

URANIUM ENERGY CORP
Form DEF 14A
June 12, 2012

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

SCHEDULE 14A

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

Filed by the Registrant T
Filed by a Party other than the Registrant £
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement**
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

URANIUM ENERGY CORP.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

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

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

£ Fee paid previously with preliminary materials:

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

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.

3) Filing Party:

4) Date Filed:

URANIUM ENERGY CORP.

#320 - 1111 West Hastings Street, Vancouver, British Columbia, Canada V6E 2J3

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on July 23, 2012

Dear Stockholder:

The annual meeting of stockholders (the "**Annual Meeting**") of Uranium Energy Corp. (the "**Company**") will be held at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, on July 23, 2012 at 12:00 p.m. (Vancouver time). At the Annual Meeting stockholders will be asked to:

1. elect Amir Adnani, Alan P. Lindsay, Harry L. Anthony, Ivan Obolensky, Vincent Della Volpe, David Kong and Katharine Armstrong to our Board of Directors;

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ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ent; TEXT-INDENT: 0pt; MARGIN-RIGHT: 0pt" align="center">

(IRS Employer
Identification No.)

600 Grant Street, Pittsburgh, PA
(Address of principal executive offices)

15219-2800
(Zip Code)

(412) 433-1121

(Registrant's telephone number,
including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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2.

Item 1.01. Entry into a Material Definitive Agreement

On August 6, 2010, U. S. Steel Košice, s.r.o. (“USSK”), a company organized under the laws of the Slovak Republic and a wholly-owned subsidiary of United States Steel Corporation, entered into a multicurrency revolving credit facility agreement (the “Credit Agreement”) with COMMERZBANK Aktiengesellschaft, ING Bank N.V., Slovenská sporiteľňa, a.s., Citibank Europe plc and HSBC Bank plc. The Credit Agreement provides for a EUR 200,000,000 revolving unsecured credit facility that expires on August 6, 2013. The Credit Agreement contains conventional representations and warranties, affirmative covenants, negative covenants and events of default.

The Credit Agreement replaces USSK’s EUR 200,000,000 Credit Facility dated July 2, 2008.

A copy of the Credit Agreement is filed as Exhibit 10.1 to this Form 8-K.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

The disclosure under Item 1.01 of this Current Report on Form 8-K is incorporated into this Item 2.03 by reference.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

10.1 EUR 200,000,000 multicurrency revolving credit facility agreement dated August 6, 2010 among U. S. Steel Košice, s.r.o., and COMMERZBANK Aktiengesellschaft, ING Bank N.V., Slovenská sporiteľňa, a.s., Citibank Europe plc and HSBC Bank plc.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UNITED STATES STEEL CORPORATION

By /s/ Gregory A. Zovko
Gregory A. Zovko
Vice President & Controller

Dated: August 11, 2010

ersons has any substantial interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Annual Meeting, other than elections to office and as named executive officers in respect of whose compensation the non-binding advisory vote on executive compensation will be held:

- each person who has been one of our directors or executive officers at any time since the beginning of our last fiscal year;
- each nominee for election as one of our directors; or
- any associate of any of the foregoing persons.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of May 25, 2012, by:

- each person who is known by us to beneficially own more than 5% of our shares of common stock; and
- each executive officer, each director and all of our directors and executive officers as a group.

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The number of shares beneficially owned and the related percentages are based on 84,795,155 shares of common stock outstanding as of May 25, 2012.

For the purposes of the information provided below, shares that may be issued upon the exercise or conversion of options, warrants and other rights to acquire shares of our common stock that are exercisable or convertible within 60 days following May 25, 2012, are deemed to be outstanding and beneficially owned by the holder for the purpose of computing the number of shares and percentage ownership of that holder, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Beneficial Ownership</u>
(1)	(1)	
Directors and Officers:		
Amir Adnani 320 - 1111 West Hastings Street Vancouver, British Columbia, Canada, V6E 2J3	3,015,801 ⁽²⁾	3.5%
Alan P. Lindsay 2701 - 1500 Hornby Street Vancouver, British Columbia, Canada, V6Z 2R1	2,371,287 ⁽³⁾	2.8%
Harry L. Anthony P.O. Box 1328 Kingsville, Texas, U.S.A., 78364	2,162,500 ⁽⁴⁾	2.5%
Ivan Obolensky 425 East 79 th Street New York, New York, U.S.A., 10021	238,419 ⁽⁵⁾	*
Vincent Della Volpe 32 Evergreen Drive Lincoln Park, New Jersey, U.S.A., 07035	270,000 ⁽⁶⁾	*
David Kong 7440 Afton Drive	100,000 ⁽⁷⁾	*

Richmond, British Columbia, Canada, V7A 1A3

Mark A. Katsumata 14447 Blackburn Crescent White Rock, British Columbia, Canada, V4B 3A3	272,339 ⁽⁸⁾	*
Katharine Armstrong 919 Congress Avenue, Suite 1400 Austin, Texas, U.S.A., 78701	60,000 ⁽⁹⁾	*
All executive officers and directors as a group (8 persons)	8,490,346 ⁽¹⁰⁾	9.5%
Major Shareholders:		
Oppenheimer Funds, Inc. Two World Financial Center 225 Liberty Street. New York, New York, U.S.A, 10281	4,910,200	5.8%

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Notes

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* Less than one percent.

(1) Under Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares: (i) voting power, which includes the power to vote, or to direct the voting of such security; and (ii) investment power, which includes the power to dispose or direct the disposition of the security. Certain shares of common stock may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares of common stock are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares of common stock outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of common stock of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding as of the date of this Proxy Statement. As of May 25, 2012, there were 84,795,155 shares of common stock of the Company issued and outstanding.

(2) This figure represents (i) 1,745,301 shares of common stock, (ii) 3,000 shares of common stock held of record by Amir Adnani's wife and (iii) 1,267,500 stock options to purchase shares of our common stock.

(3) This figure represents (i) 1,142,787 shares of common stock, (ii) 163,500 shares of common stock held of record by Alan P. Lindsay's wife and (iii) 1,065,000 stock options to purchase shares of our common stock. Mr. Lindsay is the father-in-law of Amir Adnani.

(4) This figure represents (i) 822,500 shares of common stock and (ii) 1,340,000 stock options to purchase shares of our common stock.

- (5) This figure represents (i) 18,419 shares of common stock and (ii) 220,000 stock options to purchase shares of our common stock.
- (6) This figure represents 270,000 stock options to purchase shares of our common stock.
- (7) This figure represents 100,000 stock options to purchase shares of our common stock.
- (8) This figure represents (i) 4,839 shares of common stock and (ii) 267,500 stock options to purchase shares of our common stock.
- (9) This figure represents (i) 10,000 shares of common stock and (ii) 50,000 stock options to purchase shares of our common stock.
- (10) This figure includes (i) 3,910,346 shares of common stock and (ii) 4,580,000 stock options to purchase shares of our common stock.

We have no knowledge of any arrangements, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in our control.

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PROPOSAL NUMBER ONE:

ELECTION OF DIRECTORS TO OUR BOARD OF DIRECTORS

Election of Directors

Each of our directors is elected annually at the annual meeting of our stockholders, and, upon his or her election, will hold office until our next annual meeting or until his or her successor is elected and qualified.

The persons named in the enclosed form of proxy as proxyholders intend to vote for the election of the nominees listed below as directors unless instructed otherwise, or unless a nominee is unable or unwilling to serve as a director of our Company. Our Board of Directors has no reason to believe that any nominee is unable or unwilling to serve, but if a nominee should determine not to serve, the persons named in the form of proxy as proxyholders will have the discretion and intend to vote for another candidate that would be nominated by our Board of Directors.

The affirmative vote of a plurality of the votes present in person or by proxy at the Annual Meeting and entitled to vote on the election of directors is required for the election of each nominee as a director. Our constating documents do not provide for cumulative voting in the election of directors.

Nominees for Election as Directors

Amir Adnani, Alan P. Lindsay, Harry L. Anthony, Ivan Obolensky, Vincent Della Volpe, David Kong and Katharine Armstrong, each of whom is a current director, have been nominated for election as directors. It is the intention of the persons named in the accompanying form of proxy as proxyholders to vote proxies for the election of each of these individuals as a director and each of the nominees has consented to being named in this Proxy Statement and to serve as a director, if elected.

Directors and Executive Officers

Our current directors and executive officers and their respective ages as of May 25, 2012, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Amir Adnani	34	President, Chief Executive Officer, Principal Executive Officer and a Director
Alan P. Lindsay	61	Chairman and a Director
Harry L. Anthony	64	Chief Operating Officer and a Director
Ivan Obolensky	87	A Director
Vincent Della Volpe	69	A Director
David Kong	65	A Director
Katharine Armstrong	59	A Director
Mark A. Katsumata	46	Secretary, Treasurer, Chief Financial Officer and Principal Accounting Officer

The following describes the business experience of each of our directors and executive officers, including other directorships held in reporting companies:

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Amir Adnani. Mr. Amir Adnani is a co-founder of our Company and has been our President, Chief Executive Officer, Principal Executive Officer and a director since January 24, 2005. Mr. Adnani is an entrepreneur with an extensive background in business development and marketing. In September 2004 he founded and was a director and President of Blender Media Inc. ("**Blender**"), a Vancouver based company that provides strategic marketing and financial communications services to public companies and investors in mineral exploration, mining, and energy sectors. Effective October 1, 2006, Mr. Adnani is no longer a director, officer or shareholder of Blender. In June 2001 Mr. Adnani co-founded, and from June 2001 to September 2004 was a director and officer of, Fort Sun Investments Inc., a strategic marketing and financial communications services company for public companies. Mr. Adnani has been the Chairman and a director of Brazil Resources Inc., a TSX Venture Exchange listed company, since August of 2010. Mr. Adnani holds a Bachelor of Science degree from the University of British Columbia. Mr. Adnani is not a director or officer of any other U.S. reporting company.

The Board of Directors has concluded that Mr. Adnani should serve as a director of our Company given his involvement with our Company since its inception and his business experience prior to joining our Company.

Alan P. Lindsay. Mr. Lindsay, a co-founder of our Company, has served as Chairman of the Company since December 2005. Mr. Lindsay served as a director of MIV Therapeutics, Inc. ("**MIV**"), a biomedical company focused on biocompatible coating technology for stents and medical devices, from October 2001 through March 2010, and as Chief Executive Officer of MIV from October 2001 to January 2008. From December 2005 through July 2009, Mr. Lindsay served as Chairman and a director of TapImmune Inc., a development stage biotechnology company. Mr. Lindsay was a founding officer and director of Strategic American Oil Corporation (now known as Duma Energy Corp.; "**Strategic**"), positions that he held from April until July 2005. He subsequently served as a director of

Strategic from April 2007 until December 2010.

Mr. Lindsay was a founder of Azco Mining Inc. (now known as Santa Fe Gold Corp., "**Azco**") and served as Chairman, President and Chief Executive Officer of Azco from 1992 to 2000. Azco was listed on the Toronto Stock Exchange in 1993 and on the American Stock Exchange in 1994. Mr. Lindsay also co-founded Anatolia Minerals Development Limited (now known as ASR Toronto), a junior resource company that trades on the TSX Venture Exchange, and New Oproeru Resources Inc., a junior resource company that also trades on the TSX Venture Exchange. Mr. Lindsay is a director of Terra Firma Resources Inc., a junior resource company that trades on the TSX Venture Exchange.

The Board of Directors has concluded that Mr. Lindsay should serve as a director of our Company given that he is one of the co-founders of our Company and has been involved with our Company since its inception, and also given his business experience with other public companies.

Harry L. Anthony. Mr. Anthony has been our Chief Operating Officer and a director since February 2006. Mr. Anthony has over 40 years of industrial, hydro-metallurgical experience; the past 35 years being in the uranium mining industry. From approximately 1997 to February, 2006, Mr. Anthony had been a consultant through Anthony Engineering Services for several major uranium companies and international agencies, which duties generally include project evaluation, operations "trouble shooter" and technical and financial expert. From approximately 1990 through 1997, Mr. Anthony was a Senior Vice-President of Uranium Resources, Inc. ("**Uranium**"), where he managed all facets of operations and technical support to achieve production goals, drilling, ion exchange, reverse osmosis, software development and equipment design. Mr. Anthony's duties also included oversight of construction, technical aspects, daily operations of plants and wellfields, budget planning and forecasting, property evaluations and reserve estimations. Mr. Anthony also previously served as the Vice-President of Engineering/engineering manager of Uranium, and a project superintendent and project engineer for Union Carbide Corp. Mr. Anthony was on the board of directors of Uranium from 1984 through 1994. He is the author of several publications and the recipient of the awards "Distinguished Member of the South Texas Mineral Section of AIME -1987" and "1999 Outstanding Citizen of the Year - Kingsville Chamber of Commerce". Mr. Anthony received an M.S. in Engineering Mechanics in 1973 and a B.S. in Engineering Mechanics in 1969 from Pennsylvania State University. Mr. Anthony is not a director or officer of any other U.S. reporting company.

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The Board of Directors has concluded that Mr. Anthony should serve as a director given his involvement with our Company since 2006, and his over 30 years of experience in the uranium industry.

Ivan Obolensky. Mr. Obolensky has served on our Board of Directors since April 2007. Mr. Obolensky has over 40 years of experience in the investment banking business as a supervisory financial analyst, with specific expertise in the defense, aerospace, oil and gas, nuclear power, metals and mining, publishing and high technology industries. He has also been Senior Executive of several investment banks, including Sterling Grace & Co., Jesup, Josephthal & Co., Dominick and Dominick, Inc., Middendorf Colgate and CB Richard Ellis Moseley Hallgarten. From November, 1990 to date, Mr. Obolensky has been a Senior Vice-President of Wellington Shields & Co. LLC, an investment bank and Member of the New York Stock Exchange. Mr. Obolensky is a Registered Investment Advisor and a long-time member of the New York Society of Security Analysts and the CFA Institute. Twenty-year-President of the Josephine Lawrence Hopkins Foundation, he is also a Past Grand Treasurer of the Grand Lodge of the State of New York, where he presently serves as Chairman of its "watchdog" Financial Oversight Committee for the Masonic Brotherhood Foundation. Professionally, he has made frequent appearances as a guest of CNBC, CNNfn and Bloomberg TV. Mr. Obolensky is also a Board Member of several charitable organizations: The Children's Cancer & Blood Foundation; The Bouverie Audubon Preserve of Glen Ellen California; The Police Athletic League of New York City; and General "Blackjack" Pershing's Soldiers', Sailors', Marines', and Airmen's Club, where he is also Chairman and CEO. He is a graduate of Yale University and a Lieutenant (J.g.) US Naval Air Corps, USNR (Ret.).

The Board of Directors has concluded that Mr. Obolensky should serve as a director given his involvement with our Company since 2007, and his over 40 years of experience in the investment banking business as a financial analyst.

Vincent Della Volpe. Mr. Della Volpe has served on our Board of Directors since July 2007. Mr. Della Volpe has served as a professional money manager for over 35 years, including as a senior portfolio manager of pension funds for Honeywell Corporation and Senior Vice-President of the YMCA Retirement fund in New York. Throughout his career Mr. Della Volpe has particularly focused on the management of energy and utility equity portfolios, and he also has experience managing venture capital investments. From 2006 to 2011, Mr. Della Volpe served as a director of Gold Canyon Resources, Inc., a junior natural resources company incorporated in British Columbia, Canada, listed on the TSX Venture Exchange. Mr. Della Volpe has been retired since March 2003. During the prior 11 years he was employed by the YMCA Retirement Fund. Mr. Della Volpe holds a Bachelor of Arts in Accounting and an MBA in finance, both from Seton Hall University.

The Board of Directors has concluded that Mr. Della Volpe should serve as a director given his involvement with our Company since 2007, and his over 35 years of experience in the financial industry.

David Kong. Mr. Kong became a director of our Company on January 5, 2011. Mr. Kong holds a Bachelor in Business Administration and earned his Chartered Accountant designation in British Columbia in 1978 and U.S. CPA (Illinois) designation in 2002. From 2005 to 2010, Mr. Kong was a partner at Ernst & Young LLP. From 1981 to 2004, Mr. Kong was a partner at Ellis Foster, Chartered Accountants. Currently, Mr. Kong is a director of Hana Mining Ltd., New Pacific Metals Corp., Brazil Resources Inc., Silvercorp Metals Inc., IDM International Limited and Channel Resources Ltd. (not seeking re-election at Channel's annual general meeting scheduled to take place on June 21, 2012). Mr. Kong is a Certified Director (ICD.D) of the Institute of Corporate Directors.

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The Board of Directors has concluded that Mr. Kong should serve as a director given his business experience, accounting and financial expertise.

Katharine Armstrong. Prior to her appointment as a member of the Company's Board of Directors on June 1, 2012, Ms. Armstrong served on the Company's Advisory Board since October 2009. Ms. Armstrong has been President of Natural Resources Solutions, since 2008, when she founded this Austin, Texas, based company that works in partnership with universities, agencies of state and federal government, stakeholder groups and others to identify and implement solutions to environmental challenges created by regulatory mandates. In addition, Ms. Armstrong has been President of Katharine Armstrong, Inc., since 2003, when she founded this Austin, Texas, based firm specializing in statewide and national projects involving public affairs and legislative, agency and grassroots projects.

Ms. Armstrong serves as Co-Chair of the South Texas Native Restoration Project at Texas A&M Kingsville and as Chair of the Armstrong Center for Energy and the Environment at the Texas Public Policy Foundation. She is also a director of the Texas and Southwestern Cattle Raisers Association and the Texas Wildlife Association. Ms. Armstrong currently serves on the Advisory Board of the Harte Research Institute for Gulf of Mexico Studies at Texas A&M Corpus Christi. She is also a Founding Director of Taking Care of Texas, a statewide non-profit organization that promotes the mutual benefits of economics and conservation.

Ms. Armstrong currently serves as a director and the Chair of the compensation committee of SJW Corp. ("SJW"), the NYSE-listed parent company of San Jose Water Company and Texas Water Alliance Limited. Ms. Armstrong has served as a director of SJW since May 2009.

The Board of Directors has concluded that Ms. Armstrong should serve as a director given her involvement with the Company since 2009, her experience regarding environmental and natural resource issues, and her business experience.

Mark A. Katsumata. Mr. Katsumata was a director of our Company and the Chairman of our Audit Committee from May 11, 2009 until January 5, 2011. Since January 5, 2011, Mr. Katsumata has served as our Secretary, Treasurer and Chief Financial Officer. Mr. Katsumata has served as a Chief Financial Officer and Vice-President, Finance of a number of NYSE MKT, TSX and TSX Venture Exchange companies. Mr. Katsumata has over 20 years of experience related to the mining industry and has been a member in good standing of the Certified General Accountants' Association of British Columbia and Canada since 1997. During the past five years, Mr. Katsumata was the Chief Financial Officer of Candente Resource Corp., a TSX-listed base and precious metals explorer, and the Chief Financial Officer/Vice-President, Finance of each of Denison Mines Corp., an NYSE MKT and TSX-listed uranium producer and explorer, and Fortress Minerals Corp., a TSX Venture Exchange-listed precious metals explorer.

Term of Office

Our directors hold office until the next annual meeting of the stockholders or until the election and qualification of their successors. Officers are appointed by and serve at the discretion of the Board of Directors.

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Family Relationships

Alan P. Lindsay is the father-in-law of Amir Adnani.

Meetings of Directors During the Last Fiscal Year

The Company's Board of Directors held four meetings in person during the fiscal year ended July 31, 2011, and acted through the adoption of unanimous written consent resolutions on 34 occasions during the period, as permitted under the *Nevada Revised Statutes* and our Company's Bylaws. Each director attended 100% of the aggregate of (i) the total number of board meetings held while he was a director and (ii) the total number of meetings held by committees on which he served during the periods that he served.

The Company does not have a formal policy with respect to director attendance at annual stockholders' meetings, however, all directors are encouraged to attend. A total of five of seven directors from the Board of Directors as it was comprised at the time attended the annual stockholders meeting last year in person.

Board Independence

The Board of Directors has determined that Ivan Obolensky, Vincent Della Volpe, David Kong and Katharine Armstrong each qualify as independent directors under the listing standards of the NYSE MKT.

Committees of the Board of Directors

Our Board of Directors currently has three board committees: an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. These committees operate pursuant to charters adopted in respect of each committee; copies of which are posted on the Company's website at www.uraniumenergy.com

The following sets forth information relating to the Company's board committees:

Audit Committee

Our Audit Committee has been structured to comply with Rule 10A-3 under the Exchange Act. Our Audit Committee is comprised of Ivan Obolensky, Vincent Della Volpe and David Kong, all of whom meet the audit committee member independence standards of NYSE MKT. Our Board of Directors has determined that Mr. Kong satisfies the criteria for an audit committee financial expert under Item 407(d)(5) of Regulation S-K of the rules of the SEC. Each Audit Committee member is able to read and understand fundamental financial statements, including the Company's consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows.

The Audit Committee meets with management and our external auditors to review matters affecting the Company's financial reporting, the system of internal accounting and financial controls and procedures and audit procedures and audit plans. The Audit Committee reviews significant financial risks, is involved in the appointment of senior financial executives and annually reviews our insurance coverage and any off balance sheet transactions.

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The Audit Committee is mandated to monitor our Company's audit and the preparation of financial statements and to review and recommend to the Board of Directors all financial disclosure contained in our company's public documents. The Audit Committee is also mandated to appoint external auditors, monitor their qualifications and independence and determine the appropriate level of their remuneration. The external auditors report directly to the Audit Committee and to the Board of Directors. The Audit Committee and Board of Directors each have the authority to terminate the external auditor's engagement (subject to confirmation by our stockholders). The Audit Committee also approves in advance any permitted services to be provided by the external auditors which are not related to the audit.

We will provide appropriate funding as determined by the Audit Committee to permit the Audit Committee to perform its duties and to compensate its advisors. The Audit Committee, at its discretion, has the authority to initiate special investigations and, if appropriate, hire special legal, accounting or other outside advisors or experts to assist the Audit Committee to fulfill its duties.

The Audit Committee discharged its mandate in respect of the financial period ended July 31, 2011, including the review and recommendation to our Board of Directors of all financial disclosure contained in our Company's public documents. The Audit Committee held four meetings in person during our fiscal year ended July 31, 2011, and also acted through the adoption of unanimous written consent resolutions on five occasions during the period, as permitted under the *Nevada Revised Statutes* and our Company's Bylaws. The committee met without management present at its meeting with respect to the Company's fiscal year end.

Report of the Audit Committee

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal period ended July 31, 2011, with the Company's management. In addition, the Audit Committee has discussed with the Company's independent registered public accounting firm, Ernst & Young LLP, the matters required to be discussed by the statement on Auditing Standards No. 61, as amended, *Communication with Audit Committees*. The Audit Committee has received the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young LLP's communications with the Audit Committee concerning independence, and has discussed with Ernst & Young LLP their independence. Based on the discussions and reviews referenced above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal period ended July 31, 2011, be included in the Company's Annual Report on Form 10-K, for the period ended July 31, 2011. The Audit Committee has selected Ernst & Young LLP to serve as the Company's Independent Registered Public Accounting Firm for fiscal 2012.

