

BOEING CO  
Form S-3ASR  
March 09, 2009  
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As filed with the Securities and Exchange Commission on March 9, 2009

Registration No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM S-3**  
**REGISTRATION STATEMENT**  
*UNDER*  
***THE SECURITIES ACT OF 1933***

**THE BOEING COMPANY**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

100 N. Riverside, Chicago, IL 60606-1596

91-0425694  
(I.R.S. Employer  
Identification No.)

(312) 544-2000

(Address, including zip code, of registrant's principal executive offices)

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**Michael F. Lohr**

**Vice President, Corporate Secretary and Assistant General Counsel**

**The Boeing Company**

**100 N. Riverside**

**Chicago, IL 60606-1596**

**(312) 544-2000**

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

***Copies of all communications, including communications sent to agent for service, should be sent to:***

**Christian O. Nagler**

**Kirkland & Ellis LLP**

**153 East 53rd Street**

**New York, New York 10022**

**(212) 446-4800**

**Lisa L. Jacobs**

**Shearman & Sterling LLP**

**599 Lexington Avenue**

**New York, New York 10022**

**(212) 848-4000**

Approximate date of commencement of proposed sale to the public: **From time to time on or after the effective date of this Registration Statement.**

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

## CALCULATION OF REGISTRATION FEE

<b>Title of Each Class of Securities to be Registered(1)(2)</b>	<b>Amount to be Registered(1)</b>	<b>Proposed Maximum Offering Price Per Unit(1)</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee(2)</b>
Senior Debt Securities				
Subordinated Debt Securities				
Common Stock, par value \$5.00 per share(3)				

(1) Omitted pursuant to General Instructions II.E of Form S-3. An indeterminate amount of securities is being registered as may from time to time be issued at indeterminate prices, or, in the case of Common Stock, as may be issuable upon conversion of debt securities.

(2) In accordance with Rules 456(b) and 457(r), the Registrant is deferring payment of the Registration Fee.

(3) The common stock registered hereby is solely for issuance upon the conversion features, if any, of debt securities.

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**PROSPECTUS**

**Senior Debt Securities**

**Subordinated Debt Securities**

**Common Stock**

The Boeing Company may offer from time to time, in one or more offerings, any combination of its senior debt securities and subordinated debt securities. The common stock registered hereby is solely for issuance upon the conversion features, if any, of debt securities.

We will provide the specific terms of any offering of these securities in a supplement to this prospectus. The applicable prospectus supplement will also describe the specific manner in which we will offer these securities and may also supplement, update or amend information contained in this prospectus. You should carefully read this prospectus and the applicable prospectus supplement, as well as the documents incorporated by reference herein or therein, before you invest in these securities.

We may sell these securities on a continuous or delayed basis, directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. If any agents, dealers or underwriters are involved in the sale of any securities, the applicable prospectus supplement will set forth their names and any applicable commissions or discounts.

**See Risk Factors on page 1 of this prospectus to read about factors you should consider before investing in these securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is March 9, 2009.

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<b>ABOUT THIS PROSPECTUS</b>	

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission (the "SEC"). By using a shelf registration statement, we may, at any time and from time to time, in one or more offerings, sell the securities described in this prospectus.

Each time we use this prospectus to offer securities, we will provide you with a prospectus supplement that will describe the specific amounts, prices and terms of the securities being offered. The prospectus supplement may also supplement, update or change information contained in this prospectus. Therefore, if there is any inconsistency between the information in this prospectus and the prospectus supplement, you should rely on the information in the prospectus supplement.

We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date of the document.

To understand the terms of the securities described in this prospectus, you should carefully read the applicable prospectus supplement. You should also read the documents we have referred you to under "Where You Can Find More Information" and "Incorporation of Certain Information by Reference" below for information about us. The shelf registration statement, including the exhibits thereto, can be read at the SEC's website or at the SEC's Public Reference Room as described under "Where You Can Find More Information."

The terms "The Boeing Company," "we," "us," and "our" as used in this prospectus refer to The Boeing Company and its subsidiaries unless the context otherwise requires. The phrase "this prospectus" refers to this prospectus and any applicable prospectus supplement, unless the context otherwise requires.

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**OUR COMPANY**

The Boeing Company is one of the world's major aerospace firms. Our Commercial Airplanes segment is involved in developing, producing and marketing commercial jet aircraft and providing related support services, principally to the commercial airline industry worldwide. Our Integrated Defense Systems segments are principally involved in the research, development, production, modification and support of the following products and related systems and services: military aircraft, including fighters, transports, tankers, intelligence surveillance and reconnaissance aircraft, and helicopters; unmanned systems; missiles; space systems; missile defense systems; satellites and satellite launch vehicles; and communications, information and battle management systems. Our Boeing Capital Corporation segment facilitates, arranges, structures and provides selective financing solutions, primarily for our Commercial Airplanes segment customers, and arranges and structures financing solutions for our Integrated Defense Systems segment government customers.

The Boeing Company was incorporated in the State of Washington in 1916 and reincorporated in Delaware in 1934. We have a principal executive office located at 100 N. Riverside, Chicago, Illinois, U.S.A. 60606, telephone number (312) 544-2000. We maintain an Internet website at <http://www.boeing.com>. We have not incorporated by reference into this prospectus the information on our website, and you should not consider it to be a part of this prospectus.

**RISK FACTORS**

Our business is subject to uncertainties and risks. You should carefully consider and evaluate all of the information included and incorporated by reference in this prospectus, including the risk factors incorporated by reference from our most recent annual report on Form 10-K, as updated by our quarterly reports on Form 10-Q, current reports on Form 8-K and other filings we make with the SEC. It is possible that our business, financial condition, liquidity or results of operations could be materially adversely affected by any of these risks.

**USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement, the net proceeds from the sale of the securities to which this prospectus relates will be used for repayment of debt, repurchase of common stock, acquisitions, additions to working capital, capital expenditures, pension funding and funding and investments in our subsidiaries including Boeing Capital Corporation or other general corporate purposes. Net proceeds may be temporarily invested prior to use.

**FORWARD-LOOKING STATEMENTS**

Various statements in or incorporated by reference in this prospectus and in the prospectus supplement are intended to constitute forward-looking statements under the federal securities laws. Words such as expects, intends, plans, projects, believes, estimates, targets, similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involved risks, uncertainties and assumptions that are difficult to predict.

You should understand as you read this prospectus that any forward-looking statement in this prospectus or in the prospectus supplement may turn out to be inaccurate. Actual results may differ materially from those described in any forward-looking statements because our assumptions or predictions were inaccurate, or because unknown risks arose after the date of this prospectus. Information regarding important factors that could cause actual results to differ from those in our forward-looking statements is contained under Forward-Looking Information is Subject to Risk and Uncertainty and Risk Factors in our annual report on Form 10-K for the

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year ended December 31, 2008, which is incorporated in this prospectus by reference (and in any of our annual reports on Form 10-K and quarterly reports on Form 10-Q for subsequent periods that are so incorporated).

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes relating to the relevant periods and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the fiscal year ended December 31, 2008 incorporated by reference in this prospectus.

	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>Fiscal Year Ended December 31, 2006</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
Ratio of earnings to fixed charges	7.7x	9.9x	5.2x	4.6x	3.4x

For the purposes of the ratio of earnings to fixed charges, earnings consist of earnings before income taxes, fixed charges excluding capitalized interest, the amortization of previously capitalized interest, and a net adjustment for earnings/loss from affiliates. Fixed charges consist of interest and debt expense, interest capitalized during the period, and rentals deemed representative of an interest factor. Interest and debt expense excludes tax-related interest expense which is reported as a component of income tax expense in our Consolidated Statements of Operations.

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**DESCRIPTION OF DEBT SECURITIES**

We may offer any combination of senior debt securities, subordinated debt securities and debt securities that are convertible into our common stock. Senior debt securities will be issued under the senior indenture dated February 1, 2003 between us and The Bank of New York Mellon Trust Company, N.A., as successor to JPMorgan Chase Bank, or any successor trustee, as amended from time to time. Subordinated debt securities will be issued under a separate indenture between us and a trustee or trustees identified in the prospectus supplement. The indentures are filed as exhibits to the registration statement of which this prospectus is a part.

The following description relates generally to every series of debt securities. The prospectus supplement will describe the particular terms of any debt securities we may offer. The following summaries of the debt securities and the indentures are incomplete and may not include all the information that is important to you. We urge you to read the indentures and the description of the debt securities included in the prospectus supplement. If any information in the prospectus supplement differs from the general terms described below, you should rely on the information in the prospectus supplement with respect to the particular debt securities being offered.

**General**

The debt securities will be unsecured general obligations of The Boeing Company. The senior debt securities will rank equally with all of our other unsecured and unsubordinated indebtedness. The subordinated debt securities will be subordinated to all of our existing and future senior indebtedness as described below under Subordination.

The indentures do not limit the aggregate principal amounts of debt securities that may be issued thereunder. The indentures allow us to issue debt securities from time to time in one or more series with varying maturities, at par or at a discount. The indentures also give us the ability to reopen a previous issue of a series of debt securities and issue additional debt securities of such series.

