

KINDER MORGAN, INC.
Form 4
December 16, 2016

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
MORGAN MICHAEL C

(Last) (First) (Middle)
1001 LOUISIANA, SUITE 1000
(Street)

HOUSTON, TX 77002

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
KINDER MORGAN, INC. [KMI]

3. Date of Earliest Transaction
(Month/Day/Year)
12/15/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
Class P Common Stock				(A) or (D)			By Portcullis Partners, LP
Class P Common Stock				(A) or (D)			By Portcullis Investments, LP
Class P Common Stock	12/15/2016		G V	7,535 D	\$ 0 565,087	I	By trust
Class P Common Stock					61	I	By trust

\$	90.00
\$	119.73
\$	127.58
\$	169.42
\$	256.50

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information as of March 22, 2005 regarding the beneficial ownership of shares of common stock of the Company by (i) each person (including any group) who is known by the Company to beneficially own more than 5% of the Company's common stock, (ii) each Named Executive Officer, (iii) each Director of the Company as of March 22, 2004, and (iv) all Directors and executive officers of the Company as a group.

Name of Beneficial Owner (1)	Number of Shares Beneficially Owned	Percent of Outstanding Shares (2)
<i>Current Directors and Executive Officers:</i>		
Kevin N. McGrath	683,333(3)	1.5%
Scott R. Silverman	1,050,000(4)	2.3%
John R. Block	325,000(4)	*
Howard S. Weintraub, Ph.D.	358,333(4)	*
Michael S. Zarriello	358,333(4)	*
Kevin H. McLaughlin	283,333(4)	*
James P. Santelli	214,875(5)	*
James G. Naro	0	0%
Lasse Nordfjeld	0	0%
David M. Cairnie	33,333(4)	*
All current executive officers and Directors as a group (9 persons)	3,306,540(6)	7.0%
<i>Former Named Executive Officers:</i>		
Van Chu	0	0%
Thomas M. Hall, M.D., M.I.M	170,000(4)	*
Kevin L. Nieuwsma	0(7)	0%
<i>Certain Other Beneficial Owners:</i>		
Applied Digital Solutions, Inc. 1690 South Congress Avenue Suite 200 Delray Beach, FL 33445	24,291,673	55.2%

* Less than 1%.

(1) Unless otherwise indicated, the Company believes that the beneficial owners of the common stock described above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

(2) Based on 44,044,914 shares outstanding as of March 22, 2005, which does not include 10,523,957 shares of common stock subject to stock options and warrants outstanding as of March 22, 2005. However, as indicated, each figure showing the percentage of outstanding shares owned beneficially has been calculated by treating as outstanding and owned the shares which could be purchased by each beneficial owner within 60 days of March 22, 2005 upon the exercise of stock options and warrants.

(3) Consists of 100,000 shares owned by Mr. McGrath and 583,333 shares subject to options held by Mr. McGrath.

Explanation of Responses:

- (4) Consists of shares subject to options.
- (5) Consists of 114,875 shares owned by Mr. Santelli and 100,000 shares subject to options held by Mr. Santelli.
- (6) Consists of (i) 100,000 shares owned by Mr. McGrath, (ii) 114,875 shares owned by Mr. Santelli and (iii) 3,091,665 shares subject to options held by all current executive officers and Directors as a group.
- (7) Does not include an option to purchase 200,000 shares which is currently in dispute with Mr. Nieuwsma.

SECTION 16(a) BENEFICIAL OWNERSHIP

REPORTING COMPLIANCE

As required by rules adopted by the SEC under Section 16 of the Securities Exchange Act of 1934, directors and executive officers of the Company are required to file with the SEC an Initial Report of Beneficial Ownership on Form 3 within a certain period after becoming an executive officer or director stating the number of shares of common stock owned, a Report of Change in Beneficial Ownership on Form 4 to report certain transactions in the Company's common stock and an Annual Statement of Beneficial Ownership of Securities on Form 5 to report other transactions in securities of the Company that are not required to be reported on a Form 4. Based upon the Company's review of such Forms furnished to it by the directors and executive officers required to file such Forms with respect to the year ended December 31, 2004, the Company believes that all of these filing requirements were satisfied during 2004, except that Mr. Silverman filed a Form 4 on February 26, 2004 reporting one option grant on an untimely basis.

PROPOSAL 2

APPROVAL OF AMENDMENT TO 2002 STOCK PLAN

INCREASING NUMBER OF SHARES

As described above, the Board adopted the 2002 Stock Plan effective April 11, 2002. On June 27, 2002, the Board amended the 2002 Stock Plan to increase the number of shares reserved for issuance under the plan from 5,195,312 shares to 11,195,312 shares. The 2002 Stock Plan, as amended, was approved by the Company's stockholders on October 22, 2002. A further amendment to increase the number of shares reserved for issuance under the 2002 Stock Plan to 16,195,312 shares was approved by the Company's stockholders on May 6, 2004.

In order to grant additional future awards under the 2002 Stock Plan, on March 21, 2005, the Board amended the 2002 Stock Plan, subject to stockholder approval, to increase the number of reserved shares by 2,000,000 for a total of 18,195,312 reserved shares. The increase in the reserved shares would provide the Company the ability to grant future awards utilizing 2,851,972 remaining reserved shares under the 2002 Stock Plan.

Major Provisions of the 2002 Stock Plan

The following is a summary of the major provisions of the 2002 Stock Plan. For a complete description of the 2002 Stock Plan, please read it in its entirety. A copy of the 2002 Stock Plan, as amended, is included in this proxy statement as Appendix A.

Purpose

The purpose of the 2002 Stock Plan is to provide incentive that will retain, motivate and reward employees and directors of Company and to encourage ownership of the Company's common stock by them.

Explanation of Responses:

Administration

The 2002 Stock Plan provides that the committee administering the plan (Committee) may consist of the Board or a committee of two or more but less than all of the members of the Board. The Board's Compensation Committee currently acts as the Committee for the 2002 Stock Plan.

Shares Subject to 2002 Stock Plan

The Board initially reserved 5,195,312 shares of common stock for issuance under the 2002 Stock Plan. On June 27, 2002, the Board amended the 2002 Stock Plan to reserve 11,195,312 shares of common stock. The stockholders approved the 2002 Stock Plan as amended at the annual meeting of stockholders held on October 22, 2002. On March 12, 2004, the Board amended the 2002 Stock Plan to reserve 16,195,312 shares of common stock, and the stockholders approved the increase at the annual meeting of stockholders held on May 6, 2004. The maximum number of shares of common stock with respect to which benefits may be granted or measured to any participant under the 2002 Stock Plan is subject to adjustments made in accordance with the terms of the 2002 Stock Plan. As of March 22, 2005, 16,195,312 shares of common stock were reserved for issuance under the 2002 Stock Plan, of which 15,343,340 shares have been issued under the 2002 Stock Plan and 851,972 shares remain available to be issued under the 2002 Stock Plan. As of March 22, 2005, awards consisting of options to purchase 7,827,375 shares of common stock are outstanding under the 2002 Stock Plan.

