current Position since: November 2014

Joined KBR in: 1999

Age: 52

Prior Business Experience

- KBR Senior Vice President, Commercial responsible for project commercial management and oversight of the review and approval process for significant transactions and joint venture relationships
- KBR Vice President – Legal & Chief Counsel responsible for managing the legal functions for the Hydrocarbons Business Group
- KBR advisor and counselor to senior management on company policies affecting ethics and compliance matters
- Attorney for Spriggs & Hollingsworth in Washington D.C.

Education

- B.A., Catholic University of America
- J.D., Catholic University of America Columbus School of Law
- Member of the bars of Texas, Connecticut and the District of Columbia



**W. Byron Bright, Jr.**

President, KBRwyle

Current Position since: May 2017

Joined KBR in: 2010

Age: 44

Prior Business Experience

- KBR Senior Vice President of Operations for U.S. Government Services
- KBR Vice President of Business Development for U.S. Government Services
- Supported the government services business at Jacobs Engineering Group Inc.
- Officer in the U.S. Air Force primarily working in the Developmental Test and Engineering career field supporting weapons development and rotary wing aircraft flight testing

Education

- B.S. (Engineering and Mechanics), distinguished graduate, U.S. Airforce Academy
- M.S. (Mechanical Engineering), Georgia Institute of Technology
- Graduated from the U.S. Air Force Test Pilot School and has flown in over 25 different aircraft as a Flight Test Engineer

**Raymond L. Carney**

Vice President and Chief Accounting Officer

Current Position since: May 2017

Joined KBR in: 2017

Age: 50

#### Prior Business Experience

- Chief Accounting Officer and Vice President of Exterran Corporation
- Chief Accounting Officer, Vice President and Controller of Dresser-Rand Group Inc.
- Group Controller for Global Rolled Products, Hard Alloy Extrusions and Asia of Alcoa Inc.
- Manager of Financial Transactions of Alcoa Inc.
- Various leadership positions at EY responsible for client projects including public filings, acquisitions and audit engagements

#### Education

- B.S. (Accounting), Pennsylvania State University
- Certified Public Accountant

#### **Gregory S. Conlon**

Executive Vice President and Chief Development Officer

Current Position since: February 2018

Joined KBR in: 2016

Age: 49

#### Prior Business Experience

- KBR President, Asia-Pacific (“APAC”) responsible for Engineering & Construction (“E&C”) and Government Services (“GS”) in this region
- KBR President, E&C APAC
- Executive Vice President leading business development globally for the WorleyParsons Services business line, the largest business within WorleyParsons
- Mr. Conlon has over 25 years of experience in the E&C business, with global experience across a range of subsectors from hydrocarbons to specialist infrastructure.
- Throughout his career, Mr. Conlon pursued challenging project execution and management opportunities in the energy and resources sector and held positions in Australia, Canada, China, Indonesia, Singapore, Thailand, and the United Kingdom.

#### Education

- B.S. (Mechanical Engineering), Royal Melbourne Institute of Technology

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**John T. Derbyshire**

President, Technology & Consulting

Current Position since: May 2011

Joined KBR in: 2008

Age: 67

Prior Business Experience

- KBR President, Technology responsible for KBR's global technology licensing business, delivering technology, proprietary equipment, engineering, and consulting services to the refining, petrochemical, coal monetization, and synthesis gas segments
- KBR Senior Vice President, Commercial Management for the Technology Business Unit
- Vice President and General Manager of Invensys Process Systems global solutions business
- Various executive leadership roles at Aspen Technology
- Vice President, Sales and Marketing at ABB Process Automation

Education

- B.S. (Chemical Engineering), University of Salford in the United Kingdom

**J. Jay Ibrahim**

President, Europe, Middle East and Africa and Asia-Pacific

Current Position since: February 2018

Joined KBR in: 2015

Age: 57

#### Prior Business Experience

- KBR President, Europe, Middle East and Africa (“EMEA”) responsible for E&C and GS in this region
- KBR President, E&C EMEA
- Mr. Ibrahim has over 22 years of E&C and GS experience across the globe, having served in a variety of engineering, project management, business development, and business management roles for Parsons E&C/WorleyParsons.
- Mr. Ibrahim brings to KBR a wealth of senior project and construction management experience within the hydrocarbon, infrastructure, and government services sectors as well as broad experience in complex contract negotiations, business analysis, and long-range strategic planning in both domestic and international markets.

#### Education

- B.S. (Mechanical Engineering), Wichita State University
- M.S. (Mechanical Engineering), Wichita State University
- Diploma in Advanced Management, Harvard University

#### **Ian J. Mackey**

Executive Vice President, Chief Corporate Officer

Current Position since: January 2016

Joined KBR in: 2015

Age: 52

Prior Business Experience

- KBR Executive Vice President, Global Human Resources
- Global People Director at WorleyParsons Services where he was responsible for the overall strategy and delivery of all human resources activities for the company
- Director of Human Resources at Carillion PLC

Education

- Ashridge Management College – Tarmac Executive Programme
- Carillion Accelerated Leadership Programme – Corporate Top 20 Development Programme

**Farhan Mujib**

President, E&C Americas

Current Position since: October 2016

Joined KBR in: 1988

Age: 54

Prior Business Experience

- KBR Executive Vice President, Commercial
- KBR Executive Vice President, Operations
- During his 30-year career with KBR, Mr. Mujib has worked in Africa, Australia, Asia, Europe, the Americas, and the Middle East, employing his in-depth knowledge of international project requirements, cultural sensitivities, and business practices to manage a number of major developments.

Education

- B.S. (Civil Engineering), University of Engineering and Technology in Lahore, Pakistan
- Master of Engineering from the Asian Institute of Technology in Bangkok, Thailand
- M.B.A., Macquarie University in Sydney, Australia
- Fellow, Institution of Engineers, Australia
- Chartered Professional Engineer

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**Mark W. Sopp**

Executive Vice President and Chief Financial Officer

Current Position since: February 2017

Joined KBR in: 2017

Age: 52

Prior Business Experience

- Chief Financial Officer and Executive Vice President for Leidos Holdings, Inc., previously Science Applications International Corporation, one of the largest publicly-traded government contractors in the U.S. with significant technically-focused commercial professional services operations, including serving energy markets
- Various executive positions with Titan Corporation, also involved in government contracting and commercial business areas

Education

- B.S. (Accounting), New Mexico State University
- Completed the Executive Program at UCLA Anderson School



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Corporate Governance

## **CORPORATE GOVERNANCE MATERIALS**

We are committed to good corporate governance and to effective communication with our stockholders. The roles, duties and responsibilities of the Board of Directors and each committee of the Board of Directors are summarized below. To ensure that our stockholders have access to our governing documents, we provide copies of our Code of Business Conduct and Corporate Governance Guidelines and the charters of each of the committees of our Board of Directors on our website at *www.kbr.com*. Copies will be provided to any stockholder who requests them by writing to our Investor Relations Department at: 601 Jefferson Street, Suite 3400, Houston, Texas 77002.

## **ROLE OF THE BOARD OF DIRECTORS**

The Board of Directors represents the interests of our stockholders in perpetuating a successful business. It is the responsibility of the Board of Directors to provide oversight of the effectiveness of management's policies and decisions, including the execution of its strategies, with a commitment to enhancing stockholder value over the long term. To this end, Board members are expected to act in the best interests of all stockholders, be knowledgeable about our businesses, exercise informed and independent judgment and maintain an understanding of general economic trends and conditions as well as trends in corporate governance. In addition, it is our Board's policy that Board members are expected to make every effort to attend the meetings of the Board and committees of the Board upon which they serve, as well as stockholder meetings. All of KBR's directors attended greater than 75% of the aggregate of all meetings of the Board and of committees on which they served during the periods that they served during 2017.

Our Corporate Governance Guidelines provide that all Directors should attend our annual stockholder meetings, and all of our directors attended (in person or via teleconference) our 2017 Annual Meeting of Stockholders.

## **INDEPENDENCE STANDARDS**

At this time, all of our directors are independent, as set forth in our Corporate Governance Guidelines and outlined below, except our President and Chief Executive Officer, Mr. Bradie, who does not qualify as an independent director.

A director will be considered independent under our Corporate Governance Guidelines if he or she:

- has no material relationship with KBR;
- has not been employed by us or any affiliate of ours during the preceding three years, and no member of the director's immediate family has been employed as an executive officer of ours or any of our affiliates during the preceding three years;
- has not received, and does not have an immediate family member who has received, during any twelve-month period within the preceding three years, more than \$100,000 in direct compensation from KBR, other than director's fees, committee fees or pension or deferred compensation for prior service;
- is not a partner or an employee of KBR's independent auditor, and was not during the past three calendar years a partner or employee of KBR's independent auditor who personally worked on KBR's audit;

- does not have an immediate family member who is a partner of KBR's independent auditor or an employee of KBR's independent auditor who participates in that firm's audit, assurance or tax compliance (but not tax planning) practice or was during the past three calendar years a partner or employee of KBR's independent auditor who personally worked on KBR's audit;
- is not a current employee and does not have an immediate family member who is a current executive officer of any company that has made payments to, or received payments from, KBR or any of its affiliates in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues; and
- has not (and has not had a family member who) within the preceding three years served as an executive officer with a company for which a KBR executive served on its compensation committee.

The definition of independence and compliance with this policy will be reviewed periodically by the Nominating and Corporate Governance Committee. All directors complete independence questionnaires at least annually, and our Board makes determinations of the independence of its members under the listing standards of the NYSE and the SEC requirements for Audit Committee members. Our Board believes that its membership should include no more than two directors who are also employees of KBR. While this number is not an absolute limitation, other than the Chief Executive Officer, who should at all times be a member of the Board, employee directors should be limited only to those officers whose positions or potential make it appropriate for them to sit on the Board.

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## **BOARD OF DIRECTORS LEADERSHIP STRUCTURE**

Since March 31, 2014, Mr. Carroll, the Company's former Lead Director, began serving as non-executive Chairman of the Board. Our non-executive Chairman leads the Board. Mr. Carroll has significant board experience, as described in his biographical information in this proxy statement, and works closely with Mr. Bradie and the Board on risk oversight and governance matters. Prior to being non-executive Chairman of the Board, Mr. Carroll served as the Company's Lead Director, as well as Chairman of the Nominating and Corporate Governance Committee, since 2012, and a director since April 2007. Our CEO is responsible to the Board for the overall management and functioning of the Company.

KBR's Corporate Governance Guidelines provide for the Chairman of the Board, if the Chairman of the Board is independent, to perform a strong role in the leadership of the Board, as follows:

- The Chairman of the Board presides at executive sessions of the non-executive directors at each regular Board meeting and sets the agenda for these sessions.
- The Chairman of the Board approves meeting agendas for each regular Board and committee meeting and approves the information to be sent to the directors with respect to each meeting.
- The Chairman of the Board presides at the executive session of the Board to evaluate the performance of our CEO. In addition, he has a key role in communicating to the CEO, after approval by the Compensation Committee, the evaluation and compensation of the CEO for the next full year and the results of the Board's review and approval of management succession plans and development programs.

KBR's Corporate Governance Guidelines provide for the following checks and balances regarding the role of the CEO:

- The CEO may not serve on any committees of the Board, as only non-executive directors may do so.
- One of the elements of the CEO's evaluation is the extent to which he keeps the Board informed on matters affecting the Company and its operating units.
- At least two-thirds of the Board must be independent directors. In practice, our CEO has been the only executive director at KBR since its inception as an independent public company. Each of our other directors is independent, as defined under the listing standards of the NYSE.

KBR's Board of Directors has determined that its current leadership structure is appropriate as of the date of this proxy statement, given the complexity and global nature of KBR's business and the risks inherent in our business. The Board believes that Mr. Carroll, acting in his role as non-executive Chairman, is well positioned to facilitate communications with the Board of Directors and stockholders about our complex business. During Mr. Carroll's service on the Board, KBR's business has undergone significant transformation, including reorganization into more strategically-aligned business groups and evolution from a wholly owned subsidiary with significant support from its parent company into an independent operating company.

## **RISK OVERSIGHT ROLE OF THE BOARD OF DIRECTORS**

KBR's Board of Directors considers risk oversight to be an integral part of its role, and discussions regarding risks faced by the Company are part of its meetings and deliberations throughout the year. As part of the implementation of KBR's strategic expansion, KBR's management improved its enterprise risk management system to provide greater executive oversight for managing risks and provided semi-annual reports to the Board regarding significant strategic, operational, financial, and hazard risks determined by management to have a potential significant impact on the Company as a whole. The risk report involves both current and emerging risks and is the culmination of a process involving input from all business groups and executive leadership. Management's assessment of risk included specific strategic, operational, financial and hazard risks, the perceived trend for each of those specific risks — whether increasing, decreasing or stable — and the measures being taken to monitor and mitigate those risks.

In addition to the enterprise risk management process described above, the Board also engages in risk oversight through the project approval process, whereby projects reaching a threshold level of expected revenues require Board approval. Fixed-price contracts have a lower threshold level than reimbursable-type contracts because of their potential price and financial risks. In reviewing projects, the Board is presented with management's assessment of a particular project's cost exposure associated with operations risk, liabilities and funding risks, among others. In this manner, KBR's Board is engaged in risk oversight at the outset of the largest projects, which could have a material effect on KBR's operations and financial condition.

The Board also engages in risk oversight through the approval of acquisitions proposed by management where the purchase consideration exceeds a certain threshold. The review conducted by the Board includes presentations by management regarding the strategic fit of the acquired business within the Company's existing operations and offerings; the commercial, legal, and financial risks identified in the diligence process, among others, and the measures to be implemented by management to mitigate those risks; the valuation analysis and projected returns on investment; agreement terms, including conditions to close, ability to terminate and terms of indemnification protection; details on the planned integration, including budgets and employee resources; and metrics identified for measuring the success of the acquisition. In this process, the Board engages in oversight of the various risks associated with acquiring and integrating new businesses, which, if not successfully performed, could have a material effect on KBR's operations and financial condition. The Board is also engaged in risk oversight through regular reports from its Audit Committee. The Audit Committee is charged with reviewing with management the Company's major financial risk exposures, as well as other areas of risk exposure if requested to do so by the Board, and the steps management has taken to monitor and mitigate those exposures. The Audit Committee receives periodic reports from management on these areas of potential exposure, including litigation, liquidity and capital resources, financial reporting and disclosures, regulatory and tax risks, among others. The Audit Committee also receives in-depth periodic reports from management regarding specific processes designed to monitor and manage risk, such as internal controls testing program development and foreign exchange risk management. The Audit Committee also receives periodic reports from management on cyber security measures and assessments

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performed on their efficacy. The Audit Committee conducts private sessions with KBR's Chief Financial Officer, Chief Accounting Officer, Vice President of Internal Audit and General Counsel at each regular meeting and with KBR's independent auditors at each meeting prior to the release of quarterly and annual results. The Audit Committee Chairman gives a report of the Audit Committee's activities to the full Board at each regular meeting and in this manner the entire Board is informed of matters that the Audit Committee determines warrant full Board discussion. Additional risk oversight reviews undertaken by the Audit Committee in 2017 are included in the Audit Committee Report on page 70.

Finally, the Health, Safety, Security, Environment and Social Responsibility Committee has the responsibility for the oversight of KBR's activities in managing its major risk exposures within the health, safety and sustainable development areas. The Health, Safety, Security, Environment and Social Responsibility Committee receives periodic reports from KBR's Chief HSSE Officer relating to these risk exposures and the Company's efforts to mitigate those risks.

## **DIRECTORS' MEETINGS AND STOCKHOLDER COMMUNICATIONS WITH DIRECTORS**

The Board of Directors will meet each year immediately following the Annual Meeting of Stockholders to transact such business as may properly be brought before the meeting. Additional regular meetings of the Board of Directors may be held without notice at such times as the Board of Directors may determine, but shall consist of at least four other regularly scheduled meetings. Special meetings may be called by the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Corporate Secretary or a majority of the directors in office. KBR's Bylaws permit action to be taken without a meeting if all members of the Board of Directors consent to such action in writing or by electronic transmission. During 2017, the Board of Directors held twelve meetings. The Chairman of the Board presides at all Board meetings.

During each regular Board meeting, KBR's non-executive directors, all of whom have been determined by our Board to be independent under the standards of our Corporate Governance Guidelines and the NYSE, meet in scheduled executive sessions. Our non-executive Chairman of the Board, Mr. Carroll, presides at all executive sessions of the Board. During 2017, the non-executive directors met without management six times.

In addition, each December our non-executive directors meet in executive session to evaluate the performance of our Chief Executive Officer. In evaluating our CEO, the non-executive directors consider qualitative and quantitative elements of the CEO's performance, including:

- leadership and vision;
- integrity;
- keeping the Board informed on matters affecting KBR and its operating units;
- performance of the business (including such measurements as total stockholder return and achievement of financial objectives and goals);
- development and implementation of initiatives to provide long-term economic benefit to KBR;

- accomplishment of strategic objectives; and
- development of management.

In addition, the non-executive directors annually review management succession plans and development programs for senior members of executive management. The CEO's performance evaluation and compensation for the next full year, management succession plans, and development programs will be communicated to the CEO only after review and approval by the Compensation Committee and the full Board of Directors (other than the CEO).

## MANAGEMENT SUCCESSION PLANNING

The Board of Directors considers management evaluation and CEO succession planning an important responsibility of the Board. Our Corporate Governance Guidelines, which are available on our website at [www.kbr.com/About/Corporate-Governance](http://www.kbr.com/About/Corporate-Governance), provide that the Board's responsibility for effective governance of the corporation includes reviewing succession plans and management development programs for members of executive management. The Board of Directors, with input from the Nominating and Corporate Governance Committee, the Chairman of the Board, and the CEO, regularly reviews KBR's succession plan and management development programs for all senior management positions. The review process includes identification of internal candidates, any developmental needs for such candidates, and a determination of whether a search for external candidates would be more appropriate.