You should refer to the prospectus supplement applicable to the debt securities for which this prospectus is being delivered with respect to the following terms:

the title of the debt securities being offered and whether they are senior debt securities or subordinated debt securities;

the aggregate principal amount and the denominations in which the debt securities are being offered;

the date or dates on which the principal of the debt securities is scheduled to become due, or the method by which this date or these dates will be determined or extended;

the rate or rates, which may be fixed or variable, at which the debt securities will bear interest or the formula by which the interest will be calculated;

the date or dates from which such interest will accrue, and the method by which such interest will be paid;

the place or places where the principal, premium, if any, and interest, if any, on that issue of debt securities will be payable;

the place or places where that issue of debt securities may be surrendered for exchange, and notices or demands in respect of the debt securities may be served and any registered securities may be surrendered for registration of transfer;



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the terms and conditions, if any, upon which we may redeem the debt securities prior to their stated maturity;

any obligation by us to redeem, purchase or repay the debt securities at the option of the holder;

any provisions for the establishment of a sinking, purchase or other similar fund, if any;

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whether the debt securities are to be issued as fully registered securities, bearer securities, or both, and with or without coupons, or both;

if other than minimum denominations of \$2,000 or any integral multiple of \$1,000 above the minimum denomination in the case of registered securities issued in certificated form and \$5,000 in the case of bearer securities, the denominations in which the offered debt securities will be issued;

any provisions modifying the defeasance and covenant defeasance provisions;

whether the debt securities will be issued in whole or in part in the form of a global certificate;

any provisions for the payment of specified taxes, assessments or other governmental charges to non-United States persons or option to redeem the affected debt securities in lieu of making such payments;

the currency, currencies or currency unit or composite currency in which such debt securities will be denominated and/or in which the principal, premium, if any, or interest on such debt securities will be payable, and any index used to determine the amount of principal, premium, if any, or interest on such debt securities;

any deletions from, modifications of or additions to the events of default or covenants applicable to such debt securities, whether or not consistent with the events of default or covenants contained in the indenture as originally executed;

any conversion features; and

any other terms of such debt securities.

**Form, Exchange, Registration and Transfer**

The debt securities of a series may be issued in fully registered form, as bearer securities with or without coupons attached or both. The debt securities of a series may be issuable in permanent global form. If the debt securities are issuable as both registered and bearer securities, the holder can opt to exchange the bearer securities (accompanied by all unmatured coupons, except as provided below, and all matured coupons in default) for registered securities of the same series of any authorized denominations and of like aggregate principal amount and tenor. Unless otherwise indicated in the applicable prospectus supplement, bearer securities that are to be exchanged between a record date and a date on which the next interest payment is due will be surrendered without the coupon relating to such interest payment and such interest payment will be made to the holder of the coupon when due. Unless otherwise indicated in the applicable prospectus supplement, we will not issue bearer securities in exchange for registered securities.

The debt securities may be presented for exchange and registration of transfer at the offices of the trustee maintained for that purpose as indicated in the prospectus supplement. The debt securities may also be submitted to transfer agents designated by us in the applicable prospectus supplement. The transfer or exchange will be effected when the trustee or authorized transfer agent is satisfied with the documents of title and the identity of the person making the request. At a minimum, we will establish transfer agents, in the case of registered securities, in each place where payments can be made with respect to such series, and in the case of bearer securities, in each place of payment for such series located outside the United States. Additional transfer agents may be designated in the prospectus supplement or otherwise from time to time and we reserve the right to rescind the designation of any transfer agent or to approve a change in the location through which any transfer agent acts. While there will be no service charge for any registration of transfer or exchange of the debt securities, we may require payment of an amount sufficient to cover any taxes and other governmental charges associated with such registration.



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If only part of a series of outstanding debt securities is to be called for redemption, we will not be required to do the following:

register the transfer of or exchange of the debt securities of the series to be redeemed from 15 days before the date notice is given identifying the serial numbers of the debt securities to be redeemed and ending at the close of business on (1) the day of mailing of the notice of redemption, if the debt securities of such series are issuable only as registered securities, (2) the first day of publication of the notice of redemption, if the debt securities of such series are issuable only as bearer securities, or (3) the day of mailing of the notice of redemption if the debt securities of such series are issuable as both registered securities and bearer securities and no publication of the notice has been made;

register the transfer or exchange of any registered security called for redemption except for the portion, if any, that is not being redeemed; or

exchange any bearer securities called for redemption, except in exchange for registered securities of that series of like tenor and principal amount that will be immediately surrendered for redemption.

**Interest and Interest Rates**

Unless otherwise specified in a prospectus supplement or a term sheet, each debt security will begin to accrue interest from the date it is originally issued or from a specified date.

Each interest payment on a debt security will include interest accrued from, and including, the issue date, a specified date or the last interest payment date, as the case may be, to but excluding the applicable interest payment date or the maturity date of the security.

Interest on the debt securities denominated in U.S. dollars will be paid by check mailed on an interest payment date other than a maturity date to the persons entitled thereto to the addresses of such holders as they appear in the security register or, at our option, by wire transfer to a bank account maintained by the holder. The principal of, premium, if any, and interest on debt securities denominated in U.S. dollars, together with interest accrued and unpaid thereon, due on the maturity date will be paid in immediately available funds upon surrender of such debt securities at the corporate trust office of the applicable trustee, or, at our option, by wire transfer of immediately available funds to an account with a bank designated at least 15 calendar days prior to the maturity date by the applicable registered holder, provided the particular bank has appropriate facilities to receive these payments and the particular debt security is presented and surrendered at the office or agency maintained by us for this purpose.

The prospectus supplement for debt securities will specify the interest rate. Unless otherwise specified, the interest rate will be payable semiannually in arrears on dates specified in such prospectus supplement. Unless otherwise specified in a prospectus supplement, interest on debt securities will be computed on the basis of a 360-day year of twelve 30-day months. If the stated maturity date, any redemption date or any repayment date (together referred to as the Maturity Date ) or an interest payment date for any fixed rate note is not a business day, principal of, premium, if any, and interest on that security will be paid on the next business day, and no interest will accrue from and after the Maturity Date or interest payment date. Interest on debt securities will be paid to holders of record as of each regular record date. Unless otherwise specified in a prospectus supplement, a regular record date will be the fifteenth calendar day (whether or not a business day) preceding the applicable Interest Payment Date.

**Payment**

We will make payments of principal of and premium, if any, and interest, if any, on registered securities at the offices of the agent or agents designated by us to make such payments. We may also make payments of interest, at our option, by check mailed to the address of the person appearing on the securities register

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maintained by the trustee or by wire transfer to the account of the person appearing on such register. Unless otherwise indicated in the applicable prospectus supplement, we will make payments of interest due on the registered securities to the holder of record as it appears on the register maintained by the trustee at the close of business on the date established for making such determination.

Unless otherwise indicated in the applicable prospectus supplement, we will make payments of principal of and premium, if any, and interest, if any, on bearer securities, subject to any applicable law and regulations, at the offices of paying agents designated by us located outside the United States, or by check or wire transfer to an account maintained by the payee outside the United States. Unless otherwise indicated in the applicable prospectus supplement, we will only make payments of interest on certificated bearer securities against surrender of the coupon relating to such interest installment.

We will designate the trustee as our sole paying agent for debt securities issuable solely as registered securities. We will designate, in the case of (1) registered securities, the trustee as paying agent, and (2) bearer securities, a paying agent in each place outside of the United States where such debt securities or their associated coupons may be surrendered for payment; provided, however, that if such debt securities are listed on a stock exchange located outside the United States and if required by the rules of such stock exchange, we will agree to maintain a paying agent in such cities outside the United States as required.

Additional paying agents may be designated in the prospectus supplement or otherwise from time to time and we reserve the right to rescind the designation of any paying agent or to approve a change in the location through which any paying agent acts.

Any moneys we pay to a paying agent for the payment of principal of, premium, or interest on the debt securities which remains unclaimed at the second anniversary of the date such payment was due will be returned to us and thereafter holders of debt securities shall look only to us, as general unsecured creditors, for payment.

**Global Securities**

Unless otherwise indicated in the applicable prospectus supplement, the notes will be issued in the form of one or more fully registered global securities which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the Depository or DTC ) and registered in the name of Cede & Co., the Depository's nominee. Beneficial interests in the global securities will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository.

Investors may elect to hold interests in the global securities through the Depository, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Except as described below, the global securities may be transferred, in whole and not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

So long as the Depository or its nominee is the registered owner of the global securities, the Depository or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the global securities for all purposes under the indenture. Except as provided below, owners of beneficial interests in the global securities will not be entitled to have notes represented by the global securities registered in their names, will not receive or be entitled to receive physical delivery of notes in definitive form, and will not be considered the owners or holders thereof under the indenture.

Principal and interest payments on notes registered in the name of the Depository or its nominee will be made to the Depository or its nominee, as the case may be, as the registered owner of the global securities. None of The Boeing Company, the trustee, any paying agent, or registrar for the notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the global securities or for maintaining, supervising, or reviewing any records relating to those beneficial interests.

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We expect that the Depository or its nominee, upon receipt of any payment of principal or interest, will credit the participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global securities as shown on the records of the Depository or its nominee. We also expect that payments by participants to owners of beneficial interests in the global securities held through these participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name. The participants are responsible for the standing instructions and customary practices governing beneficial interests.