Eligibility

The 2002 Stock Plan provides that the participants in the 2002 Stock Plan shall be those persons who are selected by the Committee subject to the approval of the Board if the Committee does not consist of the entire Board. Under the terms of the 2002 Stock Plan, benefits may be granted to only employees and directors of the Company and its affiliates, currently consisting of approximately 245 individuals.

Types of Benefits

The 2002 Stock Plan permits the Committee to grant benefits in the form of stock options, cash awards, restricted stock awards, stock appreciation rights, reload options or any combination thereof. The Committee may determine that stock awards consist of performance-based awards.

Options. Options granted under the 2002 Stock Plan may be either incentive stock options satisfying the requirements of Section 422 of the Internal Revenue Code of 1986 (the Code) or non-qualified stock options that are not intended to meet such requirements. Incentive stock options may be granted only to participants who are employees of the Company or its affiliates as of the date of grant. The Code places certain restrictions on the granting of incentive stock options to participants who own stock possessing over 10% of the total combined voting power of the Company or its affiliates.

The Committee determines the exercise price per share of options, subject to the requirements imposed by the Code and the 2002 Stock Plan. The 2002 Stock Plan and the Code provide that the exercise price for shares under any incentive stock option shall be no less than the fair market value of the shares at the time the option is granted. The 2002 Stock Plan provides that the exercise price for shares under each non-qualified stock option shall be no less than 85% of the fair market value of the shares at the time the option is granted.

Options may be exercised at such time or times and subject to such terms and conditions as are determined by the Committee. However, incentive stock options may not be exercised more than ten years after the date they are granted. Payment for shares of common stock purchased

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upon exercise of an option or any other benefit granted under the 2002 Stock Plan that requires payment by a participant to the Company may be made in: (i) cash, including by means of a so-called "cashless exercise" of an option; (ii) by the surrender of all or part of a benefit, including the benefit being exercised; (iii) by the tender to the Company of shares of common stock owned by the optionee and registered in the optionee's name having a fair market value equal to the amount due to the Company; (iv) other property, rights and credits deemed acceptable by the Committee; or (v) by any combination of these methods. However, any

method of payment other than by cash or cashless exercise may be used only with the consent of the Committee unless and to the extent permitted in the agreement containing the terms of the option or benefit.

Stock Appreciation Rights. Under the 2002 Stock Plan, the Committee may grant stock appreciation rights entitling the holder to receive a payment in cash, common stock or a combination of cash and common stock in an amount equal to the appreciation in the fair market value of a specified number of shares of common stock measured from the date the stock appreciation right was granted to the date such right was exercised. Stock appreciation rights also may be granted in tandem with a stock option, in which case the holder would be entitled to receive a payment equal to the appreciation of the stock option during the same measurement period. The 2002 Stock Plan provides that when stock appreciation rights are granted in tandem with an incentive stock option, the rights must have such terms or conditions as shall be required for the incentive stock option to qualify as an incentive stock option. Each stock appreciation right is exercisable at the times and subject to the terms and conditions as determined by the Committee.

Restricted Stock. Under the 2002 Stock Plan, the Committee may grant benefits in shares of common stock, which would be treated as restricted stock. Shares of restricted stock are issued and delivered at the time of the grant or as otherwise determined by the Committee, but they are subject to forfeiture until otherwise provided in the applicable agreement or the 2002 Stock Plan. Each stock certificate evidencing shares of common stock granted as a restricted stock award must bear a legend referring to the 2002 Stock Plan and describing the risk of forfeiture of the shares of common stock and stating that such shares are non-transferable until all restrictions have been satisfied and the legend has been removed. At the discretion of the Committee, the grantee may or may not be entitled to full voting and dividend rights with respect to all shares of restricted stock from the date of grant. Unless otherwise determined by the Committee, grants of shares of restricted stock must be made at a per share cost to the participant equal to par value.

Cash Awards. Under the 2002 Stock Plan, the Committee may grant cash awards payable in cash in such amounts as it deems appropriate. However, the amount of any cash award granted in any fiscal year to any participant who is subject to Section 16 of the Securities Exchange Act of 1934 (generally consisting of the Company's executive officers, directors and 10% beneficial owners) shall not exceed the greater of \$100,000 or 100% of such person's cash compensation for such fiscal year. The Committee determines the conditions under which cash awards are granted.

Performance-Based Awards. Any benefits granted under the 2002 Stock Plan may be granted in a manner such that the benefits qualify for the performance-based compensation exemption of Section 162(m) of the Code.

Non-Transferability

Unless otherwise specified in an agreement containing the terms of the benefit granted under the 2002 Stock Plan or permitted by the Committee, each benefit granted under the 2002 Stock Plan is not transferable other than by will or other laws of descent and distribution and is exercisable during the participant's lifetime only by the participant. However, a participant may file with the Committee a written designation of a beneficiary or beneficiaries to exercise, in the event of the death of the participant, an option or to receive any benefits. The Committee has the

right to review and approve beneficiary designations.

Status as Unfunded Plan

The 2002 Stock Plan is intended to constitute an unfunded plan for incentive and deferred compensation. All payments made under the 2002 Stock Plan will be paid from the general funds of the Company, and no special or separate fund has been established and no segregation of assets will be made to assure payment of such amounts. However, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the 2002 Stock Plan to deliver shares of common stock or payments under the 2002 Stock Plan. The 2002 Stock Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

Change of Control

Unless otherwise determined by the Committee, in the event of a change of control (as that term is defined in the 2002 Stock Plan), the following will occur:

all outstanding options will become fully exercisable, except to the extent that the right to exercise the option is subject to restrictions established in connection with a stock appreciation right that is issued in tandem with the option;

all outstanding stock appreciation rights will become immediately payable, except to the extent that the right to exercise the stock appreciation right is subject to restrictions established in connection with an option that is issued in tandem with the stock appreciation rights;

all shares of restricted stock will become fully vested;

all performance shares will be deemed to be fully earned and shall be paid out in such matter as determined by the Committee; and

all cash awards, other stock-based awards and other benefits will become fully vested and/or earned and paid out in such manner as determined by the Committee.

Amendment or Termination

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The Board of Directors has the sole right and power to amend the 2002 Stock Plan at any time. However, it cannot amend the 2002 Stock Plan without approval of the Company's stockholders in a manner which would cause options which are intended to qualify as incentive stock options to fail to qualify as such, in a manner which would cause the 2002 Stock Plan to fail to meet the requirements of Rule 16b-3 under the Securities Exchange Act of 1934 or in a manner which would violate applicable law. The Committee may convert, modify, forfeit or cancel any benefit granted under the 2002 Stock Plan, in whole or in part, if and to the extent permitted in the 2002 Stock Plan or the applicable agreement or with the consent of the participant to whom such benefit was granted. Except as may be provided in an agreement, the Committee may, in whole or in part, waive any restrictions or conditions that apply to, or accelerate the vesting of, any benefit granted under the 2002 Stock Plan. The plan has no specific term and, subject to the terms of the 2002 Stock Plan, including those requiring approval by the Company's stockholders and those limiting the period over which incentive stock options or any other benefits may be granted, will continue in full force and effect until terminated. The 2002 Stock Plan may be terminated at any time by the Board.