Issues relating to CEO succession planning are also addressed regularly, and no less than annually, by the entire Board. This process is led by the non-executive Chairman of the Board on behalf of the non-executive directors. While the Nominating and Corporate Governance Committee performs the initial review of the succession plans and makes recommendations to the Board as necessary, the entire Board has primary responsibility for CEO succession planning and develops both long-term and contingency plans for succession of the CEO. This process necessarily involves the development and review of criteria for the CEO position that reflect the Company's business strategy and identifying and developing internal candidates or identifying the need for external candidates, as appropriate. Additionally, one of the elements that the CEO is evaluated upon each year by the Compensation Committee is the existence and completeness of a succession plan, including assessment and development of internal candidates for the CEO and top level executive positions. The CEO's evaluation and compensation for the next full year, including an evaluation of the completeness of aspects of the management succession plans and development programs that are the responsibility of the CEO, are communicated to the CEO by the non-executive Chairman of the Board after review and approval by the C0">Article IV

## ADMINISTRATION

4.1 Composition of Committee. The Plan shall be administered by the Committee, which shall be appointed by the Board. If necessary, in the Board's discretion, to comply with Rule 16b-3 under the Exchange Act and Section 162(m) of the Code, the Committee shall consist solely of three (3) or more Directors who are each (i) "outside directors" within the meaning of Section 162(m) of the Code ("Outside Directors"), (ii) "non-employee directors" within the meaning of Rule 16b-3 ("Non-Employee Directors") and (iii) "independent" for purposes of any applicable listing requirements; provided, however, that the Board or the Committee may delegate to a committee of one or more members of the Board who are not (x) Outside Directors, the authority to grant Awards to eligible persons who are not (A) then "covered employees" within the meaning of Section 162(m) of the Code and are not expected to be "covered employees" at the time of recognition of income resulting from such Award, or (B) persons with respect to whom the Company wishes to comply with the requirements of Section 162(m) of the Code, and/or (y) Non-Employee Directors, the authority to grant Awards to eligible persons who are not then subject to the requirements of Section 16

of the Exchange Act. If a member of the Committee shall be eligible to receive an Award under the Plan, such Committee member shall have no authority hereunder with respect to his or her own Award.

APPENDIX A

4.2 Powers. Subject to the provisions of the Plan, the Committee shall have the sole authority, in its discretion, to make all determinations under the Plan, including but not limited to determining which Employees, Directors or Consultants shall receive an Award, the time or times when an Award shall be made (the date of grant of an Award shall be the date on which the Award is awarded by the Committee), what type of Award shall be granted, the term of an Award, the date or dates on which an Award vests (including acceleration of vesting), the form of any payment to be made pursuant to an Award, the terms and conditions of an Award (including the forfeiture of the Award (and/or any financial gain) if the Holder of the Award violates any applicable restrictive covenant thereof), the Restrictions under a Restricted Stock Award and the number of Ordinary Shares which may be issued under an Award, Performance Goals applicable to any Award and certification of the achievement of such goals, and the waiver of any Restrictions or Performance Goals, subject to compliance with applicable laws, all as may be applicable. In making such determinations the Committee may take into account the nature of the services rendered by the respective Employees, Directors and Consultants, their present and potential contribution to the Company's (or the Affiliate's) success and such other factors as the Committee in its discretion may deem relevant.

4.3 Additional Powers. The Committee shall have such additional powers as are delegated to it under the other provisions of the Plan. Subject to the express provisions of the Plan, the Committee is authorized to construe the Plan and the respective Award Agreements executed hereunder, to prescribe such rules and regulations relating to the Plan as it may deem advisable to carry out the intent of the Plan, to determine the terms, restrictions and provisions of each Award and to make all other determinations necessary or advisable for administering the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in any Award Agreement in the manner and to the extent the Committee shall deem necessary, appropriate or expedient to carry it into effect. The determinations of the Committee on the matters referred to in this Article IV shall be conclusive and binding on the Company and all Holders.

4.4 Committee Action. Subject to compliance with all applicable laws, action by the Committee shall require the consent of a majority of the members of the Committee, expressed either orally at a meeting of the Committee or in writing in the absence of a meeting. No member of the Committee shall have any liability for any good faith action, inaction or determination in connection with the Plan.

**Article V**  
**SHARES SUBJECT TO PLAN AND LIMITATIONS THEREON**

5.1 Authorized Shares and Award Limits. The Committee may from time to time grant Awards to one or more Employees, Directors and/or Consultants determined by it to be eligible for participation in the Plan in accordance with the provisions of Article VI. Subject to Article XV, the aggregate number of Ordinary Shares that may be issued under the Plan shall not exceed One Million Eight Hundred Thousand (1,800,000) Ordinary Shares. Shares shall be deemed to have been issued under the Plan solely to the extent actually issued and delivered pursuant to an Award. To the extent that an Award lapses, expires, is canceled, is terminated unexercised or ceases to be exercisable for any



reason, or the rights of its Holder terminate, any Ordinary Shares subject to such Award shall again be available for the grant of a new Award. Notwithstanding any provision in the Plan to the contrary, the maximum number of Ordinary Shares that may be subject to Awards of Options under Article VII and/or Stock Appreciation Rights under Article XIV, in either or both cases granted to any one person during any calendar year, shall be Six Hundred Thousand (600,000) Ordinary Shares (subject to adjustment in the same manner as provided in Article XV with respect to Ordinary Shares subject to Awards then outstanding). The limitation set forth in the preceding sentence shall be applied in a manner which shall permit compensation generated in connection with the exercise of Options or Stock Appreciation Rights to constitute “performance-based” compensation for purposes of Section 162(m) of the Code, including, but not limited to, counting against such maximum number of Ordinary Shares, to the extent required under Section 162(m) of the Code, any Ordinary Shares subject to Options or Stock Appreciation Rights that are canceled or re-priced.

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5.2 Ordinary Shares Offered. The Ordinary Shares to be offered pursuant to the grant of an Award may be authorized but unissued Ordinary Shares, Ordinary Shares purchased on the open market or Ordinary Shares previously issued and outstanding and reacquired by the Company.

**Article VI**  
**ELIGIBILITY AND TERMINATION OF SERVICE**

6.1 Eligibility. Awards made under the Plan may be granted solely to individuals or entities who, at the time of grant, are Employees, Directors or Consultants. An Award may be granted on more than one occasion to the same Employee, Director or Consultant, and, subject to the limitations set forth in the Plan, such Award may include, a Non-qualified Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, an Unrestricted Stock Award, a Distribution Equivalent Right Award, a Performance Stock Award, a Performance Unit Award, a Stock Appreciation Right, a Tandem Stock Appreciation Right, or any combination thereof, and solely for Employees, an Incentive Stock Option.

6.2 Termination of Service. Except to the extent inconsistent with the terms of the applicable Award Agreement and/or the provisions of Section 6.3 or 6.4, the following terms and conditions shall apply with respect to a Holder's Termination of Service with the Company or an Affiliate, as applicable:

(i) The Holder's rights, if any, to exercise any then exercisable Options and/or Stock Appreciation Rights shall terminate:

(A) If such termination is for a reason other than the Holder's Total and Permanent Disability or death, ninety (90) days after the date of such Termination of Service;

(B) If such termination is on account of the Holder's Total and Permanent Disability, one (1) year after the date of such Termination of Service; or

(C) If such termination is on account of the Holder's death, one (1) year after the date of the Holder's death.

Upon such applicable date the Holder (and such Holder's estate, designated beneficiary or other legal representative) shall forfeit any rights or interests in or with respect to any such Options and Stock Appreciation Rights.

(ii) In the event of a Holder's Termination of Service for any reason prior to the actual or deemed satisfaction and/or lapse of the Restrictions, vesting requirements, terms and conditions applicable to a Restricted Stock Award and/or Restricted Stock Unit Award, such Restricted Stock and/or RSUs shall immediately be canceled, and the Holder (and such Holder's estate, designated beneficiary or other legal representative) shall forfeit any rights or interests in and with respect to any such Restricted Stock and/or RSUs. The immediately preceding sentence to the contrary notwithstanding, the Committee, in its sole discretion, may determine, prior to or within thirty (30) days after the date of such Termination of Service that all or a portion of any such Holder's Restricted Stock and/or RSUs shall not be so canceled and forfeited.

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6.3 Special Termination Rule. Except to the extent inconsistent with the terms of the applicable Award Agreement, and notwithstanding anything to the contrary contained in this Article VI, if a Holder's employment with, or status as a Director of, the Company or an Affiliate shall terminate, and if, within ninety (90) days of such termination, such Holder shall become a Consultant, such Holder's rights with respect to any Award or portion thereof granted thereto prior to the date of such termination may be preserved, if and to the extent determined by the Committee in its sole discretion, as if such Holder had been a Consultant for the entire period during which such Award or portion thereof had been outstanding. Should the Committee effect such determination with respect to such Holder, for all purposes of the Plan, such Holder shall not be treated as if his or her employment or Director status had terminated until such time as his or her Consultant status shall terminate, in which case his or her Award, as it may have been reduced in connection with the Holder's becoming a Consultant, shall be treated pursuant to the provisions of Section 6.2, provided, however, that any such Award which is intended to be an Incentive Stock Option shall, upon the Holder's no longer being an Employee, automatically convert to a Non-qualified Stock Option. Should a Holder's status as a Consultant terminate, and if, within ninety (90) days of such termination, such Holder shall become an Employee or a Director, such Holder's rights with respect to any Award or portion thereof granted thereto prior to the date of such termination may be preserved, if and to the extent determined by the Committee in its sole discretion, as if such Holder had been an Employee or a Director, as applicable, for the entire period during which such Award or portion thereof had been outstanding, and, should the Committee effect such determination with respect to such Holder, for all purposes of the Plan, such Holder shall not be treated as if his or her Consultant status had terminated until such time as his or her employment with the Company or an Affiliate, or his or her Director status, as applicable, shall terminate, in which case his or her Award shall be treated pursuant to the provisions of Section 6.2.

6.4 Termination for Cause. Notwithstanding anything in this Article VI or elsewhere in the Plan to the contrary, and unless a Holder's Award Agreement specifically provides otherwise, in the event of a Holder's Termination for Cause, all of such Holder's then outstanding Awards shall expire immediately and be forfeited in their entirety upon such termination.

## Article VII OPTIONS

7.1 Option Period. The term of each Option shall be as specified in the Option Agreement; provided, however, that except as set forth in Section 7.3, no Option shall be exercisable after the expiration of ten (10) years from the date of its grant.

7.2 Limitations on Exercise of Option. An Option shall be exercisable in whole or in such installments and at such times as specified in the Option Agreement.

7.3 Special Limitations on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined at the time the respective Incentive Stock Option is granted) of Ordinary Shares with respect to which

Incentive Stock Options are exercisable for the first time by an individual during any calendar year under all plans of the Company and any parent corporation or subsidiary corporation thereof (both as defined in Section 424 of the Code) which provide for the grant of Incentive Stock Options exceeds One Hundred Thousand Dollars (\$100,000) (or such other individual limit as may be in effect under the Code on the date of grant), the portion of such Incentive Stock Options that exceeds such threshold shall be treated as Non-qualified Stock Options. The Committee shall determine, in accordance with applicable provisions of the Code, Treasury Regulations and other administrative pronouncements, which of a Holder's Options, which were intended by the Committee to be Incentive Stock Options when granted to the Holder, will not constitute Incentive Stock Options because of such limitation, and shall notify the Holder of such determination as soon as practicable after such determination. No Incentive Stock Option shall be granted to an Employee if, at the time the Incentive Stock Option is granted, such Employee is a Ten Percent Shareholder, unless (i) at the time such Incentive Stock Option is granted the Option price is at least one hundred ten percent (110 %) of the Fair Market Value of the Ordinary Shares subject to the Incentive Stock Option, and (ii) such Incentive Stock Option by its terms is not exercisable after the expiration of five (5) years from the date of grant. No Incentive Stock Option shall be granted more than ten (10) years from the earlier of the Effective Date or date on which the Plan is approved by the Company's shareholders. The designation by the Committee of an Option as an Incentive Stock Option shall not guarantee the Holder that the Option will satisfy the applicable requirements for "incentive stock option" status under Section 422 of the Code.

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7.4 Option Agreement. Each Option shall be evidenced by an Option Agreement in such form and containing such provisions not inconsistent with the provisions of the Plan as the Committee from time to time shall approve, including, but not limited to, provisions intended to qualify an Option as an Incentive Stock Option. An Option Agreement may provide for the payment of the Option price, in whole or in part, by the delivery of a number of Ordinary Shares (plus cash if necessary) that have been owned by the Holder for at least six (6) months and having a Fair Market Value equal to such Option price, or such other forms or methods as the Committee may determine from time to time, in each case, subject to such rules and regulations as may be adopted by the Committee. Each Option Agreement shall, solely to the extent inconsistent with the provisions of Sections 6.2, 6.3, and 6.4, as applicable, specify the effect of Termination of Service on the exercisability of the Option. Moreover, without limiting the generality of the foregoing, a Non-qualified Stock Option Agreement may provide for a “cashless exercise” of the Option, in whole or in part, by (a) establishing procedures whereby the Holder, by a properly-executed written notice, directs (i) an immediate market sale or margin loan as to all or a part of Ordinary Shares to which he is entitled to receive upon exercise of the Option, pursuant to an extension of credit by the Company to the Holder of the Option price, (ii) the delivery of the Ordinary Shares from the Company directly to a brokerage firm and (iii) the delivery of the Option price from sale or margin loan proceeds from the brokerage firm directly to the Company, or (b) reducing the number of Ordinary Shares to be issued upon exercise of the Option by the number of such Shares having an aggregate Fair Market Value equal to the Option price (or portion thereof to be so paid) as of the date of the Option’s exercise. An Option Agreement may also include provisions relating to: (i) subject to the provisions hereof, accelerated vesting of Options, including but not limited to, upon the occurrence of a Change of Control, (ii) tax matters (including provisions covering any applicable Employee wage withholding requirements and requiring additional “gross-up” payments to Holders to meet any excise taxes or other additional income tax liability imposed as a result of a payment made upon a Change of Control resulting from the operation of the Plan or of such Option Agreement) and (iii) any other matters not inconsistent with the terms and provisions of the Plan that the Committee shall in its sole discretion determine. The terms and conditions of the respective Option Agreements need not be identical.

7.5 Option Price and Payment. The price at which an Ordinary Share may be purchased upon exercise of an Option shall be determined by the Committee; provided, however, that such Option price (i) shall not be less than the Fair Market Value of an Ordinary Share on the date such Option is granted (or 110% of Fair Market Value for an Incentive Stock Option held by Ten Percent Shareholder, as provided in Section 7.3), and (ii) shall be subject to adjustment as provided in Article XV. The Option or portion thereof may be exercised by delivery of an irrevocable notice of exercise to the Company. The Option price for the Option or portion thereof shall be paid in full in the manner prescribed by the Committee as set forth in the Plan and the applicable Option Agreement, which manner, with the consent of the Committee, may include the withholding of Ordinary Shares otherwise issuable in connection with the exercise of the Option. Separate share certificates shall be issued by the Company for those Ordinary Shares acquired pursuant to the exercise of an Incentive Stock Option and for those Ordinary Shares acquired pursuant to the exercise of a Non-qualified Stock Option.

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7.6 Shareholder Rights and Privileges. The Holder of an Option shall be entitled to all the privileges and rights of a shareholder of the Company solely with respect to such Ordinary Shares as have been purchased under the Option and for which share certificates have been registered in the Holder's name.

7.7 Options and Rights in Substitution for Stock or Options Granted by Other Corporations. Options may be granted under the Plan from time to time in substitution for stock options held by individuals employed by entities who become Employees, Directors or Consultants as a result of a merger or consolidation of the employing entity with the Company or any Affiliate, or the acquisition by the Company or an Affiliate of the assets of the employing entity, or the acquisition by the Company or an Affiliate of stock or shares of the employing entity with the result that such employing entity becomes an Affiliate.

7.8 Prohibition Against Re-Pricing. Except to the extent (i) approved in advance by holders of a majority of the shares of the Company entitled to vote generally in the election of directors, or (ii) as a result of any Change of Control or any adjustment as provided in Article XV, the Committee shall not have the power or authority to reduce, whether through amendment or otherwise, the exercise price under any outstanding Option or Stock Appreciation Right, or to grant any new Award or make any payment of cash in substitution for or upon the cancellation of Options and/or Stock Appreciation Rights previously granted.

**Article VIII**

**RESTRICTED STOCK AWARDS**

8.1 Award. A Restricted Stock Award shall constitute an Award of Ordinary Shares to the Holder as of the date of the Award which are subject to a "substantial risk of forfeiture" as defined under Section 83 of the Code during the specified Restriction Period. At the time a Restricted Stock Award is made, the Committee shall establish the Restriction Period applicable to such Award. Each Restricted Stock Award may have a different Restriction Period, in the discretion of the Committee. The Restriction Period applicable to a particular Restricted Stock Award shall not be changed except as permitted by Section 8.2.

8.2 Terms and Conditions. At the time any Award is made under this Article VIII, the Company and the Holder shall enter into a Restricted Stock Agreement setting forth each of the matters contemplated thereby and such other matters as the Committee may determine to be appropriate. Ordinary Shares awarded pursuant to a Restricted Stock Award shall be represented by a share certificate registered in the name of the Holder of such Restricted Stock Award. If provided for under the Restricted Stock Agreement, the Holder shall have the right to vote Ordinary Shares subject thereto and to enjoy all other shareholder rights, including the entitlement to receive dividends on the Ordinary Shares during the Restriction Period, except that (i) the Holder shall not be entitled to delivery of the share certificate until the Restriction Period shall have expired, (ii) the Company shall retain custody of the share certificate during the

Restriction Period (with a share power endorsed by the Holder in blank), (iii) the Holder may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the Ordinary Shares during the Restriction Period and (iv) a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Agreement shall cause a forfeiture of the Restricted Stock Award. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions relating to Restricted Stock Awards, including, but not limited to, rules pertaining to the effect of Termination of Service prior to expiration of the Restriction Period. Such additional terms, conditions or restrictions shall, to the extent inconsistent with the provisions of Sections 6.2, 6.3 and 6.4, as applicable, be set forth in a Restricted Stock Agreement made in conjunction with the Award. Such Restricted Stock Agreement may also include provisions relating to: (i) subject to the provisions hereof, accelerated vesting of Awards, including but not limited to accelerated vesting upon the occurrence of a Change of Control, (ii) tax matters (including provisions covering any applicable Employee wage withholding requirements and requiring additional “gross-up” payments to Holders to meet any excise taxes or other additional income tax liability imposed as a result of a payment made in connection with a Change of Control resulting from the operation of the Plan or of such Restricted Stock Agreement) and (iii) any other matters not inconsistent with the terms and provisions of the Plan that the Committee shall in its sole discretion determine. The terms and conditions of the respective Restricted Stock Agreements need not be identical. All Ordinary Shares delivered to a Holder as part of a Restricted Stock Award shall be delivered and reported by the Company or the Affiliate, as applicable, to the Holder at the time of vesting.