The Depository and the direct and indirect participants will send notices and communications to direct and indirect participants and beneficial owners, as the case may be, in accordance with the arrangements governing their relationships, subject to any statutory or regulatory requirements as may be in effect from time to time.

DTC has provided us the following information: DTC is a limited-purpose trust company organized under the laws of the State of New York, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for U.S. and non-U.S. equity, corporate and municipal debt issues and money market instruments that DTC's participants, referred to as direct DTC participants, deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between direct participants' accounts, thereby eliminating the need for physical movement of certificates. Direct DTC participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, which is owned, in part, by a number of direct DTC participants. Indirect access to the DTC system is also available to others, referred to as indirect DTC participants, for example, securities brokers and dealers, banks, trust companies and clearing corporations, that clear through or maintain a custodial relationship with a direct DTC participant, either directly or indirectly. DTC rules applicable to direct and indirect participants are on file with the SEC.

Beneficial interests in a global security will be shown on, and transfers of beneficial interests in the global security will be made only through, records maintained by DTC and its participants, both direct and indirect. When you purchase debt securities through the DTC system, the purchases must be made by or through a direct DTC participant, which will receive credit for the debt securities in its account on DTC's records. When you actually purchase the debt securities, you will become their beneficial owner. Your ownership interest will be recorded only on the direct or indirect DTC participants' records. DTC will have no knowledge of your individual ownership of the debt securities. DTC's records will show only the identity of the direct DTC participants and the amount of the debt securities held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You should instead receive these confirmations and account statements from the direct or indirect DTC participant through which you purchase the debt securities. The direct or indirect DTC participants are responsible for keeping accurate account of the holdings of their customers. The trustee will wire payments on the debt securities to the DTC nominee that is the registered holder of the debt securities. The trustee and we will treat DTC or its nominee as the owner of each global security for all purposes. Accordingly, the trustee, any paying agent and we will have no direct responsibility or liability to pay amounts due on a global security to you or any other beneficial owners in that global security. Any redemption notices will be sent by us directly to DTC, which will, in turn, inform the direct or indirect DTC participants, which will then contact you as a beneficial holder.

Under the rules, regulations and procedures creating and affecting DTC and its operations, DTC is required to make book-entry transfers between direct DTC participants on whose behalf it acts with respect to the debt securities and is required to receive and transmit distributions of principal of and premium, if any, and interest on the debt securities. Direct and indirect DTC participants with which investors have accounts with respect to the debt securities similarly are required to make book-entry transfers and receive and transmit payments on behalf of their respective investors.

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As DTC can only act on behalf of direct DTC participants, who in turn act on behalf of indirect DTC participants and certain banks, the ability of a person having a beneficial interest in a security held in DTC to transfer or pledge that interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of that interest, may be affected by the lack of a physical certificate representing that interest. The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form in order to transfer or perfect a security interest in those securities. Consequently, the ability to transfer beneficial interests in a security held in DTC to those persons may be limited.

DTC has advised us that it will take any action permitted to be taken by a holder of debt securities under the terms and conditions of the debt securities (including, without limitation, the presentation of debt securities for exchange) only at the direction of one or more of the direct DTC participants to whose accounts with DTC interests in the relevant debt securities are credited, and only in respect of the portion of the aggregate principal amount of the debt securities as to which that direct DTC participant or those direct DTC participants has or have given the direction. However, in certain circumstances described below, DTC will exchange the global securities held by it for certificated debt securities, which it will distribute to the direct DTC participants.

It is DTC's current practice, upon receipt of any payment of distributions or liquidation amounts, to proportionately credit direct DTC participants' accounts on the payment date based on their holdings of the relevant securities. In addition, it is DTC's current practice to pass through any consenting or voting rights to such direct DTC participants by using an omnibus proxy. Consequently, those direct DTC participants should, in turn, make payments to and solicit votes from you, the ultimate owner of debt securities, based on their customary practices. Payments to you with respect to your beneficial interest in any debt securities will be the responsibility of the direct and indirect DTC participants and not of DTC, the trustee or us.

Individual certificates in respect of the notes will be issued in exchange for the global securities only if:

DTC notifies us that it is unwilling or unable to continue as a clearing system in connection with the global securities, or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, and a successor clearing system is not appointed by us within 90 days after we receive such notice from DTC or upon our becoming aware that DTC is no longer so registered; or

we determine not to have the notes represented by a global security and notify the trustee of our decision.

In the event that individual certificates are issued, holders of the notes will be able to receive payments (including principal and interest) on the notes and effect transfer of the notes at the offices of our paying agent, The Bank of New York Mellon Trust Company, N.A.

Title to book-entry interests in the notes will pass by book-entry registration of the transfer within the records of DTC in accordance with their respective procedures. Book-entry interests in the notes may be transferred within DTC in accordance with procedures established for this purpose by DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof. Furthermore, DTC has no obligation to perform or continue to perform the procedures described below, and any of them may discontinue or change those procedures at any time.

**Optional Redemption, Repayment and Repurchase**

If specified in a prospectus supplement, we may redeem the debt securities at our option, in whole at any time or in part from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the debt securities to be redeemed and (2) the sum of the present values of the Remaining Scheduled Payments on the debt securities, being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) applicable to such debt securities, plus the rate specified in the applicable prospectus supplement plus accrued and unpaid interest on the principal amount being redeemed to, but not including, the redemption date.

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**Treasury Rate** means, with respect to any redemption date for the notes (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue, provided that, if no maturity is within three months before or after the maturity date for the notes, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from those yields on a straight line basis rounding to the nearest month; or (ii) if that release, or any successor release, is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date. The Treasury Rate will be calculated by us on the third business day preceding the redemption date.

**Comparable Treasury Issue** means the United States Treasury security or securities selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

**Independent Investment Banker** means one of the Reference Treasury Dealers, to be appointed by us.

**Comparable Treasury Price** means, with respect to any redemption date for any notes (i) the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or (ii) if we obtain fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by us.

**Reference Treasury Dealer** will specified in the applicable prospectus supplement.

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to us by such Reference Treasury Dealer at 3:30 p.m., New York City time on the third business day preceding such redemption date.

**Remaining Scheduled Payments** means, with respect to each note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; provided, however, that, if such redemption date is not an interest payment date with respect to such note, the amount of the next succeeding scheduled interest payment thereon will be deemed to be reduced by the amount of interest accrued thereon to such redemption date.

If we issue original issue discount debt securities, which are debt securities issued at a discount from the principal amount payable on the maturity date (including zero coupon debt securities), that are identified as such in the applicable prospectus supplement, the amount payable in the event of redemption or repayment prior to its stated maturity date will be the amortized face amount on the redemption or repayment date, as the case may be. The amortized face amount of such a security will be equal to (i) the issue price specified in the applicable prospectus supplement plus (ii) that portion of the difference between the issue price and the principal amount of the note that has accrued at the yield to maturity described in the prospectus supplement (computed in accordance with generally accepted U.S. bond yield computation principles) by the redemption or repayment date.

We will mail notice of any redemption at least 30 days, but not more than 60 days, before the date of redemption to each holder of the debt securities to be redeemed. If less than all of the debt securities are to be redeemed at any time, the trustee will select debt securities to be redeemed on a pro rata basis or by any other method the trustee deems fair and appropriate. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the debt securities or portions thereof called for redemption.

We may at any time purchase debt securities at any price in the open market or otherwise, subject to applicable law. We may hold, resell or surrender for cancellation any debt securities that we purchase.



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### Definitions

The following defined terms will be used in this description of the indenture covenants:

attributable debt in respect of any sale and leaseback transaction means, as of any time of determination, the lesser of (1) the sale price of the principal property so leased multiplied by a fraction the numerator of which is the remaining portion of the base term of the lease included in such transaction and the denominator of which is the base term of such lease and (2) the total obligation (discounted to present value at the implicit interest factor, determined in accordance with generally accepted financial practice, included in the rental payments of, if such interest factor cannot be readily determined, at a rate of interest of 10% per annum, compounded semi-annually) of the lessee for rental payments (other than amounts required to be paid on account of property taxes as well as maintenance, repairs, insurance, water rates and other items which do not constitute payments for property rights) during the remaining portion of the base term of the lease included in such transaction.

capital stock means any and all shares, interests, participations or other equivalents (however designated) evidencing equity ownership.

consolidated net tangible assets means the total amount of assets (less applicable reserves and other properly deductible items) after deducting (1) all current liabilities, excluding any current liabilities which are by their terms extendible or renewable at the option of the obligor on the liabilities to a time more than 12 months after the time as of which the amount of current liabilities is being computed, and (2) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as set forth on the most recent balance sheet of The Boeing Company and its subsidiaries and computed in accordance with generally accepted accounting principles.

debt means any notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

lien means any pledge, mortgage, lien, encumbrance or security interest.

original issue discount security means any debt security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the maturity thereof.

principal property means all real property and tangible personal property constituting a manufacturing plant located within the United States owned by The Boeing Company or a subsidiary, exclusive of (1) motor vehicles, mobile materials-handling equipment and other rolling stock, (2) office furnishings and equipment, information and electronic data processing equipment, (3) any property financed through industrial development bonds, (4) any real property held for development or sale, (5) any property the gross book value of which (including related land and improvements thereon and all machinery and equipment included therein without deduction of any depreciation reserves) is less than 15% of consolidated net tangible assets or (6) any property which our board of directors determines is not material to the operation of the business of The Boeing Company and its subsidiaries taken as a whole.

senior indebtedness means all of the indebtedness of, or guaranteed by, Boeing for borrowed money (including the principal of, premium, if any, or interest on any such borrowed money and any commitment fees for unborrowed amounts which, if borrowed, would constitute senior indebtedness), whether currently outstanding or hereafter incurred, unless, under the instrument evidencing the same or under which the same is outstanding, it is expressly provided that such indebtedness is subordinate to other indebtedness and obligations of The Boeing Company.