By: David Kong, Ivan Obolensky and Vincent Della Volpe.

Compensation Committee

The Compensation Committee is comprised of Ivan Obolensky, Vincent Della Volpe and Katharine Armstrong, all of whom qualify as independent directors under NYSE MKT rules. Mr. Della Volpe is the Chairman of the Compensation Committee. (Mr. Essiger, who qualified as an independent director under NYSE MKT rules, served as a member of the Compensation Committee and Chairman thereof until his resignation as a director of the Company on June 1, 2012).

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The Compensation Committee is responsible for considering and authorizing terms of employment and compensation of directors, executive officers and employees and providing advice on compensation structures in the various jurisdictions in which our Company operates. In addition, the Compensation Committee reviews and oversees our overall salary objectives and any significant modifications made to employee benefit plans, including those applicable to directors and executive officers, and proposes any awards of stock options and incentive and deferred compensation benefits. The Compensation Committee held one meeting in person during our fiscal year ended July 31, 2011, and also acted through the adoption of unanimous written consent resolutions on twelve occasions during the period, as permitted under the *Nevada Revised Statutes* and our Company's Bylaws. At each meeting the Compensation Committee met without Company management being present.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is comprised of Ivan Obolensky, Vincent Della Volpe and Katharine Armstrong, all of whom qualify as independent directors under NYSE MKT rules. Mr. Della Volpe is the Chairman of the Corporate Governance and Nominating Committee. (Mr. Essiger, who qualified as an independent director under NYSE MKT rules, served as a member of the Corporate Governance and Nominating Committee and Chairman thereof until his resignation as a director of the Company on June 1, 2012).

The Corporate Governance and Nominating Committee is responsible for developing our approach to corporate governance issues and compliance with governance rules. The Corporate Governance and Nominating Committee is also mandated to plan for the succession of our Company, including recommending director candidates, review of board procedures, size and organization and monitoring of senior management with respect to governance issues. The Corporate Governance and Nominating Committee is responsible for the development and implementation of corporate communications to ensure the integrity of our disclosure controls and procedures, internal control over financial reporting and management information systems. The purview of the Corporate Governance and Nominating Committee also includes the administration of our Board of Directors' relationship with our management.

The Corporate Governance and Nominating Committee identifies individuals believed to be qualified to become board members and recommends individuals to fill vacancies. There are no minimum qualifications for consideration for nomination to be a director of the Company. The Corporate Governance and Nominating Committee assesses all nominees using generally the same criteria. In nominating candidates, the Corporate Governance and Nominating Committee takes into consideration such factors as it deems appropriate, including judgment, experience, skills and personal character, as well as the needs of the Company. The Corporate Governance and Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, and historically has not considered diversity as a major criterion for identifying director nominees.

The Corporate Governance and Nominating Committee has performed a review of the experience, qualifications, attributes and skills of our Company's current directors who are nominated for reelection, and believes that such persons possess a variety of complementary skills and characteristics, including the following:

- personal characteristics, including leadership, character, integrity, accountability, sound business judgment and personal reputation;
- successful business or professional experience;
- various areas of expertise or experience, including financial, strategic and general management;

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- willingness and ability to commit the necessary time to fully discharge the responsibilities of a director in connection with the affairs of the Company; and
- a demonstrated commitment to the success of the Company.

For a discussion of the specific backgrounds and qualifications of our current directors and nominees, see "Proposal 1 -- Election of Directors" in this Proxy Statement.

The Corporate Governance and Nominating Committee considers nominees recommended by stockholders if such recommendations are made in writing to the Corporate Governance and Nominating Committee and evaluates nominees for election in the same manner whether the nominee has been recommended by a stockholder or otherwise. To recommend a nominee, please write to the Company's Corporate Governance and Nominating Committee c/o Uranium Energy Corp., Attn: Corporate Secretary, at #320 - 1111 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2J3.

The Corporate Governance and Nominating Committee acted through the adoption of unanimous written consent resolutions on one occasion during the fiscal year ended July 31, 2011, as permitted under the *Nevada Revised Statutes* and our Company's Bylaws. The Corporate Governance and Nominating Committee acted without management involvement.

Stockholder Communications

Stockholders may contact an individual director, the Board of Directors as a group or a specified board committee or group, including any non-employee directors as a group, either by (i) writing to Uranium Energy Corp., at #320 - 1111 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2J3, Attn: Corporate Secretary, or (ii) sending an e-mail message to info@uraniumenergy.com.

Our Corporate Secretary will conduct an initial review of all such stockholder communications and will forward the communications to the persons to whom it is addressed, or if no addressee is specified, to the appropriate committee of the Board of Directors or the entire Board of Directors depending on the nature of the communication. Such communications will be assessed by the recipients as soon as reasonably practicable taking into consideration the nature of the communication and whether expedited review is appropriate.

Code of Business Conduct and Ethics Policy

We have adopted a Code of Business Conduct and Ethics Policy that applies to all directors and officers. The code describes the legal, ethical and regulatory standards that must be followed by the directors and officers of the Company and sets forth high standards of business conduct applicable to each director and officer. As adopted, the Code of Business Conduct and Ethics Policy sets forth written standards that are designed to deter wrongdoing and to promote, among other things:

1. honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. compliance with applicable governmental laws, rules and regulations;
3. the prompt internal reporting of violations of the code to the appropriate person or persons identified in the code; and
4. accountability for adherence to the code.

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A copy of our Code of Business Conduct and Ethics Policy can be viewed on our website at the following URL: http://www.uraniumenergy.com/about_us/corporate_governance/code_of_ethics/.

Involvement in Certain Legal Proceedings

Except as disclosed in this Proxy Statement, during the past ten years none of the following events have occurred with respect to any of our directors or executive officers:

1. a petition under the Federal bankruptcy laws or any state insolvency law was filed by or against, or a receiver, fiscal agent or similar officer was appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;
2. such person was convicted in a criminal proceeding or is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:
 - (a) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;
 - (b) engaging in any type of business practice; or
 - (c) engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of Federal or State securities laws or Federal commodities laws;
4. such person was the subject of any order, judgment or decree, not subsequently reversed, suspended or vacated, of any Federal or State authority barring, suspending or otherwise limiting for more than 60 days the right of such person to engage in any activity described in paragraph (3)(a)

above, or to be associated with persons engaged in any such activity;

5. such person was found by a court of competent jurisdiction in a civil action or by the SEC to have violated any Federal or State securities law, and the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated;

6. such person was found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any Federal commodities law, and the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended or vacated;

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7. such person was the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

- (a) any Federal or State securities or commodities law or regulation; or
- (b) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or
- (c) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

8. such person was the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

There are currently no material legal proceedings to which any of our directors or executive officers is a party adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

Certain Relationships and Related Party Transactions

Except for the transactions described below, since the beginning of our fiscal year ended July 31, 2010, none of our directors, nominees for director, officers or principal stockholders, nor any immediate family member of the foregoing, has or have any material interest, direct or indirect, in any transaction, or in any proposed transaction, in which our Company was or is to be a participant and in which the amount involved exceeds \$120,000.

During the year ended July 31, 2011, the Company had transactions with certain officers and directors of the Company as follows:

- incurred \$122,701 in general and administrative costs paid to companies controlled by a direct family member of a current officer and director (Mr. Adnani); and

- incurred \$221,680 in finder's fees related to private placements paid to a company controlled by a former director (Mr. Essiger, who resigned as a director on June 1, 2012).

During the year ended July 31, 2010, the Company had transactions with certain officers and directors of the Company as follows:

- incurred \$151,797 in general and administrative costs paid to companies controlled by a direct family member of a current officer and director (Mr. Adnani).

Amounts owing to related parties are unsecured, non-interest bearing and without specific terms of repayment.

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Our Audit Committee is charged with reviewing and approving all related party transactions and reviewing and making recommendations to the board of directors, or approving any contracts or other transactions with any of our current or former executive officers.

Conflicts of Interest

To our knowledge, and other than as disclosed in this Proxy Statement, there are currently no known existing or potential conflicts of interest among us, our promoters, directors and officers, or other members of management, or any proposed director, officer or other member of management as a result of their outside business interests except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director or officer of such other companies.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than ten percent of our equity securities, to file initial reports of ownership and reports of changes in ownership of our common stock and our other equity securities with the SEC. Based on our review of the reports furnished to us by our officers, directors and greater than ten percent stockholders, we believe that all such reports were timely filed during the fiscal year ended July 31, 2011.

Board Leadership Structure and Role in Risk Oversight

Amir Adnani serves as our Chief Executive Officer while Alan P. Lindsay serves as the Chairman of our Board of Directors. Our Board of Directors takes an active role in risk oversight of our Company. Our executive officers report any significant risks that come to their attention to our Board of Directors. Our Audit Committee reviews significant financial risks and reports them to the Board of Directors as well.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Oversight of Executive Compensation Program

The Compensation Committee of our Board of Directors is responsible for establishing and administering the Company's executive and director compensation.

The Compensation Committee is composed entirely of independent, non-management members of the Board of Directors. The Board of Directors has determined that none of the Compensation Committee members have any

material business relationships with the Company. Independency is re-assessed annually by the Company.

The responsibilities of the Compensation Committee, as stated in its charter, include the following:

- review and approve the Company's compensation guidelines and structure;
- review and approve on an annual basis the corporate goals and objectives with respect to compensation for the chief executive officer;

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- review and approve on an annual basis the evaluation process and compensation structure for the Company's other officers, including salary, bonus, incentive and equity compensation; and
- periodically review and make recommendations to the Board of Directors regarding the compensation of non-management directors.

The committee is responsible for developing the executive compensation philosophy; reviewing and recommending to the board for approval all compensation policies and compensation programs for the executive team.

The Compensation Committee did not retain an independent executive compensation advisory firm in the previous two years. In May 2012 the Compensation Committee retained Global Governance Advisors Inc. ("GGA"), an independent executive compensation advisory firm, as its primary independent executive compensation consultant to help the Board of Directors develop additional compensation governance practices. GGA's engagement is discussed further on page 23.

Overview of Executive Compensation Program

The Company recognizes that people are our primary asset and our principal source of competitive advantage. In order to recruit, motivate and retain the most qualified individuals as senior executive officers, the Company strives to maintain an executive compensation program that is competitive in the mining industry, which is a competitive, global labor market. In assessing the competitiveness of executive compensation packages, including for the purposes of considering increases in base salaries and bonus awards, the Company considered the compensation practices of a comparative group of uranium-focused public companies chosen based upon factors such as size (market capitalization and assets), stage of operations (pre-production to production, given that the Company entered into production in fiscal 2011), and location of operations (North America), with a view to providing a spectrum of compensation data.

The Compensation Committee's compensation objective is designed to attract and retain the best available talent while efficiently utilizing available resources. The Compensation Committee compensates executive management primarily through base salary and equity compensation designed to be competitive with comparable companies, and to align management's compensation with the long-term interests of shareholders. In determining an executive management's compensation, the Compensation Committee also takes into consideration the financial condition of the Company and discussions with the executive.

In order to accomplish our goals and to ensure that the Company's executive compensation program is consistent with its direction and business strategy, the compensation program for our senior executive officers is based on the following objectives:

- encourage and reward performance which supports the Company's core values and business objectives;
- emphasize a "pay for performance" system, in which an individual's short and long-term compensation and career advancement are dependent upon both individual and Company performance, with an objective of increasing long-term shareholder value; and
- provide competitive total compensation and reward programs to enhance the Company's ability to attract, motivate and retain knowledgeable and experienced senior executive officers.

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Compensation Elements and Rationale

There are three basic components to the Company's executive compensation program: base salary, short term incentive cash awards and long-term incentive equity compensation.

Base Salary

Base salary is the foundation of the compensation program and is intended to compensate competitively relative to comparable companies within our industry and the marketplace where we compete for talent. Base salary is a fixed component of the compensation program and is used as the base to determine elements of incentive compensation and benefits. The Company has conducted an internal survey of companies within our industry and has found our annual base salaries to be aligned competitively with those within the peer group identified by the Company.

Short-Term Incentive (Cash)

The short-term incentive plan is a variable component of compensation and has the objective to motivate the executive officers to achieve pre-determined objectives and provide a means to reward the achievement of corporate milestones and fulfillment of the annual business plan. During the fiscal years 2008 and 2009, the Company did not award any short term incentive, which we considered appropriate due to the decline of the global capital markets. During 2010, the Company was in transition from an operating company to a producing company, and we determined to formalize a process for the award of short term incentives. In 2010 and 2011 corporate and individual goals were set for our executive officers based on the achievement of corporate, divisional and individual objectives. As significant corporate milestones were achieved by the Company during 2010 and 2011, short-term incentive compensation awards became a more significant element of the overall executive officer compensation program.

Long-Term Incentive (Equity)

The Company's long-term incentive program provides for the granting of stock options to senior executive officers to both motivate executive performance and retention, as well as align executive officer performance to shareholder value creation. In awarding long-term incentives, the Company compares the long-term incentive program to that of comparable companies within our industry and evaluates such factors as the number of options available under its Stock Incentive Plan and the number of options outstanding relative to the number of shares outstanding. The Company has historically sought to award stock options on a competitive basis, based on a comparison with comparable companies. The Company has conducted an internal survey of companies within our industry and has found our long-term incentive program to be aligned competitively with those within the peer group identified by the Company. Each long-term incentive grant is based on the level of the position, internal equity and overall market competitiveness.

Options have a term of up to 10 years and, generally, not more than one-quarter vest each six month period during a term of not less than two years, with the exception of directors and officers, whose granted options vest immediately. No directors or officers exercised any options during the fiscal year ended July 31, 2011. The Compensation Committee takes into consideration previous grants when it considers new grants of options.

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The Board of Directors fixes the exercise price of the options at the time of the grant at the NYSE MKT closing price of our common shares.

The following table summarizes the pay mix by executive and illustrates the percentage of fixed versus at risk pay over the last three fiscal years:

Name and Principal Position	Period	Base Salary (%)	Cash Bonus (STIP) (%)	Stock Options (LTIP) (%)	Pay at risk (STIP + LTIP) (%)
Amir Adnani, President and Chief Executive Officer	2011	32%	24%	44%	68%
	2010	31%	15%	54%	69%
	2009	84%	0%	16%	16%
Harry L. Anthony, Chief Operating Officer	2011	28%	25%	46%	72%
	2010	29%	16%	55%	71%
	2009	83%	0%	17%	17%
Pat Obara, former Secretary, Treasurer and Chief Financial Officer ⁽¹⁾	2011	17%	24%	59%	83%
	2010	30%	11%	59%	70%
	2009	83%	0%	17%	17%
Mark Katsumata, Secretary, Treasurer and Chief Financial Officer ⁽²⁾	2011	41%	0%	59%	59%
	2010	*	*	*	*
	2009	*	*	*	*

Notes

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(1) Mr. Obara resigned as Chief Financial Officer, Secretary and Treasurer effective on January 5, 2011.

(2) Mr. Katsumata was appointed Chief Financial Officer, Secretary and Treasurer effective on January 5, 2011.

Non-cash Compensation

The Company provides standard health benefits to its executives, including medical, dental and disability insurance.

Overall, non-cash compensation is intended to provide a similar level of benefits as those provided by comparable companies within our industry.

Review of Senior Executive Officer Performance

The Compensation Committee reviews, on an annual basis, the overall compensation package for our senior executive officers and evaluates executive officer performance relative to corporate goals. The Compensation Committee has the opportunity to meet with the senior executive officers at various times during the year, which assists the Compensation Committee in forming its own assessment of each individual's performance.

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In determining the compensation for the senior executive officers, the Compensation Committee considered compensation paid to other executive officers of other companies within the industry, the executive's performance in meeting goals, the complexity of the management position and the experience of the person. Of the amount of the compensation paid to the executive officer, a large portion of the compensation was in the form of options. The number of options granted was determined in large part due to the financial condition of the Company which had no revenues through the fiscal year ended July 31, 2011.

When reviewing the executive's performance for fiscal year 2011, the Compensation Committee took into consideration both individual and corporate performance levels.

This year's Executive Performance targets were:

- successful start-up of production;
- advancement of the Company's permitting on Goliad and Palangana;
- significant property acquisitions;
- securing uranium sales contract; and
- corporate performance.

The following milestones were attained by the Company as a result of the success of the executives meeting their performance targets:

- Start of production

: The Company initiated in-situ recovery of uranium at our Palangana Project in South Texas in mid-November. Shortly thereafter, the first delivery of uranium-loaded resins was accepted at our Hobson plant, also in South Texas, and the processing into marketable U3O8 or yellowcake was commenced.

- Goliad permitting advances

: The Texas Commission on Environmental Quality (TCEQ) granted the Goliad project its Mine Permit and Production Area Authorization and approved both planned disposal wells.

- First

Sales Contract: The Company secured its first multi-year uranium sales contract.

- New Acquisitions

: The Company acquired a 247,000-acre uranium property located in the area of Coronel Oviedo, Paraguay.

- Completion of a non-brokered financing of \$27.5 Million.

- Addition to the Russell 2000 and Russell 3000 indexes.

- Addition to the S&P/TSX Global Mining Index.

Alan Lindsay, Chairman of the Board

Alan P. Lindsay serves as the Company's Chairman and a director and is retained accordingly on a yearly basis. Mr. Lindsay is compensated on a monthly basis at a rate of \$6,000 per month.

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The Company's compensation policy for Mr. Lindsay is based on comparisons of other companies remunerations made to their Chairmen and the value of his expertise to the Company.

Amir Adnani, President and Chief Executive Officer

Amir Adnani is retained according to an executive services agreement with our Company, and his compensation for serving as an executive officer of the Company is disclosed below in the "Summary Compensation Table."

The Company's compensation policy for Mr. Adnani is based on comparisons of other companies' remunerations made to their Presidents and Chief Executive Officers and the value of his expertise to the Company.

As shown in the Director Compensation Table below, Mr. Adnani does not receive additional compensation in connection with his service as a director of the Company.

Harry L. Anthony, Chief Operating Officer

Mr. Anthony is retained according to an executive services agreement with our Company, and his compensation for serving as Chief Operating Officer of the Company is disclosed below in the "Summary Compensation Table."

The Company's compensation policy for Mr. Anthony is based on comparisons of other companies' remunerations made to their Chief Operating Officers and the value of his expertise to the Company.

As shown in the Director Compensation Table below, Mr. Anthony does not receive additional compensation in connection with his service as a director of the Company.

Pat Obara, former Chief Financial Officer

Mr. Obara resigned as our Chief Financial Officer on January 5, 2011, and currently serves as Vice President Administration of our Company. As Chief Financial Officer, Mr. Obara was (and now as Vice-President Administration he is) retained on a month-to-month basis under the provisions of a consulting services agreement. His compensation during our fiscal year ended July 31, 2011, is disclosed below in the "Summary Compensation Table."

The Company's compensation policy for Mr. Obara was based on comparisons of other companies' remunerations made to their Chief Financial Officers (and subsequently, to officers that have similar responsibilities as Mr. Obara in his current role as our Vice-President Administration) and the value of his expertise to the Company.

Mark Katsumata, Chief Financial Officer

Mr. Katsumata is retained according to an executive services agreement with our Company, and his compensation for serving as Chief Financial Officer of the Company is disclosed below in the "Summary Compensation Table."

The Company's compensation policy for Mr. Katsumata is based on comparisons of other companies' remunerations made to their Chief Financial Officers and the value of his expertise to the Company.

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Pension Benefits

None.

Non-Qualified Deferred Compensation

None.

Retirement, Resignation or Termination Plans

Officers with contracts for services have notice requirements which permit pay in lieu of notice.

Each of Messrs. Adnani's and Anthony's contracts contemplates the case of termination due to various provisions whereby they will each receive various severance payments.

Compensation and Risk

We do not believe that our compensation policies and practices are reasonably likely to have a material adverse effect on us. We have taken steps to ensure our executive compensation program does not incent risk outside the Company's risk appetite. Some of the key ways that we currently manage compensation risk are as follows.

- appointing a majority of independent directors to the Compensation Committee to oversee the executive compensation program;
- the use of deferred equity compensation in the form of stock options to encourage a focus on long-term corporate performance versus short-term results;
- disclosure of executive compensation to stakeholders;

- use of discretion in adjusting bonus payments up or down as the Compensation Committee deems appropriate; and
- adopted say on pay.

Consistent with good governance practices, the Company has retained an independent compensation advisor, GGA, to provide advice on the structure and levels of compensation for executives and directors and intends to undertake a comprehensive review of its incentive plans in 2012.

Consideration of Most Recent Shareholder Advisory Vote on Executive Compensation

As required by Section 14A of the Exchange Act, at our 2011 Annual Meeting of Stockholders our stockholders voted, in an advisory manner, on a proposal to approve our named executive officer compensation. This was our most recent stockholder advisory vote to approve named executive officer compensation. The proposal was approved by our stockholders, receiving approximately 70% of the vote of the stockholders present in person or represented by proxy and voting at the meeting. We considered this vote to be a ratification of our current executive compensation policies and decisions and, therefore, did not make any significant changes to our executive compensation policies and decisions based on the vote.

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Compensation Committee Interlocks and Insider Participation

No person who served as a member of our Compensation Committee during our fiscal year ended July 31, 2011 was a current or former officer or employee of our Company or engaged in certain transactions with our Company required to be disclosed by regulations of the SEC. Additionally, during our fiscal year ended July 31, 2011, there were no Compensation Committee "interlocks," which generally means that no executive officer of our Company served: (a) as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity which had an executive officer serving as a member of our Company's Compensation Committee; (b) as a director of another entity which had an executive officer serving as a member of our Company's Compensation Committee; or (c) as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity which had an executive officer serving as a director of our Company.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the foregoing compensation discussion and analysis with Company management. Based on that review and those discussions, the Compensation Committee recommended to the Board of Directors that the compensation discussion and analysis be included in this Proxy Statement. This report is provided by the following independent directors, who comprise the Compensation Committee:

By: Vincent Della Volpe and Ivan Obolensky (Katharine Armstrong did not participate in this Report given that she did not become of member of the Compensation Committee until June 1, 2012).

Summary Compensation Table

The following table sets forth the compensation paid to our Chief Executive Officer, Chief Financial Officer and those executive officers that earned in excess of \$100,000 during the years ended July 31, 2011, 2010 and 2009 (each a "Named Executive Officer"):

Summary Compensation Table

Notes

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- (1) These amounts represent fees paid by the Company to the Named Executive Officers during the past year pursuant to various employment and consulting services agreements, as between us and the Named Executive Officers, which are more particularly described below.
- (2) These amounts represent the fair value of these options at the date of grant which was estimated using the Black-Scholes option pricing model.
- (3) The Company did not record any non-equity incentive compensation plan expense, non-qualified deferred compensation expense or other compensation expense for the Named Executive Officers.
- (4) Mr. Obara resigned as Chief Financial Officer, Secretary and Treasurer effective on January 5, 2011.
- (5) Mr. Katsumata was appointed Chief Financial Officer, Secretary and Treasurer effective on January 5, 2011.

