ALPHA & OMEGA SEMICONDUCTOR Ltd
Form 10-Q
February 07, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018

OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
Commission file number 001-34717

Alpha and Omega Semiconductor Limited
(Exact name of Registrant as Specified in its Charter)

Bermuda	77-0553536
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda
(Address of Principal Registered
Offices including Zip Code)
(408) 830-9742
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company x	Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Number of common shares outstanding as of January 31, 2019: 23,940,455

Alpha and Omega Semiconductor Limited
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands except par value per share)

	December 31, 2018	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 146,632	$ 131,535
Restricted cash	255	189
Accounts receivable, net	33,858	33,755
Inventories	102,962	90,182
Other current assets	34,271	29,551
Total current assets	317,978	285,212
Property, plant and equipment, net	380,783	331,656
Intangible assets, net	16,939	16,591
Deferred income tax assets	4,944	4,892
Other long-term assets	13,544	28,698
Total assets	$ 734,188	$ 667,049
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 102,617	$ 92,661
Accrued liabilities	59,013	49,841
Income taxes payable	1,769	2,211
Short-term debt	22,797	3,811
Deferred margin	—	1,665
Capital leases	7,429	4,491
Total current liabilities	193,625	154,680
Long-term debt	36,729	26,786
Income taxes payable - long-term	951	924
Deferred income tax liabilities	1,134	713
Capital leases - long-term	51,185	56,791
Other long-term liabilities	6,036	993
Total liabilities	289,660	240,887
Commitments and contingencies (Note 11)		
Equity:		
Preferred shares, par value $0.002 per share:		
Authorized: 10,000 shares, issued and outstanding: none at December 31, 2018 and June 30, 2018	—	—
Common shares, par value $0.002 per share:		
Authorized: 100,000 shares, issued and outstanding: 30,590 shares and 23,939 shares, respectively at December 31, 2018 and 30,400 shares and 23,860 shares, respectively at June 30, 2018	61	61
Treasury shares at cost, 6,651 shares at December 31, 2018 and 6,540 shares at June 30, 2018	(66,283)	(64,790)

Additional paid-in capital	227,818	220,244
Accumulated other comprehensive income (loss)	(2,842)	440
Retained earnings	124,538	122,639
Total Alpha and Omega Semiconductor Limited shareholder's equity	283,292	278,594
Noncontrolling interest	161,236	147,568
Total equity	444,528	426,162
Total liabilities and equity	$ 734,188	$ 667,049

See accompanying notes to these condensed consolidated financial statements.

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except per share data)

	Three Months Ended December 31,				Six Months Ended December 31,						
	2018		2017		2018		2017				
Revenue	$114,925		$103,896		$229,997		$208,754				
Cost of goods sold	85,423		75,814		167,884		153,142				
Gross profit	29,502		28,082		62,113		55,612				
Operating expenses											
Research and development	12,600		9,102		23,984		17,427				
Selling, general and administrative	20,104		15,756		40,456		30,371				
Total operating expenses	32,704		24,858		64,440		47,798				
Operating income (loss)	(3,202	)	3,224		(2,327	)	7,814				
Interest income and other income (loss), net	74		(160	)	336		(120	)			
Interest expense	(1,706	)	(14	)	(3,196	)	(31	)			
Net income (loss) before income taxes	(4,834	)	3,050		(5,187	)			95,290	38,788	535,616
		2013	$	249,804	$	463,168	$		186,550	$22,431(5)	$921,953
		2012		276,112		0			95,290	18,755	390,157

Cynthia D. Almond

Executive Vice
President – Secretary

(1) Salary represents base salary earnings
(2) The stock awards consist of a grant of a Performance Share Award of common stock under the Company’s 2005 Employee Stock and Incentive Plan, as amended and restated (the “Plan”). The Performance Share Awards are subject to four year vesting beginning with 2013 based upon continued employment and the comparative performance (on an annual and cumulative basis) of the Company’s common stock on NASDAQ as compared to the Russell Micro Cap Index. The amounts reported in this column represent the grant date fair value for these awards as calculated in accordance with Accounting Standards Codification Topic 718. The assumptions made in calculating the grant date fair value amounts for these Performance Awards are summarized in Note 5 to the Company’s consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2013. The amounts in this column do not necessarily correspond to the actual economic value that may be realized by the Named Executive Officers from the Performance Share Awards.
(3) Represents performance based cash awards earned for fiscal years 2012 and 2013 under the Plan.
(4) Represents amounts paid in respect of life insurance premiums, automobile allowance and expenses for personal use of automobile ($22,604 and $35,186 in 2013 and 2012, respectively), club dues and memberships, Company paid healthcare premiums and income tax preparation fees. In addition, pursuant to the Company’s severance

agreement with Mr. Layton, as amended, the 2013 amount includes an aggregate earned severance amount of $1,764,437, which is payable monthly through April 30, 2015.