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8.3 Payment for Restricted Stock. The Committee shall determine the amount and form of any payment from a Holder for Ordinary Shares received pursuant to a Restricted Stock Award, if any, provided that in the absence of such a determination, a Holder shall not be required to make any payment for Ordinary Shares received pursuant to a Restricted Stock Award, except to the extent otherwise required by law.

**Article IX**  
**UNRESTRICTED STOCK AWARDS**

9.1 Award. Ordinary Shares may be awarded (or sold) to Employees, Directors or Consultants under the Plan which are not subject to Restrictions of any kind, in consideration for past services rendered thereby to the Company or an Affiliate or for other valid consideration.

9.2 Terms and Conditions. At the time any Award is made under this Article IX, the Company and the Holder shall enter into an Unrestricted Stock Agreement setting forth each of the matters contemplated hereby and such other matters as the Committee may determine to be appropriate.

9.3 Payment for Unrestricted Stock. The Committee shall determine the amount and form of any payment from a Holder for Ordinary Shares received pursuant to an Unrestricted Stock Award, if any, provided that in the absence of such a determination, a Holder shall not be required to make any payment for Ordinary Shares received pursuant to an Unrestricted Stock Award, except to the extent otherwise required by law.

**Article X**  
**RESTRICTED STOCK UNIT AWARDS**

10.1 Award. A Restricted Stock Unit Award shall constitute a promise to grant Ordinary Shares (or cash equal to the Fair Market Value of Ordinary Shares) to the Holder at the end of a specified Restriction Period. At the time a Restricted Stock Unit Award is made, the Committee shall establish the Restriction Period applicable to such Award. Each Restricted Stock Unit Award may have a different Restriction Period, in the discretion of the Committee. A Restricted Stock Unit shall not constitute an equity interest in the Company and shall not entitle the Participant to voting rights, dividends or any other rights associated with ownership of Ordinary Shares prior to the time the Holder shall receive a distribution of Ordinary Shares pursuant to Section 10.3.

10.2 Terms and Conditions. At the time any Award is made under this Article X, the Company and the Holder shall enter into a Restricted Stock Unit Agreement setting forth each of the matters contemplated thereby and such other matters as the Committee may determine to be appropriate. The Restricted Stock Unit Agreement shall set forth the individual service-based vesting requirement which the Holder would be required to satisfy before the Holder would become entitled to distribution pursuant to Section 10.3 and the number of Units awarded to the Holder. Such conditions shall be sufficient to constitute a “substantial risk of forfeiture” as such term is defined under Section 409A of the Code. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions relating to Restricted Stock Unit Awards in the Restricted Stock Unit Agreement, including, but not limited to, rules pertaining to the effect of Termination of Service prior to expiration of the applicable vesting period. The terms and conditions of the respective Restricted Stock Unit Agreements need not be identical.

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10.3 Distributions of Shares. The Holder of a Restricted Stock Unit shall be entitled to receive a cash payment equal to the Fair Market Value of an Ordinary Share, or one Ordinary Share, as determined in the sole discretion of the Committee and as set forth in the Restricted Stock Unit Agreement, for each Restricted Stock Unit subject to such Restricted Stock Unit Award, if the Holder satisfies the applicable vesting requirement. Such distribution shall be made no later than by the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) calendar month next following the end of the calendar year in which the Restricted Stock Unit first becomes vested (i.e., no longer subject to a “substantial risk of forfeiture”).

**Article XI**  
**PERFORMANCE UNIT AWARDS**

11.1 Award. A Performance Unit Award shall constitute an Award under which, upon the satisfaction of predetermined individual and/or Company (and/or Affiliate) Performance Goals based on selected Performance Criteria, a cash payment shall be made to the Holder, based on the number of Units awarded to the Holder. At the time a Performance Unit Award is made, the Committee shall establish the Performance Period and applicable Performance Goals. Each Performance Unit Award may have different Performance Goals, in the discretion of the Committee. A Performance Unit Award shall not constitute an equity interest in the Company and shall not entitle the Participant to voting rights, dividends or any other rights associated with ownership of Ordinary Shares unless and until the Holder shall receive a distribution of Ordinary Shares pursuant to Section 11.3.

11.2 Terms and Conditions. At the time any Award is made under this Article XI, the Company and the Holder shall enter into a Performance Unit Agreement setting forth each of the matters contemplated thereby and such other matters as the Committee may determine to be appropriate. The Committee shall set forth in the applicable Performance Unit Agreement the Performance Period, Performance Criteria and Performance Goals which the Holder and/or the Company would be required to satisfy before the Holder would become entitled to payment pursuant to Section 11.3, the number of Units awarded to the Holder and the dollar value or formula assigned to each such Unit. Such payment shall be subject to a “substantial risk of forfeiture” under Section 409A of the Code. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions relating to Performance Unit Awards, including, but not limited to, rules pertaining to the effect of Termination of Service prior to expiration of the applicable performance period. The terms and conditions of the respective Performance Unit Agreements need not be identical.

11.3 Payments. The Holder of a Performance Unit shall be entitled to receive a cash payment equal to the dollar value assigned to such Unit under the applicable Performance Unit Agreement if the Holder and/or the Company satisfy (or partially satisfy, if applicable under the applicable Performance Unit Agreement) the Performance Goals set forth in such Performance Unit Agreement. If necessary to satisfy the requirements of Code Section 162(m), if applicable, the achievement of such Performance Goals shall be certified in writing by the Committee prior to any payment. All payments shall be made no later than by the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) calendar month next following the end of the Company’s fiscal year to which such performance goals and objectives relate.



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**Article XII**

**PERFORMANCE STOCK AWARDS**

12.1 Award. A Performance Stock Award shall constitute a promise to grant Ordinary Shares (or cash equal to the Fair Market Value of Ordinary Shares) to the Holder at the end of a specified Performance Period subject to achievement of specified Performance Goals. At the time a Performance Stock Award is made, the Committee shall establish the Performance Period and applicable Performance Goals based on selected Performance Criteria. Each Performance Stock Award may have different Performance Goals, in the discretion of the Committee. A Performance Stock Award shall not constitute an equity interest in the Company and shall not entitle the Participant to voting rights, dividends or any other rights associated with ownership of Ordinary Shares unless and until the Holder shall receive a distribution of Ordinary Shares pursuant to Section 11.3.

12.2 Terms and Conditions. At the time any Award is made under this Article XII, the Company and the Holder shall enter into a Performance Stock Agreement setting forth each of the matters contemplated thereby and such other matters as the Committee may determine to be appropriate. The Committee shall set forth in the applicable Performance Stock Agreement the Performance Period, selected Performance Criteria and Performance Goals which the Holder and/or the Company would be required to satisfy before the Holder would become entitled to the receipt of Ordinary Shares pursuant to such Holder's Performance Stock Award and the number of Ordinary Shares subject to such Performance Stock Award. Such distribution shall be subject to a "substantial risk of forfeiture" under Section 409A of the Code. If such Performance Goals are achieved, the distribution of Ordinary Shares shall be made no later than by the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) calendar month next following the end of the Company's fiscal year to which such goals and objectives relate. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms and conditions or restrictions relating to Performance Stock Awards, including, but not limited to, rules pertaining to the effect of the Holder's Termination of Service prior to the expiration of the applicable performance period. The terms and conditions of the respective Performance Stock Agreements need not be identical.

12.3 Distributions of Shares. The Holder of a Performance Stock Award shall be entitled to receive a cash payment equal to the Fair Market Value of an Ordinary Share, or one Ordinary Share, as determined in the sole discretion of the Committee, for each Performance Stock Award subject to such Performance Stock Agreement, if the Holder satisfies the applicable vesting requirement. If necessary to satisfy the requirements of Code Section 162(m), if applicable, the achievement of such Performance Goals shall be certified in writing by the Committee prior to any payment. Such distribution shall be made no later than by the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) calendar month next following the end of the Company's fiscal year to which such performance goals and objectives relate.

**Article XIII**

**DISTRIBUTION EQUIVALENT RIGHTS**

13.1 Award. A Distribution Equivalent Right shall entitle the Holder to receive bookkeeping credits, cash payments and/or Ordinary Share distributions equal in amount to the distributions that would have been made to the Holder had the Holder held a specified number of Ordinary Shares during the specified period of the Award.

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13.2 Terms and Conditions. At the time any Award is made under this Article XIII, the Company and the Holder shall enter into a Distribution Equivalent Rights Award Agreement setting forth each of the matters contemplated thereby and such other matters as the Committee may determine to be appropriate. The Committee shall set forth in the applicable Distribution Equivalent Rights Award Agreement the terms and conditions, if any, including whether the Holder is to receive credits currently in cash, is to have such credits reinvested (at Fair Market Value determined as of the date of reinvestment) in additional Ordinary Shares or is to be entitled to choose among such alternatives. Such receipt shall be subject to a “substantial risk of forfeiture” under Section 409A of the Code and, if such Award becomes vested, the distribution of such cash or Ordinary Shares shall be made no later than by the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) calendar month next following the end of the Company’s fiscal year in which the Holder’s interest in the Award vests. Distribution Equivalent Rights Awards may be settled in cash or in Ordinary Shares, as set forth in the applicable Distribution Equivalent Rights Award Agreement. A Distribution Equivalent Rights Award may, but need not be, awarded in tandem with another Award (other than an Option), whereby, if so awarded, such Distribution Equivalent Rights Award shall expire, terminate or be forfeited by the Holder, as applicable, under the same conditions as under such other Award.

13.3 Interest Equivalents. The Distribution Equivalent Rights Award Agreement for a Distribution Equivalent Rights Award may provide for the crediting of interest on a Distribution Rights Award to be settled in cash at a future date (but in no event later than by the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) calendar month next following the end of the Company’s fiscal year in which such interest is credited and vested), at a rate set forth in the applicable Distribution Equivalent Rights Award Agreement, on the amount of cash payable thereunder.

**Article XIV**

**STOCK APPRECIATION RIGHTS**

14.1 Award. A Stock Appreciation Right shall constitute a right, granted alone or in connection with a related Option, to receive a payment equal to the increase in value of a specified number of Ordinary Shares between the date of Award and the date of exercise.

14.2 Terms and Conditions. At the time any Award is made under this Article XIV, the Company and the Holder shall enter into a Stock Appreciation Right Agreement setting forth each of the matters contemplated thereby and such other matters as the Committee may determine to be appropriate. The Committee shall set forth in the applicable Stock Appreciation Right Agreement the terms and conditions of the Stock Appreciation Right, including (i) the base value (the “Base Value”) for the Stock Appreciation Right, which shall be not less than the Fair Market Value of an Ordinary Share on the date of grant of the Stock Appreciation Right, (ii) the number of Ordinary Shares subject to the Stock Appreciation Right, (iii) the period during which the Stock Appreciation Right may be exercised; provided, however, that no Stock Appreciation Right shall be exercisable after the expiration of ten (10) years from the date of its grant, and (iv) any other special rules and/or requirements which the Committee imposes upon the Stock Appreciation Right. Upon the exercise of some or all of the portion of a Stock Appreciation Right, the Holder shall receive a payment from the Company, in cash or in the form of Ordinary Shares having an equivalent Fair Market Value or in a combination of both, as determined in the sole discretion of the Committee, equal to the product of:

- (a) The excess of (i) the Fair Market Value of an Ordinary Share on the date of exercise, over (ii) the Base Value, multiplied by,
  
- (b) The number of Ordinary Shares with respect to which the Stock Appreciation Right is exercised.



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14.3 Tandem Stock Appreciation Rights. If the Committee grants a Stock Appreciation Right which is intended to be a Tandem Stock Appreciation Right, the Tandem Stock Appreciation Right shall be granted at the same time as the related Option, and the following special rules shall apply:

(a) The Base Value shall be equal to or greater than the per Ordinary Share exercise price under the related Option;

(b) The Tandem Stock Appreciation Right may be exercised for all or part of the Ordinary Shares which are subject to the related Option, but solely upon the surrender by the Holder of the Holder's right to exercise the equivalent portion of the related Option (and when an Ordinary Share is purchased under the related Option, an equivalent portion of the related Tandem Stock Appreciation Right shall be canceled);

(c) The Tandem Stock Appreciation Right shall expire no later than the date of the expiration of the related Option;

(d) The value of the payment with respect to the Tandem Stock Appreciation Right may be no more than one hundred percent (100%) of the difference between the per Ordinary Share exercise price under the related Option and the Fair Market Value of the Ordinary Shares subject to the related Option at the time the Tandem Stock Appreciation Right is exercised, multiplied by the number of the Ordinary Shares with respect to which the Tandem Stock Appreciation Right is exercised; and

(e) The Tandem Stock Appreciation Right may be exercised solely when the Fair Market Value of the Ordinary Shares subject to the related Option exceeds the per Ordinary Share exercise price under the related Option.

Article XV

RECAPITALIZATION OR REORGANIZATION

15.1 Adjustments to Ordinary Shares. The shares with respect to which Awards may be granted under the Plan are Ordinary Shares as presently constituted; provided, however, that if, and whenever, prior to the expiration or distribution to the Holder of Ordinary Shares underlying an Award theretofore granted, the Company shall effect a subdivision or consolidation of the Ordinary Shares or the payment of an Ordinary Share dividend on Ordinary Shares without receipt of consideration by the Company, the number of Ordinary Shares with respect to which such Award may thereafter be exercised or satisfied, as applicable, (i) in the event of an increase in the number of outstanding Ordinary Shares, shall be proportionately increased, and the purchase price per Ordinary Share shall be

proportionately reduced, and (ii) in the event of a reduction in the number of outstanding Ordinary Shares, shall be proportionately reduced, and the purchase price per Ordinary Share shall be proportionately increased. Notwithstanding the foregoing or any other provision of this Article XV, any adjustment made with respect to an Award (x) which is an Incentive Stock Option, shall comply with the requirements of Section 424(a) of the Code, and in no event shall any adjustment be made which would render any Incentive Stock Option granted under the Plan to be other than an “incentive stock option” for purposes of Section 422 of the Code, and (y) which is a Non-qualified Stock Option, shall comply with the requirements of Section 409A of the Code, and in no event shall any adjustment be made which would render any Non-qualified Stock Option granted under the Plan to become subject to Section 409A of the Code.

15.2 Recapitalization. If the Company recapitalizes or otherwise changes its capital structure, thereafter upon any exercise or satisfaction, as applicable, of a previously granted Award, the Holder shall be entitled to receive (or entitled to purchase, if applicable) under such Award, in lieu of the number of Ordinary Shares then covered by such Award, the number and class of shares and securities to which the Holder would have been entitled pursuant to the terms of the recapitalization if, immediately prior to such recapitalization, the Holder had been the holder of record of the number of Ordinary Shares then covered by such Award.

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15.3 Other Events. In the event of changes to the outstanding Ordinary Shares by reason of extraordinary cash dividend, reorganization, mergers, consolidations, combinations, split-ups, spin-offs, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for under this Article XV, any outstanding Awards and any Award Agreements evidencing such Awards shall be adjusted by the Board in its discretion in such manner as the Board shall deem equitable or appropriate taking into consideration the applicable accounting and tax consequences, as to the number and price of Ordinary Shares or other consideration subject to such Awards. In the event of any adjustment pursuant to Sections 15.1, 15.2 or this Section 15.3, the aggregate number of Ordinary Shares available under the Plan pursuant to Section 5.1 (and the Code Section 162(m) limit set forth therein) may be appropriately adjusted by the Board, the determination of which shall be conclusive. In addition, the Committee may make provision for a cash payment to a Participant or a person who has an outstanding Award. The number of Ordinary Shares subject to any Award shall be rounded to the nearest whole number.

15.4 Powers Not Affected. The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or of the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change of the Company's capital structure or business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Ordinary Shares or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

15.5 No Adjustment for Certain Awards. Except as hereinabove expressly provided, the issuance by the Company of shares of any class or securities convertible into shares of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect previously granted Awards, and no adjustment by reason thereof shall be made with respect to the number of Ordinary Shares subject to Awards theretofore granted or the purchase price per Ordinary Share, if applicable.

**Article XVI**  
**AMENDMENT AND TERMINATION OF PLAN**

The Plan shall continue in effect, unless sooner terminated pursuant to this Article XVI, until the tenth (10<sup>th</sup>) anniversary of the date on which it is adopted by the Board (except as to Awards outstanding on that date). The Board in its discretion may terminate the Plan at any time with respect to any shares for which Awards have not theretofore been granted; provided, however, that the Plan's termination shall not materially and adversely impair the rights of a Holder with respect to any Award theretofore granted without the consent of the Holder. The Board shall have the right to alter or amend the Plan or any part hereof from time to time; provided, however, that without the approval by a majority of the votes cast at a meeting of shareholders at which a quorum representing a majority of the shares of the Company entitled to vote generally in the election of directors is present in person or by proxy, no amendment or modification of the Plan may (i) materially increase the benefits accruing to Holders, (ii) except as otherwise expressly provided in Article XV, materially increase the number of Ordinary Shares subject to the Plan or the

individual Award Agreements specified in Article V, (iii) materially modify the requirements for participation in the Plan, or (iv) amend, modify or suspend Section 7.7 (re-pricing prohibitions) or this Article XVI. In addition, no change in any Award theretofore granted may be made which would materially and adversely impair the rights of a Holder with respect to such Award without the consent of the Holder (unless such change is required in order to cause the benefits under the Plan to qualify as “performance-based” compensation within the meaning of Section 162(m) of the Code or to exempt the Plan or any Award from Section 409A of the Code).