We granted options to purchase shares of our common stock to the Named Executive Officers in the fiscal year ended July 31, 2011, as follows:

Grants of Plan Based Awards

The following table sets forth information as at July 31, 2011, relating to options that have been granted to the Named Executive Officers:

Outstanding Equity Awards at Fiscal Year End

The following table sets forth the value realized on Options Exercised and Stock Awards vested for the Named Executive Officers for the year ended July 31, 2011:

Option Exercises and Stock Vested

No Pension Benefits

The Company does not maintain any plan that provides for payments or other benefits to its executive officers at, following or in connection with retirement and including, without limitation, any tax-qualified defined benefit plans or supplemental executive retirement plans.

No Nonqualified Deferred Compensation

The Company does not maintain any defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

Director Compensation

Directors receive cash compensation for their services as such, as well as options. The number of options granted to each director is based on the experience of the director, time spent on Company matters and the compensation paid to other directors of companies in the industry.

The following table sets forth information relating to compensation paid to our directors in the year ended July 31, 2011:

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Director Compensation Table

Notes

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(1) Alan P. Lindsay received monthly fees through July 31, 2011, for the provision of various management consulting services provided by Mr. Lindsay to us on a monthly basis and from time to time.

(2) This amount represents the fair value of options at the date of grant or repriced during the year, estimated using the Black-Scholes option pricing model. As of July 31, 2011, our directors held options to acquire an aggregate of 3,602,500 shares of our common stock in the following manner: Alan P. Lindsay, 1,040,000 options; Amir Adnani, 1,177,500 options; Harry L. Anthony, 1,250,000 options; Erik Essiger, 142,500 options; Ivan Obolensky, 195,000 options; Vincent Della Volpe, 245,000 options; and David Kong, 75,000 options.

Alan P. Lindsay serves as the Company's Chairman and a director and is retained accordingly on a yearly basis. Mr. Lindsay is compensated on a monthly basis at a rate of \$6,000 per month.

Amir Adnani serves as the Company's Chief Executive Officer, President and as a director, and Harry L. Anthony serves as the Company's Chief Operating Officer and a director. Messrs Adnani and Anthony are retained according to executive services agreements with our Company and their compensation for serving as executive officers of the Company is disclosed above in the "Summary Compensation Table." As shown in the "Director Compensation Table" above, Messrs Adnani and Anthony do not receive additional compensation in connection with their services as directors of the Company.

During our fiscal year ended July 31, 2011, Erik Essiger, Ivan Obolensky, Vincent Della Volpe and David Kong were the independent directors of the Company. During our fiscal year ended July 31, 2011, Mr. Essiger served as Chairman of the Company's Compensation Committee and as Chairman of the Company's Corporate Governance and Nominating Committee, and Mr. Kong served as Chairman of the Company's Audit Committee. The independent directors are retained on a yearly basis for their service and are paid quarterly based on their annual retainer fees, which were as follows during the year ended July 31, 2011:

- Erik Essiger (EURO 20,000 per year);
- Ivan Obolensky (USD \$20,000 per year);
- Vincent Della Volpe (USD \$20,000 per year); and
- David Kong (CAD \$25,000 per year).

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The amounts listed above are all-inclusive retainer fees and there are no additional committee and/or chairmanship fees or meeting attendance fees above and beyond such annual retainer fees.

In addition to such retainers, from time to time directors may receive bonus payments or options, which are granted on a discretionary basis. The amount of any bonus payments or the number of options granted is based on the experience of the director, time spent on Company matters and the compensation paid to other directors of companies in the industry.

Standard retainer amounts paid to directors, as well as any bonus payments or options, are determined by the Company's Compensation Committee and ratified by the Board of Directors.

Directors and Officers Insurance

The Company has purchased a policy of insurance for the benefit of its directors and officers, and the directors and officers of its subsidiaries, against liability incurred by them in the performance of their duties as directors and officers of the Company, or its subsidiaries, as the case may be. The amount of premium paid with respect to this policy for the financial year ended July 31, 2011 was \$58,227. The policy does not specify that any part of the premium is paid in respect of either directors as a group or officers as a group. The entire premium is paid by the Company. The current annual policy limit is \$10,000,000 subject to a deductible of up to \$100,000 per occurrence. During our fiscal year ended July 31, 2011, there were no claims under the directors and officers insurance.

Employment and Consulting Agreements

Anthony Executive Services Agreement

On February 15, 2006, our Board of Directors authorized and approved the execution of an employment agreement between us and Harry L. Anthony. On July 1, 2006, our Board of Directors approved an amendment to this

agreement, extending the initial term thereunder to July 1, 2008. On July 23, 2009 our Board of Directors approved the entering into of a further amended and restated executive services agreement with Mr. Anthony (the "**Anthony Agreement**") with a term expiring on July 23, 2012. Pursuant to the terms and provisions of the Anthony Agreement: (a) Mr. Anthony shall provide duties to us commensurate with his executive position as our Chief Operating Officer; (b) we shall pay to Mr. Anthony a monthly fee of \$19,167; and (c) we shall grant to Mr. Anthony incentive stock options to purchase not less than 365,000 shares at an exercise price of not more than \$0.33 per share and exercisable for a period of not less than 10 years from the date of grant. The Anthony Agreement is subject to automatic renewal unless either the Company or Mr. Anthony provides written notice not to renew the Anthony Agreement no later than 90 days prior to the end of the then-current term.

Adnani Executive Services Agreement

On July 1, 2006, our Board of Directors authorized and approved an executive services agreement between us and Amir Adnani, as amended by letter agreement dated July 1, 2007, which provided for an initial term expiring July 1, 2009. On July 23, 2009 our Board of Directors approved the entering into of a further amended and restated executive services agreement (the "**Adnani Agreement**") with Amir Adnani Corp. (the "**Consultant**") with a term expiring on July 23, 2012. Pursuant to the terms and provisions of the Adnani Agreement: (a) through the Consultant, Mr. Adnani shall continue to provide duties to us commensurate with his current executive positions as our President and Chief Executive Officer; (b) we shall pay to the Consultant a monthly fee of \$19,167; and (c) we shall grant to the Consultant incentive stock options to purchase not less than 365,000 shares at an exercise price of not more than \$0.33 per share and exercisable for a period of not less than 10 years from the date of grant. The Adnani Agreement is subject to automatic renewal unless either the Company or Mr. Adnani provides written notice not to renew the Adnani Agreement no later than 90 days prior to the end of the then-current term.

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Obara Builders Ltd. Consulting Services Agreement

On August 15, 2007, with an effective date of July 1, 2007, our Board of Directors authorized and approved a consulting services agreement with Obara Builders Ltd. (the "**Obara Agreement**") for an initial term of two years expiring on July 1, 2009. Pursuant to the terms and provisions of the Obara Agreement: (a) Mr. Obara provided duties to us commensurate with his executive positions as our Secretary, Treasurer, Chief Financial Officer and Principal Accounting Officer; (b) we paid to Obara Builders Ltd., a private company controlled by Pat Obara, or to Pat Obara personally, a monthly fee of Cdn\$10,000; (c) we approved the granting of stock options from time to time to Mr. Obara at such fair market exercise price or prices per option share as determined by our Board of Directors and we confirmed the previous granting of his existing stock options of 200,000 stock options to Mr. Obara to purchase shares of our common stock at \$1.30 per share and a further 25,000 stock options to purchase shares of our common stock at \$3.30 per share, both for a ten-year term from the date of grant; and (d) the Obara Builders Ltd. Consulting Services Agreement could be terminated without cause by either of us by providing prior written notice of the intention to terminate at least 90 days (in the case of our Company after the initial term) or 30 days (in the case of Mr. Obara) prior to the effective date of such termination.

On March 1, 2008, the Compensation Committee ratified the approval of an increase in the monthly service agreement fee for Mr. Obara from Cdn\$10,000 to Cdn\$12,500, which was further raised effective August 1, 2010 to Cdn\$13,750.

Mr. Obara and the Company intend to enter into an amended agreement but such agreement has not yet been finalized. Mr. Obara continues to provide services under the provisions of the original Obara Agreement on a month-to-month basis in connection with his current position at the Company of Vice President Administration.

Katsumata Executive Employment Services Agreement

On January 5, 2011, our Board of Directors approved an executive employment services agreement (the "**Katsumata Agreement**") with Mark A. Katsumata, our Secretary, Treasurer and Chief Financial Officer.

Pursuant to the terms of the Katsumata Agreement, Mr. Katsumata will perform such duties and responsibilities as an executive employee as set out in the Katsumata Agreement. In consideration for Mr. Katsumata's services, we agreed to: (a) pay Mr. Katsumata a monthly fee in the amount of Cdn\$12,500; and (b) subject to applicable rules and policies of relevant regulatory authorities and applicable securities legislation and the Company's Stock Incentive Plan, grant to Mr. Katsumata incentive stock options to purchase not less than 217,500 common shares; at an exercise price of \$1.50 per option share with respect to not less than 75,000 of the option shares, at an exercise price of \$2.40 per option share with respect to not less than a further 75,000 of the option shares and at an exercise price of \$2.43 per option share with respect to the balance of the option shares; and exercisable for a period of not less than ten years from the date of grant in each instance.

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Mr. Katsumata's initial term of employment under the Katsumata Agreement will end on January 5, 2013 (such period, the "**Initial Term**"). The Katsumata Agreement is subject to automatic renewal unless we provide written notice of an intention not to renew the Katsumata Agreement no later than 90 days prior to the end of the then-current term of the Katsumata Agreement. Mr. Katsumata may terminate the Katsumata Agreement upon 60 days prior written notice to the Company. The Katsumata Agreement provides that the Company may terminate Mr. Katsumata's employment without cause, in which event Mr. Katsumata will be entitled to continue to receive the compensation he would have been entitled to until the end of the Initial Term. In addition, either the Company or Mr. Katsumata may terminate the Katsumata Agreement for cause upon 14 days prior written notice under certain circumstances described in the Katsumata Agreement.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF THE DIRECTOR NOMINEES SET FORTH ABOVE. DIRECTORS ARE ELECTED BY A PLURALITY OF THE VOTES CAST.

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PROPOSAL NUMBER TWO:

RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Ernst & Young LLP, Chartered Accountants, have been selected as the independent registered public accountants of the Company for the fiscal period ending July 31, 2012. Ernst & Young LLP audited the Company's financial statements for our fiscal year July 31, 2011.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire, and are expected to be available to respond to appropriate questions at the meeting.

In the event ratification by the stockholders of the appointment of Ernst & Young LLP as the Company's independent registered public accountants is not obtained, our Board of Directors will reconsider such appointment.

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Aggregate fees for professional services rendered to us by our auditors are set forth below:

	<u>Year Ended July 31, 2011</u>	<u>Year Ended July 31, 2010</u>
Audit Fees	\$307,750	\$249,000
Audit-Related Fees	-	-
Tax Fees	<u>\$67,000</u>	<u>\$41,500</u>
Total	\$374,750	\$290,500

Audit Fees

Aggregate fees for professional services in connection with the audit of our annual financial statements and the quarterly reviews of our financial statements included in our quarterly reports.

Audit-Related Fees

Aggregate fees for professional services in connection with the filings of Forms S-3 and S-8 registration statements by the Company.

Tax Fees

Our auditors provided tax preparation services.

All Other Fees

Our auditors did not provide any other services to us other than those described above.

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Pre-Approval of Services by the Independent Auditor

Our Audit Committee is responsible for the pre-approval of audit and permitted non-audit services to be performed by the Company's independent auditor. The Audit Committee will, on an annual basis, consider and, if appropriate, approve the provision of audit and non-audit services by Ernst & Young LLP. Thereafter, the Audit Committee will, as necessary, consider and, if appropriate, approve the provision of additional audit and non-audit services by Ernst & Young LLP which are not encompassed by the Audit Committee's annual pre-approval and are not prohibited by law. The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve, on a case-by-case basis, non-audit services to be performed by Ernst & Young LLP. The Audit Committee has approved all of the audit and permitted non-audit services performed by Ernst & Young LLP since the Audit Committee was formed.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THIS PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS OF THE COMPANY FOR THE FISCAL PERIOD ENDING JULY 31, 2012.

PROPOSAL NUMBER THREE:

APPROVAL OF 2012 STOCK INCENTIVE PLAN

Summary of 2012 Stock Incentive Plan

On May 1, 2012, our Board of Directors authorized and approved the adoption of the Company's 2012 Stock Incentive Plan (the "**2012 Stock Incentive Plan**"), under which an aggregate of 15,000,000 of our shares may be issued. The 2012 Stock Incentive Plan supersedes and replaces each of (i) the Company's 2006 Stock Incentive Plan, dated as originally ratified by the Board of Directors on October 10, 2006, as ratified by the shareholders of the Company at the Company's annual general meeting held on July 24, 2008 (the "**2006 Stock Incentive Plan**"), and (ii) the Company's 2009 Stock Incentive Plan, dated as originally ratified by the Board of Directors on June 5, 2009, as ratified by the shareholders of the Company at the Company's annual general meeting held on July 23, 2009, which was amended pursuant to an amendment thereto originally ratified by the Board of Directors on May 25, 2010, as ratified by the shareholders of the Company at the Company's annual general meeting held on July 22, 2010 (the 2009 Stock Incentive Plan, as amended, the "**2009 Stock Incentive Plan**").

Under the 2006 Stock Incentive Plan, an aggregate of 10,000,000 of our shares were authorized for issuance. Under the 2009 Stock Incentive Plan, an aggregate of 7,000,000 of our shares were authorized for issuance. All options or other awards granted under the 2006 Stock Incentive Plan and the 2012 Stock Incentive Plan that were outstanding and unexercised as of May 1, 2012, the date our Board of Directors authorized and approved the adoption of the 2012 Stock Incentive Plan, are covered by the 2012 Stock Incentive Plan. As of May 1, 2012, a total of 3,610,000 options granted under the 2006 Stock Incentive Plan remained issued and unexercised and a total of 5,846,875 options granted under the 2009 Stock Incentive Plan remained issued and unexercised.

The purpose of the 2012 Stock Incentive Plan is to enhance our long-term stockholder value by offering opportunities to our directors, officers, employees and eligible consultants to acquire and maintain stock ownership in order to give these persons the opportunity to participate in our growth and success, and to encourage them to remain in our service.

The 2012 Stock Incentive Plan is to be administered by our Compensation Committee which shall determine, among other things: (a) the persons to be granted awards under the 2012 Stock Incentive Plan; (b) the number of shares or amount of other awards to be granted; and (c) the terms and conditions of the awards granted. The Company may issue restricted shares, options, stock appreciation rights, deferred stock rights and dividend equivalent rights, among others, under the 2012 Stock Incentive Plan. As indicated above, an aggregate of 15,000,000 of our shares may be issued pursuant to the grant of awards under the 2012 Stock Incentive Plan.

An award may not be exercised after the termination date of the award and may be exercised following the termination of an eligible participant's continuous service only to the extent provided by the administrator under the 2012 Stock Incentive Plan. If the administrator under the 2012 Stock Incentive Plan permits a participant to exercise an award following the termination of continuous service for a specified period, the award terminates to the extent not exercised on the last day of the specified period or the last day of the original term of the award, whichever occurs first. In the event an eligible participant's service has been terminated for "cause", he or she shall immediately forfeit all rights to any of the awards outstanding.

The foregoing summary of the 2012 Stock Incentive Plan is not complete and is qualified in its entirety by reference to the 2012 Stock Incentive Plan, a copy of which has been included as an appendix to the Company's definitive schedule 14A proxy statement regarding this matter as filed electronically with the SEC, which is available under the Company's filings at www.sec.gov.

Federal Income Tax Consequences

The United States federal income tax consequences to the Company and its eligible participants under the 2012 Stock Incentive Plan are complex and subject to change. The following discussion is a summary of the general rules applicable to awards granted under the 2012 Stock Incentive Plan to an eligible participant who performs services within the United States or is a United States citizen or resident. The tax consequences may be affected by various income tax treaties. **Eligible participants under the 2012 Stock Incentive Plan should consult their own tax advisors since a taxpayer's particular situation may be such that some variation of the rules described below will apply.**

The Company has been advised that, based on the current provisions of the United States *Internal Revenue Code*, as amended (the "**Code**"), the federal income tax consequences of the grant, vesting and exercise of awards under the 2012 Stock Incentive Plan, and the subsequent disposition of shares of common stock acquired under the 2012 Stock Incentive Plan, are as described below. The following discussion addresses only the general federal income tax consequences of awards. Eligible participants in the 2012 Stock Incentive Plan are urged to consult their own tax advisers regarding the impact of federal, state and local taxes, the federal alternative minimum tax and securities laws restrictions, given their individual situations. It is intended that the underlying benefits that are required to be treated as deferred compensation to which Code Section 409A is applicable, will comply with statute and the underlying agency guidance interpreting that section.

In the case of an exercise of a non-qualified stock option or "**SAR**", the participant will recognize ordinary income in an amount equal to the difference between the option exercise price (or SAR grant price) and the fair market value of the Company's common stock on the exercise date. Likewise, in the case of a common law employer-employee relationship, any amount recognized as ordinary income for income tax purposes will be also recognized as wages for the *Federal Insurance Contributions Act* ("**FICA**") and the *Federal Unemployment Tax Act* ("**FUTA**") purposes. This will require reporting and payment of Old Age Survivors and Disability Insurance ("**OASDI**"), assuming the FICA-OASDI taxable wage base has not been exceeded for the year of exercise, and Hospital Insurance. For awards issued to non-employees, the income from the exercise of the grant will be taxable as self-employment income and will therefore be subject to both federal and state income taxes as well as self-employment taxes to the individual.

In the case of an incentive stock option, there is no tax liability at the time of exercise. However, the excess of the fair market value of the Company's common stock on the exercise date over the option exercise price is included in the eligible participant's income for purposes of the alternative minimum tax. If no disposition of the incentive stock option stock is made before the later of one year from the date of exercise or two years from the date the incentive stock option is granted, the eligible participant will realize a long-term capital gain or loss upon a sale of the stock equal to the difference between the option exercise price and the sale price (and the Company will not be entitled to deduct any gain for federal income tax purposes). If the stock is not held for the required period, it is considered to be a "disqualifying disposition", and ordinary income tax treatment will generally apply to the amount of any gain at sale or exercise, whichever is less, and the Company will be entitled to deduct such amount for federal income tax purposes if the amount represents an ordinary and necessary business expense. The balance of any gain or loss will be treated as capital gain or loss (long- term or short-term, depending on whether the shares have been held for more than one year), and will not result in any additional deduction by the Company. FICA and FUTA taxes will not apply to any ordinary income or capital gain from the exercise of an incentive stock option, even in the case of a disqualifying disposition. Incentive stock options may only be issued to employees, and any options that are issued to

non-employees are taxed as non-qualified stock options.

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In the case of an award of restricted stock, the immediate federal income tax effect for the recipient will depend on the nature of the restrictions. Recipients of grants of restricted stock generally will be required to include as taxable ordinary income the fair market value of the restricted stock at the time it is freely transferable or no longer subject to a substantial risk of forfeiture (less the amount, if any, paid for the shares). However, an award holder who makes an 83(b) election within 30 days of the date of grant of the restricted stock will incur taxable ordinary income on the date of grant equal to the fair market value of such shares of restricted stock (determined without regard to forfeiture restrictions). With respect to the sale of shares after the forfeiture restrictions have expired, the holding period to determine whether the award recipient has long-term or short-term capital gain or loss generally begins when the restrictions expire, and the tax basis for such shares will generally be based on the fair market value of the shares on that date. However, if the award holder made an 83(b) election as described above, the holding period commences on the date of such election, and the tax basis will be equal to the fair market value of the shares on the date of the election (determined without regard to the forfeiture restrictions on the shares). Dividends, if any, that are paid or accrued while the restricted stock is subject to a substantial risk of forfeiture will also be taxed as ordinary income. As to stock grants that are not subject to a substantial risk of forfeiture, the holder of the award must recognize ordinary income equal to the fair market value of the shares received (determined as of the date of receipt), less the amount, if any, paid for the shares. In an employee-employer relationship, the amounts the award holder includes as ordinary income from the grant of a restricted or unrestricted stock award are subject to FICA and FUTA. The Company will also be entitled to an income tax deduction equal to amounts the award holder includes in ordinary income at the time of such income inclusion.

Recipients of grants of restricted stock units, deferred stock units or dividend equivalents (collectively, "**deferred awards**") will not incur any federal income tax liability at the time the awards are granted. Award holders will recognize ordinary income equal to (a) the amount of cash received under the terms of the award or, as applicable, (b) the fair market value of the shares received (determined as of the date of receipt, or if later, when such shares are no longer subject to a substantial risk of forfeiture) under the terms of the award. Dividend equivalents received with respect to any deferred award will also be taxed as ordinary income. To the extent that an award is considered as an award of deferred compensation, it will be likely, under application of the "special timing rule", that its present value will be treated for employment tax purposes as wages and FICA and FUTA will be assessed at the later of the date of the performance of services or the elimination of a substantial risk of forfeiture for entitlement to the benefit. The Company will be entitled to an income tax deduction for any amounts included by the award holder as ordinary income. For awards that are payable in shares, the holder's tax basis is equal to the fair market value of the shares at the time the shares become payable. Upon the sale of the shares, appreciation (or depreciation) after the shares are paid is treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

Subject to the usual rules concerning reasonable compensation (including the Company's obligation to withhold or otherwise collect certain income and payroll taxes), and subject to the limits under Section 162(m) of the Code described below, the Company will generally be allowed an income tax deduction simultaneous with, and equal to, the ordinary income recognized by the participant. The Company does not receive an income tax deduction as a result of the exercise of an incentive stock option, provided that the incentive stock option stock is held for the required period as described above.

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The Company may not deduct compensation of more than \$1,000,000 that is paid in a taxable year to certain "covered employees" as defined in Section 162(m) of the Code. The deduction limit, however, does not apply to certain types of compensation, including qualified performance-based compensation. The Company believes that

compensation attributable to stock options and SARs granted under the 2012 Stock Incentive Plan is qualified performance-based compensation and, therefore, not subject to the deduction limit.

Special rules may apply to individuals subject to Section 16 of the Exchange Act. In particular, shares received through exercise or payout of a non-qualified option, an incentive stock option (for purposes of the alternative minimum tax only), a SAR or a restricted stock unit, and any shares of restricted stock that vest, may be treated as restricted property for purposes of Section 83 of the Code if the recipient has had a non-exempt acquisition of shares of Company stock within the six months prior to the exercise, payout or vesting. Accordingly, the amount of any ordinary income recognized and the amount of our income tax deduction will be determined as of the end of that period (unless a special election is made by the recipient pursuant to Section 83(b) of the Code to recognize income as of the date the shares are received).

Information Regarding Plans Not Subject to Security Holder Action

As indicated above, as of July 31, 2011, we had two equity compensation plans, the 2006 Stock Incentive Plan and the 2009 Stock Incentive Plan. We are seeking shareholder approval of the 2012 Stock Incentive Plan, as described above. The table set forth below presents information relating to our existing equity compensation plans as of July 31, 2011:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding column (a))
Equity Compensation Plans Approved by Security Holders (2006 and 2009 Stock Incentive Plans)	8,579,750	\$1.80	1,161,298
Equity Compensation Plans Not Approved by Security Holders	500,000 ⁽¹⁾	\$1.00	Nil

Note

:

(1) Represents shares of our common stock to be issued upon the exercise of warrants issued pursuant to consulting services agreements.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL TO APPROVE THE 2012 STOCK INCENTIVE PLAN.