(5) Represents amounts paid in respect of life insurance premiums, automobile allowance and expenses for the personal use of automobile and Company paid healthcare premiums.

(6) Represents amounts paid in respect of life insurance premiums, automobile allowances and expenses for the personal use of automobile, club dues and memberships and Company paid healthcare premiums.

(7) Effective March 2013, Mr. Layton no longer serves as Chief Executive Officer of the Company and Mr. Willoughby serves as Chief Executive Officer.

2013 Executive Officer Compensation Components

For the year ended December 31, 2013, the principal components of compensation for Named Executive Officers were:

- base salary;
- performance-based incentive compensation, including both short-term cash incentive compensation and long-term equity incentive compensation;
- retirement and other benefits; and
- perquisites and other personal benefits.

Base Salary

We provide our Named Executive Officers and other employees with a base salary to compensate them for services rendered during the year. Base salary ranges for Named Executive Officers are determined for each executive officer based on various factors considered by the Compensation Committee, including his or her position and level of responsibility and his or her actual performance during the preceding year. Base salaries for each year are typically evaluated annually in the first quarter of such year. Merit-based increases to base salaries for executive officers are based on the Compensation Committee's assessment of various factors, including the individual's performance during the preceding year and base salary history. In 2013, the base salaries for our Named Executive Officers were adjusted to be more heavily weighted toward incentive programs focused on Company financial performance and share price performance compared to a benchmark index.

Performance-Based Incentive Compensation

Our 2005 Employee Stock and Incentive Plan, as amended and restated (the "Plan") provides the Compensation Committee with the flexibility to design cash and stock-based incentive compensation programs to promote performance and the achievement of our goals and objectives by executive officers and other key employees by allowing them to participate in our long-term growth and profitability. The Compensation Committee believes that providing performance-based incentive compensation is necessary to attract and retain superior executive talent and to align the financial interests of executive officers with those of our stockholders. A portion of each executive officer's potential aggregate compensation is in the form of incentive compensation. There are two types of performance-based incentive compensation used by the Compensation Committee. The first type is short-term incentive compensation in the form of a performance based cash award. The second type is long-term incentive compensation in the form of grants of performance shares, stock options, restricted stock or restricted stock units.

In May 2013, pursuant to the Plan, the Company issued Performance-Based Cash Awards and Performance Share Awards (as such terms are defined in the Plan) to the Company's named executive officers and other senior management. Under the terms of such Awards, the determination of the dollar amount of the Performance-Based Cash Awards and the number of Performance Shares which each such individual received was subject to, and calculated by reference to, the achievement by the Company of a performance goal measured by a range of targeted adjusted EBITDA performance for 2013. EBITDA represents earnings (or losses) before interest, income taxes, depreciation, and amortization. Adjusted EBITDA further eliminates the effect of stock-based compensation and restructuring and other charges.

The dollar amount of the Performance-Based Cash Awards and number of Performance Shares was determined in March 2014 upon completion of the Company's 2013 annual financial statements. Based upon the achievement of certain targeted adjusted EBITDA goals, the Company paid the following Performance-Based Cash Awards to the Named Executive Officers and the Named Executive Officers are entitled to the following number of Performance Shares (subject to the vesting conditions for the unvested shares):

Named Executive Officer	Performance-Based Cash Award	Performance Shares	
		Vested	Unvested
Michael C. Willoughby	$ 377,450	52,178	156,532
Thomas J. Madden	$ 246,700	24,349	73,049
Cynthia D. Almond	$ 186,550	18,043	54,129

The number of Performance Shares shown in the table above are subject to four year vesting beginning with 2013 based upon continued employment and the comparative performance (on an annual and cumulative basis) of the

Company's common stock on NASDAQ compared to the Russell Micro Cap Index.

For 2013, the Compensation Committee retained an independent compensation consultant to assist the Committee in reviewing and establishing executive and senior management compensation.