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**Article XVII**  
**MISCELLANEOUS**

17.1 No Right to Award. Neither the adoption of the Plan by the Company nor any action of the Board or the Committee shall be deemed to give an Employee, Director or Consultant any right to an Award except as may be evidenced by an Award Agreement duly executed on behalf of the Company, and then solely to the extent and on the terms and conditions expressly set forth therein.

17.2 No Rights Conferred. Nothing contained in the Plan shall (i) confer upon any Employee any right with respect to continuation of employment with the Company or any Affiliate, (ii) interfere in any way with any right of the Company or any Affiliate to terminate the employment of an Employee at any time, (iii) confer upon any Director any right with respect to continuation of such Director's membership on the Board, (iv) interfere in any way with any right of the Company or an Affiliate to terminate a Director's membership on the Board at any time, (v) confer upon any Consultant any right with respect to continuation of his or her consulting engagement with the Company or any Affiliate, or (vi) interfere in any way with any right of the Company or an Affiliate to terminate a Consultant's consulting engagement with the Company or an Affiliate at any time.

17.3 Other Laws; No Fractional Shares; Withholding. The Company shall not be obligated by virtue of any provision of the Plan to recognize the exercise of any Award or to otherwise sell or issue Ordinary Shares in violation of any laws, rules or regulations, and any postponement of the exercise or settlement of any Award under this provision shall not extend the term of such Award. Neither the Company nor its directors or officers shall have any obligation or liability to a Holder with respect to any Award (or Ordinary Shares issuable thereunder) (i) that shall lapse because of such postponement, or (ii) for any failure to comply with the requirements of any applicable law, rules or regulations, including but not limited to any failure to comply with the requirements of Section 409A of this Code. No fractional Ordinary Shares shall be delivered, nor shall any cash in lieu of fractional Ordinary Shares be paid. The Company shall have the right to deduct in cash (whether under this Plan or otherwise) in connection with all Awards any taxes required by law to be withheld and to require any payments required to enable it to satisfy its withholding obligations. In the case of any Award satisfied in the form of Ordinary Shares, no Ordinary Shares shall be issued unless and until arrangements satisfactory to the Company shall have been made to satisfy any tax withholding obligations applicable with respect to such Award. Subject to such terms and conditions as the Committee may impose, the Company shall have the right to retain, or the Committee may, subject to such terms and conditions as it may establish from time to time, permit Holders to elect to tender, Ordinary Shares (including Ordinary Shares issuable in respect of an Award) to satisfy, in whole or in part, the amount required to be withheld.

17.4 No Restriction on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Company or any Affiliate from taking any corporate action which is deemed by the Company or such Affiliate to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any Award made under the Plan. No Employee, Director, Consultant, beneficiary or other person shall have any claim against the

Company or any Affiliate as a result of any such action.

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17.5 Restrictions on Transfer. No Award under the Plan or any Award Agreement and no rights or interests herein or therein, shall or may be assigned, transferred, sold, exchanged, encumbered, pledged or otherwise hypothecated or disposed of by a Holder except (i) by will or by the laws of descent and distribution, or (ii) where permitted under applicable tax rules, by gift to any Family Member of the Holder, subject to compliance with applicable laws. An Award may be exercisable during the lifetime of the Holder only by such Holder or by the Holder's guardian or legal representative unless it has been transferred by gift to a Family Member of the Holder, in which case it shall be exercisable solely by such transferee. Notwithstanding any such transfer, the Holder shall continue to be subject to the withholding requirements provided for under Section 17.3 hereof.

17.6 Beneficiary Designations. Each Holder may, from time to time, name a beneficiary or beneficiaries (who may be contingent or successive beneficiaries) for purposes of receiving any amount which is payable in connection with an Award under the Plan upon or subsequent to the Holder's death. Each such beneficiary designation shall serve to revoke all prior beneficiary designations, be in a form prescribed by the Company and be effective solely when filed by the Holder in writing with the Company during the Holder's lifetime. In the absence of any such written beneficiary designation, for purposes of the Plan, a Holder's beneficiary shall be the Holder's estate.

17.7 Rule 16b-3. It is intended that the Plan and any Award made to a person subject to Section 16 of the Exchange Act shall meet all of the requirements of Rule 16b-3. If any provision of the Plan or of any such Award would disqualify the Plan or such Award under, or would otherwise not comply with the requirements of, Rule 16b-3, such provision or Award shall be construed or deemed to have been amended as necessary to conform to the requirements of Rule 16b-3.

17.8 Section 162(m). The following conditions shall apply if it is intended that the requirements of Section 162(m) of the Code be satisfied such that Awards under the Plan which are made to Holders who are "covered employees" (as defined in Section 162(m) of the Code) shall constitute "performance-based" compensation within the meaning of Section 162(m) of the Code: Any Performance Goal(s) applicable to Qualified Performance-Based Awards shall be objective, shall be established not later than ninety (90) days after the beginning of any applicable Performance Period (or at such other date as may be required or permitted for "performance-based" compensation under Section 162(m) of the Code) and shall otherwise meet the requirements of Section 162(m) of the Code, including the requirement that the outcome of the Performance Goal or Goals be substantially uncertain (as defined in the regulations under Section 162(m) of the Code) at the time established. The Performance Criteria to be utilized under the Plan to establish Performance Goals shall consist of objective tests based on one or more of the following: earnings or earnings per share, cash flow or cash flow per share, operating cash flow or operating cash flow per share revenue growth, product revenue growth, financial return ratios (such as return on equity, return on investment and/or return on assets), share price performance, shareholder return, equity and/or value, operating income, operating margins, earnings before interest, taxes, depreciation and amortization, earnings, pre- or post-tax income, economic value added (or an equivalent metric), profit returns and margins, credit quality, sales growth, market share, working capital levels, comparisons with various share market indices, year-end cash, debt reduction, assets under management, operating efficiencies, strategic partnerships or transactions (including co-development, co-marketing, profit sharing, joint venture or other similar arrangements), and/or financing and other capital raising transaction. Performance criteria may be established on a Company-wide basis or with respect to one or more Company business units or divisions or subsidiaries; and either in absolute terms, relative to the performance of one or more similarly

situated companies, or relative to the performance of an index covering a peer group of companies. When establishing Performance Goals for the applicable Performance Period, the Committee may exclude any or all “extraordinary items” as determined under U.S. generally accepted accounting principles including, without limitation, the charges or costs associated with restructurings of the Company, discontinued operations, other unusual or non-recurring items, and the cumulative effects of accounting changes, and as identified in the Company’s financial statements, notes to the Company’s financial statements or management’s discussion and analysis of financial condition and results of operations contained in the Company’s most recent annual report filed with the U.S. Securities and Exchange Commission pursuant to the Exchange Act. Holders who are “covered employees” (as defined in Section 162(m) of the Code) shall be eligible to receive payment under a Qualified Performance-Based Award which is subject to achievement of a Performance Goal or Goals only if the applicable Performance Goal or Goals are achieved within the applicable Performance Period, as determined by the Committee. If any provision of the Plan would disqualify the Plan or would not otherwise permit the Plan to comply with Section 162(m) of the Code as so intended, such provision shall be construed or deemed amended to conform to the requirements or provisions of Section 162(m) of the Code. The Committee may postpone the exercising of Awards, the issuance or delivery of Ordinary Shares under any Award or any action permitted under the Plan to prevent the Company or any subsidiary from being denied a federal income tax deduction, provided that such deferral satisfies the requirements of Section 409A of the Code. For purposes of the requirements of Treasury Regulation Section 1.162-27(e)(4)(i), the maximum aggregate amount that may be paid in cash during any calendar year to any one person (measured from the date of any payment) with respect to one or more Awards payable in cash shall be Two Million Dollars (\$2,000,000).



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17.9 Section 409A. Notwithstanding any other provision of the Plan, the Committee shall have no authority to issue an Award under the Plan with terms and/or conditions which would cause such Award to constitute non-qualified “deferred compensation” under Section 409A of the Code unless such Award shall be structured to be exempt from or comply with all requirements of Code Section 409A. The Plan and all Award Agreements are intended to comply with the requirements of Section 409A of the Code (or to be exempt therefrom) and shall be so interpreted and construed and no amount shall be paid or distributed from the Plan unless and until such payment complies with all requirements of Code Section 409A. It is the intent of the Company that the provisions of this Agreement and all other plans and programs sponsored by the Company be interpreted to comply in all respects with Code Section 409A, however, the Company shall have no liability to the Holder, or any successor or beneficiary thereof, in the event taxes, penalties or excise taxes may ultimately be determined to be applicable to any payment or benefit received by the Holder or any successor or beneficiary thereof.

17.10 Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred thereby in connection with or resulting from any claim, action, suit, or proceeding to which such person may be made a party or may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid thereby in settlement thereof, with the Company’s approval, or paid thereby in satisfaction of any judgment in any such action, suit, or proceeding against such person; provided, however, that such person shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which such persons may be entitled under the Company’s Articles of Incorporation or By-laws, by contract, as a matter of law, or otherwise.

17.11 Other Benefit Plans. No Award, payment or amount received hereunder shall be taken into account in computing an Employee’s salary or compensation for the purposes of determining any benefits under any pension, retirement, life insurance or other benefit plan of the Company or any Affiliate, unless such other plan specifically provides for the inclusion of such Award, payment or amount received. Nothing in the Plan shall be construed to limit the right of the Company to establish other plans or to pay compensation to its employees, in cash or property, in a manner which is not expressly authorized under the Plan.

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17.12 Limits of Liability. Any liability of the Company with respect to an Award shall be based solely upon the contractual obligations created under the Plan and the Award Agreement. None of the Company, any member of the Board nor any member of the Committee shall have any liability to any party for any action taken or not taken, in good faith, in connection with or under the Plan.

17.13 Governing Law. Except as otherwise provided herein, the Plan shall be construed in accordance with the laws of the State of Delaware, without regard to principles of conflicts of law.

17.14 Severability of Provisions. If any provision of the Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of the Plan, and the Plan shall be construed and enforced as if such invalid or unenforceable provision had not been included in the Plan.

17.15 No Funding. The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of funds or assets to ensure the payment of any Award. Prior to receipt of Shares or cash distribution pursuant to the terms of an Award, such Award shall represent an unfunded unsecured contractual obligation of the Company and the Holder shall have no greater claim to the Shares underlying such Award or any other assets of the Company than any other unsecured general creditor.

17.16 Headings. Headings used throughout the Plan are for convenience only and shall not be given legal significance.

APPENDIX B

**LIVEDEAL, INC.**

**CONVERTIBLE NOTE PURCHASE AGREEMENT**

Up to \$5,000,000 Principal Amount  
Convertible Notes

January 7, 2014

Kingston Diversified Holdings LLC  
535 Burleigh Private  
Ottawa, Ontario K1J 1J9  
Canada

The undersigned, LiveDeal, Inc., a Nevada corporation (the “Company”), proposes to issue and sell to Kingston Diversified Holdings LLC (the “Purchaser”), for cash up to \$5,000,000 in principal amount of the Company’s Convertible Notes (collectively, the “Notes”). The Notes will be issued pursuant to and subject to the terms and conditions of this Agreement (the terms “Agreement” or “Purchase Agreement” as used herein or in any Exhibit or Schedule hereto shall mean this Agreement and the Exhibits and Schedules hereto individually and collectively as they may from time to time be modified or amended).

As used in this Agreement, the following terms shall have the following meanings:

“Affiliate” means, with respect to any Person, a stockholder, executive officer, director, manager or any other Person directly or indirectly controlling, controlled by or under common control with such Person, where “control” means the possession, directly or indirectly, of power to direct or cause the direction of the management or policies of an entity.

“Approval Date” means the date on which the Company receives approval of this Agreement and the transactions contemplated hereby from the NASDAQ Capital Market, in form and substance reasonably satisfactory to the Company and Purchaser, following the Company’s submission of a Listing of Additional Shares Application relating

hereto.

“Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in Nevada are authorized or required by law to close.

“Change of Control Transaction” means (a) a sale, lease or other disposition of assets or properties of the Company and its Subsidiaries (calculated on a consolidated basis) having a book value of fifty-one percent (51%) or more of the book value of all the assets and properties thereof, or (b) any transaction in which one or more persons (other than a holder of capital stock of the Company on the First Closing Date, or an Affiliate of or successor to any such holder) shall after the First Closing Date directly or indirectly acquire from the holders thereof, by purchase or in a merger, consolidation or other transfer or exchange of outstanding capital stock, ownership of or control over capital stock of the Company (or securities exchangeable for or convertible into such stock or interests) entitled to elect a majority of the Company’s Board of Directors or representing at least fifty-one percent (51%) of the number of shares of common stock outstanding.

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“Closing” shall have the meaning set forth in Section 1.3 hereof.

“Code” shall have the meaning set forth in Section 2.3 hereof.

“Common Stock” means the common stock of the Company, par value \$.001 per share; provided, however, that, in the event of any capital reorganization or reclassification of the common stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale or transfer of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or similar equity interests with respect to or in exchange for common stock, then the term “Common Stock” shall mean, for all purposes, such stock, securities or similar equity interests.

“Conversion Shares” means Shares of Common Stock issued or issuable upon conversion of the Notes (but, for avoidance of doubt, shall not include Warrant Shares).

“Disclosure Reports” means all reports, schedules, forms, statements, and other documents required to be filed by the Company with the Securities and Exchange Commission pursuant to the Securities Act and/or the Exchange Act, and the rules and regulations promulgated under each, including pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as all amendments to such filings and reports and all exhibits and documents incorporated by reference therein or attached thereto, that have been filed as of the applicable Closing.

“Effective Date” means the date of this Agreement, as set forth above.

“ERISA” means the Employee Retirement Income Security Act of 1974, and regulations promulgated thereunder.

“Event of Default” shall have the meaning set forth in Section 7 hereof.

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

“Excluded Issuances” shall have the meaning set forth in Section 12.13 hereof.

“GAAP” means generally-accepted accounting principles within the United States of America, consistently applied.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Indemnified Parties” shall have the meaning set forth in Section 12.6 hereof.

“Indemnifying Parties” shall have the meaning set forth in Section 12.6 hereof.

“Material Adverse Effect” shall have the meaning set forth in Section 3.3 hereof.

“Maturity Date” means the second (2nd) anniversary of the Effective Date.

“New Price” shall have the meaning set forth in Section 12.13 hereof.

“New Shares” shall have the meaning set forth in Section 12.13 hereof.

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“Notes” shall have the meaning set forth in the Preamble.

“Organizational Documents” means, as to any corporation, limited liability company or limited partnership (a) its certificate or articles of incorporation or formation or certificate of limited partnership, and all amendments thereto, and (b) its bylaws, limited liability company agreement or partnership agreement, and all amendments thereto.

“Person” means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

“Purchaser” shall have the meaning set forth in the Preamble.

“SEC” means the United States Securities and Exchange Commission.

“Securities” means the Notes, the Conversion Shares, the Warrants and the Warrant Shares.

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

“Subsidiary” of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such partnership, joint venture or limited liability company or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person’s other Subsidiaries. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Company.

“Transaction Documents” means the Purchase Agreement, the Notes and the Warrants.

“Warrants” means the warrants, substantially in the form of Exhibit B hereto, issued or issuable upon conversion of the Notes.

“Warrant Holder” or “Warrantholder” means the registered holder or holders of the Warrants or any related Warrant Shares.

“Warrant Shares” means Shares of Common Stock issued or issuable upon exercise of the Warrants.

The Company and Purchaser agree as follows:

Section 1. Purchase and Sale of the Notes.

1.1 Issuance of the Notes. Subject to the terms and conditions of this Agreement, the Company agrees to sell to Purchaser, and Purchaser agrees to purchase from the Company for cash, from and after the Approval Date until and including the Maturity Date, one or more Notes in an aggregate principal amount of up to \$5,000,000; provided, however, that no individual purchase of Notes shall be in an amount that is less than \$100,000. Either the Company or Purchaser shall have the right to cause the sale and issuance of Notes pursuant to this Agreement, with each Note to be sold and issued upon at least three (3) Business Days advance written notice from the Company or Purchaser, as applicable. Each Note sold and issued pursuant to this Agreement shall (a) be dated as of the date of its issuance, (b) be substantially in the form of Exhibit A hereto with the blanks appropriately completed in conformity herewith, (c) be payable on the Maturity Date, and (d) bear interest (based on a 360-day year counting actual days elapsed) from the date of issuance thereof until due and payable, unless earlier prepaid in full or converted, at the rate equal to eight percent (8.00%) per annum. All interest on each Note shall be payable in cash on the Maturity Date or upon prepayment in full or conversion of such Note.



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1.2 Payment of Purchase Price. The purchase price for each Note shall be (a) equal to ninety-five percent (95.00%) of the principal amount of the applicable Note, reflecting a five percent (5.00%) discount at issuance, and (b) payable on the date of issuance thereof in cash by wire transfer of immediately available funds pursuant to the Company's written instructions.

1.3 Multiple Closings. The Company's sale and issuance of Notes hereunder may occur in one or more closings (each a "Closing") between the Approval Date and the Maturity Date. Each Closing shall be subject to the satisfaction or waiver of the conditions set forth in Section 4.1 hereof. The parties shall reasonably agree as to the time and place for each Closing. At each Closing, the Company shall deliver to Purchaser the Note purchased by Purchaser, and Purchaser shall deliver the purchase price (less any agreed deductions, including the discount contemplated by Section 1.2 hereof) by wire transfer of immediately available funds pursuant to the Company's written instructions.

Section 2. Intentionally Omitted.

Section 3. Representations and Warranties. In order to induce Purchaser to purchase the Notes, the Company hereby represents and warrants to, and agrees with, Purchaser and its respective successors, endorsees and assigns that, as of the date hereof and as of the date of each Closing, that, except as set forth in the Disclosure Reports:

3.1 No Default. No Event of Default and no event, condition, act or omission to act, which with the giving of notice or the passage of time, or both, would constitute an Event of Default, has occurred and is continuing or will have occurred and be continuing at the time of or immediately after the Closing Date.

3.2 Organizational Documents. Each of the Company and its Subsidiaries has delivered or made available to Purchaser an accurate and complete copy of its Organizational Documents and all amendments thereto.