Federal Income Tax Consequences

The federal income tax treatment for the two types of options that can be granted under the 2002 Stock Plan is as follows:

Incentive Stock Options

Under the Code, an employee generally recognizes no regular taxable income as the result of the grant or the exercise of an incentive stock option. However, an amount equal to the difference between the fair market value of the stock on the date of exercise and the exercise price must be included in the employee's alternative minimum taxable income (which may cause the employee to be liable for alternative minimum tax in that year).

The tax treatment of a sale or disposition of shares acquired under an incentive stock option will depend on whether the holding period requirements are satisfied. The holding period requirements will generally be satisfied if an optionee does not sell or dispose of such shares until after the later of one year after the exercise of such an option or two years after the date such option is granted.

If the holding period requirements are satisfied and an employee sells or disposes of shares acquired upon exercise of an incentive stock option, the optionee will recognize gain or loss equal to the difference between the sale price and the exercise price. Such gain or loss will be characterized for federal income tax purposes as long-term capital gain or loss.

If the holding period requirements are not satisfied and an employee sells or disposes of such shares, then the overall gain or loss on such sale or disposition is bifurcated into compensation and capital elements. The overall gain or loss is an amount equal to the difference between the sale price of the shares and the exercise price. With respect to the compensation element, the optionee must recognize as ordinary compensation income upon such sale or disposition an amount equal to the difference between (a) the lower of the fair market value of the shares at the date of the option exercise or the sale price of the shares and (b) the exercise price. With respect to the capital element, the optionee must recognize as capital gain or loss the difference between the overall gain (or loss) and the compensation element. If the shares have been held for more than 12 months, then any such gain or loss will be long-term capital gain or loss.

Generally, the Company will not be entitled to any deduction for federal income tax purposes in connection with the grant or exercise of an incentive stock option, regardless of the applicability of the alternative minimum tax to the optionee. However, if the holding period requirements are not satisfied with respect to the sale or disposition of any shares acquired under an incentive stock option, then the Company will be entitled to a tax deduction in the year of such sale or disposition equal to the compensation element recognized by the optionee as a result of such sale or disposition. Optionees will not be subject to withholding on the compensation element.

Non-Qualified Stock Options

An optionee generally recognizes no taxable income as a result of the grant of a non-qualified stock option, provided that such option does not have a readily ascertainable fair market value at the time it is granted. Upon exercise of a non-qualified stock option, an optionee will normally recognize ordinary compensation income for federal tax purposes equal to the excess, if any, of the fair market value of the shares over the exercise price. Optionees who are employees will be subject to withholding with respect to income recognized upon exercise of a non-qualified stock option.

The Company will be entitled to a tax deduction in the amount and in the year that any such ordinary income is recognized by the optionee, provided that the optionee's total compensation is deemed reasonable in amount.

Upon a sale of shares acquired pursuant to the exercise of a non-qualified stock option, any difference between the sale price and the fair market value of the shares on the date of exercise will be treated as a capital gain or loss and will qualify for long-term capital gain or loss treatment if the shares have been held for more than 12 months.

Stock Appreciation Rights and Stock Awards

Generally, the grantee of a stock appreciation right or stock award recognizes no taxable income as a result of such grant.

Upon exercise of a stock appreciation right, the grantee will normally recognize ordinary compensation income for federal tax purposes equal to the payment due under such stock appreciation right. Upon the acquisition of shares under a stock award, a grantee will normally recognize ordinary compensation income equal to the excess, if any, of the fair market value of the shares at the time of acquisition over the purchase price of such shares.

Upon a subsequent sale of any shares acquired pursuant to a stock award, any difference between the sale price and the fair market value of the shares upon the date of acquisition or the vesting date will be treated as a capital gain or loss and will qualify for long-term capital gain or loss treatment if the shares have been held for more than 12 months.

Grantees who are employees will be subject to withholding with respect to income recognized upon exercise of a stock appreciation right or under a stock award.

The Company will be entitled to a tax deduction in the amount and in the year that any ordinary income is recognized by the grantee pursuant to a stock appreciation right or stock award, provided that the grantee's total compensation is deemed reasonable in amount.

Market Price of Common Stock

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The closing price of the Company's Common Stock as traded on The American Stock Exchange was \$4.45 per share on March 22, 2005. As of such date, the approximate aggregate market value of the shares of the Company's Common Stock available for issuance under the 2002 Stock Plan was \$3,791,275.

Stockholder Approval

The Code requires that the amendment to the 2002 Stock Plan be submitted to the Company's stockholders for approval. The affirmative vote of a majority of the shares of Common Stock of the Company represented at the Annual Meeting either in person or by proxy, assuming a quorum is present, is required to amend the 2002 Stock Plan. If the stockholders do not approve of the amendment, the amendment will not be effective.

The Board of Directors recommends that the stockholders vote *for* the approval of the amendment to the 2002 Stock Plan as set forth in Proposal 2.

PROPOSAL 3

**RATIFICATION OF THE APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has appointed and the Board affirmed the appointment of the firm of Eisner LLP as independent auditors for the fiscal year ending December 31, 2005, subject to the ratification of the holders of the Company's common stock. If the holders of the common stock do not ratify the selection of Eisner LLP, other independent accountants may be considered and selected by the Audit Committee, or the Audit Committee may affirm its selection of Eisner LLP as the Company's independent auditors. All proxies received in response to this solicitation will be voted in favor of the ratification of the appointment of Eisner LLP as the Company's independent auditors, unless other instructions are indicated thereon. No representative of Eisner LLP will be present at the Annual Meeting.

The Company engaged Eisner LLP on May 23, 2002 as its independent auditors to audit its financial statements for the fiscal year ending December 31, 2002. During 2000 and 2001 and in the subsequent interim period from January 1, 2002 through May 23, 2002, the Company did not consult with Eisner LLP on items which concern the application of accounting principles generally, or as to a specific transaction or group of either completed or proposed transactions, or as to the type of audit opinion that might be rendered on the Company's financial statements. Eisner LLP did not prepare a report on the Company's financial statements for fiscal 2000 or 2001. Therefore, no report was issued by Eisner LLP that could contain an adverse opinion or disclaimer of opinion, or a qualification or modification, as to uncertainty, audit scope or accounting principles.