PROPOSAL NUMBER FOUR:

NON-BINDING VOTE ON EXECUTIVE COMPENSATION

In accordance with the requirements of Section 14A of the Exchange Act (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act) and the related rules of the SEC, we are providing the Company's shareholders with the opportunity to vote on a non-binding advisory resolution to approve the compensation of the Company's Named Executive Officers as described in this Proxy Statement in accordance with the SEC's compensation disclosure rules. This Proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our Named Executive Officers' compensation as a whole. This vote is not intended to address any specific item of compensation or any specific Named Executive Officer, but rather the overall compensation of all of our Named Executive Officers and the philosophy, policies and practices described in this Proxy Statement.

In consideration of the fiscal 2010 advisory vote by our shareholders on the frequency of "say-on-pay" votes, our Board of Directors has determined to hold such votes on an annual basis until the next vote on the frequency of "say-on-pay" votes. Accordingly, the next "say-on-pay" votes will be held at the Company's 2013 annual meeting of stockholders.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board of Directors. The say-on-pay vote will, however, provide information to us regarding investor sentiment about our executive compensation philosophy, policies and practices, which the Compensation Committee will be able to consider when determining executive compensation for the remainder of the current fiscal year and beyond. Our Board of Directors and our Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the Named Executive Officer compensation as disclosed in this Proxy Statement, we may communicate directly with stockholders to better understand the concerns that influenced the vote, but in all events we will consider our stockholders' concerns and will share them with the Compensation Committee which will evaluate whether any actions are necessary to address those concerns.

The key points of our 2011 executive compensation program are set forth in the "Executive Compensation" section beginning on page 17 of this Proxy Statement.

We believe that the information provided above and within the "Executive Compensation" section of this Proxy Statement demonstrates that our executive compensation program was designed appropriately and is working to ensure management's interests are aligned with our stockholders' interests to support long-term value creation. Accordingly, our Company is asking our shareholders to indicate their support for our Named Executive Officer compensation as described in this Proxy Statement by voting "FOR" the following resolution at the Annual Meeting:

"RESOLVED, that the Company's shareholders hereby approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company's Proxy Statement for the 2012 Annual Meeting of Shareholders."

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Adoption of this resolution will require the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting and entitled to vote on the matter. Abstentions will have the same effect as votes against the Proposal. Brokers and other nominee holders do not have discretion to vote uninstructed shares with respect to this Proposal. Accordingly, if brokers or other nominee holders do not receive voting instructions from beneficial owners of the shares, they will not be able to vote the shares and broker non-votes may occur with respect

to this Proposal. However, broker non-votes will not affect the outcome of the voting on this Proposal because it requires the affirmative vote of a majority of the shares present or represented by proxy at the Annual Meeting (as opposed to a majority of the shares outstanding).

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ADVISORY (NON-BINDING) VOTE APPROVING EXECUTIVE COMPENSATION.

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FUTURE STOCKHOLDER PROPOSALS

Stockholders who intend to submit a proposal for the annual meeting of stockholders to be held in 2013 and desire that such proposal be included in the proxy materials for such meeting must follow the procedures prescribed by Rule 14a-8 under the Exchange Act. To be eligible for inclusion in the proxy materials, stockholder proposals must be received by the Corporate Secretary of the Company at the Company's principal executive offices no later than February 4, 2013. Upon receipt of such a proposal, the Company will determine whether or not to include the proposal in such proxy statement and form of proxy in accordance with applicable law.

A shareholder that wishes to present a proposal at the next annual meeting of stockholders to be held in 2013 must submit such proposal to the Company on or before April 20, 2013, or management will have discretionary authority to vote proxies received for such meeting with respect to any such proposal.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act. We file reports, proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and other information at the SEC's Public Reference Section, located at One Station Place, 100 F Street, NE, Washington, DC, U.S.A., 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website, located at www.sec.gov, that contains reports, proxy statements and other information regarding our Company.

By Order of the Board of Directors of Uranium Energy Corp.

Amir Adnani

, President and CEO

Dated: June 12, 2012.

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URANIUM ENERGY CORP.

#320 - 1111 West Hastings Street, Vancouver, British Columbia, Canada V6E 2J3

PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Amir Adnani (President and Chief Executive Officer of the Company) and Thomas J. Deutsch, of McMillan LLP (legal counsel to the Company), as proxies, each with full power of substitution, to represent and vote as designated on the reverse side, all the shares of common stock of Uranium Energy Corp. held of record by the undersigned on May 25, 2012, at the Annual Meeting of Stockholders to be held at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, on Monday, July 23, 2012 at 12:00 p.m. (Vancouver Time) or any adjournment or postponement thereof.

VOTE BY MAIL: Mark, sign and date your proxy card and return it in the postage paid envelope we have provided or return it to the following address: Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, New York, U.S.A., 11717.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on Monday, July 23, 2012.

The Proxy Statement, Annual Report on Form 10-K and Form of Proxy are available at www.proxyvote.com.

(Continued and to be signed on the reverse side.)

**ANNUAL MEETING OF STOCKHOLDERS OF URANIUM ENERGY CORP.
Being held on Monday, July 23, 2012**

Please date, sign and mail your proxy card in the envelope provided as soon as possible.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2, 3 and 4.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE

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- | | | |
|----|---|--------------------|
| 1. | Election of Directors. | Nominees: |
| £ | FOR ALL NOMINEES | £ Amir Adnani |
| £ | WITHHOLD AUTHORITY
FOR ALL NOMINEES | £ Alan P. Lindsay |
| £ | FOR ALL EXCEPT (see
instruction below) | £ Harry L. Anthony |

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Instruction	£	Ivan Obolensky
: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the box next to each nominee you wish to withhold as shown here: ¢	£	Vincent Della Volpe
	£	David Kong
	£	Katharine Armstrong

		For	Against	Abstain
2.	To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm.	£	£	£
3.	Approve the Company's 2012 Stock Incentive Plan.	£	£	£
4.	Non-binding advisory vote on the compensation of our named executive officers.	£	£	£

Unless otherwise instructed, this proxy will be voted FOR all nominees listed in Proposal 1, and FOR proposals 2, 3 and 4. This proxy will also be voted in the discretion of the holders hereof in favor of any proposal to adjourn or postpone the Meeting, and upon such other matters as may properly come before the Meeting or any adjournments or postponements thereof.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.	£
_____ Signature of Stockholder: Name: Date:	_____ Signature of Stockholder: Name: Date:
Note	

: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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Appendix A

2012 STOCK INCENTIVE PLAN

The Company's 2012 Stock Incentive Plan is attached hereto.

2012 STOCK INCENTIVE PLAN

For

:

URANIUM ENERGY CORP.

Dated May 1, 2012

Uranium Energy Corp.

1111 West Hastings Street, Suite 320
Vancouver, British Columbia, Canada V6E 2J3

URANIUM ENERGY CORP.

2012 STOCK INCENTIVE PLAN

1. PURPOSE

1.1 The purpose of this Stock Incentive Plan (the "**Plan**") is to advance the interests of Uranium Energy Corp. (the "**Company**") by encouraging Eligible Participants (as herein defined) to acquire shares of the Company, thereby increasing their proprietary interest in the Company, encouraging them to remain associated with the Company and furnish them with additional incentive in their efforts on behalf of the Company in the conduct of their affairs.

1.2 This Plan is specifically designed for Eligible Participants of the Company who are residents of the United States and/or subject to taxation in the United States, although Awards (as herein defined) under this Plan may be issued to other Eligible Participants.

1.3 This Plan is superseded, replaces and is in substitution for, each of (a) the Company's "2006 Stock Incentive Plan", dated as originally ratified by the Board of Directors of the Company on October 10, 2006, as was ratified by the shareholders of the Company at the Company's annual general meeting held on July 24, 2008, and (b) the Company's "2009 Stock Incentive Plan", dated as originally ratified by the Board of Directors of the Company on June 5, 2009, as was ratified by the shareholders of the Company at the Company's annual general meeting held on July 23, 2009, which 2009 Stock Incentive Plan was subsequently amended dated as ratified by the Board of Directors of the Company on May 25, 2010, as was ratified by the shareholders of the Company at the Company's annual general meeting held on July 22, 2010. Any options that were granted under the 2006 Stock Incentive Plan and/or the 2009 Stock Incentive Plan that are outstanding as of the date hereof are covered by this Plan.

2. DEFINITIONS

2.1 As used herein, the following definitions shall apply:

- (a) "**Administrator**" means the Committee or otherwise the Board;
- (b) "**Affiliate**" and "**Associate**" have the meanings ascribed to such terms in Rule 12b-2 promulgated under the Exchange Act;
- (c) "**Applicable Laws**" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal securities laws, state corporate laws, state or provincial securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein;
- (d) "**Award**" means the grant of an Option, SAR, Restricted Stock, unrestricted Shares, Restricted Stock Unit, Deferred Stock Unit or other right or benefit under this Plan;

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- (e) "**Award Agreement**" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto;
- (f) "**Award Right**" means each right to acquire a Share pursuant to an Award;
- (g) "**Board**" means the Board of Directors of the Company;
- (h) "**Cause**" means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is for "Cause" as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's:
 - (i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity;
 - (ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability);
 - (iii) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or a Related Entity;

- (iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or
 - (v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person;
- (i) **"Change of Control"** means, except as provided below, a change in ownership or control of the Company effected through any of the following transactions:

- (i) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which a majority of the Continuing Directors who are not Affiliates or Associates of the offeror do not recommend such shareholders accept;
 - (ii) a change in the composition of the Board over a period of 36 months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who are Continuing Directors;
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- (iii) the sale or exchange by the Company (in one or a series of transactions) of all or substantially all of its assets to any other person or entity; or
- (iv) approval by the shareholders of the Company of a plan to dissolve and liquidate the Company.

Notwithstanding the foregoing, the following transactions shall not constitute a **"Change of Control"**:

- (i) the closing of any public offering of the Company's securities pursuant to an effective registration statement filed under the United States *Securities Act of 1933*, as amended;
- (ii) the closing of a public offering of the Company's securities through the facilities of any stock exchange; or
- (iii) with respect to an Award that is subject to Section 409A of the Code, and payment or settlement of such Award is to be accelerated in connection with an event that would otherwise constitute a Change of Control, no event set forth previously in this definition shall constitute a Change of Control for purposes of this Plan or any Award Agreement unless such event also constitutes a **"change in the ownership"**, a **"change in the effective control"** or a **"change in the ownership of a substantial portion of the assets of the corporation"** as defined under Section 409A of the Code and Treasury guidance formulated thereunder, which guidance currently provides that:

(A) a change in ownership of a corporation shall be deemed to have occurred if any one person or more than one person acting as a group acquires stock of a corporation that constitutes more than 50% of the total Fair Market Value or total voting power of the stock of the corporation. Stock acquired by any person or group of people who already owns more than 50% of such total Fair Market Value or total voting power of stock shall not trigger a change in ownership;

(B) a change in the effective control of a corporation generally shall be deemed to have occurred if within a 12-month period either:

(I) any one person or more than one person acting as a group acquires ownership of stock possessing 35% or more of the total voting power of the stock of the corporation; or

(II) a majority of the members of the corporation's board of directors is replaced by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election; and

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(C) a change in the ownership of a substantial portion of the corporation's assets generally is deemed to occur if within a 12-month period any person, or more than one person acting as a group, acquires assets from the corporation that have a total gross fair market value at least equal to 40% of the total gross fair market value of all the corporation's assets immediately prior to such acquisition. The gross fair market value of assets is determined without regard to any liabilities;

(j) "**Code**" means the United States *Internal Revenue Code of 1986*, as amended;

(k) "**Committee**" means the Compensation Committee or any other committee appointed by the Board to administer this Plan in accordance with the provisions of this Plan; provided, however, that:

(i) the Committee shall consist of two or more members of the Board;

(ii) the directors appointed to serve on the Committee shall be "**non-employee directors**" (within the meaning of Rule 16b-3 promulgated under the Exchange Act) and "**outside directors**" (within the meaning of Section 162(m) of the Code) to the extent that Rule 16b-3 and, if necessary for relief from the limitation under Section 162(m) of the Code and such relief is sought by the Company, Section 162(m) of the Code, respectively, are applicable;

(iii) the mere fact that a Committee member shall fail to qualify under either of the foregoing requirements set forth in Section 2.1(k)(ii) shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan; and

- (iv) members of the Committee may be appointed from time to time by, and shall serve at the pleasure of, the Board;
 - (l) "**Common Stock**" means the common stock of the Company;
 - (m) "**Company**" means Uranium Energy Corp., a Nevada corporation;
 - (n) "**Consultant**" means any person (other than an Employee) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity;
 - (o) "**Continuing Directors**" means members of the Board who either (i) have been Board members continuously for a period of at least 36 months, or (ii) have been Board members for less than 36 months and were appointed or nominated for election as Board members by at least a majority of the Board members described in clause (i) who were still in office at the time such appointment or nomination was approved by the Board;
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- (p) "**Continuous Service**" means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant that is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers between locations of the Company or among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, maternity or paternity leave, military leave, or any other authorized personal leave. For purposes of Incentive Stock Options, no such leave may exceed 90 calendar days, unless reemployment upon expiration of such leave is guaranteed by statute or contract;
- (q) "**Corporate Transaction**" means any of the following transactions:
 - (i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is organized;
 - (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company's subsidiary corporations) in connection with the complete liquidation or dissolution of the Company; or
 - (iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than 50% of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger;
- (r) "**Covered Employee**" means an Employee who is a "**covered employee**" under Section 162(m)(3) of the Code;
- (s) "**Deferred Stock Units**" means Awards that are granted to Directors and are subject to the additional provisions set out in Subpart A which is attached hereto and which forms a material part hereof;

- (t) "**Director**" means a member of the Board or the board of directors of any Related Entity;
- (u) "**Disability**" or "**Disabled**" means that a Grantee is unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee shall not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion. Notwithstanding the above, (i) with respect to an Incentive Stock Option, Disability or Disabled shall mean permanent and total disability as defined in Section 22(e)(3) of the Code and (ii) to the extent an Option is subject to Section 409A of the Code, and payment or settlement of the Option is to be accelerated solely as a result of the Eligible Participant's Disability, Disability shall have the meaning ascribed thereto under Section 409A of the Code and the Treasury guidance promulgated thereunder;
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- (v) "**Disinterested Shareholder Approval**" means approval by a majority of the votes cast by all the Company's shareholders at a duly constituted shareholders' meeting, excluding votes attached to shares beneficially owned by Insiders;
- (w) "**Eligible Participant**" means any person who is an Officer, a Director, an Employee or a Consultant, including individuals who are foreign nationals or are employed or reside outside the United States;
- (x) "**Employee**" means any person who is a full-time or part-time employee of the Company or any Related Entity;
- (y) "**Exchange Act**" means the United States *Securities Exchange Act of 1934*, as amended;
- (z) "**Fair Market Value**" means, as of any date, the value of a Share determined in good faith by the Administrator. By way of illustration, but not limitation, for the purpose of this definition, good faith shall be met if the Administrator employs the following methods:

- (i) Listed Stock. If the Common Stock is traded on any established stock exchange or quoted on a national market system, Fair Market Value shall be (A) the closing sales price for the Common Stock as quoted on that stock exchange or system for the date the value is to be determined (the "**Value Date**") as reported in The Wall Street Journal or a similar publication, or (B) if the rules of the applicable stock exchange require, the volume-weighted average trading price for five days prior to the date the Board approves the grant of the Award. If no sales are reported as having occurred on the Value Date, Fair Market Value shall be that closing sales price for the last preceding trading day on which sales of Common Stock is reported as having occurred. If no sales are reported as having occurred during the five trading days before the Value Date, Fair Market Value shall be the closing bid for Common Stock on the Value Date. If the Common Stock is listed on multiple exchanges or systems, Fair Market Value shall be based on sales or bids on the primary exchange or system on which Common Stock is traded or quoted. If the rules of any applicable stock exchange or system require a different method of calculating Fair Market Value, then such method as is required by those rules;

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(ii) Stock Quoted by Securities Dealer. If Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported on any established stock exchange or quoted on a national market system, Fair Market Value shall be the mean between the high bid and low asked prices on the Value Date. If no prices are quoted for the Value Date, Fair Market Value shall be the mean between the high bid and low asked prices on the last preceding trading day on which any bid and asked prices were quoted;

(iii) No Established Market. If Common Stock is not traded on any established stock exchange or quoted on a national market system and is not quoted by a recognized securities dealer, the Administrator will determine Fair Market Value in good faith. The Administrator will consider the following factors, and any others it considers significant, in determining Fair Market Value: (A) the price at which other securities of the Company have been issued to purchasers other than Employees, Directors, or Consultants; (B) the Company's net worth, prospective earning power, dividend-paying capacity, and non-operating assets, if any; and (C) any other relevant factors, including the economic outlook for the Company and the Company's industry, the Company's position in that industry, the Company's goodwill and other intellectual property, and the values of securities of other businesses in the same industry;

(iv) Additional Valuation. For publicly traded companies, any valuation method permitted under Section 20.2031-2 of the Estate Tax Regulations; or

(v) Non-Publicly Traded Stock. For non-publicly traded stock, the Fair Market Value of the Common Stock at the Grant Date based on an average of the Fair Market Values as of such date set forth in the opinions of completely independent and well-qualified experts (the Participant's status as a majority or minority shareholder may be taken into consideration).

Regardless of whether the Common Stock offered under the Award is publicly traded, a good faith attempt under this definition shall not be met unless the Fair Market Value of the Common Stock on the Grant Date is determined with regard to nonlapse restrictions (as defined in Section 1.83-3(h) of the Treasury Regulations) and without regard to lapse restrictions (as defined in Section 1.83-3(i) of the Treasury Regulations);

(aa) "**Grantee**" means an Eligible Participant who receives an Award pursuant to an Award Agreement;

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(bb) "**Grant Date**" means the date the Administrator approves that grant of an Award. However, if the Administrator specifies that an Award's Grant Date is a future date or the date on which a condition is satisfied, the Grant Date for such Award is that future date or the date that the condition is satisfied;

(cc) "**Incentive Stock Option**" means an Option within the meaning of Section 422 of the Code;

(dd) "**Insider**" means:

(i) a Director or Senior Officer of the Company;

(ii) a Director or Senior Officer of a person that is itself an Insider or Subsidiary of the Company;

(iii) a person that has

(A) direct or indirect beneficial ownership of,

(B) control or direction over, or

(C) a combination of direct or indirect beneficial ownership of and control or direction over,

securities of the Company carrying more than 10% of the voting rights attached to all the Company's outstanding voting securities, excluding, for the purpose of the calculation of the percentage held, any securities held by the person as underwriter in the course of a distribution; or

(iv) the Company itself, if it has purchased, redeemed or otherwise acquired any securities of its own issue, for so long as it continues to hold those securities;

(ee) "**Named Executive Officer**" means, if applicable, an Eligible Participant who, as of the date of vesting and/or payout of an Award, is one of the group of Covered Employees as defined;

(ff) "**Non-Qualified Stock Option**" means an Option which is not an Incentive Stock Option;

(gg) "**Officer**" means a person who is an officer, including a Senior Officer, of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder;

(hh) "**Option**" means an option to purchase Shares pursuant to an Award Agreement granted under the Plan;

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(ii) "**Parent**" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code;

(jj) "**Performance-Based Compensation**" means compensation qualifying as "performance-based compensation" under Section 162(m) of the Code;

(kk) "**Plan**" means this 2012 Stock Incentive Plan as amended from time to time;

(ll) "**Related Entity**" means any Parent or Subsidiary, and includes any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a greater than 50% ownership interest, directly or indirectly;

(mm) "**Related Entity Disposition**" means the sale, distribution or other disposition by the Company of all or substantially all of the Company's interests in any Related Entity effected by a sale, merger or consolidation or other transaction involving that Related Entity or the sale of all or substantially all of the assets of that Related Entity;

(nn) "**Restricted Stock**" means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as, established by the Administrator and specified in the related Award Agreement;

(oo) "**Restricted Stock Unit**" means a notional account established pursuant to an Award granted to a Grantee, as described in this Plan, that is (i) valued solely by reference to Shares, (ii) subject to restrictions specified in the Award Agreement, and (iii) payable only in Shares;

(pp) "**Restriction Period**" means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of performance objectives, or the occurrence of other events as determined by the Administrator, in its sole discretion) or the Restricted Stock is not vested;

(qq) "**SAR**" means a stock appreciation right entitling the Grantee to Shares or cash compensation, as established by the Administrator, measured by appreciation in the value of Common Stock;

(rr) "**SEC**" means the United States Securities Exchange Commission;

(ss) "**Senior Officer**" means:

(i) the chair or vice chair of the Board, the president, the chief executive officer, the chief financial officer, a vice-president, the secretary, the treasurer or the general manager of the Company or a Related Entity;

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(ii) any individual who performs functions for a person similar to those normally performed by an individual occupying any office specified in Section 2.1(ss)(i) above; and

(iii) the five highest paid employees of the Company or a Related Entity, including any individual referred to in Section 2.1(ss)(i) or 2.1(ss)(ii) and excluding a commissioned salesperson who does not act in a managerial capacity;

(tt) "**Share**" means a share of the Common Stock; and

(uu) "**Subsidiary**" means a "**subsidiary corporation**", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. STOCK SUBJECT TO THE PLAN

Number of Shares Available

3.1

(a) Subject to the provisions of Section 18, the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Stock Options) under this Plan is **15,000,000** (the "**Maximum Number**"). See Section 29 for Reservation of Shares.

(b) Shares that have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan except that Shares (i) covered by an Award (or portion of an Award) which is forfeited or cancelled, expires or is settled in cash, or (ii) withheld to satisfy a Grantee's minimum tax withholding obligations, shall be deemed not to have been issued for purposes of determining the Maximum Number of Shares which may be issued under the Plan. Also, only the net numbers of Shares that are issued pursuant to the exercise of an Award shall be counted against the Maximum Number.

(c) However, in the event that prior to the Award's cancellation, termination, expiration, forfeiture or lapse, the holder of the Award at any time received one or more elements of beneficial ownership pursuant to such Award (as defined by the SEC, pursuant to any rule or interpretations promulgated under Section 16 of the Exchange Act), the Shares subject to such Award shall not again be made available for regrant under the Plan.

Shares to Insiders

3.2 Subject to Section 15.1(b) and 15.1(c), no Insider of the Company is eligible to receive an Award where:

(a) the Insider is not a Director or Senior Officer of the Company;

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(b) any Award, together with all of the Company's other previously established or proposed Awards under the Plan could result at any time in:

(i) the number of Shares reserved for issuance pursuant to Options granted to Insiders exceeding 50% of the outstanding issue of Common Stock; or

(ii) the issuance to Insiders pursuant to the exercise of Options, within a one year period of a number of Shares exceeding 50% of the outstanding issue of the Common Stock;

provided, however, that this restriction on the eligibility of Insiders to receive an Award shall cease to apply if it is no longer required under any Applicable Laws.