3.3 Existence and Qualification. Each of the Company and its Subsidiaries is a corporation, limited liability company or limited partnership validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation. Each of the Company and its Subsidiaries is duly qualified to do business and in good standing as a foreign entity in each jurisdiction where its failure to so qualify or be in good standing as a foreign entity could reasonably be expected to have a material adverse effect on the business, operations, properties or financial condition of the Company and its Subsidiaries, taken as a whole, or the ability of the Company and its Subsidiaries, taken as a whole, to perform their obligations under the Transaction Documents (a "Material Adverse Effect").

3.4 Power and Authority. Each of the Company and its Subsidiaries has all necessary corporate, limited liability company or partnership power and authority necessary to own, operate or lease its properties and assets and to conduct its business as now conducted by it. The Company has all necessary corporate power and authority necessary

to borrow under the Purchase Agreement and to issue the Notes and, upon the conversion thereof, the Warrants, and to execute, deliver and perform the Transaction Documents to which it is a party. The Company has taken all corporate action required to authorize the borrowings under the Purchase Agreement, the issuance of the Notes and, upon the conversion thereof, the Warrants, and the execution, delivery and performance of the Transaction Documents to which it is a party.

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3.5 Due Execution and Delivery. The Company has duly executed and delivered each of the Transaction Documents to which it is a party. The certificates representing the Notes have been, and upon conversion of the Notes the Warrants will be, duly and properly executed and delivered.

3.6 Consents; Governmental Approvals. No consent or approval of any person, firm or corporation, and no consent, license, approval or authorization of, or registration, filing or declaration with, any governmental authority, bureau or agency is required to be obtained or made by or on behalf of the Company or any of its Subsidiaries in connection with the issuance of the Notes or the Warrants, the execution, delivery or performance of any of the Transaction Documents or the completion of the transactions contemplated thereby, except for the approval of the Board of Directors of the Company and the approval of the managers or general partners of the Subsidiaries, as applicable, the approval of the stockholders of the Company and the approval of the members or the limited partners of the Subsidiaries, as applicable, each of which shall have been obtained or made prior to the Closing Date.

3.7 Binding Effect. Each of the Transaction Documents to which the Company is a party is its legal, valid and binding obligation, enforceable against the Company in accordance with its terms.

3.8 Absence of Conflicts. The issuance of the Notes and the Warrants by the Company, and the execution, delivery and performance of the Transaction Documents by the Company do not and will not (a) conflict with or violate any provision of the Organizational Documents of the Company or the Subsidiaries, (b) conflict with or result in a violation, breach or default by the Company or any of its Subsidiaries under (i) any provision of any existing statute, law, rule or regulation binding on it or any order, judgment, award, decree, license or authorization of any court or governmental instrumentality, authority, bureau or agency binding on it, or (ii) any mortgage, indenture, lease or other contract, agreement, instrument or undertaking to which it is a party or will be a party immediately after the Closing Date, or by which or to which it or any of its property or assets is now or immediately after the Closing Date will be bound or subject, or (c) result in the creation or imposition of any lien, encumbrance or other charge on any of its properties or assets, except for liens permitted by Section 6.1 or liens in favor of Purchaser created by the Purchase Agreement and Transaction Documents, except in the case of clause (b) for violations, breaches or defaults that would not reasonably be expected to have a Material Adverse Effect.

3.9 Litigation. No litigation, proceedings or investigations of or before any court, arbitrator or governmental authority are currently pending or threatened against Company or any of its Subsidiaries or pending or threatened against any other person, firm or corporation, which (a) question the validity or the enforceability of, or otherwise seek to restrain the performance of, any of the Transaction Documents or any actions taken or to be taken thereunder, (b) in any one case are material, or (c) in the aggregate are reasonably likely to have a Material Adverse Effect.

3.10 No Defaults; Adverse Changes. Neither the Company nor any of its Subsidiaries is, or immediately after the Closing Date will be, in default under or in violation of (a) its Organizational Documents, (b) any agreement or instrument to which it is a party or will then be a party, (c) any statute, rule, writ, injunction, judgment, decree, order or regulation of any court or governmental authority having jurisdiction over it, or (d) any license, permit, certification or approval requirement of any customer, supplier, governmental authority or other person, in any way that, in the

case of (b), (c) or (d) above, could reasonably be expected to have a Material Adverse Effect. There is no proposed legislative or regulatory change, any threatened or pending revocation of any license or right to do business with respect to the Company or any of its Subsidiaries, or any threatened or pending labor trouble, condemnation, requisition or embargo that could reasonably be expected to have a Material Adverse Effect.

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3.11 Financial Statements. Purchaser has been furnished with the audited consolidated financial statements of the Company and its Subsidiaries for the most recently completed fiscal year as required by Section 5.1.1 and the unaudited consolidated financial statements of the Company and its Subsidiaries for the most recently completed fiscal quarter as required by Section 5.1.2. Such financial statements have been prepared in accordance with GAAP, consistently applied, and fairly present the financial condition and the results of operations of the Company and its Subsidiaries, as the case may be, subject, in the case of interim financial statements, to (a) year-end adjustments, which individually and in the aggregate will not be materially adverse, and (b) the absence of footnotes.

Section 4. Conditions Precedent. The obligation of Purchaser to purchase Notes hereunder at each Closing shall be subject to the satisfaction of each of the following conditions precedent on the date of such Closing:

4.1 Representations. All representations and warranties made in Section 3 of this Agreement and in any other agreement, certificate or instrument furnished to Purchaser in connection herewith, shall be true and correct with the same force and effect as though such representations and warranties had been made at the time of, and immediately after giving effect to, the sale of the Notes on the Closing Date.

4.2 No Default. At the time of and immediately after giving effect to the sale of the Notes on the Closing Date there shall exist no Event of Default and no condition, event or act that, with the giving of notice or lapse of time, or both, would constitute such an Event of Default.

4.3 No Adverse Change. There shall have been (a) since the most recently completed fiscal year, no material adverse change in the assets, business, operations, properties or financial condition of the Company and its Subsidiaries, taken as a whole, (b) no material adverse change or disruption in the financial markets, the capital markets or the industries of the Company and its Subsidiaries that could affect the Company or Purchaser, and (c) no litigation commenced which, if successful, could reasonably be expected to have a Material Adverse Effect or which would in any way interfere with the transactions contemplated by this Agreement.

4.4 Additional Documents. Purchaser shall have received all such other agreements, documents, instruments, approvals, certificates, opinions and information as Purchaser shall reasonably request in connection with this Agreement, the Notes, the Warrants, the other Transaction Documents and the transactions herein and therein contemplated, including, without limitation, those specified in the list of closing documents delivered by Purchaser to the Company, all of which shall be in form and substance reasonably satisfactory to Purchaser and its counsel.

Section 5. Affirmative Covenants. The Company covenants and agrees that it will:

5.1 Financial Statements and Information. Furnish or cause to be furnished to Purchaser the following financial statements and information:

5.1.1 As soon as available, but in any event within ninety (90) days after the close of each fiscal year of the Company, audited consolidated and unaudited consolidating balance sheets of the Company and of each of its Subsidiaries as of the close of such fiscal year, and audited consolidated and unaudited consolidating statements of income and retained earnings and cash flows of the Company and of each of its Subsidiaries for such fiscal year, together with (a) copies of the reports and certificates relating thereto of independent certified public accountants of recognized standing selected by the Company and reasonably satisfactory to Purchaser, (b) such accountants' letter to management relating to such financial statements, and (c) a report of the chief executive officer or the chief financial officer of the Company containing management's discussion and analysis of the Company's financial condition, results of operations and affairs for such year.

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5.1.2 As soon as available but in any event within forty-five (45) days after the close of each quarter of each fiscal year of the Company, unaudited consolidated and consolidating balance sheets of the Company and of each of its Subsidiaries as of the last day of such quarter and unaudited consolidated and consolidating statements of income and retained earnings and cash flows of the Company and of each of its Subsidiaries for such quarter and for the period from the beginning of the fiscal year to the end of such quarter, each such balance sheet and statement of income and retained earnings and changes in financial position to be certified by the chief executive officer and the chief financial officer of the Company, in his individual capacity, as fairly presenting in all material respects the financial condition and results of operation of the Company or such Subsidiary, provided that any such certificate may state that the accompanying balance sheet and statements are subject to normal year-end adjustments.

5.2 Corporate Existence and Business. Maintain, and cause each Subsidiary to maintain, its separate corporate, limited liability company or partnership existence, as applicable, and its qualification and good standing in all States in which the failure to so qualify or be in good standing could reasonably be expected to have a Material Adverse Effect; and carry on business of the same general types presently conducted by it.

5.3 Insurance. Maintain, and cause each Subsidiary to maintain, insurance to such extent and covering such risks as shall be required by law or by any agreement to which the Company or such Subsidiary is a party, and in any event, insurance with such limits and covering such risks as is customary for companies engaged in the same or a similar business in the same general areas, and cause each such policy to be endorsed to provide Purchaser at least thirty (30) days' prior written notice of any cancellation, non-renewal or amendment. Promptly give notice to Purchaser of any cancellation or lapse in coverage of any policy of insurance maintained by the Company or any Subsidiary

5.4 Access to Properties and Information. (a) Provide and cause its Subsidiaries to provide such information concerning the operations of the Company and of its Subsidiaries as Purchaser may from time to time reasonably request in writing; (b) upon reasonable advance notice permit, and cause each Subsidiary to permit, representatives of Purchaser full and free access during normal business hours to its management personnel, properties, books and records, allow and cause each Subsidiary to allow the members of its management to discuss the affairs, finances and business of the Company and such Subsidiary with Purchaser, and permit and cause each Subsidiary to permit Purchaser to consult with and advise its directors and officers on the management of its business; and (c) upon request by a Purchaser, direct, and cause each Subsidiary to direct, its independent accountants to discuss the affairs, finances and business of the Company and its Subsidiaries with Purchaser.

5.5 Notices. Promptly give notice to Purchaser of (a) any litigation, proceeding, investigation or claim that relates in whole or in part to this Agreement or any of the Notes and the Warrants, (b) any litigation, proceeding, investigation or claim against or, after the Company becomes aware of the same, affecting the Company or any Subsidiary that can reasonably be expected to materially adversely affect the financial condition or business of, or to result in a material liability of or judgment or order against, the Company and its Subsidiaries (taken as a whole), whether or not covered by insurance, or (c) the occurrence or claimed occurrence of an Event of Default specified in Section 7. The Company shall furnish to Purchaser from time to time all information that Purchaser shall reasonably request with respect to the status of any such litigation, proceeding, investigation or claim to which the Company or any Subsidiary is a party.





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5.6 Obligations. Pay, discharge or otherwise satisfy, and cause each Subsidiary to pay, discharge or otherwise satisfy, all its obligations and liabilities, whether for labor, materials, supplies, services or anything else, before they become delinquent, except to the extent that (a) appropriate reserves therefor have been provided on its books and the validity or amount of such liability or obligation is being contested in good faith and by appropriate proceedings, and (b) the failure to pay or discharge the same could not reasonably be expected to have a Material Adverse Effect.

5.7 Maintenance of Property. Maintain, keep and preserve, and cause each Subsidiary to maintain, keep and preserve, all of its properties used or useful in its business in good repair, working order and condition (ordinary wear and tear excepted) and from time to time make all necessary and proper repairs, renewals, replacements and improvements thereto; and maintain, preserve and protect all licenses, copyrights, patents and trademarks owned or held under license and material to the business of the Company or any Subsidiary (excluding any owned by suppliers of the Company and its Subsidiaries).

5.8 Maintenance of Records. Keep and cause its Subsidiaries to keep proper books of record and account in which full, true and correct entries will be made, in accordance with generally accepted accounting principles, of all dealings or transactions of or in relation to the business and affairs of the Company and its Subsidiaries.

5.9 Compliance with Applicable Law. Comply, and cause each Subsidiary to comply, with each statute, law, rule, regulation, order or other governmental requirement, noncompliance with which (in any one instance or in the aggregate) is reasonably likely to materially and adversely affect (a) the business, operations, property or financial condition of the Company and its Subsidiaries taken as a whole, or (b) the Company's ability to perform its obligations under the Transaction Documents.

5.10 Further Assurances. Execute and deliver or cause to be executed and delivered such further instruments and do or cause to be done such further acts as may be reasonably necessary to carry out this Agreement.

Section 6. Negative Covenants. The Company covenants and agrees that it will not:

6.1 Liens and Encumbrances. Contract, create, incur, assume or suffer to exist, or permit any of its Subsidiaries to contract, create, incur, assume or suffer to exist, any mortgage, pledge, security interest, lien or other charge or encumbrance of any kind (including the charge upon property purchased under any conditional sale or other title retention agreement) upon or with respect to any of its or their property or assets, whether now owned or hereafter acquired, except:

6.1.1 Liens in connection with worker's compensation, unemployment insurance or other social security or similar obligations;

6.1.2 Deposits or pledges securing the performance of bids, tenders, contracts (other than deposits of cash to secure the payment of money by the Company or any of its Subsidiaries), leases, statutory obligations, surety and appeal bonds and other obligations of like nature made in the ordinary course of business;

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6.1.3 Mechanics', carriers', landlords', warehousemen's, workers', materialmen's or other like liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith;

6.1.4 Liens for taxes, assessments, levies or governmental charges imposed upon the Company or its Subsidiaries or their respective properties, operations, income, products or profits, which shall not at the time be due or payable or if the validity thereof is being contested in good faith by appropriate proceedings;

6.1.5 Reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions and other similar title exceptions or encumbrances affecting real property which do not materially detract from the value of the property affected or materially interfere with the ordinary conduct of the business of the Company or any Subsidiary;

6.1.6 Attachment, judgment and other similar liens arising in connection with court proceedings, provided that the execution or other enforcement thereof is effectively stayed (including stays resulting from the filing of an appeal) within sixty (60) days and the claims secured thereby are being contested in good faith by appropriate proceedings;

6.1.7 Capital lease obligations or security interests securing purchase money indebtedness not otherwise prohibited hereunder, provided that such security interests do not extend or attach to assets other than those acquired with the proceeds of such indebtedness;

6.1.8 Leases of real property; and

6.1.9 Liens existing on the date hereof and set forth in the Disclosure Reports.

6.2 Loans. Lend money or credit, or make or permit to be outstanding loans or advances, to any person, firm or corporation or other enterprise, or permit any Subsidiary to lend, make or permit any of the foregoing, except (a) loans or advances in the nature of deposits or prepayments to subcontractors, suppliers and others in the ordinary course of business, (b) loans or advances between Subsidiaries and the Company, between Subsidiaries, and (c) loans or advances to employees, not exceeding \$10,000 in the aggregate at any one time outstanding.

6.3 Liquidation or other Disposition of Business. Except in connection with any merger or consolidation of the Company with one or more of its Subsidiaries or the Subsidiaries with one or more other Subsidiaries, (a) wind up, liquidate its affairs or dissolve, or permit any Subsidiary to do so; enter into any transaction of merger or consolidation or permit any Subsidiary to do so, or (b) convey, sell, lease or otherwise dispose of all or (except inventory sold in the ordinary course of business) any substantial part of its assets or properties, or permit any Subsidiary to do so.

6.4 Indebtedness. Directly or indirectly create, incur or assume, or otherwise be, become or remain liable on, or permit any Subsidiary to do so, any indebtedness for borrowed money or the deferred purchase price of property, any other liability evidenced by bonds, debentures, notes or similar instruments, or under leases required to be capitalized in accordance with GAAP, except for indebtedness evidenced by the Notes or otherwise contemplated by this Agreement.

6.5 Affiliates. Purchase, acquire or lease any property from, or sell, transfer or lease any property to, or permit any Subsidiary to do so, any Affiliate except (a) in transactions which are on terms comparable in all material respects to the terms which would prevail in an arm's-length transaction between unaffiliated third parties, and (b) in transactions between the Company and any Subsidiary, or between Subsidiaries, not otherwise prohibited by this Agreement.

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6.6 ERISA. Terminate or withdraw, or permit any Subsidiary to terminate or withdraw, from any plan defined in Section 4021(a) of ERISA in respect of which the Company or any Subsidiary is an “employer” or a “substantial employer” as defined in Sections 3(5) and 4001(a)(2) of ERISA, respectively, so as to result in any material liability of the Company or any of its Subsidiaries to the PBGC pursuant to Subtitle A of Title IV of ERISA or material liability of the Company or any of its Subsidiaries to such plan; engage, or permit any Subsidiary to engage, in any “prohibited transaction” (as defined in Section 4975 of the Code) involving any such plan which would result in a material liability for an excise tax or civil penalty in connection therewith; incur or suffer to exist, or permit any Subsidiary to incur or suffer to exist, any material “accumulated funding deficiency” (as defined in Section 302 of ERISA), whether or not waived, involving any such plan; incur, or permit any Subsidiary to incur, any withdrawal liability in connection with a “complete withdrawal” or a “partial withdrawal”, as defined in Sections 4203 and 4205, respectively, of ERISA, with respect to any multiemployer plan as defined in Section 3(37) of ERISA; establish, or permit any Subsidiary to establish, any new employee pension benefit plans; or increase or permit any Subsidiary to increase the benefits under any employee pension benefit plans.