Audit and Non-Audit Fees

Fees billed to the Company by Eisner LLP for the years ended December 31, 2004 and 2003 were as follows:

Audit Fees. The aggregate fees billed and to be billed for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2004 and 2003, for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, and for other services that generally only an independent auditor reasonably can provide, such as comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC, were \$413,775 in 2004 and \$278,115 in 2003.

Audit-Related Fees. The aggregate fees billed for audit-related services for the fiscal years ended December 31, 2004 and 2003 were \$103,290 and \$1,500, respectively. These fees included any employee benefit plan audit, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services not required by statute or regulation, and consultation concerning accounting and reporting standards for the fiscal years ended December 31, 2004 and December 31, 2003.

Financial Information Systems Design and Implementation Fees. The aggregate fees billed for financial information systems

design and implementation services for the fiscal years ended December 31, 2004 and 2003 were \$0 and \$0, respectively. These fees would have included any services regarding operating, or supervision of the operating of, the Company's information system or managing the Company's local area network, or designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the Company's financial statements or other financial information systems taken as a whole for the fiscal years ended December 31, 2004 and December 31, 2003.

Tax Fees. The aggregate fees billed for tax services for the fiscal years ended December 31, 2004 and 2003 were \$0 and \$0, respectively. These fees would have related to tax compliance, tax planning and tax advice for the fiscal years ended December 31, 2004 and December 31, 2003. Tax compliance generally involves preparation of original and amended tax returns, claims for refund and tax payment and planning services. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions, employee benefit plans and requests for rulings or technical advice from taxing authorities.

All Other Fees. The aggregate fees for services not included above for the fiscal years ended December 31, 2004 and 2003 were \$0 and \$0, respectively. The fees would have related to services that do not meet the above category descriptions.

The Company has also agreed in its engagement letter with Eisner LLP to not hire Eisner LLP personnel at the manager or partner level who have been directly involved in performing auditing procedures or providing accounting advice to the Company.

The Company's Audit Committee is responsible for appointing the Company's independent auditor and approving the terms of the independent auditor's services. The Audit Committee has established a policy for the pre-approval of all audit and permissible non-audit services to be provided by the independent auditor, as described below.

Before the beginning of each fiscal year, a description of the services anticipated to be performed by the independent auditor in each of the above specified categories in the ensuing fiscal year is presented to the Audit Committee for approval. Services provided by the independent auditor during the ensuing fiscal year are pre-approved in accordance with procedures of the Audit Committee.

Any request for audit, audit-related, tax and other services not contemplated must be submitted to the Audit Committee for specific pre-approval, irrespective of the amount, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the authority to grant specific pre-approval between meetings, as necessary, has been delegated to the Chairman of the Audit Committee. The Chairman will update the full audit Committee at the next regularly scheduled meeting for any interim approval granted.

On a quarterly basis, the Audit Committee reviews the status of services and fees incurred year-to-date as compared to the original list of services and the forecast of remaining services and fees for the fiscal year.

The services performed by the independent auditor in 2004 were pre-approved in accordance with procedures followed by the Audit Committee.

Stockholder Approval

Although stockholder action on this matter is not required, the appointment of Eisner LLP is being recommended to the stockholders for ratification. Pursuant to applicable Delaware law, the ratification of the appointment of auditors of the Company requires the affirmative vote of the holders of a majority of the shares of common stock present, in person or by proxy, and entitled to vote at the Meeting. Abstentions and broker non-votes will be counted and will have the same effect as a vote against this proposal.

The Board of Directors recommends that the stockholders vote *for* the ratification of the appointment of Eisner LLP as independent auditors as set forth in Proposal 3.

PROPOSALS OF STOCKHOLDERS

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Any stockholder of the Company who wishes to present a proposal at the 2006 Annual Meeting of Stockholders and who wishes to have such proposal included in the Company's proxy statement for that meeting must deliver a copy of such proposal to the Company at 490 Villaume Avenue, South St. Paul, Minnesota 55075, Attention: Corporate Assistant Secretary, for receipt not later than December 16, 2005. The Company reserves the right to decline to include in the Company's proxy statement any stockholder's proposal that does not comply with the rules of the SEC for inclusion therein.

For any proposal that is not submitted for inclusion in next year's proxy statement but is instead sought to be presented directly at the 2006 Annual Meeting of Stockholders, management will be able to vote proxies in its discretion if the Company: (1) receives notice of the proposal before the close of business on February 28, 2006 and advises stockholders in the 2006 Proxy Statement about the nature of the matter and how management intends to vote on such matters; or (2) does not receive notice of the proposal before the close of business on February 28, 2006. Notices of intention to present proposals at the 2006 Annual Meeting of Stockholders should be addressed to: Digital Angel Corporation, 490 Villaume Avenue, South St. Paul, Minnesota 55075, Attention: Corporate Assistant Secretary.

OTHER BUSINESS

At the date of this Proxy Statement, management knows of no other business that may properly come before the Annual Meeting. However, if any other matters properly come before the meeting, the persons named in the enclosed form of proxy will vote the proxies received in response to this solicitation in accordance with their best judgment on such matters.

ANNUAL REPORTS

The Company is mailing a copy of its Annual Report to Stockholders with this proxy statement. However, the Annual Report is not to be considered part of the proxy solicitation materials.

The Company's Annual Report on Form 10-K is available without charge upon written request to Mr. James P. Santelli, Digital Angel Corporation, 490 Villaume Avenue, South St. Paul, Minnesota 55075.

HOUSEHOLDING

As permitted by the Securities Exchange Act of 1934, only one copy of this proxy statement is being delivered to stockholders residing at the same address, unless such stockholders have notified the Company of their desire to receive multiple copies of the proxy statement. The Company will promptly deliver, upon oral or written request, a separate copy of the proxy statement to any stockholder residing at an address to which only one copy was mailed. Requests for additional copies should be directed to: Digital Angel Corporation, 490 Villaume Avenue, South St. Paul, Minnesota 55075, Attention: Corporate Assistant Secretary.

Stockholders residing at the same address and currently receiving only one copy of the proxy statement may contact the Corporate Assistant Secretary at the address set forth above to request multiple copies of proxy statements in the future. Stockholders residing at the same address and currently receiving multiple copies of proxy statements may contact the Corporate Assistant Secretary to request that only a single copy of proxy statements be mailed in the future.

Dated: April 5, 2005.

By Order of the Board of Directors,

/s/ James P. Santelli
James P. Santelli, *Assistant Secretary*

Exhibit A

Amended and Restated

Digital Angel Corporation

Transition Stock Option Plan, as amended

1. NAME AND PURPOSE

1.1 *Name.*

The name of this Plan is the *Digital Angel Corporation Transition Stock Option Plan.*

1.2 *Purpose.*

The Company has established this Plan to retain, motivate and reward Employees and Directors of Digital Angel Corporation, a Delaware corporation acquired by the Company as a result of a merger completed on March 27, 2002 and to encourage ownership of the Company's Common Stock by them.