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subordinated indebtedness means the subordinated debt securities and all other indebtedness of, or guaranteed by, The Boeing Company whether or not outstanding on the date of the subordinated indenture, which is by the terms thereof made subordinate and junior in right of payment to all senior indebtedness.

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subsidiary means any subsidiary of The Boeing Company the voting stock of which is more than 50% owned and controlled by The Boeing Company or a subsidiary of The Boeing Company.

U.S. government obligations means generally direct noncallable obligations of the United States of America for the payment of which its full faith and credit is pledged or obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America.

### **Maintenance of Principal Properties**

The indentures provide that we will cause all of our principal properties to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment. We will cause such repairs, renewals, replacements and improvements to be made to our principal properties that, in our judgment, are required in order to continue to carry on the business conducted at our principal properties. However, the indentures do not prevent us from discontinuing the operation or maintenance or disposing of any principal property if we determine that the action is desirable.

### **Limitation on Liens**

So long as any debt securities are outstanding under the senior indenture:

The Boeing Company will not itself, and will not permit any subsidiary to, create, incur, issue, assume or guarantee any debt secured by any lien on any principal property owned by The Boeing Company or any subsidiary; and

The Boeing Company will not itself, and will not permit any subsidiary to, create, incur, issue, assume or guarantee any debt secured by any lien on any shares of capital stock or debt of any subsidiary.

However, any of the actions described in the first two bullet points under **Limitation on Liens** above may be taken if:

the securities under the indenture are equally and ratably secured; or

the aggregate principal amount of the secured debt then outstanding plus the attributable debt of The Boeing Company and its subsidiaries in respect of sale and leaseback transactions described below involving principal properties entered into after the date when The Boeing Company first issues securities pursuant to the indenture, other than transactions that are permitted as described in the third bullet point under **Sale and Leaseback Transactions**, would not exceed 15% of consolidated net tangible assets.

This restriction on liens will not apply to debt secured by permitted liens. Therefore, for purposes of this restriction, debt secured by permitted liens will be excluded in computing secured debt. Permitted liens include:

liens existing as of the date when The Boeing Company first issued securities pursuant to the indenture;

liens existing on any property of a corporation at the time the corporation is merged into or consolidated with The Boeing Company or a subsidiary; provided the lien is not extended to any principal property immediately prior to the merger or consolidation;

liens existing on any property of a corporation at the time it became or becomes a subsidiary;

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liens securing debt owing by a subsidiary to The Boeing Company or to a subsidiary;

liens on property to secure all or part of the cost of acquiring, substantially repairing or altering, constructing, developing or substantially improving all or any part of such property, or to secure debt incurred to provide funds for the reimbursement of funds expended for the foregoing purposes;

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liens in connection with government contracts, including the assignment of moneys due or to become due on government contracts or to secure progress, advance or the acquisition of real or personal property from any governmental body pursuant to any contract or statute;

materialmen's, carriers', mechanics', workmen's, repairmen's or other like liens which are not overdue or which are being contested in good faith in appropriate proceedings;

liens in connection with legal proceedings or arising in the ordinary course of business and not in connection with the borrowing of money; and

extensions, substitutions, replacements or renewals of the foregoing.

Boeing Capital Corporation and its subsidiaries are excluded from the restrictions on liens discussed above.

## **Sale and Leaseback Transactions**

So long as any debt securities are outstanding under the senior indenture, The Boeing Company will not, and will not permit any subsidiary to, enter into any sale and leaseback transaction after the date when The Boeing Company first issued securities pursuant to the indenture, covering any principal property, which was or is owned or leased by The Boeing Company or a subsidiary and which has been or is to be sold or transferred more than 120 days after the completion of construction and commencement of full operation of that principal property.

However, a sale and leaseback transaction of this kind will not be prohibited if:

the lease is for a temporary period not exceeding three years;

the attributable debt of The Boeing Company and its subsidiaries in respect of the sale and leaseback transaction and all other sale and leaseback transactions entered into after the date when The Boeing Company first issued securities pursuant to the indenture (other than sale and leaseback transactions that are permitted as described in the next bullet point), plus the aggregate principal amount of debt secured by liens on principal properties then outstanding (not otherwise permitted or excepted) without equally and ratably securing the indenture securities, would not exceed 15% of consolidated net tangible assets;

an amount equal to the net proceeds of the sale or transfer (but not in excess of the net book value) of the principal property sold or transferred (as determined by The Boeing Company) is applied within 180 days to the voluntary retirement of the indenture securities or other indebtedness of The Boeing Company (other than indebtedness subordinated to the indenture securities) or indebtedness of a subsidiary, for money borrowed, maturing more than 12 months after the voluntary retirement;

the rent payable under the lease is to be reimbursed under a contract with the government of the United States or any instrumentality or agency thereof; or

the lease is with The Boeing Company or another subsidiary.

Boeing Capital Corporation and its subsidiaries are excluded from the restrictions on sale and leaseback transactions discussed above.

## **Merger and Sales of Assets**

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Under each of the indentures, we may consolidate or merge with or into any other corporation, and we may convey, transfer or lease all or substantially all of our properties or assets to another person provided that:

the corporation formed by such consolidation or into which The Boeing Company is merged or the person which acquires by conveyance or transfer, or which leases, the properties and assets of The Boeing Company substantially as an entirety shall be a corporation organized and existing under the

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laws of the United States of America, any state thereof or the District of Columbia, and if such corporation is not The Boeing Company, shall expressly assume, by an indenture supplement, executed and delivered to the trustee, in form satisfactory to the trustee, the due and punctual payment of the principal of, premium, if any, and interest (including all additional amounts, if any) on all the debt securities and the performance of every covenant of the respective indenture on the part of The Boeing Company to be performed or observed;

immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of The Boeing Company or a subsidiary as a result of such transaction as having been incurred by The Boeing Company or a subsidiary at the time of such transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have happened and be continuing; and

The Boeing Company has delivered to the trustee an officer's certificate and an opinion of counsel, each stating that such consolidation (if the corporation formed by such consolidation is not The Boeing Company), merger, conveyance, transfer or lease and such supplemental indenture comply with the terms of the respective indentures and that all conditions precedent therein provided for relating to such transaction shall have been complied with.

**Events of Default, Notice and Waiver**

The following events, with respect to the debt securities of a series are defined in the indentures as events of default :

the non-payment of any interest extending 30 days beyond the date such interest payment became due and whether or not, in the case of the subordinated debt securities, such payment is prohibited by the subordination provisions referred to below under Subordination ;

non-payment of any principal of or premium, if any, on the debt securities of the applicable series as such payments become due whether or not, in the case of the subordinated debt securities, such payment is prohibited by the subordination provisions referred to below under Subordination ;

default in the deposit of any sinking fund payment on the debt securities of that series when and as due, whether or not, in the case of the subordinated debt securities, such payment is prohibited by the subordination provisions referred to below under Subordination ;

default in the performance of any other covenant or warranty of The Boeing Company in the respective indenture which remains unremedied for a period of 90 days after notice of default by the holders of at least 25% in principal amount of the outstanding debt securities of that series or by the trustee;

certain events of bankruptcy, insolvency or reorganization; or

any other event of default provided in a supplemental indenture with respect to debt securities of a particular series.

Reference is made to the prospectus supplement relating to any series of offered debt securities which are original issue discount securities for the particular provisions relating to the principal amount of such original issue discount securities due upon acceleration upon the occurrence of an event of default and its continuation.

The trustee is required, within 90 days after the occurrence of any default which is known to the trustee and is continuing,-bottom:0px">

At this time, the Nominating and Corporate Governance Committee has not adopted a policy to consider director candidates recommended by stockholders, in part because to date, the Nominating and Corporate Governance Committee has not received a director nominee from any stockholder, including any stockholder or stockholders holding more than five percent of our voting stock. The Nominating and Corporate Governance Committee believes that it is in the best position to identify, review, evaluate and select qualified candidates for Board membership, based on the comprehensive criteria for Board membership approved by the Board.

#### **Stockholder Communications With The Board Of Directors**

Persons interested in communicating their questions, concerns or issues to our Board of Directors or our independent directors may address correspondence to the Board of Directors, a particular director or to the independent directors generally, in care of Dot Hill Systems Corp. at 1351 South Sunset Street, Longmont, Colorado 80501. If no particular director is named, letters will be forwarded, depending on the subject matter, to the Chairman of the Board or the Chair of the Audit, Compensation, or Nominating and Corporate Governance Committee.