Section 7. Events of Default. In the event that:

7.1 The Company fails to pay (a) any principal of any Note when such amount becomes due in accordance with the terms thereof, or (b) any interest on any Note or any other payment of money required to be made to any of Purchaser hereunder, within three (3) days after such amount becomes due in accordance with the terms hereof; or

7.2 Any representation or warranty made to Purchaser in this Agreement or in any certificate, agreement or instrument executed and delivered to Purchaser by the Company or any Subsidiary or by its accountants or officers pursuant to this Agreement is false, inaccurate or misleading in any material respect on the date as of which made; or

7.3 (a) the Company defaults in the performance of any term, covenant, agreement, condition, undertaking or provision of Section 6 hereof, or (b) the Company defaults in the performance of any other term, covenant, agreement, condition, undertaking or provision of this Agreement, any of the Notes or any other agreement or instrument executed and delivered to any of Purchaser (or their agent) by the Company as provided in this Agreement or in connection with the transactions contemplated in this Agreement, and such default is not cured or waived within thirty (30) days after the Company receives notice of such default from Purchaser or from a third party; or

7.4 the Company fails to pay any principal of or interest on any of its other material indebtedness for a period longer than the grace period, if any, provided for such payment; or

7.5 a Change of Control Transaction occurs; or

7.6 (a) One or more final judgments, decrees or orders shall be entered against the Company or any Subsidiary involving in the aggregate a liability (not fully covered by insurance other than applicable deductibles) of \$100,000 or more and all such judgments, decrees or orders shall not have been vacated, paid or discharged, dismissed, or stayed or bonded pending appeal (or other contest by appropriate proceedings) within sixty (60) days from the entry thereof, (b) pursuant to one (1) or more judgments, decrees, orders, or other proceedings, whether legal or equitable, any warrant of attachment, execution or other writ is levied upon any property or assets of the Company or any Subsidiary and is not satisfied, dismissed or stayed (including stays resulting from the filing of an appeal) within sixty (60) days, (c) all or any substantial part of the assets or properties of the Company or any Subsidiary are condemned, seized or appropriated by any government or governmental authority, or (d) any order is entered in any proceeding directing the winding up, dissolution or split-up of the Company or any Subsidiary; or

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7.7 (a) Any event occurs of a type described in Section 4043(b) of ERISA with respect to, or any proceedings are instituted by the PBGC to have a trustee appointed to administer or to terminate, any plan referred to in Section 6.6 hereof, of the Company or any Subsidiary, which event or institution of proceedings is, in the reasonable opinion of Purchaser, reasonably likely to result in a termination of such plan and to have a material adverse effect upon the business, operations, assets or financial condition of the Company and its Subsidiaries as a consolidated entity, or (b) a trustee shall be appointed by a United States District Court to administer any such plan with vested unfunded liabilities that are material in relation to the business operations, assets or financial condition of the Company and its Subsidiaries as a consolidated entity; or

7.8 The Company (a) commences any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or (b) is the debtor named in any other case, proceeding or other action of a nature referred to in clause (a) above which (i) results in the entry of an order for relief or any such adjudication or appointment or (ii) remains undismissed, undischarged or unbonded for a period of sixty (60) days, or (c) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence to, any order, adjudication or appointment of a nature referred to in clause (a) or (b) above, or (d) shall generally not be paying, shall be unable to pay, or shall admit in writing its inability to pay its debts as they become due, or (e) shall make a general assignment for the benefit of its creditors; or

7.9 On or at any time after the Closing Date (a) any of the Transaction Documents for any reason, other than a partial or full release in accordance with the terms thereof, ceases to be in full force and effect or is declared to be null and void, or (b) the Company contests the validity or enforceability of any Transaction Document in writing or denies that it has any further liability under any Transaction Document to which it is party, or gives notice to such effect;

then, and in any such event (an “Event of Default”), (x) if such event is of the type described in Section 7.8, the Notes shall automatically become due and payable, or (y) in any other such event, and at any time thereafter, if such event shall then be continuing, subject to the provisions of Section 8, Purchaser may, by written notice to the Company, declare due and payable the principal of, and interest on, the Notes held by Purchaser, whereupon the same shall be immediately due and payable. In the event that any of the Notes becomes or is declared due and payable prior to its stated maturity, the same shall become due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

Section 8. Effectiveness of Covenants: Consents.

8.1 Effectiveness of Covenants. The covenants contained in this Agreement shall continue in full force and effect until the Notes and all other indebtedness outstanding under this Agreement are paid in full whereupon they shall terminate and be of no further force or effect, except that the covenants enumerated in the next sentence shall continue

in full force and effect with respect to Purchaser holding Warrants and Warrant Shares after the payment of the Notes and such other indebtedness. Any holder of Warrants or Warrant Shares who does not also hold a Note shall be deemed a Purchaser hereunder with respect to such holder's ownership of Warrants or Warrant Shares solely for the purposes of Sections 5.1.1, 5.1.2, 5.4, 5.5, 6.5, 8, 9, 10, 11, and 12.



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8.2 Consents and Waivers. Any provision in this Agreement to the contrary notwithstanding, with the written consent of Purchaser, the Company may be relieved from the effect of any Event of Default or from compliance with any covenant, agreement or undertaking contained herein or in any instrument executed and delivered as herein provided, except the provisions for the payment or prepayment of the Notes, and the provisions of the Warrants.

Section 9. Investment Representation. Purchaser acknowledges (a) that the Notes and the other Securities being acquired by Purchaser are not being and will not be registered under the Securities Act on the ground that the issuance thereof is exempt from registration under Section 4(2) of the Securities Act as not involving any public offering, and (b) that the Company's reliance on such exemption is predicated in part on the representation hereby made to the Company by Purchaser that it is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act, and is acquiring the Notes and the other Securities for investment for its own account, with no present intention of dividing its participation with others or reselling or otherwise distributing the same, subject, nevertheless, to any requirement of law that the disposition of its property shall at all times be within its control. Purchaser is not aware of any particular occasion, event or circumstance upon the occurrence or happening of which it intends to dispose of the Notes or other Securities.

Section 10. Transfers; Replacement of Notes.

10.1 Transfers. Purchaser shall be entitled to assign and transfer all or any part of its Notes or Warrants, or any interest or participation therein, and its related rights under this Agreement; and upon the assignment or transfer by Purchaser of all or any part of its Notes or Warrants or its interest therein (except in public offering registered under the Securities Act, or a sale pursuant to Rule 144 thereunder), the term "Purchaser" as used herein shall thereafter include, to the extent of the interest so assigned or transferred, the assignee or transferee of such interest.

10.2 Issuance of New Notes. The Company will at any time, at its expense, at the request of a holder of a Note, and upon surrender of such Note for such purpose, issue a new Note or Notes in exchange therefor, payable to the order of the holder or such person or persons as may be designated by such holder, dated the last date to which interest has been paid on the surrendered Note, or, if such exchange shall take place prior to the due date of the first interest payment, the date of issuance of such original Note, in such denominations as may be requested, in an aggregate principal amount equal to the unpaid principal amount of the Note so surrendered and substantially in the form of such Note with appropriate revisions. Upon such exchange the term "Note" as used herein shall include such new Note or Notes.

10.3 Replacement of Notes. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any Note and, if requested in the case of any such loss, theft or destruction, upon delivery of an indemnity bond or other agreement or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of such Note, the Company will issue a new Note, of like tenor and amount and dated the date to which interest has been paid, in lieu of such lost, stolen, destroyed or mutilated Note; provided, however, if any Note of which Purchaser, its nominee, or any of its partners is the holder is lost, stolen or destroyed, the affidavit of an authorized partner or officer of the holder setting forth the circumstances with respect to

such loss, theft or destruction shall be accepted as satisfactory evidence thereof, and no indemnification bond, or other security shall be required as a condition to the execution and delivery by the Company of a new Note in replacement of such lost, stolen or destroyed Note other than the holder's written agreement to indemnify the Company.

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Section 11. Judicial Proceedings.

11.1 Each of the parties hereto irrevocably and unconditionally agrees to be subject to the exclusive jurisdiction of any Arizona State or Federal court sitting in the City of Phoenix over any suit, action or proceeding arising out of or relating to this Agreement or any of the Notes, Warrants or other Transaction Documents. To the fullest extent it may effectively do so under applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

11.2 The Company agrees, to the fullest extent they may effectively do so under applicable law, that a judgment in any suit, action or proceeding of the nature referred to in Section 11.1 brought in any such court shall, subject to such rights of appeal on issues other than jurisdiction as may be available, be conclusive and binding upon the Company and may be enforced in the courts of the United States of America or the State of Arizona (or any other courts to the jurisdiction of which the Company is or may be subject) by a suit upon such judgment.

11.3 Each of the parties hereto hereby irrevocably and unconditionally agrees (1) to the extent such party is not otherwise subject to service of process in the State of Arizona, to appoint and maintain an agent in the State of Arizona as such party's agent for acceptance of legal process, and (2) that, to the fullest extent permitted by applicable law, service of process may also be made on such party by prepaid certified mail with a proof of mailing receipt validated by the United States Postal Service constituting evidence of valid service, and that service made pursuant to (1) or (2) above shall, to the fullest extent permitted by applicable law, have the same legal force and effect as if served upon such party personally within the State of Arizona.

11.4 Nothing in this Section 11 shall affect the right of any of Purchaser to serve process in any manner permitted by law, or limit any right that any of Purchaser may have to bring proceedings against the Company in the courts of any jurisdiction or to enforce in any lawful manner a judgment obtained in one (1) jurisdiction in any other jurisdiction.

11.5 THE COMPANY HEREBY EXPRESSLY WAIVES ANY RIGHTS IT MAY HAVE NOW OR HEREAFTER TO A JURY TRIAL IN ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE NOTES, THE WARRANTS OR THE OTHER TRANSACTION DOCUMENTS.

11.6 Upon breach or default by the Company with respect to any obligation hereunder, under the Notes, the Warrants or other Transaction Documents, Purchaser (or their agents) shall be entitled to protect and enforce their rights at law, or in equity or by other appropriate proceedings for specific performance of such obligation, or for an injunction against such breach or default, or in aid of the exercise of any power or remedy granted hereby or thereby or by law.

Section 12. Miscellaneous.

12.1 Notices. All notices, requests, demands or other communications to or upon the respective parties hereto shall be in writing and shall be deemed to have been given or made, and all financial statements, information and the like required to be delivered hereunder shall be deemed to have been delivered, five (5) days after deposited in the mails, registered or certified with postage prepaid, addressed to the Company at 6240 McLeod Drive, Suite 120, Las Vegas, Nevada 89120, Attn: Accounting Department, and to Purchaser at \_\_\_\_\_, or to such other address as any of them shall specify in writing to the other. No other method of giving notice is hereby precluded. Upon the reasonable request of Purchaser, the Company will deliver to Purchaser, at the Company's expense, additional copies of all financial statements, information and the like required hereunder.

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12.2 Cumulative Remedies, Etc. No failure or delay on the part of any of Purchaser in exercising any right, power or privilege hereunder, and no course of dealing between the Company and Purchaser, or any of them, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude the simultaneous or later exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which Purchaser, or any of them, would otherwise have. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of Purchaser, or any of them, to take any other or further action in any circumstances without notice or demand.

12.3 No Oral Changes; Assignment; Survival of Representations. This Agreement may not be changed or terminated orally. This Agreement shall be binding upon the Company and Purchaser and its successors and assigns. Neither the Company nor Purchaser shall not make any assignment of its rights under this Agreement, the Notes, the Warrants or other Transaction Documents or subject this Agreement, the Notes, the Warrants or other Transaction Documents or its rights hereunder to any lien or security interest of any kind whatsoever; and any such assignment, lien or security interest shall be absolutely void and unenforceable as against Purchaser. All agreements, representations and warranties made herein or in writing otherwise in connection herewith shall survive the issuance of the Notes and the Warrants.

12.4 Expenses. Each of the parties hereto agrees to pay all of its expenses arising in connection with the negotiation, preparation, execution, delivery, administration, exercise of rights under and enforcement of, and any amendment, supplement or modification to, or waiver of any provision of, this Agreement, the Notes, the Warrants, and the Transaction Documents, including without limitation all documentary, stamp and similar taxes and assessments, all recording and filing fees and taxes charged by any governmental authority.

12.5 GAAP. All calculations after the Closing Date shall be made and all financial statements and data generated after the Closing Date and required hereby shall be prepared in accordance with GAAP (as in effect at the date of preparation) consistently applied, except as otherwise expressly provided herein.

12.6 Indemnification Generally. The Company and the Subsidiaries (collectively "Indemnifying Parties") agree to indemnify and hold harmless Purchaser, their respective Affiliates, partners, subsidiaries, directors, officers, employees, agents and representatives (collectively, the "Indemnified Parties") to the maximum extent permitted by law, from and against any and all liability (including, without limitation, reasonable legal fees incurred in defending against any such liability) under, arising out of or relating to this Agreement, the Notes, the Warrants and the other Transaction Documents, the transactions contemplated hereby or thereby or in connection herewith or therewith, and all action or failures to act and the transactions contemplated thereby, including (to the maximum extent permitted by law) any liability arising under Federal or state securities laws, except to the extent such liability shall result from any act or omission on the part of the Indemnified Parties constituting willful misconduct or gross negligence or the inaccuracy of representations in Section 9. The rights and obligations of the Indemnifying Parties under this Section 12.6 shall survive and continue to be in full force and effect notwithstanding the Notes not having been purchased, the repayment of the Notes, the expiration or repurchase of the Warrants or Warrant Shares and the termination of this Agreement. The Indemnifying Parties shall not be liable to the Indemnified Parties for any punitive, exemplary or consequential damages as a result of the transactions contemplated by this Agreement or the Transaction Documents.



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12.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada, without regard to principles of conflict of laws. The parties hereto hereby declare that it is their intention that this Agreement shall be regarded as made under the laws of the State of Nevada and that the laws of said State shall be applied in interpreting its provisions in all cases where legal interpretation shall be required.

12.8 Execution of Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed by the parties' exchange of signature pages via facsimile, .pdf or similar electronic transmission, and any executed signature pages exchanged in such fashion shall be deemed originals for all purposes.

12.9 Public Announcements. None of the parties hereto shall issue any press release or other public statement concerning the transactions provided for in this Agreement without the prior consent of the other parties, except to the extent required by applicable law, regulation or legal process.

12.10 Captions; Gender. The descriptive headings of the Sections of this Agreement are inserted for convenience only and shall not affect the meaning, construction or interpretation of any of the provisions hereof. The use of the masculine form of a pronoun shall be deemed, where appropriate, to include the masculine and feminine forms of such pronoun.

12.11 Legends. Certificates evidencing the Securities issued upon any conversion of the Notes and/or exercise of the Warrants shall bear the following restrictive legend, in addition to any other legends determined to be necessary or appropriate in the Company's reasonable discretion:

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES OR BLUE SKY LAWS. THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT.

APPENDIX B

12.12 NASDAQ and Stockholder Approval Matters. The Company covenants and agrees to use commercially reasonable efforts to obtain, as promptly as practicable, any approvals of the Company's stockholders required under the Company's Organizational Documents, applicable law and/or the listing rules and regulations of the NASDAQ Capital Market in connection with the transactions contemplated by this Agreement. Following such approval (if obtained via written consent in compliance with the Company's Organizational Documents and applicable law), the Company covenants and agrees to use commercially reasonable efforts to file with the SEC, as promptly as practicable, an Information Statement on Schedule 14C describing this Agreement and the transactions contemplated hereby. The parties acknowledge and agree that Purchaser shall not be entitled to convert any Notes, or exercise any Warrants, into shares of Common Stock, unless and until (a) any required stockholder approvals are obtained and (b) the time period prescribed by Rule 14c-2 promulgated under the Exchange Act has expired. Without limiting the generality of the foregoing, unless and until stockholder approval of the transactions contemplated by this Agreement is obtained by the Company, in no event shall Purchaser be entitled to convert any Notes, or exercise any Warrants, to the extent that any such conversion or exercise would result in Purchaser acquiring in such transactions a number of shares of Common Stock exceeding 19.99% of the number of shares of Common Stock issued and outstanding immediately prior to the Effective Date. Purchaser shall not be entitled to vote any shares of Common Stock acquired by it pursuant to this Agreement or the other Transaction Documents in connection with any such stockholder approval sought by the Company.

12.13 Anti-Dilution. If, within the two (2)-year period following the issuance of any Note, the Company issues shares of its capital stock in connection with a financing or an acquisition of, or merger or consolidation with, another entity ("New Shares") at a price that is less than the applicable conversion price or exercise price actually paid by Purchaser for any Conversion Shares or Warrant Shares obtained pursuant to such Note (or the Warrant issuable upon conversion of such Note), as applicable ("New Price"), then within ten (10) Business Days of such issuance, Purchaser shall be issued, without payment of any additional consideration, additional shares of Common Stock so that such new shares when combined with the Conversion Shares and/or Warrant Shares issued to Purchaser upon conversion of the applicable Notes and/or exercise of the applicable Warrants would equal the number of shares of Common Stock Purchaser would have received had the applicable conversion price and/or exercise price been the New Price. Notwithstanding the foregoing, the New Price may not be less than \$0.70 per share. Notwithstanding the foregoing or anything in this Agreement to the contrary, the following shall not be considered "New Shares" for purposes of this Section 12.13 (collectively, the "Excluded Issuances" and each an "Excluded Issuance"):

12.13.1 shares of capital stock issued upon conversion of, or exchange for, any outstanding (a) shares of any preferred stock, (b) options, or (c) securities of the Company convertible into or exercisable for shares of the Company's, in all cases that are outstanding as of the First Closing Date;

12.13.2 restricted stock or options issued to directors, officers, employees or consultants of the Company pursuant to the Company's existing stock incentive plan or any future stock incentive plan approved by the Company's board of directors and stockholders;

12.13.3 shares of Common Stock issued to officers, directors, employees, consultants, service providers or vendors in lieu of cash payments otherwise due;



12.13.4 warrants or convertible securities issued or issuable to banks, equipment lessors, lenders or other financial institutions, or to real property lessors or in connection with a financing; or

12.13.5 any securities deemed in writing to not be New Shares by Purchaser.

APPENDIX B

12.14 Preparation of Document/Independent Counsel. After Purchaser and the Company negotiated among themselves, this Agreement was prepared by Snell & Wilmer L.L.P, as legal counsel to the Company. Snell & Wilmer L.L.P. has not acted as legal counsel to any other party, including Purchaser. Purchaser acknowledges that it has had the opportunity to review this Agreement with its own legal counsel.

*[Remainder of Page Intentionally Left Blank; Signature Page Follows]*



APPENDIX B

If you are in agreement with the foregoing, please sign in the space provided below.

**COMPANY:**

LIVEDEAL, INC., a Nevada corporation

By: /s/ Tony Isaac

Name: Tony Isaac

Its: Authorized Signatory

**The foregoing is hereby accepted  
and agreed to, as of the date  
first above written, by Purchaser  
signing below:**

**PURCHASER:**

KINGSTON DIVERSIFIED HOLDINGS LLC

By: /s/ Tudor Mihai Gavrilă

Name: Tudor Mihai Gavrilă

Its: Managing Member

[Signature Page - Convertible Note Purchase Agreement]

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**APPENDIX B**  
**EXHIBIT A**

**Form of Note**

(See attached)

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APPENDIX B

THIS NOTE AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE WERE NOT ISSUED IN A TRANSACTION REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (“SECURITIES ACT”), OR ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS NOTE HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD OR TRANSFERRED UNLESS SUCH SALE OR TRANSFER IS COVERED BY AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR, IN THE OPINION OF COUNSEL TO THE COMPANY, IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS.