Limitations on Award

3.3 Unless and until the Administrator determines that an Award to a Grantee is not designed to qualify as Performance-Based Compensation, the following limits (the "**Award Limits**") shall apply to grants of Awards to Grantees subject to the Award Limits by Applicable Laws under this Plan:

(a) Options and SARs. Notwithstanding any provision in the Plan to the contrary (but subject to adjustment as provided in Section 18), the maximum number of Shares with respect to one or more Options and/or Stock Appreciation Rights that may be granted during any one calendar year under the Plan to any one Grantee shall be **2,500,000**; all of which may be granted as Incentive Stock Options); and

(b) Other Awards. The maximum aggregate grant with respect to Awards of Restricted Stock, unrestricted Shares, Restricted Stock Units and Deferred Stock Units (or used to provide a basis of measurement for or to determine the value of Restricted Stock Units and Deferred Stock Units) in any

one calendar year to any one Grantee (determined on the date of payment of settlement) shall be **2,500,000**.

4. ADMINISTRATION

Authority of Plan Administrator

4.1 Authority to control and manage the operation and administration of this Plan shall be vested in the Administrator.

Powers of the Administrator

4.2 Subject to Applicable Laws and the provisions of the Plan or subplans hereof (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the exclusive power and authority, in its discretion:

(a) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company and Grantees under this Plan;

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(b) to select the Eligible Participants to whom Awards may be granted from time to time hereunder;

(c) to determine whether and to what extent Awards are granted hereunder;

(d) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;

(e) to approve forms of Award Agreements for use under the Plan, which need not be identical for each Grantee;

(f) to determine the terms and conditions of any Award granted under the Plan, including, but not limited to, the exercise price, grant price or purchase price based on the Fair Market Value of the same, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of the Award, and acceleration or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines that is not inconsistent with any rule or regulation under any tax or securities laws or includes an alternative right that does not disqualify an Incentive Stock Option under applicable regulations;

(g) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an existing Award shall not be made without the Grantee's consent unless as a result of a change in Applicable Law;

(h) to suspend the right of a holder to exercise all or part of an Award for any reason that the Administrator considers in the best interest of the Company;

(i) subject to regulatory approval, amend or suspend the Plan, or revoke or alter any action taken in connection therewith, except that no general amendment or suspension of the Plan, shall, without the written consent of all Grantees, alter or impair any Award granted under the Plan unless as a result of a change in the Applicable Law;

- (j) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Grantees favorable treatment under such laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan;
 - (k) to further define the terms used in this Plan;
 - (l) to correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Award Agreement;
 - (m) to provide for rights of refusal and/or repurchase rights;
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- (n) to amend outstanding Award Agreements to provide for, among other things, any change or modification which the Administrator could have provided for upon the grant of an Award or in furtherance of the powers provided for herein that does not disqualify an Incentive Stock Option under applicable regulations unless the Grantee so consents;
- (o) to prescribe, amend and rescind rules and regulations relating to the administration of this Plan; and
- (p) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

Effect of Administrator's Decision

4.3 All decisions, determinations and interpretations of the Administrator shall be conclusive and binding on all persons. The Administrator shall not be liable for any decision, action or omission respecting this Plan, or any Awards granted or Shares sold under this Plan. In the event an Award is granted in a manner inconsistent with the provisions of this Section 4, such Award shall be presumptively valid as of its grant date to the extent permitted by the Applicable Laws.

Action by Committee

4.4 Except as otherwise provided by committee charter or other similar corporate governance documents, for purposes of administering the Plan, the following rules of procedure shall govern the Committee. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved unanimously in writing by the members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Parent or Affiliate, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

Limitation on Liability

4.5 To the extent permitted by applicable law in effect from time to time, no member of the Administrator shall be liable for any action or omission of any other member of the Administrator nor for any act or omission on the member's own part, excepting only the member's own wilful misconduct or gross negligence, arising out of or related to this Plan. The Company shall pay expenses incurred by, and satisfy a judgment or fine rendered or levied against, a present or former member of the Administrator in any action against such person (whether or not the Company is

joined as a party defendant) to impose liability or a penalty on such person for an act alleged to have been committed by such person while a member of the Administrator arising with respect to this Plan or administration thereof or out of membership on the Administrator or by the Company, or all or any combination of the preceding, provided, the member was acting in good faith, within what such member reasonably believed to have been within the scope of his or her employment or authority and for a purpose which he or she reasonably believed to be in the best interests of the Company or its stockholders. Payments authorized hereunder include amounts paid and expenses incurred in settling any such action or threatened action. The provisions of this Section 4.5 shall apply to the estate, executor, administrator, heirs, legatees or devisees of a member of the Administrator, and the term "**person**" as used on this Section 4.5 shall include the estate, executor, administrator, heirs, legatees, or devisees of such person.

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5. ELIGIBILITY

Except as otherwise provided, all types of Awards may be granted to Eligible Participants. An Eligible Participant who has been granted an Award may be, if he or she continues to be eligible, granted additional Awards.

6. AWARDS

Type of Awards

6.1 The Administrator is authorized to award any type of arrangement to an Eligible Participant that is not inconsistent with the provisions of the Plan and that by its terms involves or might involve the issuance of:

- (a) Shares, including unrestricted Shares;
- (b) Options;
- (c) SARs or similar rights with a fixed or variable price related to the Fair Market Value of the Shares and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions;
- (d) any other security with the value derived from the value of the Shares, such as Restricted Stock and Restricted Stock Units;
- (e) Deferred Stock Units;
- (f) Dividend Equivalent Rights, as defined in Section 13; or
- (g) any combination of the foregoing.

Designation of Award

6.2 Each type of Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Non-Qualified Stock Option. But see Section 7.3(a) regarding exceeding the Incentive Stock Option threshold.

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7. GRANT OF OPTIONS: TERMS AND CONDITIONS OF GRANT

Grant of Options

7.1

- (a) One or more Options may be granted to any Eligible Participant. Subject to the express provisions of this Plan, the Administrator shall determine from the Eligible Participants those individuals to whom Options under this Plan may be granted. The Shares underlying a grant of an Option may be in the form of Restricted Stock or unrestricted Stock.
- (b) Further, subject to the express provisions of this Plan, the Administrator shall specify the Grant Date, the number of Shares covered by the Option, the exercise price and the terms and conditions for exercise of the Options. As soon as practicable after the Grant Date, the Company shall provide the Grantee with a written Award Agreement in the form approved by the Administrator, which sets out the Grant Date, the number of Shares covered by the Option, the exercise price and the terms and conditions for exercise of the Option.
- (c) The Administrator may, in its absolute discretion, grant Options under this Plan at any time and from time to time before the expiration of this Plan.

General Terms and Conditions

7.2 Except as otherwise provided herein, the Options shall be subject to the following terms and conditions and such other terms and conditions not inconsistent with this Plan as the Administrator may impose:

- (a) Exercise of Option. The Administrator may determine in its discretion whether any Option shall be subject to vesting and the terms and conditions of any such vesting. The Award Agreement shall contain any such vesting schedule;
- (b) Option Term. Each Option and all rights or obligations thereunder shall expire on such date as shall be determined by the Administrator, but not later than ten years after the Grant Date (five years in the case of an Incentive Stock Option when the Optionee beneficially owns more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary (a "**Ten Percent Stockholder**"), as determined with reference to Rule 13d-3 of the Exchange Act), and shall be subject to earlier termination as hereinafter provided;
- (c) Exercise Price. The Exercise Price of any Option shall be determined by the Administrator when the Option is granted, at such Exercise Price as may be determined by the Administrator in the Administrator's sole and absolute discretion; provided, however, that the Exercise Price may not be less than 100% of the Fair Market Value of the Shares on the Grant Date with respect to any Options which are granted and, provided further, that the Exercise Price of any Incentive Stock Option granted to a Ten Percent Stockholder shall not be less than 110% of the Fair Market Value of the Shares on the Grant Date. Payment for the Shares purchased shall be made in accordance with Section 16 of this Plan. The Administrator is authorized to issue Options, whether Incentive Stock Options or Non-qualified Stock Options, at an option price in excess of the Fair Market Value on the Grant Date, to determine the terms and conditions of any Award granted under the Plan, including, but not limited to, the exercise price, grant price or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of the Award, and acceleration or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines that is not inconsistent with any rule or regulation under any tax or securities laws or includes an alternative right that does not disqualify an Incentive Stock Option under applicable regulations;

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(d) Method of Exercise. Options may be exercised only by delivery to the Company of a stock option exercise agreement (the "**Exercise Agreement**") in a form approved by the Administrator (which need not be the same for each Grantee), stating the number of Shares being purchased, the restrictions imposed on the Shares purchased under such Exercise Agreement, if any, and such representations and agreements regarding the Grantee's investment intent and access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws, together with payment in full of the exercise price for the number of Shares being purchased;

(e) Exercise After Certain Events.

(i) Termination of Continuous Services.

(A) Options.

(I) Termination of Continuous Services. If for any reason other than Disability or death, a Grantee terminates Continuous Services with the Company or a Subsidiary, vested Options held at the date of such termination may be exercised, in whole or in part, either (i) at any time within three months after the date of such termination, or (ii) during any lesser period as specified in the Award Agreement or (iii) during any lesser period as may be determined by the Administrator, in its sole and absolute discretion, prior the date of such termination (but in no event after the earlier of (A) the expiration date of the Option as set forth in the Award Agreement and (B) ten years from the Grant Date (five years for a Ten Percent Stockholder if the Option is an Incentive Stock Option)).

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(II) Continuation of Services as Consultant/Advisor. If a Grantee granted an Incentive Stock Option terminates employment but continues as a Consultant (no termination of Continuous Services), the Grantee need not exercise an Incentive Stock Option within either of the termination periods provided for immediately hereinabove but shall be entitled to exercise, in whole or in part, either (i) at any time within three months after the then date of termination of Continuous Services to the Company or a Subsidiary, or (ii) during any lesser period as specified in the Award Agreement or (iii) during any

lesser period as may be determined by the Administrator, in its sole and absolute discretion, prior the date of such then termination of Continuous Services to the Company or the Subsidiary (one year in the event of Disability or death) (but in no event after the earlier of (A) the expiration date of the Option as set forth in the Award Agreement and (B) ten years from the Grant Date (five years for a Ten Percent Stockholder if the Option is an Incentive Stock Option)). However, if the Grantee does not exercise within three months of termination of employment, pursuant to Section 422 of the Code the Option shall not qualify as an Incentive Stock Option.

(B) Disability and Death. If a Grantee becomes Disabled while rendering Continuous Services to the Company or a Subsidiary, or dies while employed by the Company or Subsidiary or within three months thereafter, vested Options then held may be exercised by the Grantee, the Grantee's personal representative, or by the person to whom the Option is transferred by the laws of descent and distribution, in whole or in part, at any time within one year after the termination because of the Disability or death or any lesser period specified in the Award Agreement (but in no event after the earlier of (i) the expiration date of the Option as set forth in the Award Agreement, and (ii) ten years from the Grant Date (five years for a Ten Percent Stockholder if the Option is an Incentive Stock Option)).

Limitations on Grant of Incentive Stock Options

7.3

(a) Threshold. The aggregate Fair Market Value (determined as of the Grant Date) of the Shares for which Incentive Stock Options may first become exercisable by any Grantee during any calendar year under this Plan, together with that of Shares subject to Incentive Stock Options first exercisable by such Grantee under any other plan of the Company or any Parent or Subsidiary, shall not exceed \$100,000. For purposes of this Section 7.3(a), all Options in excess of the \$100,000 threshold shall be treated as Non-Qualified Stock Options notwithstanding the designation as Incentive Stock Options. For this purpose, Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the date the Option with respect to such Shares is granted.

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(b) Compliance with Section 422 of the Code. There shall be imposed in the Award Agreement relating to Incentive Stock Options such terms and conditions as are required in order that the Option be an "incentive stock option" as that term is defined in Section 422 of the Code.

(c) Requirement of Employment. No Incentive Stock Option may be granted to any person who is not an Employee of the Company or a Parent or Subsidiary of the Company.

8. RESTRICTED STOCK AWARDS

Grant of Restricted Stock Awards

8.1 Subject to the terms and provisions of this Plan, the Administrator is authorized to make awards of Restricted Stock to any Eligible Participant in such amounts and subject to such terms and conditions as may be selected by the Administrator. The restrictions may lapse separately or in combination at such times, under such circumstances, in such instalments, time-based or upon the satisfaction of performance goals or otherwise, as the Administrator determines at the time of the grant of the Award or thereafter. (See Performance Goals, Section 14.4). All awards of Restricted Stock shall be evidenced by Award Agreements.

Consideration

8.2 Restricted Stock may be issued in connection with:

- (a) Services. Services rendered to the Company or an Affiliate (i.e. bonus); and/or
- (b) Purchase Price. A purchase price, as specified in the Award Agreement related to such Restricted Stock, equal to not be less than 100% of the Fair Market Value of the Shares underlying the Restricted Stock on the date of issuance.

Voting and Dividends

8.3 Unless the Administrator in its sole and absolute discretion otherwise provides in an Award Agreement, holders of Restricted Stock shall have the right to vote such Restricted Stock and the right to receive any dividends declared or paid with respect to such Restricted Stock. The Administrator may provide that any dividends paid on Restricted Stock must be reinvested in shares of Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any, received by a Grantee with respect to Restricted Stock as a result of any stock split, stock dividend, combination of shares, or other similar transaction shall be subject to the restrictions applicable to the original Award.

Forfeiture

8.4 In the case of an event of forfeiture pursuant to the Award Agreement, including failure to satisfy the restriction period or a performance objective during the applicable restriction period, any Restricted Stock that has not vested prior to the event of forfeiture shall automatically expire, and all of the rights, title and interest of the Grantee thereunder shall be forfeited in their entirety including but not limited to any right to vote and receive dividends with respect to the Restricted Stock. Notwithstanding the foregoing, the Administrator may provide in any Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Administrator may in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock, provided such waiver is in accordance with the Applicable Laws.

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Certificates for Restricted Stock

8.5 Restricted Stock granted under this Plan may be evidenced in such manner as the Administrator shall determine, including by way of certificates. The Administrator may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantee's benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse, (see Escrow; Pledge of Shares, Section 23) or (ii) such certificates

shall be delivered to the Grantee, provided, however, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and make appropriate reference to the restrictions imposed under this Plan and the Award Agreement.

9. UNRESTRICTED STOCK AWARDS

The Administrator may, in its sole discretion, grant (or sell at not less than 100% of the Fair Market Value or such other higher purchase price determined by the Administrator in the Award Agreement) an Award of unrestricted Shares to any Grantee pursuant to which such Grantee may receive Shares free of any restrictions under this Plan.

10. RESTRICTED STOCK UNITS

Grant of Restricted Stock Units

10.1 Subject to the terms and provisions of this Plan, the Administrator is authorized to make awards of Restricted Stock Units to any Eligible Participant in such amounts and subject to such terms and conditions as may be selected by the Administrator. These restrictions may lapse separately or in combination at such times, under such circumstances, in such instalments, time-based or upon the satisfaction of performance goals or otherwise, as the Administrator determines at the time of the grant of the Award or thereafter. (See Performance Goals, Section 14.4). All awards of Restricted Stock Units shall be evidenced by Award Agreements.

Number of Restricted Stock Units

10.2 The Award Agreement shall specify the number of Share equivalent units granted and such other provisions as the Administrator determines.

Consideration

10.3 Restricted Stock Units may be issued in connection with:

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(a) Services. Services rendered to the Company or an Affiliate (i.e. bonus); and/or

(b) Purchase Price. A purchase price as specified in the Award Agreement related to such Restricted Stock Units, equal to not be less than 100% of the Fair Market Value of the Shares underlying the Restricted Stock Units on the date of issuance.

No Voting Rights

10.4 The holders of Restricted Stock Units shall have no rights as stockholders of the Company.

Dividend Equivalency

10.5 The Administrator, in its sole and absolute discretion, may provide in an Award Agreement evidencing a grant of Restricted Stock Units that the holder shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding Shares, a cash payment for each Restricted Stock Unit. (See Section 13, Dividend Equivalent Right). Such Award Agreement may also provide that such cash payment shall be deemed reinvested in additional Restricted Stock Units at a price per unit equal to the Fair Market Value of a Share on the date that such dividend is paid.

Creditor's Rights

10.6 A holder of Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Award Agreement.

Settlement of Restricted Stock Units

10.7 Each Restricted Stock Unit shall be paid and settled by the issuance of Restricted Stock or unrestricted Shares in accordance with the Award Agreement and if such settlement is subject to Section 409A of the Code only upon any one or more of the following as provided for in the Award Agreement:

- (a) a specific date or date determinable by a fixed schedule;
 - (b) upon the Eligible Participant's termination of Continuous Services to the extent the same constitutes a separation from services for purposes of Section 409A of the Code except that if an Eligible Participant is a "key employee" as defined in Section 409A of the Code for such purposes, then payment or settlement shall occur 6 months following such separation of service;
 - (c) as a result of the Eligible Participant's death or Disability; or
 - (d) in connection with or as a result of a Change of Control in compliance with Section 409A of the Code.
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Forfeiture

10.8 Upon failure to satisfy any requirement for settlement as set forth in the Award Agreement, including failure to satisfy any restriction period or performance objective, any Restricted Stock Units held by the Grantee shall automatically expire, and all of the rights, title and interest of the Grantee thereunder shall be forfeited in their entirety including but not limited to any right to receive dividends with respect to the Restricted Stock Units.

11. DIRECTOR SHARES AND DIRECTOR DEFERRED STOCK UNITS

The grant of Awards of Shares to Directors and the election by Directors to defer the receipt of the Awards of Shares (the "**Deferred Stock Units**") shall be governed by the provisions of Subpart A which is attached hereto. The provisions of Subpart A are attached hereto as part of this Plan and are incorporated herein by reference.

12. STOCK APPRECIATION RIGHTS

Awards of SARs

12.1 An SAR is an award to receive a number of Shares (which may consist of Restricted Stock), or cash, or Shares and cash, as determined by the Administrator in accordance with Section 12.4 below, for services rendered to the Company. A SAR may be awarded pursuant to an Award Agreement that shall be in such form (which need not be the same for each Grantee) as the Administrator shall from time to time approve, and shall comply with and be subject to the terms and conditions of this Plan. A SAR may vary from Grantee to Grantee and between groups of Grantees, and may be based upon performance objectives (See Performance Goals in Section 14.4).

Term

12.2 The term of a SAR shall be set forth in the Award Agreement as determined by the Administrator.

Exercise

12.3 A Grantee desiring to exercise a SAR shall give written notice of such exercise to the Company, which notice shall state the proportion of Shares and cash that the Grantee desires to receive pursuant to the SAR exercised, subject to the discretion of the Administrator. Upon receipt of the notice from the Grantee, subject to the Administrator's election to pay cash as provided in Section 12.4 below, the Company shall deliver to the person entitled thereto (i) a certificate or certificates for Shares and/or (ii) a cash payment, in accordance with Section 12.4 below. The date the Company receives written notice of such exercise hereunder is referred to in this Section 12 as the "**exercise date**".

Number of Shares or Amount of Cash

12.4 Subject to the discretion of the Administrator to substitute cash for Shares, or some portion of the Shares for cash, the amount of Shares that may be issued pursuant to the exercise of a SAR shall be determined by dividing: (i) the total number of Shares as to which the SAR is exercised, multiplied by the amount by which the Fair Market Value of the Shares on the exercise date exceeds the Fair Market Value of a Share on the date of grant of the SAR; by (ii) the Fair Market Value of a Share on the exercise date; provided, however, that fractional Shares shall not be issued and in lieu thereof, a cash adjustment shall be paid. In lieu of issuing Shares upon the exercise of a SAR, the Administrator in its sole discretion may elect to pay the cash equivalent of the Fair Market Value of the Shares on the exercise date for any or all of the Shares that would otherwise be issuable upon exercise of the SAR.

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Effect of Exercise

12.5 A partial exercise of a SAR shall not affect the right to exercise the remaining SAR from time to time in accordance with this Plan and the applicable Award Agreement with respect to the remaining shares subject to the SAR.

Forfeiture

12.6 In the case of an event of forfeiture pursuant to the Award Agreement, including failure to satisfy any restriction period or a performance objective, any SAR that has not vested prior to the date of termination shall automatically expire, and all of the rights, title and interest of the Grantee thereunder shall be forfeited in their entirety.

13. DIVIDEND EQUIVALENT RIGHT

A dividend equivalent right is an Award entitling the recipient to receive credits based on cash distributions that would have been paid on the Shares specified in the dividend equivalent right (or other Award to which it relates) if such Shares had been issued to and held by the recipient (a "**Dividend Equivalent Right**"). A Dividend Equivalent Right may be granted hereunder to any Grantee as a component of another Award or as a freestanding Award. The terms and conditions of Dividend Equivalent Right shall be specified in the grant. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional Shares, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment. Dividend Equivalent Rights may be settled in cash or Shares or a combination thereof, in a single instalment or instalments, all determined in the sole discretion of the Administrator. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award, and that

such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. A Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from such other Award.

14. TERMS AND CONDITIONS OF AWARDS

In General

14.1 Subject to the terms of the Plan and Applicable Laws, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria.

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Term of Award

14.2 The term of each Award shall be the term stated in the Award Agreement.

Transferability

14.3

(a) Limits on Transfer. No right or interest of a Grantee in any unexercised or restricted Award may be pledged, encumbered or hypothecated to or in favor of any party other than to the Company or a Related Entity or Affiliate. No Award shall be sold, assigned, transferred or disposed of by a Grantee other than by the laws of descent and distribution or, in the case of an Incentive Stock Option, pursuant to a domestic relations order that would satisfy Section 414(p)(1)(A) of the Code if such Section applied to an Award under the Plan; provided, however, that the Administrator may (but need not) permit other transfers where the Administrator concludes that such transferability (i) does not result in accelerated taxation or other adverse tax consequences, (ii) does not cause any Option intended to be an Incentive Stock Option to fail to be described in Section 422(b) of the Code, and (iii) is otherwise appropriate and desirable, taking into account any factors deemed relevant, including, without limitation, state or federal tax or securities laws applicable to transferable Awards.

(b) Beneficiaries. Notwithstanding Section 14.3(a), a Grantee may, in the manner determined by the Administrator, designate a beneficiary to exercise the rights of the Grantee and to receive any distribution with respect to any Award upon the Grantee's death. A beneficiary, legal guardian, legal representative or other person claiming any rights under the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Grantee, except to the extent the Plan and such Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Administrator. If no beneficiary has been designated or survives the Grantee, payment shall be made to the Grantee's estate. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Grantee at any time, provided the change or revocation is filed with the Administrator.