#### **CODE OF BUSINESS CONDUCT AND ETHICS**

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at <http://www.dothill.com>. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website, as well as via any other means then required by NASDAQ listing standards or applicable law.



## PROPOSAL No. 2

## APPROVAL OF AN AMENDMENT TO OUR 2009 EQUITY INCENTIVE PLAN

**Overview**

Our Board of Directors is requesting stockholder approval of an amendment (the Amendment) to the Dot Hill Systems Corp. 2009 Equity Incentive Plan to, among other things; add an additional 8,000,000 shares to the number of shares of common stock authorized for issuance under the 2009 Plan.

On March 1, 2011, our Board of Directors unanimously approved the Amendment, subject to stockholder approval. The Board of Directors believes that the 2009 Plan is an integral part of our long-term compensation philosophy and the Amendment is necessary to continue providing the appropriate levels and types of equity compensation for our employees, consultants and directors. We refer to the 2009 Equity Incentive Plan herein as the 2009 Plan. We also maintain the Dot Hill Systems Corp. Amended and Restated 2000 Non-Employee Directors' Stock Option Plan (the Director Plan), which we use to grant stock options to our directors.

**Why we are asking our stockholders to approve the Amendment**

Equity awards have been historically and, we believe, will continue to be an integral component of our overall compensation program for all of our employees, consultants and directors. Approval of the Amendment will allow us to continue to grant stock options and other equity awards at levels our Compensation Committee determines to be appropriate in order to attract new employees, consultants and directors, retain our existing employees, consultants and directors and to provide incentives for such persons to exert maximum efforts for our success and ultimately increase stockholder value. The Amendment allows us to continue to utilize a broad array of equity incentives with flexibility in designing equity incentives, including traditional stock option grants, stock appreciation rights, restricted stock awards, restricted stock unit awards and performance stock awards.

We believe it is critical for our long-term success that the interests of our employees, consultants and directors are tied to our success as owners of our business. The equity incentive programs we have in place have worked to build stockholder value by attracting and retaining extraordinarily talented employees, consultants and directors. We believe we must continue to offer a competitive equity compensation packages in order to attract and motivate the talent necessary for our continued growth and success.

**Burn Rate**

Over the last three years, we have maintained an average equity award burn rate of 6.36% per year. We calculate our burn rate as shares covered by new equity awards granted during each year as a percentage of the weighted average common shares outstanding during the year. Shares underlying performance-based or market condition-based equity awards are included in our burn rate in the year in which such awards are granted and deplete the share reserve of our equity incentive plans as of the end of such year. As shown in the following chart, in our three-year average burn rate calculation we apply a multiplier of 1.5 to stock awards other than stock options and stock appreciation rights ( Full-Value Grants ) so the Total Awards Granted is the sum of the number of Option Grants plus 1.5 times the number of Full-Value Grants each year:

Year Ended	Option Grants	Full-Value Award Grants	Total Awards Granted	Weighted Average Common Shares Outstanding	Burn Rate
December 31, 2010	1,103,834	2,056,026	4,187,873	53,015,000	7.9%
2009	189,500	1,522,128	2,472,692	47,094,000	5.25%
2008	2,240,000	332,128	2,738,192	46,136,000	5.94%
<b>Three year average burn rate</b>					<b>6.36%</b>

***Important Aspects of our 2009 Plan Designed to Protect our Stockholders' Interests***

The 2009 Plan was unanimously adopted by our Board of Directors on April 27, 2009 and approved by our stockholders on June 15, 2009 at our 2009 Annual Meeting. We included certain provisions in the 2009 Plan that were designed to protect our stockholders' interests and to reflect corporate governance best practices including:

*Flexibility in designing equity compensation scheme.* The 2009 Plan allows us to provide a broad array of equity incentives, including traditional stock option grants, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock awards and performance-based cash awards. By providing this flexibility we can quickly and effectively react to trends in compensation practices and continue to offer competitive compensation arrangements to attract and retain the talent necessary for the success of our business.

*Broad-based eligibility for equity awards.* We grant equity awards to a significant number of our employees. By doing so, we tie our employees' interests with stockholder interests and motivate our employees to act as owners of the business.

*Stockholder approval is required for additional shares.* The 2009 Plan does not contain an annual evergreen provision. Thus, stockholder approval is required each time we need to increase the share reserve allowing our stockholders the ability to have a say on our equity compensation programs.

*Repricing is not allowed.* The 2009 Plan prohibits the repricing of outstanding equity awards and the cancelation of any outstanding equity awards that have an exercise price or strike price greater than the current fair market value of our common stock in exchange for cash or other stock awards under the 2009 Plan.

*Share counting provisions.* The share reserve under the 2009 Plan is reduced one share for each share of common stock issued pursuant to a stock option or stock appreciation right and 1.2 shares (or, 1.5 shares, if this Proposal No. 2 is approved) for each share of common stock issued pursuant to restricted stock, restricted stock units, performance-based stock awards, or other stock awards. This helps to ensure that management and our Compensation Committee are using the share reserve effectively and with regard to the value of each type of equity award.

*Seven Year Term.* All equity awards granted under the 2009 Plan have a term of no more than seven years, thereby limiting the potential for unproductive overhang.

*Submission of 2009 Plan amendments to stockholders.* The 2009 Plan requires stockholder approval for material amendments to the 2009 Plan, including as noted above, any increase in the number of shares reserved for issuance under the 2009 Plan.

*Reasonable limit on equity awards.* The 2009 Plan limits the number of shares of common stock available for equity awards such that no employee may be granted an equity award covering more than 2,000,000 shares in a calendar year.

**General 2009 Plan Information**

The 2009 Plan was the successor to and continuation of the Dot Hill Systems Corp. 2000 Amended and Restated Equity Incentive Plan and the Dot Hill Systems Corp. 1995 Incentive Program, as Amended and Restated (the *Prior Plans*). All outstanding stock awards granted under the Prior Plans continue to be subject to the terms and conditions as set forth in the agreements evidencing such stock awards and the terms of the Prior Plans, but no additional awards have been granted since June 15, 2009.

As of March 16, 2011, the total number of shares of our common stock available for issuance under the 2009 Plan is 1,746,907 shares *plus* the number of shares subject to stock awards outstanding under the Prior Plans that terminate prior to exercise and would otherwise be returned to the share reserves under the Prior Plans.

### **Vote Required and Board Recommendation**

The affirmative vote of the holders of a majority of the votes cast in person or by proxy and entitled to vote at our Annual Meeting of Stockholders is required to adopt the amendment to the 2009 Plan. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted toward a quorum, but are not counted for any purpose in determining whether this matter has been approved. The Board of Directors recommends a vote **For** the amendment to the 2009 Plan.

### **Description of the 2009 Equity Incentive Plan**

The material features of the 2009 Plan, as amended, are outlined below. This summary is qualified in its entirety by reference to the complete text of the 2009 Plan, as amended. Stockholders are urged to read the actual text of the 2009 Plan in its entirety, which is appended to this proxy statement as Appendix A and may be accessed from the SEC's website at [www.sec.gov](http://www.sec.gov).

#### *Background and Purpose*

The 2009 Plan provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-related awards, and performance awards that may be settled in cash, stock or other property.

The purpose of the 2009 Plan is to provide a means by which employees, directors, and consultants may be given an opportunity to purchase our common stock to assist us in recruiting new employees, consultants and directors, retaining the services of current employees, consultants and directors, and to provide incentives for such persons to exert maximum efforts for our success.

#### *Shares Available for Awards*

If this Proposal No. 2 is approved, the total number of shares of our common stock reserved for issuance under the 2009 Plan will be 20,520,535. This share reserve consists of (a) 12,520,535 shares currently reserved for issuance under the 2009 Plan, plus (b) an additional 8,000,000 shares subject to approval of the stockholders at the Annual Meeting. In addition, the share reserve will be increased by the number of shares subject to stock awards outstanding under the Prior Plans that terminate prior to exercise and would otherwise be returned to the share reserves under the Prior Plans.

This aggregate number is referred to as the **Share Reserve**. The number of shares available for issuance under the 2009 Plan is reduced by (i) one share for each share of common stock issued pursuant to a stock option or stock appreciation right with a strike price of at least 100% of the fair market value of the underlying common stock on the date of grant, and (ii) 1.2 shares for each share of common stock issued pursuant to restricted stock, restricted stock units, performance stock awards, or other stock awards and, if this Proposal No. 2 is approved, after the date of the Annual Meeting, by 1.5 shares for each share of common stock issued pursuant to a restricted stock, restricted stock units, performance stock awards, or other stock awards granted under the 2009 Plan.

As of March 16, 2011, stock options to purchase approximately 6,349,986 shares were outstanding, awards other than stock options and stock appreciation rights covering an aggregate of 1,796,640 shares were outstanding and 523,124 shares were available for future grant under the Director Plan. The weighted average exercise price of all stock options outstanding as of March 16, 2011 was approximately \$3.57 and the weighted average remaining term of such stock options was approximately 5.62 years. A total of 56,404,151 shares of our common stock were outstanding as of March 16, 2011.