**LIVEDEAL, INC.**

**CONVERTIBLE NOTE**

U.S. \$\_\_\_\_\_ Date of Issuance: \_\_\_\_\_, 20\_\_

FOR VALUE RECEIVED, LiveDeal, Inc., a Nevada corporation (“Company”), hereby promises to pay to the order of \_\_\_\_\_, a[n] \_\_\_\_\_ (“Purchaser”), the aggregate principal sum of \_\_\_\_\_ and No/100 Dollars (\$\_\_\_\_\_) (the “Principal”) in lawful currency of the United States of America, subject to the provisions contained herein. This Convertible Note (this “Note”) is one of the Notes described in the Note Purchase Agreement dated as of January \_\_\_, 2014, by and between the Company and Purchaser (as amended from time to time, the “Purchase Agreement”). The Company and Purchaser shall be collectively referred to as the “Parties”. Unless otherwise expressly provided in this Note, initially capitalized words or terms used in this Note shall have the meanings set forth in the Purchase Agreement.

**ARTICLE 1  
PAYMENT**

1.1 Maturity Date. The Principal and any other amounts payable to Purchaser hereunder, shall be due and payable to Purchaser on the Maturity Date.

1.2 Interest. Interest will accrue from the date hereof on the Principal amount at the rate of eight percent (8.00%) per annum until all Obligations under this Note are paid in full or until the conversion of the Principal pursuant to Article 2 of this Note. If the Principal is not converted pursuant to Article 2 of this Note, interest shall be paid with the Principal amount and all other Obligations on the Maturity Date. If the Principal is converted pursuant to Article 2 of this Note, interest accrued through the date of conversion and all other Obligations shall be paid on the date of conversion in accordance with Article 2 of this Note.

1.3 Payment. All payments under this Note shall be made by check or wire transfer of immediately available funds and in lawful money of the United States of America at \_\_\_\_\_, or at such other place as Purchaser may from time to time designate in writing to the Company. Payments will be credited first, to costs of collection and other charges for which the Company is responsible pursuant to this Note, second, to accrued but unpaid interest, and the remainder to Principal.

1.4 Prepayment. The Company shall have the option to prepay this Note, together with accrued but unpaid interest, in whole or in part, at any time without premium or penalty.



APPENDIX B  
ARTICLE 2  
CONVERSION

2.1 Right to Convert into Common Stock; Conversion Price. Subject to Section 2.5 below, so long as any Principal due under this Note is outstanding, pursuant to Section 2.2 below, Purchaser may elect to convert, or the Company may cause the immediate conversion of, all or any portion of the Principal and accrued but unpaid interest into (a) that number of shares of the common stock of the Company (the “Common Stock”) as is obtained by dividing the dollar amount of the Principal and accrued but unpaid interest by the applicable Conversion Price per share of Common Stock (the “Conversion Shares”), and (b) a Warrant exercisable for a period of five (5) years, commencing on the Conversion Date (as defined below), for a number of shares of Common Stock equal to the number of Conversion Shares issuable upon conversion pursuant to clause (a) next preceding at an initial exercise price equal to one hundred ten percent (110%) of the Conversion Price then in effect. Subject to adjustment as provided in Section 2.3 hereof, the “Conversion Price” shall be an amount equal to seventy percent (70%) of the lesser of: (i) the closing bid price of the Common Stock on the Effective Date; or (ii) the 10-day volume weighted average closing bid price for the Common Stock, in each case as listed on NASDAQ for the ten (10) Business Days immediately preceding the date of the notice of conversion (the “Average Price”); provided, however, that in no event shall the Average Price per share be less than \$1.00. For example, if the Average Price is \$0.50 per share, then for purposes of calculating the Conversion Price, the Average Price per share would be \$1.00 per share instead of \$0.50 per share.

2.2 Mechanics of Conversion.

(a) Unless earlier converted at the election of the Company pursuant to clause (b) below, Purchaser may cause the conversion of this Note by delivering to the Company an executed notice of conversion in the form attached hereto as Exhibit A (the “Notice of Conversion”).

(b) The Company may cause the conversion of this Note by delivering to Purchaser a Notice of Conversion.

(c) After delivery of the Notice of Conversion, the Company and Purchaser shall agree to a date for such conversion which, in no event, shall be later than three (3) business days following the date of the Notice of Conversion (the “Conversion Date”). On or before the Conversion Date, Purchaser shall surrender the Note for conversion and the Company shall denote in its corporate records the ownership by Purchaser of the Conversion Shares, effective as of close of business on the Conversion Date. Effective as of close of business on the Conversion Date (i) the rights of Purchaser with respect to the Principal, together with all other amounts due hereunder to Purchaser shall cease, (ii) Purchaser shall be treated for all purposes as having become the record holder of such Conversion Shares, and (iii) such conversion shall be at the Conversion Price then in effect. The issuance of Common Stock upon conversion of this Note shall be made without charge to Purchaser for any tax in respect of such issuance, and such Conversion Shares shall be issued in such names as may be directed by Purchaser.

(d) In the event of a partial conversion of this Note, all of the applicable provisions hereof shall apply in respect of the portion of this Note that is converted into Conversion Shares, and this Note shall be restated to reflect the amount that remains due and payable hereunder, which shall be subject to subsequent conversion in accordance with the terms and conditions hereof.

APPENDIX B

2.3 Adjustment of Conversion Price. Subject to Section 2.4 hereof, the Conversion Price and number and kind of Conversion Shares or other securities to be issued upon conversion determined pursuant to Section 2.1 shall be subject to adjustment from time to time upon the happening of certain events while this conversion right remains outstanding, as follows:

(a) Merger, Sale of Assets, etc. If Company at any time shall consolidate with or merge into or sell or convey all or substantially all its assets to any other corporation or other entity, this Note shall thereafter be deemed to evidence the right to purchase such number and kind of shares or other securities and property as would have been issuable or distributable on account of such consolidation, merger, sale or conveyance, upon or with respect to the securities subject to the conversion or purchase right immediately prior to such consolidation, merger, sale or conveyance. The foregoing provision shall similarly apply to successive transactions of a similar nature by any such successor or purchaser. Without limiting the generality of the foregoing, the anti-dilution provisions of this Section 2.3 shall apply to such securities of such successor or purchaser after any such consolidation, merger, sale or conveyance.

(b) Reclassification. If Company at any time shall, by reclassification or otherwise, change the Common Stock into the same or a different number of securities of any class or classes that may be issued or outstanding, this Note shall thereafter be deemed to evidence the right to purchase an adjusted number of such securities and kind of securities as would have been issuable as the result of such change with respect to the Common Stock immediately prior to such reclassification or other change.

(c) Stock Splits, Combinations and Dividends. If the shares of Common Stock are subdivided or combined into a greater or smaller number of shares of Common Stock, or if a dividend is paid on the Common Stock in shares of Common Stock, the Conversion Price shall be proportionately reduced in case of subdivision of shares or stock dividend or proportionately increased in the case of combination of shares, in each such case by the ratio which the total number of shares of Common Stock outstanding immediately after such event bears to the total number of shares of Common Stock outstanding immediately prior to such event.

(d) Dilutive Share Issuances. So long as this Note is outstanding, if the Company shall issue or agree to issue any shares of Common Stock for a consideration (or deemed price) less than the Conversion Price in effect at the time of such issue, then, and thereafter successively upon each such issue, the Conversion Price shall be reduced to such other lower issue price. For purposes of this adjustment, the issuance of any security carrying the right to convert or exchange such security into shares of Common Stock or of any warrant, right or option to purchase Common Stock shall result in an adjustment to the Conversion Price upon the issuance of the above-described security and again upon the issuance of shares of Common Stock upon exercise of such conversion or purchase rights if such issuance is at a price lower than the then applicable Conversion Price. Notwithstanding the foregoing, in no event shall the Conversion Price be reduced below \$0.70 per share pursuant to this Section 2.3(d). For the sake of clarity, no adjustment shall be made to the Conversion Price pursuant to this Section 2.3(d) in respect of any Excluded Issuance, and the provisions of this Section 2.3(d) are in addition to (not in lieu of) the provisions set forth in Section 12.13 of the Purchase Agreement.

2.4 Adjustment Notices. Whenever the Conversion Price is adjusted as provided in Section 2.3, Company shall promptly deliver to Purchaser written notice setting forth the revised Conversion Price with a statement of facts regarding the adjustment and the computation thereof.

2.5 Limitation on Conversion Pending Stockholder Approval. Purchaser's right to convert the Principal due and payable under this Note into shares of Common Stock is expressly subject to the limitations and conditions set forth in Section 12.12 of the Purchase Agreement.

APPENDIX B

**ARTICLE 3**

**COVENANTS OF COMPANY**

3.1 Payment of Principal; Conversion. The Company hereby covenants and agrees that it shall pay or cause to be paid all amounts due hereunder on the Maturity Date or, if applicable prior to the Maturity Date, the Company shall effect or cause to be effected any conversion of the Principal into Conversion Shares.

3.2 Reserves. During the period the conversion right exists, the Company shall at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of issue upon conversion of this Note, such number of shares of Common Stock as shall then be issuable upon the conversion of this Note. The Company covenants that all such shares of Common Stock shall, upon issuance, be duly and validly issued, fully paid and non-assessable.

**ARTICLE 4**

**DEFAULT; ACCELERATION**

4.1 Events of Default. The occurrence of any Event of Default under the Purchase Agreement shall constitute an “Event of Default” hereunder.

4.2 Acceleration.

(a) Upon the occurrence of any Event of Default, the entire outstanding balance of the Principal and any other amounts payable to Purchaser hereunder shall become immediately due and payable to Purchaser, without any demand of or notice to the Company.

(b) Upon the occurrence of any Event of Default, Purchaser may exercise all rights and remedies available to it under any or all of the Transaction Documents or otherwise and may apply any of funds of either the Company in its possession to the outstanding indebtedness under this Note.

4.3 Costs of Collection. The Company hereby, jointly and severally, agree to pay all costs of collection, including attorneys’ fees and expenses, whether or not suit is filed, and all costs of suit and preparation for suit (whether at trial or appellate level), in the event any amount of the Principal or other amount owing hereunder is not paid when due, or to exercise any other right or remedy hereunder, or in the event Purchaser is made party to any claim, case, action or other proceeding because of the existence of the Principal, or if at any time Purchaser should incur any attorneys’ fees

or expenses in any proceeding under any federal bankruptcy law (or any similar state or federal law) in connection with the Principal.

**ARTICLE 5**  
**GENERAL PROVISIONS**

5.1 Remedies Cumulative and Continuing. All powers and remedies of Purchaser hereunder with respect to an Event of Default shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other thereof or of any other power or remedy available to Purchaser, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Note, and every power and remedy given by this Note or by applicable law to Purchaser may be exercised from time to time, and as often as shall be deemed expedient by Purchaser.

5.2 Replacement; Exchange. Upon receipt of evidence reasonably satisfactory to the Company of the ownership and the loss, theft, destruction or mutilation of this Note, the Company shall execute and deliver a new Note of like kind in lieu of and in substitution for the lost, stolen, destroyed or mutilated Note. This Note may be exchanged by surrender hereof at the office of the Company maintained for that purpose, and the Company shall execute and deliver in exchange herefor the Note or Notes which Purchaser making the exchange shall be entitled to receive.

APPENDIX B

5.3 Choice of Law. This Note shall be governed by and construed in accordance with the laws of the State of Nevada, without regard to principles of conflict of laws. The parties hereto hereby declare that it is their intention that this Agreement shall be regarded as made under the laws of the State of Nevada and that the laws of said State shall be applied in interpreting its provisions in all cases where legal interpretation shall be required.

5.4 Notices. All notices, requests, consents and other communications required or permitted under this Agreement shall be in writing and shall be delivered personally or by reputable overnight courier (e.g., Federal Express) or mailed first class, postage prepaid, registered or certified mail:

(a) If to Purchaser, to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attn: \_\_\_\_\_

Facsimile: \_\_\_\_\_

(b) If to the Company, to:

LiveDeal, Inc.  
6240 McLeod Drive, Suite 120  
Las Vegas, Nevada 89120  
Attn: Accounting Department  
Facsimile No.: (702) 939-0244

Any party may change the address to which notices intended for it shall be sent by a notice to the other party given in the manner specified in this Section 5.4. Such notices and communications shall for all purposes of this Agreement be treated as being effective or having been given when delivered if delivered personally or by courier or, if sent by mail, when received.

5.5 Assignment. This Agreement shall be binding upon the Company and Purchaser and its successors and assigns. Neither the Company nor Purchaser shall not make any assignment of its rights under this Agreement, the Notes, the Warrants or other Transaction Documents or subject this Agreement, the Notes, the Warrants or other Transaction Documents or its rights hereunder to any lien or security interest of any kind whatsoever; and any such assignment, lien or security interest shall be absolutely void and unenforceable as against Purchaser.

5.6 Cooperation: Further Action. Each Party to this Note shall, without further consideration, execute and deliver any further or additional instruments and perform any acts which may become reasonably necessary to effectuate and carry out the purposes of this Note.

5.7 Severability. In the event any term or provision of this Note is declared to be invalid or illegal, for any reason, this Note shall remain in full force and effect and the same shall be interpreted as though such invalid and illegal provision were not a part hereof.



APPENDIX B

5.8 Amendments. This Note may not be altered or amended, and no right under this Note may be waived, except by a writing executed by the Parties to this Note or except as otherwise provided in this Note. No waiver of any term, provision, or condition of this Note, in any one or more instances, shall be deemed or construed as a further or continuing waiver of any such term, provision, or condition, or as a waiver of any other term, provision, or condition of this Note.

5.9 Integration. This Note and the other Transaction Documents constitute and embodies the full and complete understanding and agreement of the parties hereto and supersedes all prior understandings, whether oral or written.

5.10 Captions; Number and Gender. The captions, headings and arrangements used in this Agreement are for convenience only and shall not in any way affect, modify, control, or limit the meaning or applicability of such article or section. Words used herein, regardless of the number or gender stated, shall be deemed to refer to the singular or plural, or to the masculine, feminine or neuter, respectively, all as the context may admit.

*[Remainder of Page Intentionally Left Blank; Signature Page Follows]*

APPENDIX B

IN WITNESS WHEREOF, the undersigned have executed this Note as of the date first set forth above.

**COMPANY:**

LIVEDEAL, INC., a Nevada corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

**PURCHASER:**

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

APPENDIX B

**Exhibit A**

**Form of Conversion Notice**

Re: Convertible Note (the "Note") issued by LiveDeal, Inc., a Nevada corporation (the "Company"), dated \_\_\_\_\_, 20\_\_, in the original principal amount of \$\_\_\_\_\_.

Effective as of the date written below, the undersigned hereby [provides notice of its election to automatically convert / irrevocably elects to convert] \$\_\_\_\_\_ of the unpaid principal amount on the Note into shares of the common stock of Company according to the terms and conditions set forth in the Note. If interests are to be issued in the name of a person or entity other than the undersigned, the undersigned hereby agrees to pay all transfer taxes payable with respect thereto.

Date of Conversion: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

If applicable, name and address of person or entity other than the undersigned to which Conversion Shares are to be registered and delivered:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Social Security or Tax I.D. Number \_\_\_\_\_



**APPENDIX B**  
**EXHIBIT B**

**Form of Warrant**

(See attached)

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APPENDIX B

NEITHER THIS WARRANT, NOR THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT (COLLECTIVELY, THE "SECURITIES"), HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES OR BLUE SKY LAWS. THE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE OFFERED, SOLD, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES OR BLUE SKY LAWS, PURSUANT TO REGISTRATION OR QUALIFICATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES OR BLUE SKY LAWS.

LIVEDEAL, INC.

WARRANT

Warrant No. \_\_\_\_\_ Date of Issuance: \_\_\_\_\_, 20\_\_<sup>[1]</sup>

LiveDeal, Inc., a Nevada corporation (the "Company"), hereby certifies that, for value received, \_\_\_\_\_, a[n] \_\_\_\_\_, or its registered assign (the "Holder"), is entitled to purchase from the Company \_\_\_\_\_<sup>[2]</sup> shares (as adjusted from time to time as provided in Section 11) of common stock, par value \$0.001 per share, of the Company (the "Common Stock") (each such share, a "Warrant Share" and all such shares, the "Warrant Shares"), at an exercise price determined pursuant to Section 3 (the "Exercise Price"), at any time and from time to time from and after the date hereof through and including the date that is five (5) years following the date of issuance set forth above (the "Expiration Date"), and subject to the following terms and conditions:

1. Purchase Agreement. This Warrant is one of a series of Warrants (collectively, the "Warrants") issued by the Company in connection with that certain Note Purchase Agreement, entered into as of January \_\_\_, 2014 (as amended from time to time, the "Purchase Agreement"), by and among the Company and the purchaser(s) identified on the signature pages thereto, and is subject to, and the Company and the Holder shall be bound by, all the applicable terms, conditions and provisions of the Purchase Agreement. This Warrant is being issued in connection with the conversion into shares of Common Stock of one of the Notes purchased under the Purchase Agreement.

2. Definitions. In addition to the terms defined elsewhere in this Warrant, capitalized terms that are not otherwise defined herein shall have the meanings assigned to such terms in the Purchase Agreement.

3. Exercise Price. This Warrant may be exercised for a price per Warrant Share equal to \$\_\_\_\_\_<sup>[3]</sup>, subject to adjustment from time to time pursuant to Section 11.

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<sup>1</sup> Note to Draft: Warrant to be issued on the date of conversion of the corresponding Convertible Note.

<sup>2</sup> Note to Draft: Number of Warrant Shares to be equal to the number of shares of Common Stock into which the corresponding Convertible Note was converted.

<sup>3</sup> Note to Draft: Exercise Price to be equal to 110% of the Conversion Price under the corresponding Convertible Note.