Performance Goals

14.4 In order to preserve the deductibility of an Award under Section 162(m) of the Code, the Administrator may determine that any Award granted pursuant to this Plan to a Grantee that is or is expected to become a Covered Employee shall be determined solely on the basis of (a) the achievement by the Company or Subsidiary of a specified

target return, or target growth in return, on equity or assets, (b) the Company's stock price, (c) the Company's total shareholder return (stock price appreciation plus reinvested dividends) relative to a defined comparison group or target over a specific performance period, (d) the achievement by the Company or a Parent or Subsidiary, or a business unit of any such entity, of a specified target, or target growth in, net income, earnings per share, earnings before income and taxes, and earnings before income, taxes, depreciation and amortization, or (e) any combination of the goals set forth in (a) through (d) above. If an Award is made on such basis, the Administrator shall establish goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under Section 162(m) of the Code or the regulations thereunder but not later than 90 days after commencement of the period of services to which the performance goal relates), and the Administrator has the right for any reason to reduce (but not increase) the Award, notwithstanding the achievement of a specified goal. Any payment of an Award granted with performance goals shall be conditioned on the written certification of the Administrator in each case that the performance goals and any other material conditions were satisfied.

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In addition, to the extent that Section 409A is applicable, (i) performance-based compensation shall also be contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months in which the Eligible Participant performs services and (ii) performance goals shall be established not later than 90 calendar days after the beginning of any performance period to which the performance goal relates, provided that the outcome is substantially uncertain at the time the criteria are established.

Acceleration

14.5 The Administrator may, in its sole discretion (but subject to the limitations of and compliance with Section 409A of the Code and Section 14.7 in connection therewith), at any time (including, without limitation, prior to, coincident with or subsequent to a Change of Control) determine that (a) all or a portion of a Grantee's Awards shall become fully or partially exercisable, and/or (b) all or a part of the restrictions on all or a portion of the outstanding Awards shall lapse, in each case, as of such date as the Administrator may, in its sole discretion, declare. The Administrator may discriminate among Grantees and among Awards granted to a Grantee in exercising its discretion pursuant to this Section 14.5.

Compliance with Section 162(m) of the Code

14.6 Notwithstanding any provision of this Plan to the contrary, if the Administrator determines that compliance with Section 162(m) of the Code is required or desired, all Awards granted under this Plan to Named Executive Officers shall comply with the requirements of Section 162(m) of the Code. In addition, in the event that changes are made to Section 162(m) of the Code to permit greater flexibility with respect to any Award or Awards under this Plan, the Administrator may make any adjustments it deems appropriate.

Compliance with Section 409A of the Code

14.7 Notwithstanding any provision of this Plan to the contrary, if any provision of this Plan or an Award Agreement contravenes any regulations or Treasury guidance promulgated under Section 409A of the Code or could cause an Award to be subject to the interest and penalties under Section 409A of the Code, such provision of this Plan or any Award Agreement shall be modified to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the provisions of Section 409A of the Code. In addition, in the event that changes are made to Section 409A of the Code to permit greater flexibility with respect to any Award under this Plan, the Administrator may make any adjustments it deems appropriate.

Section 280G of the Code

14.8 Notwithstanding any other provision of this Plan to the contrary, unless expressly provided otherwise in the Award Agreement, if the right to receive or benefit from an Award under this Plan, either alone or together with payments that a Grantee has a right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Code), all such payments shall be reduced to the largest amount that shall result in no portion being subject to the excise tax imposed by Section 4999 of the Code.

Exercise of Award Following Termination of Continuous Service

14.9 An Award may not be exercised after the termination date of such Award set forth in the Award Agreement and may be exercised following the termination of a Grantee's Continuous Service only to the extent provided in the Award Agreement. Where the Award Agreement permits a Grantee to exercise an Award following the termination of the Grantee's Continuous Service for a specified period, the Award shall terminate to the extent not exercised on the last day of the specified period or the last day of the original term of the Award, whichever occurs first.

Cancellation of Awards

14.10 In the event a Grantee's Continuous Services has been terminated for "**Cause**", he or she shall immediately forfeit all rights to any and all Awards outstanding. The determination that termination was for Cause shall be final and conclusive. In making its determination, the Board shall give the Grantee an opportunity to appear and be heard at a hearing before the full Board and present evidence on the Grantee's behalf. Should any provision to this Section 14.10. be held to be invalid or illegal, such illegality shall not invalidate the whole of this Section 14, but, rather, this Plan shall be construed as if it did not contain the illegal part or narrowed to permit its enforcement, and the rights and obligations of the parties shall be construed and enforced accordingly.

15. ADDITIONAL TERMS IF THE COMPANY BECOMES LISTED ON A STOCK EXCHANGE

15.1 In the event the Shares become listed on a stock exchange, and to the extent required by the rules of such stock exchange, then the following terms and conditions shall apply to an Award in addition to those contained herein, as applicable:

(a) the exercise price of an Award must not be lower than 100% of the Fair Market Value (without discount) of the Shares on the stock exchange at the time the Award is granted;

(b) the number of securities issuable to Insiders, at any time, under all of the Company's security based compensation arrangements (whether entered into prior to or subsequent to such listing), cannot exceed 10% of the Company's total issued and outstanding Common Stock, unless the Company obtains Disinterested Shareholder Approval; and

(c) the number of securities issued to Insiders, within any one year period, under all of the Company's security based compensation arrangements (whether entered into prior to or subsequent to such listing), cannot exceed 10% of the issued and outstanding Common Stock, unless the Company obtains Disinterested Shareholder Approval.

16. PAYMENT FOR SHARE PURCHASES

Payment

16.1 Payment for Shares purchased pursuant to this Plan may be made:

(a) Cash. By cash, cashier's check or wire transfer or, at the discretion of the Administrator expressly for the Grantee and where permitted by law as follows:

(b) Surrender of Shares. By surrender of shares of Common Stock of the Company that have been owned by the Grantee for more than six months, or lesser period if the surrender of shares is otherwise exempt from Section 16 of the Exchange Act, (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares);

(c) Deemed Net-Stock Exercise. By forfeiture of Shares equal to the value of the exercise price pursuant to a "**deemed net-stock exercise**" by requiring the Grantee to accept that number of Shares determined in accordance with the following formula, rounded down to the nearest whole integer:

where:

a

= net Shares to be issued to Grantee;

b

= number of Awards being exercised;

c

= Fair Market Value of a Share;
and

d

= Exercise price of the Awards; or

(d) Broker-Assisted. By delivering a properly executed exercise notice to the Company together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the exercise price and the amount of any required tax or other withholding obligations.

16.2 By any combination of the foregoing methods of payment or any other consideration or method of payment as shall be permitted by applicable corporate law.

17. WITHHOLDING TAXES

Withholding Generally

17.1 Whenever Shares are to be issued in satisfaction of Awards granted under this Plan or Shares are forfeited pursuant to a deemed net-stock exercise, the Company may require the Grantee to remit to the Company an amount sufficient to satisfy the foreign, federal, state, provincial, or local income and employment tax withholding obligations, including, without limitation, on exercise of an Award. When, under applicable tax laws, a Grantee incurs tax liability in connection with the exercise or vesting of any Award, the disposition by a Grantee or other person of an Award or an Option prior to satisfaction of the holding period requirements of Section 422 of the Code, or upon the exercise of a Non-Qualified Stock Option, the Company shall have the right to require such Grantee or such other person to pay by cash, or check payable to the Company, the amount of any such withholding with respect to such transactions. Any such payment must be made promptly when the amount of such obligation becomes determinable.

Stock for Withholding

17.2 To the extent permissible under applicable tax, securities and other laws, the Administrator may, in its sole discretion and upon such terms and conditions as it may deem appropriate, permit a Grantee to satisfy his or her obligation to pay any withholding tax, in whole or in part, with Shares up to an amount not greater than the Company's minimum statutory withholding rate for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income. The Administrator may exercise its discretion, by (i) directing the Company to apply Shares to which the Grantee is entitled as a result of the exercise of an Award, or (ii) delivering to the Company Shares that have been owned by the Grantee for more than six months, unless the delivery of Shares is otherwise exempt from Section 16 of the Exchange Act. A Grantee who has made an election pursuant to this Section 17.2 may satisfy his or her withholding obligation only with Shares that are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements. The Shares so applied or delivered for the withholding obligation shall be valued at their Fair Market Value as of the date of measurement of the amount of income subject to withholding.

18. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

In General

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18.1 Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares, or (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. The Administrator shall make the appropriate adjustments to (i) the maximum number and/or class of securities issuable under this Plan; and (ii) the number and/or class of securities and the exercise price per Share in effect under each outstanding Award in order to prevent the dilution or enlargement of benefits thereunder; provided, however, that the number of Shares subject to any Award shall always be a whole number and the Administrator shall make such adjustments as are necessary to insure Awards of whole Shares. Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive.

Company's Right to Effect Changes in Capitalization

18.2 The existence of outstanding Awards shall not affect the Company's right to effect adjustments, recapitalizations, reorganizations or other changes in its or any other corporation's capital structure or business, any merger or consolidation, any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares, the dissolution or liquidation of the Company's or any other corporation's assets or business or any other corporate act whether similar to the events described above or otherwise.

19. CORPORATE TRANSACTIONS/CHANGES IN CONTROL/RELATED ENTITY DISPOSITIONS

Company is Not the Survivor

19.1 Subject to Section 19.3 and except as may otherwise be provided in an Award Agreement, the Administrator shall have the authority, in its absolute discretion, exercisable either in advance of any actual or anticipated Corporate Transaction, Change in Control or Related Entity Disposition in which the Company is not the surviving corporation, or at the time of an actual Corporate Transaction, Change in Control or Related Entity Disposition in which the Company is not the surviving corporation (a) to cancel each outstanding Award upon payment in cash to the Grantee of the amount by which any cash and the Fair Market Value of any other property which the Grantee would have received as consideration for the Shares covered by the Award if the Award had been exercised before such Corporate Transaction, Change in Control or Related Entity Disposition exceeds the exercise price of the Award, or (b) to negotiate to have such Award assumed by the surviving corporation. The determination as to whether the Company is the surviving corporation is at the sole and absolute discretion of the Administrator.

In addition to the foregoing, in the event of a dissolution or liquidation of the Company, or a Corporate Transaction or Related Entity Disposition in which the Company is not the surviving corporation, the Administrator, in its absolute discretion, may accelerate the time within which each outstanding Award may be exercised. Section 19.3 shall control with respect to any acceleration in vesting in the event of Change of Control.

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The Administrator shall also have the authority:

- (a) to release the Awards from restrictions on transfer and repurchase or forfeiture rights of such Awards on such terms and conditions as the Administrator may specify; and
- (b) to condition any such Award's vesting and exercisability or release from such limitations upon the subsequent termination of the Continuous Service of the Grantee within a specified period following the effective date of the Corporate Transaction, Change in Control or Related Entity Disposition.

Effective upon the consummation of a Corporate Transaction, Change in Control or Related Entity Disposition governed by this Section 19.1, all outstanding Awards under this Plan not exercised by the Grantee or assumed by the successor corporation shall terminate.

Company is the Survivor

19.2 In the event of a Corporate Transaction, Change in Control or Related Entity Disposition in which the Company is the surviving corporation, the Administrator shall determine the appropriate adjustment of the number and kind of securities with respect to which outstanding Awards may be exercised, and the exercise price at which outstanding Awards may be exercised. The Administrator shall determine, in its sole and absolute discretion, when the Company shall be deemed to survive for purposes of this Plan. Subject to any contrary language in an Award

Agreement evidencing an Award, any restrictions applicable to such Award shall apply as well to any replacement shares received by the Grantee as a result.

Change in Control

19.3 If there is a Change of Control, all outstanding Awards shall fully vest immediately upon the Company's public announcement of such a Change of Control.

20. PRIVILEGES OF STOCK OWNERSHIP

No Grantee shall have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Grantee. After Shares are issued to the Grantee, the Grantee shall be a stockholder and have all the rights of a stockholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Grantee may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company shall be subject to the same restrictions as the Restricted Stock. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Award.

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21. RESTRICTION ON SHARES

At the discretion of the Administrator, the Company may reserve to itself and/or its assignee(s) in the Award Agreement that the Grantee not dispose of the Shares for a specified period of time, or that the Shares are subject to a right of first refusal or a right to repurchase by the Company at the Shares' Fair Market Value at the time of sale. The terms and conditions of any such rights or other restrictions shall be set forth in the Award Agreement evidencing the Award.

22. CERTIFICATES

All certificates for Shares or other securities delivered under this Plan shall be subject to such stock transfer orders, legends and other restrictions as the Administrator may deem necessary or advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed or quoted.

23. ESCROW; PLEDGE OF SHARES

To enforce any restrictions on a Grantee's Shares, the Administrator may require the Grantee to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Administrator, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated, and the Administrator may cause a legend or legends referencing such restrictions to be placed on the certificates.

24. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE

Compliance With Applicable Law

24.1 An Award shall not be effective unless such Award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or

automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the Grant Date and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company shall have no obligation to issue or deliver certificates for Shares under this Plan prior to (i) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and/or (ii) completion of any registration or other qualification of such Shares under any state or federal laws or rulings of any governmental body that the Company determines to be necessary or advisable. The Company shall be under no obligation to register the Shares with the Securities Exchange Commission or to effect compliance with the registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company shall have no liability for any inability or failure to do so. Evidences of ownership of Shares acquired pursuant to an Award shall bear any legend required by, or useful for purposes of compliance with, applicable securities laws, this Plan or the Award Agreement.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards pursuant to this Plan and the exercise of Awards granted hereunder shall qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of this Plan or action by the Board or the Administrator does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board or the Administrator, and shall not affect the validity of this Plan. In the event that Rule 16b-3 is revised or replaced, the Administrator may exercise its discretion to modify this Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

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Investment Representation

24.2 As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

25. NO OBLIGATION TO EMPLOY

Nothing in this Plan or any Award granted under this Plan shall confer or be deemed to confer on any Grantee any right to continue in the employ of, or to continue any other relationship with, the Company or to limit in any way the right of the Company to terminate such Grantee's employment or other relationship at any time, with or without Cause.

26. EFFECTIVE DATE AND TERM OF PLAN

This Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company. It shall continue in effect for a term of ten years unless sooner terminated.

27. SHAREHOLDER APPROVAL

This Plan shall be subject to approval by the shareholders of the Company within 12 months from the date the Plan is adopted by the Company's Board for any and all intended Incentive Stock Options granted hereunder. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws. The Administrator may grant Awards under this Plan prior to approval by the shareholders, however, until such approval is obtained, all Option Awards granted under this Plan shall be deemed Non-Qualified Stock Options. In the event that shareholder approval is not obtained within the 12 month period provided above, all Incentive Stock Option Awards previously granted under this Plan shall be deemed Non-Qualified Stock Options.

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28. AMENDMENT, SUSPENSION OR TERMINATION OF THIS PLAN OR AWARDS

The Board may amend, suspend or terminate this Plan at any time and for any reason. To the extent necessary to comply with Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required. Shareholder approval shall be required for the following types of amendments to this Plan: (i) any change to those persons who are entitled to become participants under the Plan which would have the potential of broadening or increasing Insider participation; or (ii) the addition of any form of financial assistance or amendment to a financial assistance provision which is more favourable to Grantees.

Further, the Board may, in its discretion, determine that any amendment should be effective only if approved by the shareholders even if such approval is not expressly required by this Plan or by law. No Award may be granted during any suspension of this Plan or after termination of this Plan.

Any amendment, suspension or termination of this Plan shall not affect Awards already granted, and such Awards shall remain in full force and effect as if this Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company. At any time and from time to time, the Administrator may amend, modify, or terminate any outstanding Award or Award Agreement without approval of the Grantee; provided, however, that subject to the applicable Award Agreement, no such amendment, modification or termination shall, without the Grantee's consent, reduce or diminish the value of such Award determined as if the Award had been exercised, vested, cashed in or otherwise settled on the date of such amendment or termination.

Notwithstanding any provision herein to the contrary, the Administrator shall have broad authority to amend this Plan or any outstanding Award under this Plan without approval of the Grantee to the extent necessary or desirable: (i) to comply with, or take into account changes in, applicable tax laws, securities laws, accounting rules and other applicable laws, rules and regulations; or (ii) to ensure that an Award is not subject to interest and penalties under Section 409A of the Code or the excise tax imposed by Section 4999 of the Code.

Further, notwithstanding any provision herein to the contrary, and subject to Applicable Law, the Administrator may, in its absolute discretion, amend or modify this Plan: (i) to make amendments which are of a "housekeeping" or clerical nature; (ii) to change the vesting provisions of an Award granted hereunder, as applicable; (iii) to change the termination provision of an Award granted hereunder, as applicable, which does not entail an extension beyond the original expiry date of such Award; and (iv) the addition of a cashless exercise feature, payable in cash or securities, which provides for a full deduction of the number of underlying securities from the Maximum Number.

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29. RESERVATION OF SHARES

The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of this Plan.

The Shares to be issued hereunder upon exercise of an Award may be either authorized but unissued; supplied to the Plan through acquisitions of Shares on the open market; Shares forfeited back to the Plan; Shares surrendered in payment of the exercise price of an Award; or Shares withheld for payment of applicable employment

taxes and/or withholding obligations resulting from the exercise of an Award.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

30. EXCHANGE AND BUYOUT OF AWARDS

The Administrator may, at any time or from time to time, authorize the Company, with the consent of the respective Grantees, to issue new Awards in exchange for the surrender and cancellation of any or all outstanding Awards. The Administrator may at any time buy from a Grantee an Award previously granted with payment in cash, Shares (including Restricted Stock) or other consideration, based on such terms and conditions as the Administrator and the Grantee may agree.

31. APPLICABLE TRADING POLICY

The Administrator and each Eligible Participant will ensure that all actions taken and decisions made by the Administrator or an Eligible Participant, as the case may be, pursuant to this Plan comply with any Applicable Laws and policies of the Company relating to insider trading or "blackout" periods.

32. GOVERNING LAW

The Plan shall be governed by the laws of the State of Nevada; provided, however, that any Award Agreement may provide by its terms that it shall be governed by the laws of any other jurisdiction as may be deemed appropriate by the parties thereto.

33. MISCELLANEOUS

Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the *Employee Retirement Income Security Act of 1974*, as amended.

SUBPART A

STOCK AND DEFERRED STOCK UNITS FOR ELIGIBLE DIRECTORS

A. Stock Award. The Administrator shall pay Eligible Remuneration to each Director pursuant to an Award Agreement.

B. Election. Further, the Administrator may, in its sole discretion, permit each Eligible Director to receive all or any portion of his Eligible Remuneration during the Remuneration Period in the form of Deferred Stock Units under this Plan (an "**Election**"). All deferrals pursuant to such an Election shall be evidenced by an Award Agreement.

For purposes of this Subpart A, the following definitions shall apply:

"**Annual Retainer**" for a particular Director means the retainer (including any additional amounts payable for serving as lead Director or on any committee of the Board), payable to that Director for serving as a Director for the relevant Remuneration Period, as determined by the Board;

"**Attendance Fee**" means amounts payable annually to a Director as a Board meeting attendance fee or a committee meeting attendance fee, or any portion thereof;

"**Canadian Director**" means a Director who is a resident of Canada for the purposes of the Canadian Tax Act, and whose income from employment by the Company or Related Entity is subject to Canadian income tax, notwithstanding any provision of the Canada-United States Income Tax Convention (1980), as amended;

"**Canadian Tax Act**" and "**Canadian Tax Regulations**" means respectively the *Income Tax Act* (Canada), as amended and the Income Tax Regulation promulgated thereunder, as amended;

"**Deferred Stock Unit**" means a right granted by the Company to an Eligible Director to receive, on a deferred payment basis, Shares under this Plan;

"**Eligible Director**" is any Director of this Company or Related Entity that the Administrator determines is eligible to elect to receive Deferred Stock Units under this Plan;

"**Eligible Remuneration**" means all amounts payable to an Eligible Director in Shares, including all or part of amounts payable in satisfaction of the Annual Retainer, Attendance Fees or any other fees relating to service on the Board which are payable to an Eligible Director or in satisfaction of rights or property surrendered by an Eligible Director to the Company; it being understood that the amount of Eligible Remuneration payable to any Eligible Director may be calculated by the Administrator in a different manner than Eligible Remuneration payable to another Eligible Director in its sole and absolute discretion;

"**Prescribed Plan or Arrangement**" means a prescribed plan or arrangement as defined in s.6801(d) of the Canadian Tax Regulation;

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"**Remuneration Period**" means, as applicable, (a) the period commencing on the Effective Date of this Plan and ending on the last day of the calendar year in which the Effective Date occurs; and (b) thereafter each subsequent calendar year, or where the context requires, any portion of such period; and

"**Salary Deferral Arrangement**" means a salary deferral arrangement as defined in the Canadian Tax Act.

1. **Election.** An Eligible Director who desires to defer receipt of all or a portion of his or her Eligible Remuneration in any calendar year shall make such election in writing to the Company specifying:

- (a) the dollar amount or percentage of Eligible Remuneration to be deferred; and
- (b) the deferral period.

Otherwise, such election must be made before the first day of the calendar year in which the Eligible Remuneration shall be payable, however a newly appointed Eligible Director shall be eligible to defer payment of future Eligible Remuneration by providing written election to the Company within 30 calendar days of his or her appointment to the Board of Directors. The elections made pursuant to this Section shall be irrevocable with respect to Eligible Remuneration to which such elections pertain and shall also apply to subsequent Eligible Remuneration payable in future calendar years unless such Eligible Director notifies the Company in writing, before the first day of

the applicable calendar year, that he or she desires to change such election.

If the Eligible Director does not timely deliver an election in respect of a particular Remuneration Period, the Eligible Director will receive the Eligible Remuneration as provided for in the Award Agreement.

2. Determination Of Deferred Stock Units. The Company will maintain a separate account for each Eligible Director to which it will quarterly credit Deferred Stock Units at the end of March, June, September and December, or as otherwise determined by the Administrator, the Deferred Stock Units granted to the Eligible Director for the relevant Remuneration Period. The number of Deferred Stock Units (including fractional Deferred Stock Units, computed to three digits) to be credited to an account for an Eligible Director will be determined on the date approved by the Administrator by dividing the appropriate amount of Eligible Remuneration to be deferred into Deferred Stock Units by the Fair Market Value on that date.

3. No Voting Rights. The holders of Deferred Stock Units shall have no rights as stockholders of the Company.

4. Dividend Equivalency. The Company will, on any date on which a cash or stock dividend is paid on its outstanding Shares, credit to each Eligible Director's account that number of additional Deferred Stock Units (including fractional Deferred Stock Units, computed to three digits) calculated by (i) multiplying the amount of the dividend per Share by the number of Deferred Stock Units in the account as of the record date for payment of the dividend, and (ii) dividing the amount obtained in (i) by the Fair Market Value on the date on which the dividend is paid. (See Section 13 of the Plan, Dividend Equivalent Right).

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5. Eligible Director's Account. A written confirmation of the balance in each Eligible Directors' Account will be sent by the Company to the Eligible Director upon request of the Eligible Director.

6. Creditor's Rights. A holder of Deferred Stock Units shall have no rights other than those of a general creditor of the Company. Deferred Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and condition of the applicable Award Agreement.