2. DEFINITIONS OF TERMS AND RULES OF CONSTRUCTION

2.1 *General Definitions.*

The following words and phrases, when used in the Plan, unless otherwise specifically defined or unless the context clearly otherwise requires, shall have the following respective meanings:

2.1.1. *Affiliate.*

A Parent or Subsidiary of the Company.

2.1.2. *Agreement.*

The document which evidences the grant of any Benefit under the Plan and which sets forth the Benefit and the terms, conditions and provisions of, and restrictions relating to, such Benefit.

2.1.3. *Benefit.*

Any benefit granted to a Participant under the Plan.

2.1.4. *Board.*

The Board of Directors of the Company.

2.1.5. *Cash Award.*

A Benefit payable in the form of cash.

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2.1.6. *Change of Control.*

If any *person* (as such term is used in Sections 13(d) and 14(d)(2) of the Exchange Act) is or becomes the *beneficial owner* (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; upon the first purchase of the Common Stock pursuant to a tender or exchange offer (other than a tender or exchange offer made by the Company); upon the approval by the Company's stockholders of a merger or consolidation, a sale or disposition of all or substantially of the Company's assets or a plan of liquidation or dissolution of the Company; or if during an period of 2 consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election or nomination for the election by the Company's stockholders of each new director was approved by a vote of at least $\frac{2}{3}$ of the Board then still in office who were members of the Board at the beginning of the period. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur if the Company either merges or consolidates with or into another company or sells or disposes of all or substantially all of its assets to another company, if such merger, consolidation, sale or disposition is in connection with a corporate restructuring wherein the stockholders of the Company immediately before such merger, consolidation, sale or disposition own, directly or indirectly, immediately following such merger, consolidation, sale or disposition of at least 80% of the combined voting power of all outstanding classes of securities of the Company resulting from such merger or consolidation, or to which the Company sells or disposes of its assets, in substantially the same proportion as their ownership in the Company immediately before such merger, consolidation, sale or disposition.

2.1.7. *Code.*

The Internal Revenue Code of 1986, as amended. Any reference to the Code includes the regulations *promulgated* pursuant to the Code.

2.1.8. *Company.*

Digital Angel Corporation

2.1.9. *Committee.*

The Committee described in Section 5.1.

2.1.10. *Common Stock.*

The Company's common stock, par value \$.005 per Share.

2.1.11. *Director.*

A member of the Board or a member of the Board of Directors of an Affiliate.

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2.1.12. *Effective Date.*

April 11, 2002.

2.1.13. *Employee.*

Any person employed by the Employer.

2.1.14. *Employer.*

The Company and all Affiliates.

2.1.15. *Exchange Act.*

The Securities Exchange Act of 1934, as amended.

2.1.16. *Fair Market Value.*

The last sale price, regular way, or, in case no such sale takes place on such date, the average of the closing bid and asked prices, regular way, of the Shares, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, Inc. (the *NYSE*) or, if the Shares are not listed or admitted to trading on the NYSE, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Shares are listed or admitted to trading or, if the Shares are not listed or admitted to trading on any national securities exchange, the last quoted sale price on such date or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market on such date, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System or such other system then in use, or, if on any such date the Shares are not quoted by any such organization, the average of the closing bid and asked prices on such date as furnished by a professional market maker making a market in the Shares selected by the Committee. If the Shares are not publicly held or so listed or publicly traded, the determination of the Fair Market Value per Share shall be made in good faith by the Committee.

2.1.17. *Fiscal Year.*

The taxable year of the Company which is the calendar year.

2.1.18. *ISO*.

An Incentive Stock Option as defined in Section 422 of the Code.

2.1.19. *NQSO*.

A non-qualified stock Option, which is an Option that does not qualify as an ISO.

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2.1.20. *Option.*

An option to purchase Shares granted under the Plan.

2.1.21. *Other Stock Based Award.*

An award under Section 18 that is valued in whole or in part by reference to, or is otherwise based on, Common Stock.

2.1.22. *Parent.*

Any corporation (other than the Company or a Subsidiary) in an unbroken chain of corporations ending with the Company, if, at the time of the grant of an Option or other Benefit, each of the corporations (other than the Company) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.1.23. *Participant.*

An individual who is granted a Benefit under the Plan. Benefits may be granted only to Employees and Directors.

2.1.24. *Performance Based Compensation.*

Compensation which meets the requirements of Section 162(m)(4)(C) of the Code.

2.1.25. *Performance Share.*

A Share awarded to a Participant under Section 16 of the Plan.

2.1.26. *Plan.*

The Digital Angel Corporation Transition Stock Option Plan and all amendments and supplements to it.

2.1.27. *Reload Option.*

An Option to purchase the number of Shares used by a Participant to exercise an Option and to satisfy any withholding *requirement* incident to the exercise of such Option.

2.1.28. *Restricted Stock.*

Shares issued under Section 16 of the Plan.

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2.1.29. *Rule 16b-3.*

Rule 16b-3 promulgated by the SEC, as amended, or any successor rule in effect from time to time.

2.1.30. *SEC.*

The Securities and Exchange Commission.

2.1.31. *Share.*

A share of Common Stock.

2.1.32. *SAR.*

A stock appreciation right, which is the right to receive an amount equal to the appreciation, if any, in the Fair Market Value of a *Share* from the date of the grant of the right to the date of its payment.

2.1.33. *Subsidiary.*

Any corporation, other than the Company, in an unbroken chain of corporations beginning with the Company if, at the time of grant of an Option or other Benefit, each of the corporations, other than the last corporation in the unbroken chain, owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.2. *Other Definitions.*

In addition to the above definitions, certain words and phrases used in the Plan and any Agreement may be defined in other portions of the Plan or in such Agreement.

2.3. *Conflicts.*

In the case of any conflict in the terms of the Plan relating to a Benefit, the provisions in the section of the Plan which specifically grants such Benefit shall control those in a different section. In the case of any conflict between the terms of the Plan relating to a Benefit and the terms of an Agreement relating to a Benefit, the terms of the Plan shall control.

3. COMMON STOCK

3.1. *Number of Shares.*

The number of Shares which may be issued or sold or for which Options, SARs or Performance Shares may be granted under the Plan shall be 18,195,312. Such Shares may be authorized but unissued Shares, Shares held in the treasury, or both. The full number of Shares available may be used for any type of Option or other Benefit.

3.2. *Reusage.*

If an Option or SAR expires or is terminated, surrendered, or canceled without having been fully exercised, if Restricted Shares or Performance Shares are forfeited, or if any other grant results in any Shares not being issued, the Shares covered by such Option or SAR, grant of Restricted Shares, Performance Shares or other grant, as the case may be, shall again be available for use under the Plan. Any Shares which are used as full or partial payment to the Company upon exercise of an Option or for any other Benefit that requires a payment to the Company shall be available for purposes of the Plan.