APPENDIX B

4. Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the “Warrant Register”), in the name of the record Holder hereof from time to time. The Company may deem and treat the Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

5. Registration of Transfers. Subject to the Holder’s appropriate compliance with the restrictive legend on this Warrant, the Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment substantially in the form attached hereto as Attachment B duly completed and signed, to the Company at its address specified herein. Upon any such registration or transfer, a new Warrant to purchase Common Stock, in substantially the form of this Warrant (any such new Warrant, a “New Warrant”), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

6. Exercise and Duration of Warrants. Subject to Section 12 below, this Warrant shall be exercisable by the registered Holder at any time and from time to time on or after the date hereof to and including the Expiration Date. At 6:30 p.m., New York City time, on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value. The Company may not call or redeem all or any portion of this Warrant without the prior written consent of the Holder.

7. Delivery of Warrant Shares.

(a) To effect conversions hereunder, the Holder shall not be required to physically surrender this Warrant unless the aggregate number of Warrant Shares represented by this Warrant is being exercised. Upon delivery of an Exercise Notice substantially in the form attached hereto as Attachment A (an “Exercise Notice”) to the Company at its address for notice determined as set forth herein, and upon payment of the applicable Exercise Price multiplied by the number of Warrant Shares that the Holder intends to purchase hereunder, the Company shall promptly (but in no event later than five (5) trading days after the Date of Exercise (as defined below)) issue and deliver, or cause its transfer agent to issue and deliver, to the Holder a certificate for the Warrant Shares issuable upon such exercise registered in the name of the Holder or its designee. A “Date of Exercise” means the date on which the Holder shall have delivered to the Company: (i) an Exercise Notice, appropriately completed and duly signed, and (ii) unless the Holder has elected a cashless exercise, payment of the Exercise Price (by certified or official bank check, intra-bank account transfer or wire transfer) for the number of Warrant Shares so indicated by the Holder to be purchased.

(b) If by the fifth trading day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 7(a), the Holder will have the right to rescind such exercise.



(c) The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity, including a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

APPENDIX B

8. Charges, Taxes and Expenses. Issuance and delivery of certificated or uncertificated shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee, or other incidental tax or expense in respect of the issuance of such shares, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

9. Replacement of Warrant. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a new Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity (which shall not include a surety bond), if requested. Applicants for a new warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe. If a new warrant is requested as a result of a mutilation of this Warrant, then the Holder shall deliver this mutilated Warrant to the Company as a condition precedent to the Company's obligation to issue the new warrant.

10. Reservation of Warrant Shares. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from Liens or any other contingent purchase rights of persons other than the Holder (taking into account the adjustments and restrictions of Section 11). The Company covenants and warrants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and non-assessable.

11. Certain Adjustments. The number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 11.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of any Warrants), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of Common Stock any shares of capital stock of the Company; then in each such case (A) the Exercise Price will be adjusted by multiplying the Exercise Price then in effect by a fraction, the numerator of which equals the number of shares of Common Stock outstanding immediately prior to such event (excluding treasury shares, if any), and the denominator of which equals the number of shares of Common Stock outstanding immediately after such event, and (B) the number of Warrant Shares issuable hereunder shall be concurrently adjusted by multiplying such number by the reciprocal of such fraction. Such adjustments will take effect (i) if a record date shall have been fixed for determining the stockholders or security holders, as applicable, of the Company entitled to receive such dividend, distribution or

issuance by reclassification, as the case may be, immediately after such record date, (ii) otherwise, immediately after the effective date of such dividend, distribution, subdivision, combination, or issuance by reclassification, as the case may be.

## APPENDIX B

(b) Pro Rata Distributions. If the Company, at any time while this Warrant is outstanding, shall distribute to all holders of Common Stock (and not to the Holder on an as-fully-exercised basis) evidences of its indebtedness, assets (including cash and cash dividends), rights or warrants to subscribe for or purchase any security other than shares of Common Stock, then in each such case the Exercise Price then in effect will be adjusted effective immediately after the record date for the determination of stockholders entitled to receive such distribution by multiplying the Exercise Price by a fraction, the numerator of which equals the VWAP on such record date *less* the then per share fair market value of the portion of such evidence of indebtedness, assets, rights or warrants so distributed applicable to one outstanding share of the Common Stock, as determined by the Board in good faith, and the denominator of which equals the VWAP determined as of such record date. In each such case the Company shall notify the Holder, in writing, no later than the trading day following the distribution of any such evidence of indebtedness, assets, rights or warrants, describing the material terms of such evidence of indebtedness, assets, rights or warrants and the adjustments made pursuant to this Section 11(b).

(c) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or a series of related transactions, (A) effects any merger or consolidation of the Company with or into another Person, (B) effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets, (C) effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (except for issuances by reclassification contemplated by Section 11(a)(iv)), or (D) consummates a stock or share purchase agreement or other business combination (including a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than fifty percent (50%) of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or group making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination), or (ii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person or group of Persons) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property (each transaction or series of transactions referred to in clause (i) or (ii) above, a "Fundamental Transaction"); then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, (1) the number of shares of common stock of the successor or acquiring corporation or, if it is the surviving corporation, of the Company, and (2) any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount and components of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Board shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration (substituting the most appropriate market-based measure for the Trading Market in determining the daily VWAP from time to time for each component of the Alternate Consideration or, if no market-based measure is reasonably available for any such component, fixing the daily VWAP of such component at the value determined by such apportionment, but subject to further adjustment as provided in this Section 11). If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant of like tenor to this Warrant but adjusted to be consistent with the foregoing provisions and evidencing the Holder's right to exercise such warrant for the appropriate number of shares of capital stock and Alternate Consideration, if any, in exchange for this Warrant. The Company shall ensure that the terms of any

agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 11(c) and ensuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction or series of related transactions analogous to a Fundamental Transaction.

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APPENDIX B

(d) Dilutive Share Issuances. If the Company shall at any time while this Warrant is outstanding issue or agree to issue any shares of Common Stock for a consideration (or deemed price) less than the Exercise Price in effect at the time of such issue, then, and thereafter successively upon each such issue, the Exercise Price shall be reduced to such other lower issue price. For purposes of this adjustment, the issuance of any security carrying the right to convert or exchange such security into shares of Common Stock or of any warrant, right or option to purchase Common Stock shall result in an adjustment to the Exercise Price upon the issuance of the above-described security and again upon the issuance of shares of Common Stock upon exercise of such conversion or purchase rights if such issuance is at a price lower than the then applicable Exercise Price. Notwithstanding the foregoing, in no event shall the Exercise Price be reduced below \$0.77 per share pursuant to this Section 11(d). For the sake of clarity, no adjustment shall be made to the Exercise Price pursuant to this Section 11(d) in respect of any Excluded Issuance, and the provisions of this Section 11(d) are in addition to (not in lieu of) the provisions set forth in Section 12.13 of the Purchase Agreement.

(e) Definitions. “VWAP” means, for any date, the price determined by the first of the following clauses that applies: (A) if the Common Stock is then listed or quoted on a trading market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the principal trading market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a trading day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (B) if prices for the Common Stock are then reported in the “Pink Sheets” published by Pink OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported during trading hours, or (C) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Company’s Board of Directors and reasonably acceptable to the Holder, the fees and expenses of which shall be paid by the Company.

(f) Calculations. All calculations under this Section 11 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The number of shares of Common Stock issued and outstanding at any given time for purposes of this Section 11 shall not include any shares owned or held by or for the account of the Company or any Subsidiary, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(g) Notice of Adjustments. Upon the occurrence of each adjustment pursuant to this Section 11, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other Alternate Consideration issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments in all material respects and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company’s transfer agent.

APPENDIX B

(h) Notice of Corporate Events. If (A) the Company declares a dividend (or any other distribution of cash, securities or other property in whatever form) on the Common Stock, including any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary or of any rights, (B) the Company declares a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (D) the Company authorizes the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall deliver to the Holder, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, or redemption, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, or redemption are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any Subsidiary, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

(i) Payment of Exercise Price. The Holder may pay the Exercise Price in one of the following manners:

(i) Cash Exercise. The Holder may pay by certified or official bank check, by intra-bank account transfer or by wire transfer of same-day funds.

(ii) Cashless Exercise. The Holder may elect instead to utilize a cashless exercise method, in which event the Company shall issue to the Holder the number of Warrant Shares determined as follows:

$$X = Y \times ((A - B) / A)$$

where:

X = the number of Warrant Shares to be issued to the Holder.

Y = the number of Warrant Shares with respect to which this Warrant is being exercised.

A = the closing price of shares of Common Stock for the trading day immediately prior to (but not including) the Exercise Date.

B = the Exercise Price.

APPENDIX B

For purposes of Rule 144 promulgated under the Securities Act, it is intended, understood and acknowledged that the Warrant Shares issued in a cashless exercise transaction shall be deemed to have been acquired by the Holder, and the holding period for the Warrant Shares shall be deemed to have commenced, on the date this Warrant was originally issued.

12. Limitation on Exercise Pending Stockholder Approval. Holder's right to exercise this Warrant into shares of Common Stock is expressly subject to the limitations and conditions set forth in Section 12.12 of the Purchase Agreement.

13. No Fractional Shares. No fractional shares of Common Stock will be issued in connection with any exercise of this Warrant. In lieu of any fractional shares which would otherwise be issuable, the Company shall pay the Holder an amount of cash equal to the product of such fraction multiplied by the closing price of one share of Common Stock as reported on the principal trading market for the Common Stock on the Date of Exercise.

14. Notices. Any and all notices or other communications or deliveries hereunder (including any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number pursuant to this Section 14 prior to 6:30 p.m. (New York City time) on a trading day, (ii) the next trading day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified pursuant to this Section 14 on a day that is not a trading day or later than 6:30 p.m. (New York City time) on any trading day, (iii) the trading day following the date of mailing, if sent by nationally recognized overnight courier service to the street address specified pursuant to this Section 14, or (iv) upon actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be as follows:

(a) if to the Company, to:

LiveDeal, Inc.  
6240 McLeod Drive, Suite 120  
Las Vegas, Nevada 89120  
Attn: Accounting Department  
Facsimile No.: (702) 939-0244

(b) if to the Holder, to the address, facsimile number or email or street address appearing on the Warrant Register (which shall initially be the facsimile number and email and street address set forth for the initial Holder in the Purchase Agreement);



or to such other address, facsimile number or email address as the Company or the Holder may provide to the other in accordance with this Section 14.

15. Warrant Agent. The Company shall serve as warrant agent under this Warrant. Upon thirty (30) days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or stockholders services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

APPENDIX B

16. Miscellaneous.

(a) Assignment. Subject to the restrictions on transfer described herein, the rights and obligations of the Company and the Holder shall be binding upon, and inure to the benefit of, the successors, assigns, heirs, administrators and transferees of the parties. The Company shall not have the right directly or indirectly to assign or transfer this Warrant without the prior written consent of the Holder, which may be withheld in the Holder's sole discretion, or as part of a Fundamental Transaction.

(b) No Third Party Beneficiaries. Nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant.

(c) Amendments; Waiver. This Warrant may be amended only in writing signed by the Company and the Holder, and any amendment so effected shall amend each Warrant issued pursuant to the Purchase Agreement and be binding upon each holder of such Warrants (provided, however, that any such amendment that adversely affects any holder or class of holders of such Warrants in a manner that does not apply uniformly to all holders of such Warrants, as applicable, shall require the written consent of such adversely affected holders or class). Any provision of this Warrant may be waived, but only if in writing by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Warrant shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

(d) Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Nevada, without regard to principles of conflict of laws.

(e) Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law in any respect, such provision shall be excluded from this Warrant and the balance of this Warrant shall be construed and interpreted as if such provision were so excluded and shall be enforceable in accordance with its remaining terms.

*[Remainder of Page Intentionally Left Blank; Signature Page Follows]*



APPENDIX B

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

**COMPANY:**

LIVEDEAL, INC., a Nevada corporation

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

[Signature Page - Warrant]

APPENDIX B  
ATTACHMENT A

**EXERCISE NOTICE**

To LiveDeal, Inc.:

The undersigned hereby irrevocably elects to purchase shares (the "Shares") of common stock, par value \$0.001 per share ("Common Stock"), of LiveDeal, Inc., a Nevada corporation, pursuant to Warrant No. \_\_\_\_\_, originally issued on \_\_\_\_\_, 20\_\_ (the "Warrant"). The undersigned elects to utilize the following manner of exercise:

Shares:

\_\_\_\_\_ Full Exercise of Warrant  
\_\_\_\_\_ Partial Exercise of Warrant (in the amount of \_\_\_\_\_ Shares)

Exercise Price: \$ \_\_\_\_\_

Manner of Exercise:

\_\_\_\_\_ Certified or Official Bank Check  
\_\_\_\_\_ Intra-Bank Account Transfer  
\_\_\_\_\_ Wire Transfer  
\_\_\_\_\_ Cashless Exercise pursuant to Section 11(i)(ii) of the Warrant

[Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the [undersigned]/[the undersigned's nominee as is specified below].]

Date:

Full Name of Holder\*:

Signature of Holder or Authorized Representative:

Name and Title of Authorized Representative‡

Additional Signature of Holder (if jointly held):

Social Security or Tax Identification Number:

Address of Holder:

Full Name of Nominee of Holder‡

Address of Nominee of Holder‡

\* Must conform in all respects to name of holder as specified on the face of the Warrant.

‡If applicable.



APPENDIX B  
ATTACHMENT B

**FORM OF ASSIGNMENT**

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ the right represented by the attached Warrant to purchase \_\_\_\_\_ shares of Common Stock of LiveDeal, Inc., a Nevada corporation (the "Company"), to which the Warrant relates and appoints \_\_\_\_\_ as attorney to transfer said right on the books of the Company with full power of substitution in the premises.

Date:

Full Name of Holder\*:

Signature of Holder or Authorized Representative:

Name and Title of Authorized Representative†

Additional Signature of Holder (if jointly held):

Address of Holder:

Full Name of Transferee:

Address of Transferee:

In the presence of:

\* Must conform in all respects to name of holder as specified on the face of the Warrant.

†If applicable.

**LIVEDEAL, INC.**

**REVOCABLE PROXY**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**IN CONNECTION WITH THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JULY 11, 2014**

The undersigned revokes all previous proxies, acknowledges receipt of the Notice of the Annual Meeting of Stockholders to be held on July 11, 2014 and the Proxy Statement and appoints Jon Isaac and Tony Isaac (or either of them), the proxy of the undersigned, with full power of substitution to vote all shares of common stock of LiveDeal, Inc. (the "Company") that the undersigned is entitled to vote, either on his or her own behalf of any entity or entities, at the Annual Meeting of Stockholders of the Company to be held on Friday, July 11, 2014 at 10:00 a.m. local time, at LiveDeal's corporate offices, which are located at 325 East Warm Springs Road, Suite 102, Las Vegas, Nevada 89119, and at any adjournment or postponement thereof, with the same force and effect as the undersigned might or could do if personally present thereat. The shares represented by this proxy shall be voted in the manner set forth on the reverse side.

Please be sure to sign and date this Proxy in the box below.

Date \_\_\_\_\_

\_\_\_\_\_  
Stockholder (sign above)

\_\_\_\_\_  
Co-holder (if any) (sign above)

**PLEASE MARK VOTES AS IN THIS EXAMPLE:**      b

**PROPOSAL NO. 1 – ELECTION OF DIRECTORS**

	<b>For</b>	<b>Withhold</b>
Richard D. Butler, Jr.	..	..
Dennis (De) Gao	..	..
Jon Isaac	..	..
Tony Isaac	..	..
Kenneth L. Waggoner	..	..



**PROPOSAL NO. 2 – APPROVAL OF LIVEDEAL, INC. 2014 OMNIBUS EQUITY INCENTIVE PLAN**

**For Against Abstain**

To approve the LiveDeal, Inc. 2014 Omnibus Equity Incentive Plan    "    "    "

**PROPOSAL NO. 3 – APPROVAL OF AMENDMENT TO AMENDED AND RESTATED ARTICLES OF INCORPORATION (INCREASE IN AUTHORIZED COMMON STOCK)**

**For Against Abstain**

To approve an amendment to the Company's Amended and Restated Articles of Incorporation increasing the number of shares of common stock authorized for issuance by LiveDeal, from 30,000,000 shares to 60,000,000 shares    "    "    "

**PROPOSAL NO. 4 – CONVERTIBLE NOTE TRANSACTION**

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
To approve a transaction involving the Company's issuance of convertible notes	"	"	"

**PROPOSAL NO. 5 – RATIFICATION OF AUDITORS**

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
To ratify the Audit Committee's appointment of Anton & Chia, LLP as LiveDeal's independent registered public accounting firm for the fiscal year ending September 30, 2014	"	"	"

**OTHER MATTERS**

	<b>Yes</b>
In his discretion, the Proxy is authorized to vote upon such other matters as may properly come before the meeting.	"

Please disregard the following if you have previously provided your consent decision:

" By checking the box to the left, I consent to future delivery of annual reports, proxy statements, prospectuses, other materials, and stockholder communications electronically via the Internet at a website that will be disclosed to me. I understand that the Company may no longer distribute printed materials to me regarding any future stockholder meeting until such consent is revoked. I understand that I may revoke my consent at any time by contacting the Company's transfer agent, Registrar and Trust Company, 10 Commerce Drive, Cranford, New Jersey 07016, and that costs normally associated with electronic delivery, such as usage and telephone charges as well as any costs I may incur in printing documents, will be my responsibility.

IF YOU RETURN YOUR PROPERLY EXECUTED PROXY, WE WILL VOTE YOUR SHARES AS YOU DIRECT. IF YOU DO NOT SPECIFY ON YOUR PROXY HOW YOU WANT TO VOTE YOUR SHARES, WE WILL VOTE THEM "FOR" PROPOSALS 1 (TO ELECT ALL NOMINATED DIRECTORS), 2, 3, 4 AND 5, AND IN

THE DISCRETION OF THE PROXY ON SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENTS THEREOF.

**^ Detach above card, sign, date and mail in postage paid envelope provided. ^**

***LIVEDEAL, INC.***

Please sign EXACTLY as your name appears hereon. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If more than one trustee, all should sign. If shares are held jointly, both owners must sign.

THIS PROXY CARD IS VALID WHEN SIGNED AND DATED.

MAIL YOUR PROXY CARD TODAY.

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED.

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