7. Settlement of Deferred Stock Units. Subject to Section 8, each Deferred Stock Unit shall be paid and settled by the issuance of Restricted or unrestricted Shares in accordance with the Award Agreement and if such settlement is subject to Section 409A of the Code only upon any one or more of the following as provided for in the Award Agreement:

- (a) a specific date or date determinable by a fixed schedule;
- (b) upon the Eligible Director's termination of Continuous Services to the extent the same constitutes a separation from services for the purposes of Section 409A of the Code except that if an Eligible Director is a "key employee" as defined in Section 409A of the Code for such purposes, then payment or settlement shall occur 6 months following such separation of service;
- (c) as a result of the Eligible Director's death or Disability; or
- (d) in connection with or as a result of a Change in Control in compliance with 409A of the Code.

The Company will issue one Share for each whole Deferred Stock Unit credited to the Eligible Director's account (net of any applicable withholding tax as provided for in this Plan). Such payment shall be made by the Company as soon as reasonably possible following the settlement date. Fractional Shares shall not be issued, and

where the Eligible Director would be entitled to receive a fractional Shares in respect of any fractional Deferred Stock Unit, the Company shall pay to such Eligible Director, in lieu of such fractional Shares, cash equal to the Fair Market Value of such fractional Shares calculated as of the day before such payment is made, net of any applicable withholding tax.

8. Canadian Directors. If a Deferred Stock Unit is granted to an Eligible Director who is a Canadian Director would otherwise constitute a Salary Deferred Arrangement, the Award Agreement pertaining to that Deferred Stock Unit shall contain such other or additional terms as will cause the Deferred Stock Unit to be a Prescribed Plan or Arrangement.

9. Issuance of Stock Certificates. A stock certificate or certificates shall be registered and issued in the name of the holder of Deferred Stock Units and delivered to such holder as soon as practicable after such Deferred Stock Units have become payable or satisfied in accordance with the terms of the Plan

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10. Non-Exclusivity. Nothing in this Subpart A shall prohibit the Administrator from making discretionary Awards to Eligible Directors pursuant to the other provisions of this Plan or outside this Plan, not otherwise inconsistent with these provisions.

11. Defined Terms. Capitalized terms used in this Subpart A and not defined herein have the meaning give in the Plan.

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**Location Fair
Value**

Derivatives designated as hedging instruments:

Commodity contracts

Receivables \$10,337 Accounts payable \$31 Other assets 850 Other liabilities -

11,187 31

Interest rate contracts

Receivables - Accounts payable 175 Other assets - Other liabilities 320

- 495

Totals

\$11,187 \$526

Derivatives not designated as hedging instruments:

Commodity contracts

Receivables \$3,737 Accounts payable \$151 Other assets 75 Other liabilities -

3,812 151

Foreign currency contracts

Receivables - Accounts payable 31

Totals

\$3,812 \$182

Total Derivative Instruments

\$14,999 \$708

The amounts in the table above reflect the fair value of the Company's derivative contracts on a net basis. Had these amounts been recognized on a gross basis, the aggregate impact would have been a \$200,000 decrease in receivables with a corresponding decrease in accounts payable.

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The following table summarizes the fair value of our derivative instruments and the financial statement caption in which they were recorded in the consolidated balance sheet at May 31, 2016:

(in thousands)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Commodity contracts	Receivables	\$ 13,224	Accounts payable	\$ 696
	Other assets	3,589	Other liabilities	80
		16,813		776
Interest rate contracts	Receivables	-	Accounts payable	155
	Other assets	-	Other liabilities	306
		-		461
Totals		\$ 16,813		\$ 1,237
Derivatives not designated as hedging instruments:				
Commodity contracts	Receivables	\$ 4,660	Accounts payable	\$ 761
	Other assets	317	Other liabilities	-
		4,977		761
Foreign currency contracts	Receivables	-	Accounts payable	15
		-		15
Totals		\$ 4,977		\$ 776
Total Derivative Instruments		\$ 21,790		\$ 2,013

The amounts in the table above reflect the fair value of the Company's derivative contracts on a net basis. Had these amounts been recognized on a gross basis, the aggregate impact would have been a \$300,000 decrease in receivables with a corresponding decrease in accounts payable.

Cash Flow Hedges

We enter into derivative instruments to hedge our exposure to changes in cash flows attributable to interest rates and commodity price fluctuations associated with certain forecasted transactions. These derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of OCI and reclassified into earnings in the same financial statement caption associated with the forecasted transaction and in the same period during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument is recognized in earnings immediately.

The following table summarizes our cash flow hedges outstanding at August 31, 2016:

(in thousands)	Notional Amount	Maturity Date
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Commodity contracts	\$ 60,267	September 2016 - December 2017
Interest rate contracts	17,072	September 2019

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The following table summarizes the gain (loss) recognized in OCI and the loss reclassified from accumulated OCI into earnings for derivative instruments designated as cash flow hedges during the three months ended August 31, 2016 and 2015:

(in thousands)	Gain (Loss) Recognized in OCI (Effective Portion)	Location of Loss Reclassified from Accumulated OCI (Effective Portion)	Loss Reclassified from Accumulated OCI (Effective Portion)	Location of Gain (Ineffective Portion) and Excluded from Effectiveness Testing	Gain (Ineffective Portion) and Excluded from Effectiveness Testing
For the three months ended August 31, 2016:					
Commodity contracts	\$ 769	Cost of goods sold	\$ (252)	Cost of goods sold	\$ -
Interest rate contracts	(36)	Interest expense	(103)	Interest expense	-
Totals	\$ 733		\$ (355)		\$ -
For the three months ended August 31, 2015:					
Commodity contracts	\$ (8,126)	Cost of goods sold	\$ (9,187)	Cost of goods sold	\$ -
Interest rate contracts	34	Interest expense	(139)	Interest expense	-
Foreign currency contracts	-	Miscellaneous income, net	(4)	Miscellaneous income, net	-
Totals	\$ (8,092)		\$ (9,330)		\$ -

The estimated net amount of the losses recognized in accumulated OCI at August 31, 2016 expected to be reclassified into net earnings within the succeeding twelve months is \$9,008,000 (net of tax of \$5,568,000). This amount was computed using the fair value of the cash flow hedges at August 31, 2016, and will change before actual reclassification from OCI to net earnings during the fiscal years ending May 31, 2017 and 2018.

Economic (Non-designated) Hedges

We enter into foreign currency contracts to manage our foreign currency exchange rate exposure related to inter-company and financing transactions that do not meet the requirements for hedge accounting treatment. We also enter into certain commodity contracts that do not qualify for hedge accounting treatment. Accordingly, these derivative instruments are adjusted to current market value at the end of each period through earnings.

The following table summarizes our economic (non-designated) derivative instruments outstanding at August 31, 2016:

(in thousands)	Notional Amount	Maturity Date(s)
Commodity contracts	\$ 24,809	September 2016 - August 2018
Foreign currency contracts	18,847	September 2016 - August 2017

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The following table summarizes the gain (loss) recognized in earnings for economic (non-designated) derivative financial instruments during the three months ended August 31, 2016 and 2015:

(in thousands)	Location of Gain (Loss) Recognized in Earnings	Gain (Loss) Recognized in Earnings for the	
		Three Months Ended August 31,	
		2016	2015
Commodity contracts	Cost of goods sold	\$ 2,908	\$ (2,755)
Foreign currency contracts	Miscellaneous expense, net	(66)	
Total		\$ 2,842	\$ (2,755)

The gain (loss) on the foreign currency derivatives significantly offsets the gain (loss) on the hedged item.

NOTE O Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price concept that assumes an orderly transaction between willing market participants and is required to be based on assumptions that market participants would use in pricing an asset or a liability. Current accounting guidance establishes a three-tier fair value hierarchy as a basis for considering such assumptions and for classifying the inputs used in the valuation methodologies. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

- Level 1 Observable prices in active markets for identical assets and liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly or indirectly.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Recurring Fair Value Measurements

At August 31, 2016, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Derivative contracts (1)	\$ -	\$ 14,999	\$ -	\$ 14,999
Total assets	\$ -	\$ 14,999	\$ -	\$ 14,999
Liabilities				
Derivative contracts (1)	\$ -	\$ 708	\$ -	\$ 708
Contingent consideration obligation (2)	-	-	4,519	4,519

Total liabilities	\$	-	\$	708	\$	4,519	\$	5,227
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At May 31, 2016, our assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Assets				
Derivative contracts (1)	\$ -	\$ 21,790	\$ -	\$ 21,790
Total assets	\$ -	\$ 21,790	\$ -	\$ 21,790
Liabilities				
Derivative contracts (1)	\$ -	\$ 2,013	\$ -	\$ 2,013
Contingent consideration obligations (2)	-	-	4,519	4,519
Total liabilities	\$ -	\$ 2,013	\$ 4,519	\$ 6,532

(1) The fair value of our derivative contracts is based on the present value of the expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Market observable, Level 2 inputs are used to determine the present value of the expected future cash flows. Refer to NOTE N Derivative Instruments and Hedging Activities for additional information regarding our use of derivative instruments.

(2) The fair value of the contingent consideration obligations is determined using a probability weighted cash flow approach based on management's projections of future cash flows of the acquired businesses. The fair value measurement was based on Level 3 inputs not observable in the market.

The fair value of non-derivative financial instruments included in the carrying amounts of cash and cash equivalents, receivables, notes receivable, income taxes receivable, other assets, accounts payable, short-term borrowings, accrued compensation, contributions to employee benefit plans and related taxes, other accrued items, income taxes payable and other liabilities approximate carrying value due to their short-term nature. The fair value of long-term debt, including current maturities, based upon models utilizing market observable (Level 2) inputs and credit risk, was \$611,710,000 and \$609,245,000 at August 31, 2016 and May 31, 2016, respectively. The carrying amount of long-term debt, including current maturities, was \$578,275,000 and \$578,353,000 at August 31, 2016 and May 31, 2016, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected statements contained in this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based, in whole or in part, on management's beliefs, estimates, assumptions and currently available information. For a more detailed discussion of what constitutes a forward-looking statement and of some of the factors that could cause actual results to differ materially from such forward-looking statements, please refer to the Safe Harbor Statement in the beginning of this Quarterly Report on Form 10-Q and Part I - Item 1A. - Risk Factors of our Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

Introduction

The following discussion and analysis of market and industry trends, business developments, and the results of operations and financial position of Worthington Industries, Inc., together with its subsidiaries (collectively, we, our, Worthington, or our Company), should be read in conjunction with our consolidated financial statements and notes thereto included in Item 1. Financial Statements of this Quarterly Report on Form 10-Q. Our Annual Report on Form 10-K for the fiscal year ended May 31, 2016 (fiscal 2016) includes additional information about Worthington, our operations and our consolidated financial position and should be read in conjunction with this Quarterly Report on Form 10-Q.

As of August 31, 2016, excluding our joint ventures, we operated 29 manufacturing facilities worldwide, principally in three operating segments, which correspond with our reportable business segments: Steel Processing, Pressure Cylinders and Engineered Cabs. Our remaining operating segment consists of Worthington Energy Innovations (WEI), which does not meet the applicable aggregation criteria or quantitative thresholds for separate disclosure, and therefore is combined and reported in the Other category.

We also held equity positions in 12 active joint ventures, which operated 51 manufacturing facilities worldwide, as of August 31, 2016. Six of these joint ventures are consolidated with the equity owned by the other joint venture member(s) shown as noncontrolling interests in our consolidated balance sheets, and their portion of net earnings and other comprehensive income (loss) shown as net earnings or comprehensive income attributable to noncontrolling interests in our consolidated statements of earnings and consolidated statements of comprehensive income, respectively. The remaining six of these joint ventures are accounted for using the equity method.

Overview

The Company benefited from rising steel prices and strong demand in the automotive and construction end markets during the first quarter of fiscal 2017. Increases in flat steel prices during the first half of calendar 2016 led to an improved pricing spread in Steel Processing and had a significant impact on earnings. Weakness in the oil & gas equipment end market continues to weigh on our Pressure Cylinders business. The Company has reduced costs in an attempt to match demand in this market.

Equity in net income of unconsolidated affiliates (equity income) was up \$7.9 million, or 30%, from the prior year quarter driven by a \$6.0 million increase at ClarkDietrich and improvements at ArtiFlex and Serviacerro. Lower steel costs and strong automotive and construction markets in the U.S. are benefiting these businesses. We received distributions from unconsolidated joint ventures of \$38.4 million during the quarter.

Recent Business Developments

During the quarter, the Company completed the exit of the businesses within its former Construction Services operating segment.

On September 28, 2016, the Board of Directors of Worthington Industries, Inc. (the Board) declared a quarterly dividend of \$0.20 per share payable on December 29, 2016 to shareholders of record on December 15, 2016.

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Market & Industry Overview

We sell our products and services to a diverse customer base and a broad range of end markets. The breakdown of our net sales by end market for the first quarter of each of fiscal 2017 and fiscal 2016 is illustrated in the following chart:

The automotive industry is one of the largest consumers of flat-rolled steel, and thus the largest end market for our Steel Processing operating segment. Approximately 63% of the net sales of our Steel Processing operating segment are to the automotive market. North American vehicle production, primarily by Ford, General Motors and FCA US (the Detroit Three automakers), has a considerable impact on the activity within this operating segment. The majority of the net sales of three of our unconsolidated joint ventures are also to the automotive end market.

Approximately 13% of the net sales of our Steel Processing operating segment and 52% of the net sales of our Engineered Cabs operating segment are to the construction market. The construction market is also the predominant end market for two of our unconsolidated joint ventures: WAVE and ClarkDietrich. While the market price of steel significantly impacts these businesses, there are other key indicators that are meaningful in analyzing construction market demand, including U.S. gross domestic product (GDP), the Dodge Index of construction contracts and, in the case of ClarkDietrich, trends in the relative price of framing lumber and steel.

Substantially all of the net sales of our Pressure Cylinders operating segment, and approximately 24% and 48% of the net sales of our Steel Processing and Engineered Cabs operating segments, respectively, are to other markets such as consumer products, industrial, lawn and garden, agriculture, oil & gas equipment, heavy truck, mining, forestry and appliance. Given the many different products that make up these net sales and the wide variety of end markets, it is very difficult to detail the key market indicators that drive these portions of our business. However, we believe that the trend in U.S. GDP growth is a good economic indicator for analyzing these operating segments.

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We use the following information to monitor our costs and demand in our major end markets:

	Three Months Ended August 31,		
	2016	2015	Inc / (Dec)
U.S. GDP (% growth year-over-year) ¹	1.5%	1.4%	0.1%
Hot-Rolled Steel (\$ per ton) ²	\$ 617	\$ 461	\$ 156
Detroit Three Auto Build (000 s vehicles) ³	2,380	2,318	62
No. America Auto Build (000 s vehicles) ³	4,563	4,393	170
Zinc (\$ per pound) ⁴	\$ 0.84	\$ 0.88	\$ (0.04)
Natural Gas (\$ per mcf) ⁵	\$ 2.00	\$ 2.78	\$ (0.78)
On-Highway Diesel Fuel Prices (\$ per gallon) ⁶	\$ 2.39	\$ 2.75	\$ (0.36)
Crude Oil - WTI (\$ per barrel) ⁶	\$ 46.04	\$ 51.20	\$ (5.16)

¹ 2015 figures based on revised actuals ² CRU Hot-Rolled Index; period average ³ IHS Global ⁴ LME Zinc; period average ⁵ NYMEX Henry Hub Natural Gas; period average ⁶ Energy Information Administration; period average

U.S. GDP growth rate trends are generally indicative of the strength in demand and, in many cases, pricing for our products. A year-over-year increase in U.S. GDP growth rates is indicative of a stronger economy, which generally increases demand and pricing for our products. Conversely, decreasing U.S. GDP growth rates generally indicate a weaker economy. Changes in U.S. GDP growth rates can also signal changes in conversion costs related to production and in selling, general and administrative (SG&A) expense.

The market price of hot-rolled steel is one of the most significant factors impacting our selling prices and operating results. When steel prices fall, we typically have higher-priced material flowing through cost of goods sold, while selling prices compress to what the market will bear, negatively impacting our results. On the other hand, in a rising price environment, our results are generally favorably impacted, as lower-priced material purchased in previous periods flows through cost of goods sold, while our selling prices increase at a faster pace to cover current replacement costs.

The following table presents the average quarterly market price per ton of hot-rolled steel during fiscal 2017 (first quarter), fiscal 2016 and fiscal 2015:

	(Dollars per ton ¹)		
	Fiscal Year		
	2017	2016	2015
1st Quarter	\$ 617	\$ 461	\$ 673
2nd Quarter	N/A	\$ 419	\$ 651
3rd Quarter	N/A	\$ 383	\$ 578
4th Quarter	N/A	\$ 507	\$ 464
Annual Avg.	N/A	\$ 443	\$ 592

¹ CRU Hot-Rolled Index, period average

No single customer contributed more than 10% of our consolidated net sales during the first quarter of fiscal 2017. While our automotive business is largely driven by the production schedules of the Detroit Three automakers, our customer base is much broader and includes other domestic manufacturers and many of their suppliers. During the first quarter of fiscal 2017, overall vehicle production for the Detroit Three automakers was up 3% and North American vehicle production as a whole increased 4%.

Certain other commodities, such as zinc, natural gas and diesel fuel, represent a significant portion of our cost of goods sold, both directly through our plant operations and indirectly through transportation and freight expense.

Table of Contents**Results of Operations****First Quarter Fiscal 2017 Compared to Fiscal 2016****Consolidated Operations**

The following table presents consolidated operating results for the periods indicated:

(In millions)	Three Months Ended August 31,		Three Months Ended August 31,		Increase/ (Decrease)
	2016	% of Net sales	2015	% of Net sales	
Net sales	\$ 737.5	100.0%	\$ 758.1	100.0%	\$ (20.6)
Cost of goods sold	590.2	80.0%	645.1	85.1%	(54.9)
Gross margin	147.3	20.0%	113.0	14.9%	34.3
Selling, general and administrative expense	81.1	11.0%	75.9	10.0%	5.2
Impairment of long-lived assets		0.0%	3.0	0.4%	(3.0)
Restructuring and other expense	1.3	0.2%	3.1	0.4%	(1.8)
Operating income	64.9	8.8%	31.0	4.1%	33.9
Miscellaneous income (expense), net	0.9	0.1%	(0.6)	-0.1%	1.5
Interest expense	(7.9)	-1.1%	(7.9)	-1.0%	
Equity in net income of unconsolidated affiliates (1)	34.5	4.7%	26.6	3.5%	7.9
Income tax expense	(23.9)	-3.2%	(14.1)	-1.9%	(9.8)
Net earnings	68.5	9.3%	35.0	4.6%	33.5
Net loss attributable to noncontrolling interests	(2.9)	-0.4%	(3.0)	-0.4%	0.1
Net earnings attributable to controlling interest	\$ 65.6	8.9%	\$ 32.0	4.2%	\$ 33.6
(1) Equity income by unconsolidated affiliate					
WAVE	\$ 20.7		\$ 22.0		\$ (1.3)
ClarkDietrich	8.6		2.6		6.0
Serviacero	2.0		0.8		1.2
ArtiFlex	2.9		1.5		1.4
WSP			0.8		(0.8)
Other	0.3		(1.1)		1.4
Total	\$ 34.5		\$ 26.6		\$ 7.9

Net earnings attributable to controlling interest for the three months ended August 31, 2016 increased \$33.6 million from the comparable period in the prior year. Net sales and operating highlights were as follows:

Net sales decreased \$20.6 million from the comparable period in the prior year on lower volume, partially offset by higher average selling prices. Lower overall volume reduced net sales by \$28.6 million on decreases in certain Pressure Cylinders businesses and Engineered Cabs, partially offset by contributions from the consolidation of the WSP joint venture effective March 1, 2016.

Gross margin increased \$34.3 million from the comparable period in the prior year on a favorable pricing spread in Steel Processing due primarily to inventory holding gains in the current quarter compared to inventory holding losses in the prior year quarter,

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partially offset by lower volume in Pressure Cylinders.

SG&A expense increased \$5.2 million over the comparable prior year period driven by the impact of acquisitions, higher profit sharing and bonus expense and a \$1.5 million increase in accrued legal expense.

Restructuring and other expense of \$1.3 million in the current period consisted primarily of \$0.8 million of facility exit costs related to the ongoing closure of Precision Specialty Metals (PSM) and \$0.2 million of facility exit costs related to the closure of the Florence, South Carolina facility in Engineered Cabs. For additional financial information regarding the Company's restructuring activities, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE D Restructuring and Other Expense of this Quarterly Report on Form 10-Q.

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Interest expense of \$7.9 million was unchanged from the comparable period in the prior year.

Equity income increased \$7.9 million from the comparable period in the prior year to \$34.5 million driven primarily by a \$6.0 million increase at ClarkDietrich and improvements at ArtiFlex and Serviacerro. Lower steel costs and strong automotive and construction markets in the U.S. are benefiting these businesses. We received distributions of \$38.4 million from our unconsolidated affiliates during the quarter. For additional financial regarding our unconsolidated affiliates, refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE B Investments in Unconsolidated Affiliates of this Quarterly Report on Form 10-Q.

Income tax expense increased \$9.8 million from the comparable period in the prior year due primarily to higher earnings. The increase in tax expense was partially offset by the following items recorded in the current quarter: (i) a \$4.6 million tax benefit associated with share-based payment awards, and (ii) a \$1.2 million tax benefit related to foreign tax credits. The current quarter expense was calculated using an estimated annual effective income tax rate of 31.2% versus 31.7% in the prior year quarter. Refer to Item 1. Financial Statements Notes to Consolidated Financial Statements NOTE K Income Taxes of this Quarterly Report on Form 10-Q for more information on our tax rates.

Segment Operations**Steel Processing**

The following table presents a summary of operating results for our Steel Processing operating segment for the periods indicated:

(Dollars in millions)	Three Months Ended August 31,				
	2016	% of Net sales	2015	% of Net sales	Increase/ (Decrease)
Net sales	\$ 505.7	100.0%	\$ 490.8	100.0%	\$ 14.9
Cost of goods sold	413.0	81.7%	433.8	88.4%	(20.8)
Gross margin	92.7	18.3%	57.0	11.6%	35.7
Selling, general and administrative expense	36.9	7.3%	32.9	6.7%	4.0
Restructuring and other expense	1.0	0.2%	0.5	0.1%	0.5
Operating income	\$ 54.8	10.8%	\$ 23.6	4.8%	\$ 31.2
Material cost	\$ 312.7		\$ 348.2		\$ (35.5)
Tons shipped (in thousands)	1,032		866		166

Net sales and operating highlights were as follows:

Net sales increased \$14.9 million from the comparable period in the prior year on the combined impact of higher volume and higher average selling prices. Higher volume favorably impacted net sales by \$8.9 million and was driven by the consolidation of the WSP joint venture effective March 1, 2016, partially offset by the closure of the Company's stainless steel business, PSM. The remaining increase in net sales was due to higher average selling prices. The mix of direct versus toll tons processed was 52% to 48% compared to 60% to 40% in the prior year quarter. The change in mix was primarily the result of the consolidation of the WSP joint venture.