3.3. *Adjustments.*

If there is any change in the Common Stock of the Company by reason of any stock dividend, spin-off, split-up, spin-out, recapitalization, merger, consolidation, reorganization, combination or exchange of shares, or otherwise, the number of SARs and number and class of shares available for Options and grants of Restricted Stock, Performance Shares and Other Stock Based Awards and the number of Shares subject to outstanding Options, SARs, grants of Restricted Stock which are not vested, grants of Performance Shares which are not vested, and Other Stock Based Awards, and the price thereof, as applicable, shall be appropriately adjusted by the Committee.

4. ELIGIBILITY

4.1. *Determined By Committee.*

The Participants in this Plan shall be those persons who received options to purchase Digital Angel Corporation common stock pursuant to the Digital Angel.net, Inc. Restated Flexible Stock Plan on or prior to March 27, 2002.

5. ADMINISTRATION

5.1. *Committee.*

The Plan shall be administered by the Committee. The Committee shall consist of the Board, unless the Board appoints a Committee of two or more but less than all of the Board. If the Committee does not include the entire Board, it shall serve at the pleasure of the Board, which may from time to time appoint members in substitution for members previously appointed and fill vacancies, however caused, in the Committee. The Committee may select one of its members as its Chairman and shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee made at a meeting at which a quorum is present shall be made by a majority of its members present at the meeting. Any decision or determination reduced to writing and signed by a majority of the members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held.

5.2. *Authority.*

Subject to the terms of the Plan, the Committee shall have discretionary authority to:

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(a) determine the individuals to whom Benefits are granted, the type and amounts of Benefits to be granted and the date of issuance and duration of all such grants;

(b) determine the terms, conditions and provisions of, and restrictions relating to, each Benefit granted;

(c) interpret and construe the Plan and all Agreements;

(d) prescribe, amend and rescind rules and regulations relating to the Plan;

(e) determine the content and form of all Agreements;

(f) determine all questions relating to Benefits under the Plan;

(g) maintain accounts, records and ledgers relating to Benefits;

(h) maintain records concerning its decisions and proceedings;

(i) employ agents, attorneys, accountants or other persons for such purposes as the Committee considers necessary or desirable;

(j) take, at any time, any action required or permitted by Section 9.1 or 9.2(a), respectively, irrespective of whether any Change of Control has occurred or is imminent;

(k) determine, except to the extent otherwise provided in the Plan, whether and the extent to which Benefits under the Plan will be structured to conform to the requirements applicable to Performance-Based Compensation, and to take such action, establish such procedures, and impose such restrictions at the time such Benefits are granted as the Committee determines to be necessary or appropriate to conform to such requirements; and

(l) do and perform all acts which it may deem necessary or appropriate for the administration of the Plan and carry out the purposes of the Plan.

5.3. *Delegation.*

Except as required by Rule 16b-3 with respect to grants of Options, Stock Appreciation Awards, Performance Shares, Other Stock Based Awards, or other Benefits to individuals who are subject to Section 16 of the Exchange Act or as otherwise required for compliance with Rule 16b-3 or other applicable law, the Committee may delegate all or any part of its authority under the Plan to any Employee, Employees or committee.

5.4. *Determination.*

All determinations of the Committee shall be final.

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6. AMENDMENT

6.1. *Power of Board.*

Except as hereinafter provided, the Board shall have the sole right and power to amend the Plan at any time and from time to time.

6.2. *Limitation.*

The Board may not amend the Plan, without approval of the stockholders of the Company:

(a) in a manner which would cause Options which are intended to qualify as ISOs to fail to qualify;

(b) in a manner which would cause the Plan to fail to meet the requirements of Rule 16b-3; or

(c) in a manner which would violate applicable law.

7. TERM AND TERMINATION

7.1. *Term.*

The Plan shall commence as of the Effective Date and, subject to the terms of the Plan, including those requiring approval by the stockholders of the Company and those limiting the period over which ISOs or any other Benefits may be granted, shall continue in full force and effect until terminated.

7.2. *Termination.*

The Plan may be terminated at any time by the Board.

8. MODIFICATION OR TERMINATION OF BENEFITS

8.1. *General.*

Subject to the provisions of Section 8.2, the amendment or termination of the Plan shall not adversely affect a Participant's right to any Benefit granted prior to such amendment or termination.

8.2. *Committee's Right.*

Any Benefit granted may be converted, modified, forfeited or canceled, in whole or in part, by the Committee if and to the extent permitted in the Plan or applicable Agreement or with the consent of the Participant to whom such Benefit was granted. Except as may be provided in an Agreement, the Committee may, in its sole discretion, in whole or in part, waive any restrictions or conditions applicable to, or accelerate the vesting of, any Benefit.

9. CHANGE OF CONTROL

9.1. *Vesting and Payment.*

In the event of a Change of Control:

(a) all outstanding Options shall become fully exercisable, except to the extent that the right to exercise the Option is subject to restrictions established in connection with an SAR that is issued in tandem with the Option;

(b) all outstanding SARs shall become immediately payable, except to the extent that the right to exercise the SAR is subject to restrictions established in connection with an Option that is issued in tandem with the SAR.

(c) all Shares of Restricted Stock shall become fully vested;

(d) all Performance Shares shall be deemed to be fully earned and shall be paid out in such manner as determined by the Committee; and

(e) all Cash Awards, Other Stock Based Awards and other Benefits shall become fully vested and/or earned and paid out in such manner as determined by the Committee.

9.2. *Other Action.*

In the event of a Change of Control, the Committee, in its sole discretion, may, in addition to the provisions of Section 9.1 above and to the extent not inconsistent therewith:

(a) provide for the purchase of any Benefit for an amount of cash equal to the amount which could have been attained upon the exercise or realization of such Benefit had such Benefit been currently exercisable or payable;

(b) make such adjustment to the Benefits then outstanding as the Committee deems appropriate to reflect such transaction or change; and/or

(c) cause the Benefits then outstanding to be assumed, or new Benefits substituted therefor, by the surviving corporation in such change.

10. AGREEMENTS AND CERTAIN BENEFITS

10.1. *Grant Evidenced by Agreement.*

The grant of any Benefit under the Plan may be evidenced by an Agreement which shall describe the specific Benefit granted and the terms and conditions of the Benefit. The granting of any Benefit shall be subject to, and conditioned upon, the recipient's execution of any Agreement required by the Committee. Except as otherwise provided in an Agreement, all capitalized terms used in the Agreement shall have the same meaning as in the Plan, and the Agreement shall be subject to all of the terms of the Plan.