Retirement and Other Benefits

Executive officers are eligible to participate in our 401(k) plan and other benefit programs as described below. The Compensation Committee reviews the overall cost to us of these various programs generally on an annual basis or when changes are proposed. The Compensation Committee believes that the benefits provided by these programs have been important factors in attracting and retaining the overall executive officer group, including the Named Executive Officers.

Our 401(k) plan allows for discretionary employer matching funds of the employee contribution. During 2013, the employer match portion was 12%. We do not provide any other tax-qualified deferred compensation plans or programs for our executive officers.

Executive officers also receive benefit of life insurance policies, which provide coverage in varying amounts up to $0.75 million.

Executive officers are also entitled to participate in the various other group health, term life and similar benefit plans available to all of our employees and on the same terms as such employees.

Perquisites and Other Personal Benefits

We provide Named Executive Officers with perquisites and other personal benefits that we and the Compensation Committee believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code, which provides that we may not deduct compensation of more than $1 million that is paid to certain individuals, subject to certain exemptions. Although the issuance of the Performance-Based Cash Awards and Performance Shares in 2013 did not meet the Section 162(m) exemptions since the performance targets were not established within the required time period, the Committee determined that the issuance of such performance based compensation was appropriate in order to ensure competitive levels of total compensation for the Company's executive officers.

OUTSTANDING EQUITY AWARDS AT 2013 FISCAL YEAR END

The following table sets forth the number of unexercised options and equity incentive plan awards for each Named Executive Officer outstanding as of December 31, 2013.

		Option Awards(1)				Stock Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options (# Exercisable)	Number of Securities Underlying Unexercised Options (1) (#)Unexercisable)	Option Exercise Price ($)	Option Expiration Date	Equity incentive plan awards: Number of unearned shares that have not vested (#)(2)	Equity incentive plan awards: Market or payout value of unearned shares that have not vested ($)(3)
Mark C. Layton (4)	4/5/2005	7,660	—	$ 12.08	4/4/2015	—	
Michael C. Willoughby	3/29/2004	9,149	—	$ 7.57	3/28/2014	156,532	$1,419,754
	4/5/2005	7,660	—	$ 12.08	4/4/2015		
	5/16/2007	8,511	—	$ 4.42	5/15/2017		
	5/20/2008	8,723	—	$ 4.14	5/19/2018		
	5/27/2009	28,250	—	$ 1.46	5/26/2019		
	4/19/2010	55,000	—	$ 4.00	4/18/2020		

	3/30/2011	45,833	4,167	$ 5.00	3/29/2021		
Thomas J. Madden	3/29/2004	9,149	—	$ 7.57	3/28/2014	73,049	$662,545
	4/5/2005	7,660	—	$ 12.08	4/4/2015		
	5/16/2007	4,255	—	$ 4.42	5/15/2017		
	5/20/2008	8,723	—	$ 4.14	5/19/2018		
	5/27/2009	28,250	—	$ 1.46	5/26/2019		
	4/19/2010	45,000	—	$ 4.00	4/18/2020		
	3/30/2011	59,583	5,417	$ 5.00	3/29/2021		
Cynthia D. Almond	3/29/2004	9,149	—	$ 7.57	3/28/2014	54,129	$490,950
	4/5/2005	7,660	—	$ 12.08	4/4/2015		
	5/16/2007	4,255	—	$ 4.42	5/15/2017		
	5/20/2008	5,745	—	$ 4.14	5/19/2018		
	5/27/2009	19,000	—	$ 1.46	5/26/2019		
	4/19/2010	37,000	—	$ 4.00	4/18/2020		
	3/30/2011	36,667	3,333	$ 5.00	3/29/2021		

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(1) The unexercisable Options Awards listed above are generally subject to a quarterly vesting schedule over a three-year period commencing on the date of grant.
(2) Awards consist of Performance Share Awards subject to four year vesting beginning with 2013 based upon continued employment and the comparative performance (on an annual and cumulative basis) of the Company's common stock on NASDAQ compared to the Russell Micro Cap Index.
(3) Market value is computed by multiplying the number of Performance Share Awards by $9.07, which was the closing price per share of the Company's common stock on December 31, 2013, on the NASDAQ.
(4) Effective March 2013, Mr. Layton no longer serves as Chief Executive Officer of the Company and Mr. Willoughby serves as Chief Executive Officer.