If a stock award expires or otherwise terminates without having been exercised in full or is settled in cash, such expiration, termination or settlement shall not reduce (or otherwise offset) the number of shares of the common stock that may be issued pursuant to the 2009 Plan. If any shares of common stock issued pursuant to a stock award are forfeited back to us because of the failure to meet a contingency or condition required to vest such shares in the participant, then the shares which are forfeited shall revert to and again become available for issuance under the 2009 Plan. Any shares reacquired by us pursuant to our withholding obligations or as consideration for the exercise of a stock option or stock appreciation right shall not again become available for issuance under the 2009 Plan. In addition, if the exercise price of any award is satisfied by the tender of shares of common stock to us (whether by actual delivery or attestation), the shares tendered will not again be available for issuance under the 2009 Plan.

To the extent there is a share of common stock issued pursuant to a restricted stock award, restricted stock unit award, performance stock award or other stock award and such share of common stock again becomes available for issuance under the 2009 Plan, then the number of shares of common stock available for issuance under the 2009 Plan shall increase by 1.5 shares.

#### *Eligibility*

Incentive stock options may be granted under the 2009 Plan only to our employees and employees of our affiliates. Our employees, consultants and directors and employees and consultants of our affiliates are eligible to receive all other types of awards under the 2009 Plan. As of March 16, 2011, approximately 309 employees, directors and consultants were eligible to participate in the 2009 Plan.

#### *Administration*

The 2009 Plan is administered by the Board of Directors, which may in turn delegate authority to administer the plan to a committee. The Board of Directors has delegated administration of the 2009 Plan to the Compensation Committee. Subject to the terms of the 2009 Plan, the Compensation Committee determines the recipients, the numbers and types of stock awards to be granted, and the terms and conditions of the stock awards, including the period of their exercisability and vesting. Subject to the limitations set forth below, the Compensation Committee also determines the fair market value applicable to a stock award and the exercise price of stock options and stock appreciation rights granted under the 2009 Plan.

#### *Repricing, Cancellation and Re-Grant of Stock Awards*

The 2009 Plan expressly provides that, without the approval of the stockholders within 12 months prior to such event, the Compensation Committee shall not have the authority to reduce the exercise price of any outstanding stock awards under the plan or cancel any outstanding stock awards that have an exercise price or strike price greater than the current fair market value of the common stock in exchange for cash or other stock awards under the 2009 Plan.

#### *Vesting*

Stock options granted under the 2009 Plan may become exercisable in cumulative increments, or vest, as determined by our Compensation Committee at the rate specified in the stock option agreement. Shares covered by different stock options granted under the 2009 Plan may be subject to different vesting schedules as our Compensation Committee may determine. The Compensation Committee also has flexibility to provide for accelerated vesting of equity awards in certain events.

#### *Stock Options*

Stock options may be granted under the 2009 Plan pursuant to stock option agreements. The 2009 Plan permits the grant of stock options that qualify as incentive stock options, or ISOs, and non-statutory stock

options, or NSOs. Generally, the exercise price for a stock option cannot be less than 100% of the fair market value of the common stock subject to the stock option on the date of grant and, in some cases (see *Limitations* below) the exercise price for an ISO may not be less than 110% of such fair market value. As of March 16, 2011, the closing price of our common stock as reported on the NASDAQ Stock Market was \$2.35 per share.

In general, the term of stock options granted under the 2009 Plan may not exceed seven years. Except as explicitly provided otherwise in an option holder's award agreement, stock options granted under the 2009 Plan generally terminate three months after termination of the participant's service unless (i) termination is due to the participant's disability, in which case the stock option may be exercised (to the extent the stock option was exercisable at the time of the termination of service) at any time within 12 months following termination; (ii) the participant dies before the participant's service has terminated, or within the period (if any) specified in the stock option agreement after termination of service for a reason other than death, in which case the stock option may be exercised (to the extent the stock option was exercisable at the time of the participant's death) within 18 months following the participant's death by the person or persons to whom the rights to such stock option have passed; (iii) the participant is terminated for cause in which case the stock option will cease to be exercisable immediately upon the participant's termination, or (iv) the stock option by its terms specifically provides otherwise. A stock option term may be extended in the event that exercise of the stock option following termination of service is prohibited by applicable securities laws. The amount of time allowable after termination to exercise a stock option may be extended if upon exercise the participant would be in violation of the registration requirements under the Securities Act. In such cases, the applicable period within which a participant may exercise a stock option after termination is extended to the time in which the exercise of the stock option would not be in violation of such laws or policies. In no event may a stock option be exercised after its expiration date.

Acceptable forms of consideration for the purchase of our common stock issued under the 2009 Plan will be determined by the Compensation Committee and may include cash, check, bank draft or money order made payable to us, common stock previously owned by the option holder, payment through a broker assisted exercise or, for NSOs only, a net exercise feature, or other legal consideration approved by the Compensation Committee.

Generally, an option holder may not transfer a stock option other than by will or the laws of descent and distribution or a domestic relations order. However, to the extent permitted under the terms of the applicable stock option agreement, an option holder may designate a beneficiary who may exercise the stock option following the option holder's death.

#### *Limitations*

The aggregate fair market value, determined at the time of grant, of shares of our common stock with respect to ISOs that are exercisable for the first time by an option holder during any calendar year under all of our equity compensation plans may not exceed \$100,000. The stock options or portions of stock options that exceed this limit are treated as NSOs. No ISO may be granted to any person who, at the time of the grant, owns or is deemed to own stock possessing more than 10% of our total combined voting power or that of any affiliate of ours unless the following conditions are satisfied:

the stock option exercise price must be at least 110% of the fair market value of the stock subject to the stock option on the date of grant; and

the term of any ISO award must not exceed five years from the date of grant.

The aggregate maximum number of shares of common stock that may be issued pursuant to the exercise of ISOs shall be the number of shares of common stock in the Share Reserve. In addition, no employee may be granted stock options, stock appreciation rights, or other stock awards under the 2009 Plan covering more than 2,000,000 shares of our common stock in any calendar year.

*Restricted Stock Awards*

Restricted stock awards may be granted under the 2009 Plan pursuant to restricted stock award agreements. A restricted stock award may be granted in consideration for cash, check, bank draft or money order payable to us, the recipient's past or future services performed for us or an affiliate of ours, or any other form of legal consideration acceptable to the Compensation Committee. Shares of our common stock acquired under a restricted stock award may be subject to forfeiture to us in accordance with a vesting schedule to be determined by the Compensation Committee. Rights to acquire shares of our common stock under a restricted stock award may be transferred only upon such terms and conditions as are set forth in the restricted stock award agreement. Except as otherwise provided in the applicable restricted stock award agreement, restricted stock awards that have not vested will be forfeited upon the participant's termination of continuous service for any reason.

*Restricted Stock Unit Awards*

Restricted stock unit awards may be granted under the 2009 Plan pursuant to restricted stock unit award agreements. Payment of any purchase price may be made in any legal form acceptable to the Compensation Committee. We will settle a payment due to a recipient of a restricted stock unit award by delivery of shares of our common stock, by cash, by a combination of cash and stock as deemed appropriate by our Compensation Committee, or in any other form of consideration determined by the Compensation Committee and set forth in the restricted stock unit award agreement. Dividend equivalents may be credited in respect of shares of our common stock covered by a restricted stock unit award. Restricted stock unit awards may be subject to vesting in accordance with a vesting schedule to be determined by the Compensation Committee. Except as otherwise provided in the applicable restricted stock unit award agreement, restricted stock units that have not vested will be forfeited upon the participant's termination of continuous service for any reason.

*Stock Appreciation Rights*

Stock appreciation rights may be granted under the 2009 Plan pursuant to a stock appreciation rights agreement. Each stock appreciation right is denominated in common stock share equivalents. The strike price of each stock appreciation right is determined by the Compensation Committee, and shall in no event be less than 100% of the fair market value of the stock subject to the stock appreciation right at the time of grant. The Compensation Committee may also impose restrictions or conditions upon the vesting of stock appreciation rights that it deems appropriate. Stock appreciation rights may be paid in our common stock, in cash, in any combination of the two, or any other form of legal consideration approved by the Compensation Committee and contained in the stock appreciation rights agreement. Stock Appreciation Rights shall be subject to the same conditions upon termination and restrictions on transfer as stock options under the 2009 Plan.

*Performance-Based Awards*

The 2009 Plan provides for the grant of two types of performance awards: performance-based stock awards and performance-based cash awards. Performance-based awards may be granted, vest or be exercised based upon the attainment during a certain period of time of certain performance goals. The length of any performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such performance goals have been attained shall be determined by the Compensation Committee. The maximum amount to be granted to any individual in a calendar year attributable to such performance awards may not exceed 2,000,000 shares of our common stock in the case of performance-based stock awards, or \$2,000,000 in the case of performance cash awards.

Performance goals under the 2009 Plan are determined by the Board or the Compensation Committee, based on any one or more performance criteria, including but not limited to: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder's equity;

(vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders' equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxi) growth of net income or operating income; (xxxii) billings; and (xxxiii) to the extent that an Award is not intended to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), other measures of performance selected by the Board.