Operating income increased \$31.2 million from the comparable period in the prior year driven by a higher spread between average selling prices and material cost due primarily to inventory holding gains in the current quarter compared to inventory holding losses in the prior year quarter. Higher SG&A expense, driven by the consolidation of WSP and higher profit sharing and bonus expense, combined with current period restructuring activities partially offset the overall increase in operating income. Restructuring and other expense in the current quarter consisted primarily of costs related to the ongoing closure of PSM.

Table of Contents**Pressure Cylinders**

The following table presents a summary of operating results for our Pressure Cylinders operating segment for the periods indicated:

(Dollars in millions)	Three Months Ended August 31,					
	2016	% of Net sales	2015	% of Net sales	Increase/ (Decrease)	
Net sales	\$ 205.2	100.0%	\$ 224.4	100.0%	\$ (19.2)	
Cost of goods sold	154.0	75.0%	170.0	75.8%	(16.0)	
Gross margin	51.2	25.0%	54.4	24.2%	(3.2)	
Selling, general and administrative expense	37.0	18.0%	36.9	16.4%	0.1	
Restructuring and other expense	0.1	0.0%	0.7	0.3%	(0.6)	
Operating income	\$ 14.1	6.9%	\$ 16.8	7.5%	\$ (2.7)	
Material cost	\$ 85.5		\$ 99.1		\$ (13.6)	
Net sales by principal class of products:						
Consumer products	\$ 60.6		\$ 55.0		\$ 5.6	
Industrial products	90.0		105.1		(15.1)	
Alternative fuels	29.8		24.8		5.0	
Oil & gas equipment	14.5		32.9		(18.4)	
Cryogenics	10.3		6.6		3.7	
Total Pressure Cylinders	\$ 205.2		\$ 224.4		\$ (19.2)	
Units shipped by principal class of products:						
Consumer products	12,088,912		11,977,945		110,967	
Industrial products	6,561,139		7,147,952		(586,813)	
Alternative fuels	136,062		91,956		44,106	
Oil & gas equipment	756		1,320		(564)	
Cryogenics	4,854		237		4,617	
Total Pressure Cylinders	18,791,723		19,219,410		(427,687)	

Net sales and operating highlights were as follows:

Net sales decreased \$19.2 million from the comparable period in the prior year. The decrease was driven almost exclusively by lower overall volume due primarily to declines in the oil & gas equipment and industrial products businesses.

Operating income decreased \$2.7 million from the comparable period in the prior year primarily due to declines in the oil & gas equipment business, as improvements in the consumer products business offset smaller declines in the industrial products and cryogenics businesses.

Table of Contents**Engineered Cabs**

The following table presents a summary of operating results for our Engineered Cabs operating segment for the periods indicated:

(In millions)	Three Months Ended August 31,				
	2016	% of Net sales	2015	% of Net sales	Increase/ (Decrease)
Net sales	\$ 25.6	100.0%	\$ 38.6	100.0%	\$ (13.0)
Cost of goods sold	23.3	91.0%	37.6	97.4%	(14.3)
Gross margin	2.3	9.0%	1.0	2.6%	1.3
Selling, general and administrative expense	3.9	15.2%	5.4	14.0%	(1.5)
Impairment of long-lived assets	-	0.0%	3.0	7.8%	(3.0)
Restructuring and other expense	0.2	0.8%	1.9	4.9%	(1.7)
Operating loss	\$ (1.8)	-7.0%	\$ (9.3)	-24.1%	\$ 7.5
Material cost	\$ 11.2		\$ 18.0		\$ (6.8)

Net sales and operating highlights were as follows:

Net sales decreased \$13.0 million from the comparable period in the prior year due to declines in market demand.

Operating loss improved \$7.5 million to \$1.8 million, primarily due to lower impairment and restructuring charges, improved gross margin and lower SG&A expense.

Other

The Other category includes the WEI operating segment, which does not meet the quantitative thresholds for separate disclosure. Certain income and expense items not allocated to our operating segments are also included in the Other category, including costs associated with our captive insurance company. The following table presents a summary of operating results for the Other category for the periods indicated:

(In millions)	Three Months Ended August 31,				
	2016	% of Net sales	2015	% of Net sales	Increase/ (Decrease)
Net sales	\$ 1.1	100.0%	\$ 4.3	100.0%	\$ (3.2)
Cost of goods sold	-	0.0%	3.7	86.0%	(3.7)
Gross margin	1.1	100.0%	0.6	14.0%	0.5
Selling, general and administrative expense	3.2	290.9%	0.8	18.6%	2.4
Operating loss	\$ (2.1)	-190.9%	\$ (0.2)	-4.7%	\$ (1.9)

Net sales and operating highlights were as follows:

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Net sales decreased \$3.2 million from the comparable period in the prior year as the former Construction Services operating segment has ceased operations.

Operating loss of \$2.1 million in the current period was driven primarily by a \$1.5 million increase in accrued legal expense.

Table of Contents***Liquidity and Capital Resources***

During the three months ended August 31, 2016, we generated \$120.9 million of cash from operating activities, invested \$16.3 million in property, plant and equipment, and paid dividends of \$11.9 million on our common shares. The following table summarizes our consolidated cash flows for the three months ended August 31, 2016 and 2015:

(in millions)	Three Months Ended August 31,	
	2016	2015
Net cash provided by operating activities	\$ 120.9	\$ 138.6
Net cash used by investing activities	(16.2)	(40.1)
Net cash used by financing activities	(7.4)	(110.8)
Increase (decrease) in cash and cash equivalents	97.3	(12.3)
Cash and cash equivalents at beginning of period	84.2	31.1
Cash and cash equivalents at end of period	\$ 181.5	\$ 18.8

We believe we have access to adequate resources to meet the needs of our existing businesses for normal operating costs, mandatory capital expenditures, debt redemptions, dividend payments, and working capital. These resources include cash and cash equivalents, cash provided by operating activities and unused lines of credit. We also believe that we have adequate access to the financial markets to allow us to be in a position to sell long-term debt or equity securities. However, uncertainty and volatility in the financial markets may impact our ability to access capital and the terms under which we can do so.

Operating Activities

Our business is cyclical and cash flows from operating activities may fluctuate during the year and from year to year due to economic conditions. We rely on cash and short-term borrowings to meet cyclical increases in working capital needs. These needs generally rise during periods of increased economic activity or increasing raw material prices due to higher levels of inventory and accounts receivable. During economic slowdowns, or periods of decreasing raw material costs, working capital needs generally decrease as a result of the reduction of inventories and accounts receivable.

Net cash provided by operating activities was \$120.9 million during the three months ended August 31, 2016 compared to \$138.6 million in the comparable period of fiscal 2016. The decrease was driven primarily by an increase in working capital levels as a result of higher average steel prices partially offset by higher net earnings.

Investing Activities

Net cash used by investing activities was \$16.2 million during the three months ended August 31, 2016 compared to \$40.1 million in the prior year period. The decrease from the prior year period was driven primarily by lower capital expenditures.

Investment activities are largely discretionary, and future investment activities could be reduced significantly, or eliminated, as economic conditions warrant. We assess acquisition opportunities as they arise, and such opportunities may require additional financing. There can be no assurance, however, that any such opportunities will arise, that any such acquisitions will be consummated, or that any needed additional financing will be available on satisfactory terms when required.

Financing Activities

Net cash used by financing activities was \$7.4 million during the three months ended August 31, 2016 compared to \$110.8 million in the comparable prior year period. During the first three months of fiscal 2017, we paid dividends of \$11.9 million on our common shares and received \$5.8 million of proceeds from the issuance of common shares.

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As of August 31, 2016, we were in compliance with our short-term and long-term financial debt covenants. These debt agreements do not include credit rating triggers or material adverse change provisions. Our credit ratings at August 31, 2016 were unchanged from those reported as of May 31, 2016.

Common shares - The Board declared a quarterly dividend of \$0.20 per common share for the first quarter of fiscal 2017 compared to \$0.19 per common share for the first quarter of fiscal 2016. Dividends paid on our common shares totaled \$11.9 million and \$11.6 million during the three months ended August 31, 2016 and 2015, respectively. On September 28, 2016, the Board declared a quarterly dividend of \$0.20 per common share payable on December 29, 2016 to shareholders of record on December 15, 2016.

On June 25, 2014, the Board authorized the repurchase of up to 10,000,000 of our outstanding common shares. A total of 5,953,855 common shares have been repurchased under this authorization, leaving 4,046,145 common shares available for repurchase. No common shares were repurchased under this authorization during the first quarter of fiscal 2017.

The common shares available for repurchase under this authorization may be purchased from time to time, with consideration given to the market price of the common shares, the nature of other investment opportunities, cash flows from operations, general economic conditions and other relevant considerations. Repurchases may be made on the open market or through privately negotiated transactions.

Dividend Policy

We currently have no material contractual or regulatory restrictions on the payment of dividends. Dividends are declared at the discretion of the Board. The Board reviews the dividend quarterly and establishes the dividend rate based upon our consolidated financial condition, results of operations, capital requirements, current and projected cash flows, business prospects, and other relevant factors. While we have paid a dividend every quarter since becoming a public company in 1968, there is no guarantee that payments will continue in the future. We currently have no material contractual or regulatory restrictions on the payment of dividends.

Contractual Cash Obligations and Other Commercial Commitments

Our contractual cash obligations and other commercial commitments have not changed significantly from those disclosed in Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Cash Obligations and Other Commercial Commitments of our 2016 Form 10-K, other than the changes in borrowings, as described in Part I Item 1. Financial Statements NOTE G Debt and Receivables Securitization of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We do not have guarantees or other off-balance sheet financing arrangements that we believe are reasonably likely to have a material current or future effect on our consolidated financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. However, as of August 31, 2016, we were party to an operating lease for an aircraft in which we have guaranteed a residual value at the termination of the lease. The maximum obligation under the terms of this guarantee was approximately \$10.2 million at August 31, 2016. Based on current facts and circumstances, we have estimated the likelihood of payment pursuant to this guarantee is not probable and, therefore, no amounts have been recognized in our consolidated financial statements.

Recently Adopted Accounting Standards

In February 2015, amended accounting guidance was issued that revised consolidation requirements in order to provide financial statement users with a more useful presentation of an entity's economic and operational results. The amended guidance revises the consolidation requirements for limited partnerships, the considerations surrounding the primary beneficiary determination and the consolidation of certain investment funds and is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this amended guidance on a prospective basis effective June 1, 2016. The adoption of this guidance did not impact our financial position or results of operations.

In April 2015, amended accounting guidance was issued that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the

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corresponding debt liability itself. The amended guidance does not apply to line-of-credit arrangements. Accordingly, issuance costs related to line-of-credit arrangements will continue to be presented as an asset and amortized ratably over the term of the arrangement. The amended guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this guidance on a retrospective basis effective June 1, 2016. As a result, debt issuance costs totaling \$2.4 million and \$2.5 million as of August 31, 2016 and May 31, 2016, respectively, have been presented as a component of the carrying amount of long-term debt reported in our consolidated balance sheets. These amounts were previously capitalized and reported within other assets.

In September 2015, amended accounting guidance was issued regarding adjustments to provisional amounts recorded in conjunction with a business combination. The amended guidance requires the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which such adjustments are identified, rather than retrospectively adjusting previously reported amounts. The amended guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted this amended guidance on a prospective basis effective June 1, 2016. The adoption of this guidance did not impact our financial position or results of operations.

In March 2016, amended accounting guidance was issued that simplifies the accounting for share-based payments. The amended guidance impacts several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, statutory withholding requirements, and classification in the statement of cash flows. The Company early adopted this guidance during the fourth quarter of fiscal 2016. As required for early adoption in an interim period, all adjustments have been reflected as of the beginning of fiscal 2016. Accordingly, income tax expense for the three months ended August 31, 2015 has been restated to reflect excess tax benefits associated with share-based payments totaling \$558,000 in current income tax expense, rather than in paid-in capital.

Recently Issued Accounting Standards

In May 2014, amended accounting guidance was issued that replaces most existing revenue recognition guidance under U.S. GAAP. The amended guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Subsequently, additional guidance was issued on several areas including guidance intended to improve the operability and understandability of the implementation of principal versus agent considerations and clarifications on the identification of performance obligations and implementation of guidance related to licensing. The amended guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations. The amended guidance permits the use of either the retrospective or cumulative effect transition method. We have not selected a transition method nor have we determined the effect of the amended guidance on our ongoing financial reporting.

In July 2015, amended accounting guidance was issued regarding the measurement of inventory. The amended guidance requires that inventory accounted for under the first-in, first-out (FIFO) or average cost methods be measured at the lower of cost and net realizable value, where net realizable value represents the estimated selling price of inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amended guidance has no impact on inventory accounted for under the last-in, first-out (LIFO) or retail inventory methods. The amended guidance is effective prospectively for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of an interim or annual reporting period. We do not expect the adoption of this amended accounting guidance to have a material impact on our financial position or results of operations.

In February 2016, amended accounting guidance was issued that replaces most existing lease accounting guidance under U.S. GAAP. Among other changes, the amended guidance requires that lease assets and liabilities be recognized on the balance sheet by lessees for those leases classified as operating leases under previous guidance. The amended guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, and the change is to be applied using a modified retrospective approach as of the beginning of the earliest period presented. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In March 2016, amended accounting guidance was issued regarding derivative instruments designated as

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hedging instruments. The amended guidance clarifies that a change in the counterparty to such a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amended guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and the change may be applied either prospectively or retrospectively. We do not expect the adoption of this amended accounting guidance to have a material impact on our financial position or results of operations.

In June 2016, amended accounting guidance was issued related to the measurement of credit losses on financial instruments. The amended guidance changes the impairment model for most financial assets to require measurement and recognition of expected credit losses for financial assets held. The amended guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are in the process of evaluating the effect this guidance will have on our consolidated financial position and results of operations, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

In August 2016, amended accounting guidance was issued to clarify the proper cash flow presentation of certain specific types of cash payments and cash receipts. The amended guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of evaluating the effect this guidance will have on our consolidated financial position, results of operations and cash flows, and we have not determined the effect of the amended guidance on our ongoing financial reporting.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. We continually evaluate our estimates, including those related to our valuation of receivables, intangible assets, accrued liabilities, income and other tax accruals, and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. These results form the basis for making judgments about the carrying values of assets and liabilities that are not readily obtained from other sources. Critical accounting policies are defined as those that require our significant judgments and involve uncertainties that could potentially result in materially different results under different assumptions and conditions. Although actual results historically have not deviated significantly from those determined using our estimates, our financial position or results of operations could be materially different if we were to report under different conditions or to use different assumptions in the application of such policies. Our critical accounting policies have not significantly changed from those discussed in Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of our 2016 Form 10-K.

We review our receivables on an ongoing basis to ensure they are properly valued. Based on this review, we believe our reserve for doubtful accounts is adequate. However, if the economic environment and market conditions deteriorate, particularly in the automotive and construction markets where our exposure is greatest, additional reserves may be required. We recognize revenue upon transfer of title and risk of loss provided evidence of an arrangement exists, pricing is fixed and determinable, and the ability to collect is probable. In circumstances where the collection of payment is not probable at the time of shipment, we defer recognition of revenue until payment is collected.

We review the carrying value of our long-lived assets, including intangible assets with definite useful lives, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable.

Impairment testing of long-lived assets with definite useful lives involves a comparison of the sum of the undiscounted future cash flows of the asset or asset group to its respective carrying amount. If the sum of the undiscounted future cash flows exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the sum of the undiscounted future cash flows, then a second step is performed to determine the amount of impairment, which would be recorded as an impairment charge in our consolidated statement of earnings.

No impairment charges were recognized during the first quarter of fiscal 2017.

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During the first quarter of fiscal 2016, management finalized its plan to close the Engineered Cabs facility in Florence, South Carolina and transfer the majority of the business to the Engineered Cabs facility in Greeneville, Tennessee. Under the plan, certain machinery and equipment was transferred to the Greeneville facility to support higher volume requirements. Management reevaluated the recoverability of the remaining assets and determined that long-lived assets with a carrying value of \$4.1 million were impaired. As a result, these long-lived assets were written down to their estimated fair value of \$1.1 million resulting in an impairment charge of \$3.0 million during the first quarter of fiscal 2016. The Company ceased production at the Florence facility on September 30, 2015.

Goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually, during the fourth quarter, or more frequently if events or changes in circumstances indicate that impairment may be present. Application of goodwill impairment testing involves judgment, including but not limited to, the identification of reporting units and estimation of the fair value of each reporting unit. A reporting unit is defined as an operating segment or one level below an operating segment. With the exception of Pressure Cylinders, we test goodwill at the operating segment level as we have determined that the characteristics of the reporting units within each operating segment are similar and allow for their aggregation in accordance with the applicable accounting guidance. For our Pressure Cylinders operating segment, the oil & gas equipment business has been treated as a separate reporting unit since the second quarter of fiscal 2016.

The goodwill impairment test consists of comparing the fair value of each reporting unit, determined using discounted cash flows, to each reporting unit's respective carrying value. If the estimated fair value of a reporting unit exceeds its carrying value, there is no impairment. If the carrying amount of the reporting unit exceeds its estimated fair value, goodwill impairment is indicated. The amount of the impairment is determined by comparing the fair value of the net assets of the reporting unit, excluding goodwill, to its estimated fair value, with the difference representing the implied fair value of the goodwill. If the implied fair value of the goodwill is lower than its carrying value, the difference is recorded as an impairment charge in our consolidated statements of earnings. The impairment test for indefinite-lived intangible assets consists of a comparison of the fair value of the intangible asset to its carrying value. If the carrying value of the intangible asset exceeds its fair value, the difference is recorded as an impairment charge in our consolidated statements of earnings. We performed our annual impairment evaluation of goodwill and other indefinite-lived intangible assets during the fourth quarter of fiscal 2016 and concluded that the fair value of each reporting unit exceeded its carrying value; therefore, no impairment charges were recognized. Additionally, no impairment indicators were present with regard to our goodwill or intangible assets with indefinite useful lives during the three months ended August 31, 2016.

Item 3. - Quantitative and Qualitative Disclosures About Market Risk

Market risks have not changed significantly from those disclosed in Part II - Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our 2016 Form 10-K.

Item 4. - Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures [as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)] that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of our principal executive officer and our principal financial officer, performed an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q (the fiscal quarter ended August 31, 2016). Based on that evaluation, our principal executive officer and our principal financial officer have concluded that such disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q.

Table of Contents**Changes in Internal Control Over Financial Reporting**

There were no changes that occurred during the period covered by this Quarterly Report on Form 10-Q (the fiscal quarter ended August 31, 2016) in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

Various legal actions, which generally have arisen in the ordinary course of business, are pending against the Company. None of this pending litigation, individually or collectively, is expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. In PART I Item 1A. Risk Factors of the Annual Report on Form 10-K of Worthington Industries, Inc. for the fiscal year ended May 31, 2016 (the 2016 Form 10-K), as filed with the Securities and Exchange Commission on August 1, 2016, and available at www.sec.gov or at www.worthingtonindustries.com, we included a detailed discussion of our risk factors. Our risk factors have not changed significantly from those disclosed in our 2016 Form 10-K. These risk factors should be read carefully in connection with evaluating our business and in connection with the forward-looking statements and other information contained in this Quarterly Report on Form 10-Q. Any of the risks described in our 2016 Form 10-K could materially affect our business, consolidated financial condition or future results and the actual outcome of matters as to which forward-looking statements are made. The risk factors described in our 2016 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition and/or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases made by, or on behalf of, Worthington Industries, Inc. or any affiliated purchaser (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934, as amended) of common shares of Worthington Industries, Inc. during each month of the fiscal quarter ended August 31, 2016:

Period	Total Number of Common Shares Purchased	Average Price Paid per Common Share	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)
June 1-30, 2016 (2)	86,060	\$ 39.87	-	4,046,145
July 1-31, 2016	-	\$ -	-	4,046,145
August 1-31, 2016	-	\$ -	-	4,046,145
Total	86,060	\$ 39.87	-	

(1) The number shown represents, as of the end of each period, the maximum number of common shares that could be purchased under the publicly announced repurchase authorization then in effect. On June 26, 2014, Worthington Industries, Inc. announced that on June 25,

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2014, the Board of Directors had authorized the repurchase of up to 10,000,000 of Worthington Industries' outstanding common shares. A total of 4,046,145 common shares were available under this repurchase authorization at August 31, 2016.

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The common shares available for repurchase under this authorization may be purchased from time to time, with consideration given to the market price of the common shares, the nature of other investment opportunities, cash flows from operations, general economic conditions and other appropriate factors. Repurchases may be made on the open market or through privately negotiated transactions.

- (2) Includes an aggregate of 86,060 common shares surrendered by employees in June 2016 to satisfy tax withholding obligations upon the exercise of stock options and vesting of restricted common shares. These common shares were not counted against the share repurchase authorization in effect throughout the first quarter of fiscal 2017 and discussed in footnote (1) above.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

10.1	Summary of Annual Base Salaries Approved for Named Executive Officers of Worthington Industries, Inc. (Incorporated herein by reference to Exhibit 10.65 to the Annual Report on Form 10-K of Worthington Industries, Inc. for the fiscal year ended May 31, 2016 (SEC File No. 1-8399))
10.2	Summary of Annual Cash Incentive Bonus Awards, Long-Term Performance Awards, Stock Options and Restricted Common Shares granted in Fiscal 2017 for Named Executive Officers (Incorporated herein by reference to Exhibit 10.71 to the Annual Report on Form 10-K of Worthington Industries, Inc. for the fiscal year ended May 31, 2016 (SEC File No. 1-8399))
10.3	Second Amendment to the Worthington Industries, Inc. Amended and Restated 2006 Equity Incentive Plan for Non-Employee Directors (Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Worthington Industries, Inc. dated October 3, 2016 and filed with the SEC on the same day (SEC File No. 1-8399))
31.1	Rule 13a - 14(a) / 15d - 14(a) Certifications (Principal Executive Officer) *
31.2	Rule 13a - 14(a) / 15d - 14(a) Certifications (Principal Financial Officer) *
32.1	Certifications of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certifications of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document #
101.SCH	XBRL Taxonomy Extension Schema Document #
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document #
101.LAB	XBRL Taxonomy Extension Label Linkbase Document #
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document #
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document #

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* Filed herewith.

** Furnished herewith.

Attached as Exhibit 101 to this Quarterly Report on Form 10-Q of Worthington Industries, Inc. are the following documents formatted in XBRL (Extensible Business Reporting Language):

- (i) Consolidated Balance Sheets at August 31, 2016 and May 31, 2016;
- (ii) Consolidated Statements of Earnings for the three months ended August 31, 2016 and 2015;
- (iii) Consolidated Statements of Comprehensive Income for the three months ended August 31, 2016 and 2015;
- (iv) Consolidated Statements of Cash Flows for the three months ended August 31, 2016 and 2015; and
- (v) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements 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.

WORTHINGTON INDUSTRIES, INC.

Date: October 11, 2016

By: /s/ B. Andrew Rose
B. Andrew Rose,
Executive Vice President and Chief Financial Officer
(On behalf of the Registrant and as Principal
Financial Officer)

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