EMPLOYMENT, CHANGE OF CONTROL AND TERMINATION ARRANGEMENTS FOR EXECUTIVES

The Company and the Named Executive Officers have entered into Change in Control and Severance Agreements. Under these agreements, and in consideration of certain commitments of the officer to continue employment, upon the occurrence of a change in control, all unvested options held by the officer immediately vest and become exercisable. During the two year period following a change in control (whenever occurring), if the employment of the officer is terminated (other than for cause, death, disability or retirement), or if there is a material adverse change in the officer's responsibilities, compensation or benefits to which the officer does not consent, then, in each case, the officer is entitled to receive from the Company (1) all salary and bonus amounts accrued through the date of termination, (2) a severance payment equal to twice the officer's salary and bonus amount (which is defined as the greater of (i) the highest annual incentive bonus earned by the executive during the last three completed fiscal years or (ii) the executive's then target bonus, if any) and (3) continuation for two years of all employee benefits (unless otherwise provided by a subsequent employer). If applicable, the officer is also entitled to receive an additional payment to compensate the officer for any additional excise tax liability arising by reason of the receipt of such severance or bonus payment. The agreement terminates upon the voluntary resignation or termination of employment by the officer.

In addition, upon a change in control, all unvested Performance Shares issued to the Named Executive Officers immediately vest and each recipient is entitled to receive an additional payment to compensate the officer for any additional excise tax liability arising by reason of the receipt of such shares.

The Company and the Named Executive Officers (other than Ms. Almond) have also entered into Executive Severance Agreements. Under these agreements, and in consideration for, among other things, the agreement by the executive to be bound by a restrictive covenant, in the event of the termination of the employment of the executive other than for cause (including termination following a reduction in the executive's base salary unless such reduction is part of, and proportionate with, a general reduction in officer compensation), the executive is entitled to a severance payment, based on the executive's years of service, up to a maximum of twice the executive's salary and the bonus, if any, that the executive would have received for such fiscal year (based upon the executive's targeted bonus amount and the Company's actual results for such fiscal year), payable in monthly installments over a period not to exceed two years (based on the executive's years of service). In addition, in the event of termination without cause, the executive is entitled during the severance period to a continuation of benefits and to the accelerated vesting of all options then held by the executive, and the executive is considered a continuing employee of the Company for all purposes for which the executive's status as an employee of the Company would entitle the executive to some benefit, including the vesting of Performance Shares. The severance payment and benefits are reduced by any compensation or benefits received by the executive from any subsequent employer.

Effective as of December 31, 2008, the Company and the aforesaid Named Executive Officers entered into an amendment to the existing Executive Severance Agreements and Change in Control Severance Agreements between the Company and such persons. The primary purpose of such amendment was to modify such agreements so that they conform to Section 409A of the Internal Revenue Code. In addition, the amendment to the Executive Severance Agreement modified the calculation of the severance amount thereunder so that it is based on the highest annual rate of base salary during the 12-month period immediately prior to the qualifying termination.

The Company and Ms. Almond have entered into a Severance, Nondisclosure, Nonsolicitation and Noncompete Agreement pursuant to which, and in consideration for, among other things, the agreement by Ms. Almond to be bound by a restrictive covenant, in the event of the termination of her employment other than for cause, Ms. Almond is entitled to a severance payment equal to nine months of base salary, payable in monthly installments, and a continuation of benefits during such period.

Effective as of March 2013, the Company and Mr. Layton amended certain of the terms of the Executive Severance Agreement between the Company and Mr. Layton. The amendment modified certain provisions regarding severance payments payable to Mr. Layton, including the payment of certain additional amounts upon the occurrence of a change in control, and included an additional covenant restricting Mr. Layton from being employed by certain named competitors of the Company. A copy of the amendment was filed as an exhibit to the Company's Form 8-K filed with the SEC on March 29, 2013 and reference is made thereto for a complete description of the terms thereof.