The Board is authorized to determine whether, when calculating the attainment of performance goals for a performance period, to exclude one or more of the following: (i) restructuring and/or other nonrecurring or non-cash charges; (ii) exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Goals; (iii) the effects of changes to generally accepted accounting principles; (iv) the effects of any statutory adjustments to corporate tax rates; and (v) the effects of any extraordinary items as determined under generally accepted accounting principles. In addition, the Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of performance goals and to define the manner of calculating the performance criteria it selects to use for a performance period.

Compensation attributable to performance-based awards under the 2009 Plan will qualify as performance-based compensation, provided that: (i) the award is granted by a compensation committee comprised solely of outside directors, (ii) the award is granted (or exercisable) only upon the achievement of an objective performance goal established in writing by the Compensation Committee while the outcome is substantially uncertain, and (iii) the Compensation Committee certifies in writing prior to the granting, payment or exercisability of the award that the performance goal has been satisfied.

#### *Other Stock Awards*

Other forms of stock awards valued in whole or in part with reference to our common stock may be granted either alone or in addition to other stock awards under the 2009 Plan. The Compensation Committee has sole and complete authority to determine the persons to whom and the time or times at which such other stock awards will be granted, the number of shares of our common stock to be granted and all other conditions of such other stock awards. Other forms of stock awards may be subject to vesting in accordance with a vesting schedule to be determined by the Compensation Committee.

#### *Changes to Capital Structure*

In the event that there is a specified type of change in our capital structure not involving the receipt of consideration by us, such as a stock split or stock dividend, the Board will appropriately adjust: (i) the class(es) and maximum number of securities subject to the 2009 Plan, (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of incentive stock options, (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Section 162(m) limits, and (iv) the class(es) and number of securities and price per share of stock subject to outstanding stock awards.

#### *Corporate Transactions*

In the event of a corporate transaction, unless otherwise provided in a written agreement between us or any of our affiliates and the holder of the stock award, or expressly provided by the Board or the Compensation Committee at the time of grant of a stock award, in the event of a corporate transaction (as specified in the 2009 Plan and described below), all outstanding stock awards under the 2009 Plan may be assumed, continued or

substituted for by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute for such stock awards, then (i) with respect to any such stock awards that are held by individuals whose continuous service with us or an affiliate has not terminated prior to the effective date of the corporate transaction, the vesting and exercisability provisions of such stock awards will be accelerated in full and such awards will terminate if not exercised prior to the effective date of the corporate transaction, and (ii) with respect to any stock awards that are held by individuals whose continuous service with us or an affiliate of ours has terminated prior to the effective date of the corporate transaction, the vesting and exercisability provisions of such stock awards will not be accelerated and such awards will terminate if not exercised prior to the effective date of the corporate transaction (except that any reacquisition or repurchase rights held by us with respect to such stock awards shall not terminate and may continued to be exercised notwithstanding the corporate transaction). In the event a stock award will terminate if not exercised, the Board or the Compensation Committee may provide, in its sole discretion, that the holder of such stock award may not exercise such stock award but will receive a payment equal to the excess of the value of the property the holder would have received (which may include any unvested portion of the stock award) upon exercise over any exercise price.

For purposes of the 2009 Plan, a corporate transaction will be deemed to occur in the event of the consummation of (i) a sale, lease or other disposition of all or substantially all of our assets, (ii) a sale or other disposition of more than 50% of our outstanding securities; (iii) a merger, consolidation or similar transaction in which we are not the surviving corporation, or (iv) a reverse merger, consolidation or similar transaction in which we are the surviving corporation but shares of our outstanding common stock are converted into other property by virtue of the transaction.

A stock award may be subject to additional acceleration of vesting and exercisability upon or after a change in control (as defined in the 2009 Plan), as provided in the stock award agreement or in any other written agreement between us or any affiliate of ours and the participant, but in the absence of such provision, no acceleration shall occur.

The acceleration of vesting of an award in the event of a corporate transaction or change in control under the 2009 Plan may be viewed as an anti-takeover provision, which may have the effect of discouraging a proposal to acquire or otherwise obtain control of Dot Hill.

#### *Plan Amendments*

The Compensation Committee has the authority to amend or terminate the 2009 Plan. However, no amendment or termination of the 2009 Plan will adversely affect any rights under awards already granted to a participant unless agreed to by the affected participant. We will obtain stockholder approval of any amendment to the 2009 Plan as required by applicable law and listing requirements.

#### *Plan Termination*

Unless sooner terminated by the Board or the Compensation Committee, the 2009 Plan shall automatically terminate on the day before the tenth anniversary of the date the 2009 Plan is adopted by the Board or approved by our stockholders, whichever is earlier.

#### **U.S. Federal Income Tax Consequences**

The information set forth below is a summary only and does not purport to be complete. The information is based upon current federal income tax rules and therefore is subject to change when those rules change. Because the tax consequences to any recipient may depend on his or her particular situation, each recipient should consult the recipient's tax adviser regarding the federal, state, local, and other tax consequences of the grant or exercise of an award or the disposition of stock acquired as a result of an award. The 2009 Plan is not qualified under the



provisions of Section 401(a) of the Code, and is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974. Our ability to realize the benefit of any tax deductions described below depends on our generation of taxable income, as well as the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of our tax reporting obligations.

#### *Non-statutory Stock Options*

Generally, there is no taxation upon the grant of a NSO where the stock option is granted with an exercise price equal to the fair market value of the underlying stock on the grant date. On exercise, an option holder will recognize ordinary income equal to the excess, if any, of the fair market value on the date of exercise of the stock over the exercise price. If the option holder is employed by us or one of our affiliates, that income will be subject to withholding taxes. The option holder's tax basis in those shares will be equal to their fair market value on the date of exercise of the stock option, and the option holder's capital gain holding period for those shares will begin on that date.

Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the option holder.

#### *Incentive Stock Options*

The 2009 Plan provides for the grant of stock options that qualify as incentive stock options, as defined in Section 422 of the Code. Under the Code, an option holder generally is not subject to ordinary income tax upon the grant or exercise of an ISO. If the option holder holds a share received on exercise of an ISO for more than two years from the date the stock option was granted and more than one year from the date the stock option was exercised, which is referred to as the required holding period, the difference, if any, between the amount realized on a sale or other taxable disposition of that share and the holder's tax basis in that share will be long-term capital gain or loss.

If, however, an option holder disposes of a share acquired on exercise of an ISO before the end of the required holding period, which is referred to as a disqualifying disposition, the option holder generally will recognize ordinary income in the year of the disqualifying disposition equal to the excess, if any, of the fair market value of the share on the date the ISO was exercised over the exercise price. However, if the sales proceeds are less than the fair market value of the share on the date of exercise of the stock option, the amount of ordinary income recognized by the option holder will not exceed the gain, if any, realized on the sale. If the amount realized on a disqualifying disposition exceeds the fair market value of the share on the date of exercise of the stock option, that excess will be short-term or long-term capital gain, depending on whether the holding period for the share exceeds one year.

For purposes of the alternative minimum tax, the amount by which the fair market value of a share of stock acquired on exercise of an ISO exceeds the exercise price of that stock option generally will be an adjustment included in the option holder's alternative minimum taxable income for the year in which the stock option is exercised. If, however, there is a disqualifying disposition of the share in the year in which the stock option is exercised, there will be no adjustment for alternative minimum tax purposes with respect to that share. In computing alternative minimum taxable income, the tax basis of a share acquired on exercise of an ISO is increased by the amount of the adjustment taken into account with respect to that share for alternative minimum tax purposes in the year the stock option is exercised.

We are not allowed an income tax deduction with respect to the grant or exercise of an ISO or the disposition of a share acquired on exercise of an ISO after the required holding period. If there is a disqualifying disposition of a share, however, we are allowed a deduction in an amount equal to the ordinary income includible in income by the option holder, subject to Section 162(m) of the Code and provided that amount constitutes an ordinary and necessary business expense for us and is reasonable in amount, and either the employee includes that amount in income or we timely satisfy our reporting requirements with respect to that amount.

*Restricted Stock Awards*

Generally, the recipient of a restricted stock award will recognize ordinary compensation income at the time the stock is received equal to the excess, if any, of the fair market value of the stock received over any amount paid by the recipient in exchange for the stock. If, however, the stock is not vested when it is received (for example, if the employee is required to work for a period of time in order to have the right to sell the stock), the recipient generally will not recognize income until the stock becomes vested, at which time the recipient will recognize ordinary compensation income equal to the excess, if any, of the fair market value of the stock on the date it becomes vested over any amount paid by the recipient in exchange for the stock. A recipient may, however, file an election with the Internal Revenue Service, within 30 days following his or her receipt of the stock award, to recognize ordinary compensation income, as of the date the recipient receives the award, equal to the excess, if any, of the fair market value of the stock on the date the award is granted over any amount paid by the recipient in exchange for the stock.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired from stock awards will be the amount paid for such shares plus any ordinary income recognized either when the stock is received or when the stock becomes vested.

Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the recipient of the stock award.