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10.2. *Provisions of Agreement.*

Each Agreement shall contain such provisions that the Committee shall determine to be necessary, desirable and appropriate for the Benefit granted which may include, but not necessarily be limited to, the following with respect to any Benefit: description of the type of Benefit; the Benefit's duration; its transferability; if an Option, the exercise price, the exercise period and the person or persons who may exercise the Option; the effect upon such Benefit of the Participant's death, disability, changes of duties or termination of employment; the Benefit's conditions; when, if, and how any Benefit may be forfeited, converted into another Benefit, modified, exchanged for another Benefit, or replaced; and the restrictions on any Shares purchased or granted under the Plan.

10.3. *Transferability.*

Unless otherwise specified in an Agreement or permitted by the Committee, each Benefit granted shall be not transferable other than by will or the laws of descent and distribution and shall be exercisable during a Participant's lifetime only by him.

11. REPLACEMENT AND TANDEM AWARDS

11.1. *Replacement.*

The Committee may permit a Participant to elect to surrender a Benefit in exchange for a new Benefit.

11.2. *Tandem Awards.*

Awards may be granted by the Committee in tandem. However, no Benefit may be granted in tandem with an ISO except SARs.

12. PAYMENT, DIVIDENDS, DEFERRAL AND WITHHOLDING

12.1. *Payment.*

Upon the exercise of an Option or in the case of any other Benefit that requires a payment by a Participant to the Company, the amount due the Company is to be paid:

(a) in cash, including by means of a so-called *cashless exercise* of an Option;

(b) by the surrender of all or part of a Benefit (including the Benefit being exercised);

(c) by the tender to the Company of Shares owned by the optionee and registered in his name having a Fair Market Value equal to the amount due to the Company;

(d) in other property, rights and credits deemed acceptable by the Committee, including the Participant's promissory note;

(e) by any combination of the payment methods specified in (a), (b), (c) and (d) above.

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Notwithstanding, the foregoing, any method of payment other than (a) may be used only with the consent of the Committee or if and to the extent so provided in an Agreement. The proceeds of the sale of Shares purchased pursuant to an Option and any payment to the Company for other Benefits shall be added to the general funds of the Company or to the Shares held in treasury, as the case may be, and used for the corporate purposes of the Company as the Board shall determine.

12.2. *Dividend Equivalents.*

Grants of Benefits in Shares or Share equivalents may include dividend equivalent payments or dividend credit rights.

12.3. *Deferral.*

The right to receive any Benefit under the Plan may, at the request of the Participant, be deferred for such period and upon such terms as the Committee shall determine, which may include crediting of interest on deferrals of cash and crediting of dividends on deferrals denominated in Shares.

12.4. *Withholding.*

The Company may, at the time any distribution is made under the Plan, whether in cash or in Shares, or at the time any Option is exercised, withhold from such distribution or Shares issuable upon the exercise of an Option, any amount necessary to satisfy federal, state and local income and/or other tax withholding requirements with respect to such distribution or exercise of such Options. The Committee or the Company may require a participant to tender to the Company cash and/or Shares in the amount necessary to comply with any such withholding requirements.

13. OPTIONS

13.1. *Types of Options.*

It is intended that both ISOs and NQSOs, which may be Reload Options, may be granted by the Committee under the Plan.

13.2. *Grant of ISOs and Option Price.*

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Each ISO must be granted to an Employee and granted within ten years from the earlier of the date of adoption by the Board or the Effective Date. The purchase price for Shares under any ISO shall be no less than the Fair Market Value of the Shares at the time the Option is granted.

13.3. *Other Requirements for ISOs.*

The terms of each Option which is intended to qualify as an ISO shall meet all requirements of Section 422 of the Code.

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13.4. *NQSOs.*

The terms of each NQSO shall provide that such Option will not be treated as an ISO. The purchase price for Shares under any NQSO shall be no less than 85% of the Fair Market Value of the Shares at the time the Option is granted.

13.5. *Determination by Committee.*

Except as otherwise provided in Section 13.2 through Section 13.4, the terms of all Options shall be determined by the Committee.

14. SARS

14.1. *Grant and Payment.*

The Committee may grant SARs. Upon electing to receive payment of a SAR, a Participant shall receive payment in cash, in Shares, or in any combination of cash and Shares, as the Committee shall determine.

14.2. *Grant of Tandem Award.*

The Committee may grant SARs in tandem with an Option, in which case: the exercise of the Option shall cause a correlative reduction in SARs standing to a Participant's credit which were granted in tandem with the Option; and the payment of SARs shall cause a correlative reduction of the Shares under such Option.

14.3. *ISO Tandem Award.*

When SARs are granted in tandem with an ISO, the SARs shall have such terms and conditions as shall be required for the ISO to qualify as an ISO.

14.4. *Payment of Award.*

SARs shall be paid by the Company to a Participant, to the extent payment is elected by the Participant (and is otherwise due and payable), as soon as practicable after the date on which such election is made.

15. ANNUAL LIMITATIONS

15.1. *Limitation on Options and SARs.*

The number of (a) Shares covered by Options where the purchase price is no less than the Fair Market Value of the Shares on the date of grant plus (b) SARs which may be granted to any Participant in any Fiscal Year shall not exceed 1,000,000.

15.2. *Computations.*

For purposes of Section 15.1: Shares covered by an Option that is canceled shall count against the maximum, and, if the exercise price under an Option is reduced, the transaction

shall be treated as a cancellation of the Option and a grant of a new Option; and SARs covered by a grant of SARs that is canceled shall count against the maximum, and, if the Fair Market Value of a Share on which the appreciation under a grant of SARs will be calculated is reduced, the transaction will be treated as a cancellation of the SARs and the grant of a new grant of SARs.

16. RESTRICTED STOCK AND PERFORMANCE SHARES

16.1. *Restricted Stock.*

The Committee may grant Benefits in Shares available under Section 3 of the Plan as Restricted Stock. Shares of Restricted Stock shall be issued and delivered at the time of the grant or as otherwise determined by the Committee, but shall be subject to forfeiture until provided otherwise in the applicable Agreement or the Plan. Each certificate representing Shares of Restricted Stock shall bear a legend referring to the Plan and the risk of forfeiture of the Shares and stating that such Shares are nontransferable until all restrictions have been satisfied and the legend has been removed. At the discretion of the Committee, the grantee may or may not be entitled to full voting and dividend rights with respect to all shares of Restricted Stock from the date of grant.

16.2. *Cost of Restricted Stock.*

Unless otherwise determined by the Committee, grants of Shares of Restricted Stock shall be made at a per Share cost to the Participant equal to par value.

16.3. *Non-Transferability.*

Shares of Restricted Stock shall not be transferable until after the removal of the legend with respect to such Shares.

16.4. *Performance Shares.*

Performance Shares are the right of an individual to whom a grant of such Shares is made to receive Shares or cash equal to the Fair Market Value of such Shares at a future date in accordance with the terms and conditions of such grant. The terms and conditions shall be determined by the Committee, in its sole discretion, but generally are expected to be based substantially upon the attainment of targeted profit and/or performance objectives.