2013 DIRECTOR COMPENSATION

The following table sets forth the compensation earned by non-employee Directors for their service on the Board of Directors and its committees, as applicable, during the year ended December 31, 2013:

	Fees Earned or Paid in Cash	Option Awards (1)		Total
James F. Reilly	$ 102,250	$ 29,220	(2)	$131,470
David I. Beatson	60,500	29,220	(3)	89,720
Dr. Neil W. Jacobs	57,250	29,220	(4)	86,470
Benjamin Rosenzweig	16,000	29,220	(5)	45,220
Timothy M. Murray	35,250	—	(6)	35,250

(1) Represents aggregate grant date fair value computed in accordance with ASC Topic 718.
(2) Mr. Reilly had 59,149 options outstanding as of December 31, 2013.
(3) Mr. Beatson had 59,149 options outstanding as of December 31, 2013.
(4) Dr. Jacobs had 54,894 options outstanding as of December 31, 2013.
(5) Mr. Rosenzweig had 10,000 options outstanding as of December 31, 2013.
(6) Mr. Murray resigned from the Board in May 2013. Mr. Murray had no options outstanding as of December 31, 2013.

During 2013 non-employee directors received an annual retainer fee of $22,000, payable quarterly, a director meeting fee of $2,500 for each board meeting attended, a committee meeting fee of $1,500 for each quarterly Audit Committee meeting attended and a committee meeting fee of $750 or $1,250 (depending upon the meeting length) for each special committee meeting. Mr. Reilly, as lead director, received an additional $5,000 for each quarterly board meeting attended and $25,000 for additional services performed for the special committee.

In June 1999 the Company adopted a Non-Employee Director Stock Option and Retainer Plan (the “Non-Employee Director Plan”). As amended in June 2011, the Non-Employee Director Plan provides for the issuance to each non-employee director of an option to purchase 10,000 shares of common stock as of the date of each annual meeting of stockholders. Pursuant to the Non-Employee Director Plan, during 2013, each non-employee director received an option to purchase 10,000 shares of common stock at an exercise price of $4.20 per share. The Non-Employee Director Plan permits the payment of non-employee director retainer fees in shares of Common Stock in lieu of cash.

All options issued to non-employee directors under the Non-Employee Director Plan are non-qualified options for federal income tax purposes and have an exercise price equal to the fair market value of a share of common stock as of the date of the annual meeting upon which such option is granted. All options have a ten-year term and are subject to a one-year vesting schedule.

Generally, unless the Non-Employee Director Plan administrator otherwise provides, options are non-transferable other than by will or the laws of descent and distribution. At the time of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate structure or capitalization affecting the

Company's common stock, the Non-Employee Director Plan administrator will make appropriate adjustments to the exercise price, number and kind of shares to be issued under the Non-Employee Director Plan and any outstanding options. The Board of Directors has the authority to amend, modify, suspend or terminate the Non-Employee Director Plan at any time.

Directors who are also employees of the Company or any of its subsidiaries receive no remuneration for serving as directors or Committee members.

Mr. Nagakura is eligible to participate in the Company's compensation programs for non-employee Directors. As the representative of TCI, however, under TCI's current policy, Mr. Nagakura is not permitted to receive remuneration for serving as a director of the Company. Accordingly, Mr. Nagakura received no compensation as a Director during 2013.

Compensation Committee Interlocks and Insider Participation

During 2013, Mr. Reilly, Mr. Nagakura and Mr. Beatson served on the Compensation Committee. None of the members of the Compensation Committee has had a relationship with the Company or any subsidiary other than as a director or stockholder. No executive officer of the Company served or serves on the Compensation Committee or board of any company that employed or employs any member of Company's Compensation Committee or Board of Directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth as of April 10, 2014, certain information regarding the beneficial ownership of the Company's Common Stock by (i) each person who is known to the Company to beneficially own more than 5% of the Common Stock, (ii) each of the Directors and named executive officers of the Company individually and (iii) the Directors and executive officers of the Company as a group. The information contained in this table reflects "beneficial ownership" as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and, as such, also includes shares acquirable within 60 days. Unless otherwise indicated, the stockholders identified in this table have sole voting and investment power with respect to the shares owned of record by them.

Name and Address of Beneficial Owner	Number of Shares	Percent (1)	
transcosmos, inc. 21-25-18 Shibuya, Shibuya-ku (2) Tokyo 150-8530 Japan	3,678,779	22.0	%
Austin W. Marxe and David M. Greenhouse (3) 527 Madison Avenue, Suite 2600 New York, NY10022	2,348,955	14.0	%
Privet Fund LP (4) 3280 Peachtree Rd NE Atlanta, GA 30305	1,343,428	8.0	%
Thomas J. Madden (5)	225,421	1.3	%
Michael C. Willoughby (5)	206,085	1.2	%
Cindy Almond (5)	138,993	*	
James F. Reilly (5)	95,217	*	
David B. Reese (5)	93,680	*	
David I. Beatson (5)	63,833	*	
Dr. Neil W. Jacobs (5)	59,215	*	
Benjamin Rosenzweig (5)	5,556	*	
Monica Luechtefeld (5)	2,781	*	
Shinichi Nagakura (5)	—	*	
All directors and executive officers as a group (11 persons) (6)	890,781	5.1	%

*Represents less than 1%

(1) This table is based on 16,731,122 shares of Common Stock outstanding on April 11, 2014.

(2) Based on a March 25, 2014 Form SC 13 D filing by transcosmos, inc.

(3) Based on a February 13, 2014 Form SC 13 G/A joint filing by Austin W. Marxe ("Marxe") and David M. Greenhouse ("Greenhouse"). Marxe and Greenhouse share sole voting and investment power over 495,869 common shares owned by Special Situations Cayman Fund, L.P., 1,505,618 common shares owned by Special Situations Fund III QP, L.P., and 347,468 common shares owned by Special Situations Private Equity Fund, L.P.

(4) Based on a May 20, 2013 Form SC 13 D/A filing by Privet Fund LP.

(5) Includes the following shares issuable under outstanding vested options and deferred stock units: Thomas J. Madden – 158,888; Michael C. Willoughby – 151,144; Cynthia D. Almond – 113,660; James F. Reilly – 54,705; David B. Reese – 86,829; David I. Beatson – 54,705; Dr. Neil W. Jacobs – 44,894; Benjamin Rosenzweig – 5,556 and Monica Luechtefeld – 2,781.

(6) Includes 680,822 shares of Common Stock issuable under outstanding vested options and deferred stock units.

The following table summarizes information with respect to equity compensation plans under which equity securities of the registrant are authorized for issuance as of December 31, 2013. For additional information about our equity compensation plans, see note 5 to our financial statements in Item 8 of our 2013 annual report on Form 10-K:

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by share holders	1,818,592	$ 4.90	1,174,674

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The Board of Directors has determined that, other than Mr. Willoughby, each director, and each member of each committee of the Board of Directors, is independent within the meaning of applicable Securities and Exchange Commission ("SEC") rules and NASD listing standards. The independent directors are able to and generally meet in executive session without the Company's management at each regularly scheduled Board meeting.

Item 14. Principal Accountant Fees and Services

Fees billed to the Company by Grant Thornton LLP for the years 2012 and 2013

The following table sets forth (i) the aggregate fees billed by Grant Thornton LLP relating to the audit of the 2012 and 2013 consolidated financial statements and (ii) the fees for other professional services billed by Grant Thornton LLP in connection with services rendered during the previous two fiscal years.

Fee Type	2012	2013
Audit fees (a)	$407,300	$363,700
Audit-related fees (b)	71,550	71,500

(a) Includes fees for professional services rendered in connection with the audit of the annual financial statements, reviews of the quarterly financial statements, and fees paid for the audit of the Company's subsidiary, Supplies Distributors, to satisfy requirements of its senior debt agreements and internal control review.

(b) Consists of aggregate fees billed for assurance services provided in connection with reports on certain internal controls under Statement on Standards for Attestation Engagements (SSAE) No. 16.

All of the fees listed in the chart above were pre-approved by the Audit Committee, which concluded that the provisions of such services by Grant Thornton LLP was compatible with the maintenance of that firm's independence in the conduct of its audit functions.

Policy on Audit Committee Pre Approval of Audit and Permissible Non Audit Services of Independent Registered Public Accountants

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent auditors. These services may include audit services, audit related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case by case basis. During 2012 and 2013, all audit, non-audit and tax services provided by Grant Thornton LLP were pre-approved by the Audit Committee in accordance with this policy.

Item 15. Exhibits

Exhibits. See "Exhibits Index to Form 10-K/A" immediately following the signature page of this Amendment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: April 30, 2014 By: /s/ Thomas J. Madden
Thomas J. Madden
Executive Vice President and

Chief Financial and Accounting Officer

EXHIBIT INDEX

To FORM 10-K/A

Exhibit Number	Description of Exhibits
31*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted to Section 302 of the Sarbanes-Oxley Act of 2002.

*Filed herewith.

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