16.5. *Grant.*

The Committee may grant an award of Performance Shares. The number of Performance Shares and the terms and conditions of the grant shall be set forth in the applicable Agreement.

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17. CASH AWARDS

17.1. *Grant.*

The Committee may grant Cash Awards at such times and (subject to Section 17.2) in such amounts as it deems appropriate.

17.2. *Rule 16b-3.*

The amount of any Cash Award in any Fiscal Year to any Participant who is subject to Section 16 of the Exchange Act shall not exceed the greater of \$100,000 or 100% of his cash compensation (excluding any Cash Award under this Section 17) for such Fiscal Year.

17.3. *Restrictions.*

Cash Awards may be subject or not subject to conditions (such as an investment requirement), restricted or nonrestricted, vested or subject to forfeiture and may be payable currently or in the future or both.

18. OTHER STOCK BASED AWARDS AND OTHER BENEFITS

18.1. *Other Stock Based Awards.*

The Committee shall have the right to grant Other Stock Based Awards which may include, without limitation, the grant of Shares based on certain conditions, the payment of cash based on the performance of the Common Stock, and the grant of securities convertible into Shares.

18.2. *Other Benefits.*

The Committee shall have the right to provide types of Benefits under the Plan in addition to those specifically listed, if the Committee believes that such Benefits would further the purposes for which the Plan was established.

19. MISCELLANEOUS PROVISIONS

19.1. *Underscored References.*

The underscored references contained in the Plan are included for convenience only, and they shall not be construed as a part of the Plan or in any respect affecting or modifying its provisions.

19.2. *Number and Gender.*

The masculine and neuter, wherever used in the Plan, shall refer to either the masculine, neuter or feminine; and, unless the context otherwise requires, the singular shall include the plural and the plural the singular.

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19.3. *Unfunded Status of Plan.*

The Plan is intended to constitute an *unfunded* plan for incentive and deferred compensation. With respect to any payments or deliveries of Shares not yet made to a Participant by the Company, nothing contained herein shall give any rights that are greater than those of a general creditor of the Company. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares or payments hereunder consistent with the foregoing.

19.4. *Termination of Employment.*

If the employment of a Participant by the Company terminates for any reason, except as otherwise provided in an Agreement, all unexercised, deferred, and unpaid Benefits may be exercisable or paid only in accordance with rules established by the Committee. These rules may provide, as the Committee may deem appropriate, for the expiration, forfeiture, continuation, or acceleration of the vesting of all or part of the Benefits.

19.5. *Designation of Beneficiary.*

A Participant may file with the Committee a written designation of a beneficiary or beneficiaries (subject to such limitations as to the classes and number of beneficiaries and contingent beneficiaries as the Committee may from time to time prescribe) to exercise, in the event of the death of the Participant, an Option, or to receive, in such event, any Benefits. The Committee reserves the right to review and approve beneficiary designations. A Participant may from time to time revoke or change any such designation of beneficiary and any designation of beneficiary under the Plan shall be controlling over any other disposition, testamentary or otherwise; provided, however, that if the Committee shall be in doubt as to the right of any such beneficiary to exercise any Option or to receive any Benefit, the Committee may determine to recognize only an exercise by the legal representative of the recipient, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

19.6. *Governing Law.*

This Plan shall be construed and administered in accordance with the laws of the State of Delaware, without giving effect to conflict of laws principles.

19.7. *Purchase for Investment.*

The Committee may require each person purchasing Shares pursuant to an Option or other award under the Plan to represent to and agree with the Company in writing that such person is acquiring the Shares for investment and without a view to distribution or resale. The certificates for such Shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under all applicable laws, rules and regulations, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate

references to such restrictions.

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19.8. *No Employment Contract.*

Neither the adoption of the Plan nor any Benefit granted hereunder shall confer upon any Employee any right to continued employment nor shall the Plan or any Benefit interfere in any way with the right of the Employer to terminate the employment of any of its Employees at any time.

19.9. *No Effect on Other Benefits.*

The receipt of Benefits under the Plan shall have no effect on any benefits to which a Participant may be entitled from the Employer, under another plan or otherwise, or preclude a Participant from receiving any such benefits.

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DIGITAL ANGEL CORPORATION

PROXY SOLICITED BY BOARD OF DIRECTORS

For Annual Meeting of Stockholders

May 3, 2005

DIGITAL ANGEL CORPORATION

PROXY

The undersigned, revoking all prior proxies, hereby appoints Kevin N. McGrath and James P. Santelli, and either of them, as proxy or proxies, with full power of substitution and revocation, to vote all shares of common stock of Digital Angel Corporation (the Company) of record in the name of the undersigned at the close of business on March 22, 2005, at the Annual Meeting of Stockholders (the Annual Meeting) to be held on Tuesday, May 3, 2005, or at any adjournment thereof, upon the following matters:

See reverse for voting instructions

There are three ways to vote your Proxy

Your telephone or Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK * EASY *** IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week until 12 noon (CT) on May 2, 2005.

Please have your proxy card and the last four digits of your Social Security Number available. Follow the simple instructions the Voice provides you.

VOTE BY INTERNET <http://www.eproxy.com/doc/> QUICK * EASY *** IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week until 12 noon (CT) on May 2, 2005.

Please have your proxy card and the last four digits of your Social Security Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we ve provided or return it to **Digital Angel Corporation**, c/o Shareowner Services,SM P.O. Box 64873, St. Paul, MN 55164-0873.

If you vote by Phone or Internet, please do not mail your Proxy Card

- | | | | | | | |
|----|-----------------------------------|------------------------|-------------------------------|--|---|---------------------------------|
| 1. | Electing the following directors: | 01 John R. Block | 04 Scott R. Silverman | o Vote FOR all nominees (except as marked) | o | Vote WITHHELD from all nominees |
| | | 02 Kevin N. McGrath | 05 Howard S. Weintraub, Ph.D. | | | |
| | | 03 Kevin H. McLaughlin | 06 Michael S. Zarriello | | | |

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(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. Approving an amendment to the Amended and Restated Digital Angel number of Corporation Transition Stock Option Plan (*2002 Stock Plan*) increasing the shares of Company common stock subject to the plan. For Against Abstain
3. Ratifying the appointment to Eisner LLP as independent auditors for the fiscal year ending December 31, 2005. For Against Abstain

In their discretion, the Proxies are authorized to vote upon any other matters as may properly come before the Annual Meeting or any adjournments thereof.

Please mark, date, sign, and mail this proxy promptly in the enclosed envelope.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted **FOR** Proposals 1, 2 and 3. The Board of Directors recommends a vote **for** Proposals 1, 2 and 3.

Address Change? Mark Box

Indicate changes below:

Date:

Signature(s) in Box

Please sign your name exactly as it appears below. In the case of shares owned in joint tenancy or as tenants in common, all should sign. Fiduciaries should indicate their title and authority.