*Restricted Stock Unit Awards*

Generally, the recipient of a stock unit structured to conform to the requirements of Section 409A of the Code or an exception to Section 409A of the Code will recognize ordinary compensation income at the time the stock is delivered equal to the excess, if any, of the fair market value of the shares of our common stock received over any amount paid by the recipient in exchange for the shares of our common stock. To conform to the requirements of Section 409A of the Code, the shares of our common stock subject to a stock unit award may generally only be delivered upon one of the following events: a fixed calendar date (or dates), separation from service, death, disability or a change in control. If delivery occurs on another date, unless the stock units otherwise comply with or qualify for an exception to the requirements of Section 409A of the Code, in addition to the tax treatment described above, the recipient will owe an additional 20% federal tax and interest on any taxes owed.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired from stock units, will be the amount paid for such shares plus any ordinary income recognized when the stock is delivered.

Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the recipient of the stock award.

*Stock Appreciation Rights*

We may grant under the 2009 Plan stock appreciation rights separate from any other award or in tandem with other awards under the 2009 Plan.

Where the rights are granted with a strike price equal to the fair market value of the underlying stock on the grant date and where the recipient may only receive the appreciation inherent in the stock appreciation rights in shares of our common stock, the recipient will recognize ordinary compensation income equal to the fair market value of the stock received upon such exercise. If the recipient may receive the appreciation inherent in the stock

appreciation rights in cash or other property and the stock appreciation right has been structured to conform to the requirements of Section 409A of the Code, then the cash will be taxable as ordinary compensation income to the recipient at the time that the cash is received.

Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the recipient of the stock appreciation right.

*Section 162 Limitations*

Compensation of persons who are covered employees of Dot Hill is subject to the tax deduction limits of Section 162(m) of the Code. Awards that qualify as performance-based compensation are exempt from Section 162(m), thereby permitting us to claim the full federal tax deduction otherwise allowed for such compensation. The 2009 Plan is intended to enable the Compensation Committee to grant awards, including cash performance-based awards that will be exempt from the deduction limits of Section 162(m).

Under Section 162(m), compensation attributable to stock options and stock appreciation rights will qualify as performance-based compensation if (i) such awards are approved by a compensation committee composed solely of outside directors, (ii) the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, (iii) the per-employee limitation is approved by the stockholders, and (iv) the exercise or strike price of the award is no less than the fair market value of the stock on the date of grant. Compensation attributable to restricted stock awards, restricted stock unit awards, performance awards and other stock-based awards will qualify as performance-based compensation, provided that (i) the award is approved by a Compensation Committee composed solely of outside directors, (ii) the award is granted, becomes vested or is settled, as applicable, only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) a committee of outside directors certifies in writing prior to the granting (or vesting or settlement) of the award that the performance goal has been satisfied, and (iv) prior to the granting (or vesting or settlement) of the award, the stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the maximum amount, payable upon attainment of the performance goal).

**Equity Compensation Plan Information**

The following table provides certain information as of December 31, 2010, with respect to all of our equity compensation plans in effect on that date.

Plan Category	Number of securities to be issued upon exercise of outstanding stock options, warrants and rights (a)	Weighted-average exercise price of outstanding stock options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	6,179,547	\$ 3.57	5,785,085
Equity compensation plans not approved by security holders(2)			
<b>Total</b>	<b>6,179,547</b>	<b>\$ 3.57</b>	<b>5,785,085</b>

(1) Includes the 2000 Plan, the 2009 Plan, the Directors Plan, and the 2000 Amended and Restated Employee Stock Purchase Plan, as amended. 3,209,895 shares under column (c) are attributable to the Amended Purchase Plan.

(2) As of December 31, 2010, we did not have any equity compensation plans that were not approved by our stockholders. All of our equity compensation plans have been approved by our stockholders.

**New Plan Benefits**

Awards under the 2009 Plan are discretionary, and we have not approved any awards that are conditioned on stockholder approval of the Amendment. Accordingly, we cannot currently determine the benefits or number of shares subject to awards that may be granted in the future to executive officers, directors, and employees under the 2009 Plan, as amended. Information about awards granted under the 2009 Plan to the named executive officers in 2010 is reflected in the Summary Compensation Table included herein.

**Required Vote and Recommendation of the Board of Directors**

Approval of Proposal No. 2 requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting. Abstentions will be counted toward the tabulation of votes cast on Proposal No. 2 and will have the same effect as Against votes. Broker non-votes are counted towards a quorum, but will have no effect on the outcome of the vote.

The Board of Directors believes that approval of Proposal No. 2 is in our best interests and the best interests of our stockholders for the reasons stated above.

**THE BOARD OF DIRECTORS RECOMMENDS**

**A VOTE FOR PROPOSAL NO. 2.**

**PROPOSAL NO. 3**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and Section 14A of the Exchange Act, the Company's stockholders are now entitled to vote to approve, on an advisory basis, the compensation of the Company's Chief Executive Officer, Chief Financial Officer and its three other most highly compensated executive officers at December 31, 2010 (collectively, the Named Executive Officers) as disclosed in this proxy statement in accordance with SEC rules. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's Named Executive Officers and the philosophy, policies and practices described in this proxy statement.

The compensation of the Company's Named Executive Officers subject to the vote is disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related narrative disclosure contained in this proxy statement. As discussed in those disclosures, the Company believes that its compensation policies and decisions are focused on pay-for-performance principles, are strongly aligned with our stockholders interests and are consistent with current market practices. Compensation of the Company's Named Executive Officers is designed to enable the Company to attract and retain talented and experienced executives to lead the Company successfully in a competitive environment. Please read the Executive Compensation Compensation Discussion and Analysis beginning on page 36 of this proxy statement for additional details about our executive compensation programs, including information about the fiscal year 2010 compensation of our Named Executive Officers.

Accordingly, the Board is asking the stockholders to indicate their support for the compensation of the Company's Named Executive Officers as described in this proxy statement by casting a non-binding advisory vote FOR the following resolution:

RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

Because the vote is advisory, it is not binding on the Board of Directors or the Company. Nevertheless, the views expressed by the stockholders, whether through this vote or otherwise, are important to management and the Board and, accordingly, the Board and the Compensation Committee intend to consider the results of this vote in making determinations in the future regarding executive compensation arrangements.

Advisory approval of this proposal requires the vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting. Abstentions will be counted toward the tabulation of votes cast on the proposal and will have the same effect as Against votes. Broker non-votes will have no effect and will not be counted towards the vote total.

**THE BOARD OF DIRECTORS RECOMMENDS**

**A VOTE FOR PROPOSAL NO. 3**

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**PROPOSAL No. 4**

**ADVISORY VOTE ON THE FREQUENCY OF SOLICITATION OF ADVISORY STOCKHOLDER APPROVAL OF EXECUTIVE COMPENSATION**

The Dodd-Frank Act and Section 14A of the Exchange Act also enable the Company's stockholders to indicate their preference regarding how frequently the Company should solicit a non-binding advisory vote on the compensation of the Company's Named Executive Officers as disclosed in the Company's proxy statements. Accordingly, the Company is asking stockholders to indicate whether they would prefer an advisory vote every one year, every two years or every three years. Alternatively, stockholders may abstain from casting a vote. For the reasons described below, the Board recommends that the stockholders select a frequency of three years.

We value the opinion of our stockholders and welcome communication regarding our executive compensation policies and practices. After carefully taking into account various considerations described below, we believe that a triennial vote will provide stockholders with the ability to express their views on our executive compensation policies and practices while providing us with an appropriate amount of time to consult with our stockholders and to consider their input. Our executive compensation program is administered by our Compensation Committee, as described in this proxy statement. Compensation decisions are complex and, with respect to our Named Executive Officers, are disclosed in our proxy statement. We believe that establishing a three-year time frame for holding stockholder advisory votes on executive compensation will both enhance stockholder communication and provide the Company time to consider, engage with and respond to stockholders, in terms of expressed concerns or other feedback. In addition, we also believe that a triennial vote more closely aligns with the multi-year performance cycle that the Company uses to reward long-term performance and is consistent with our long-term business strategy.

Accordingly, the Board is asking stockholders to indicate their preferred voting frequency by voting for one, two or three years, or abstaining from voting on the proposal on the resolution below:

RESOLVED, that the alternative of soliciting advisory stockholder approval of the compensation of the Company's Named Executive Officers once every one, two or three calendar years that receives the highest number of votes from the holders of shares present in person or represented by proxy and entitled to vote at the annual meeting shall be considered the frequency preferred by the stockholders.

While the Board believes that its recommendation is appropriate at this time, the stockholders are not voting to approve or disapprove that recommendation, but are instead asked to indicate their preferences, on an advisory basis, as to whether the non-binding advisory vote on the approval of the Company's executive officer compensation practices should be held every one year, every two years or every three years. The option among those choices that receives the highest number of votes from the holders of shares present in person or represented by proxy and entitled to vote at the annual meeting will be deemed to be the frequency preferred by the stockholders.

The Board and the Compensation Committee value the opinions of the stockholders in this matter and, to the extent there is any significant vote in favor of one frequency over the other options, even if less than a majority, the Board will consider the stockholders' concerns and evaluate any appropriate next steps. However, because this vote is advisory and therefore not binding on the Board of Directors or the Company, the Board may decide that it is in the best interests of the stockholders that the Company hold an advisory vote on executive compensation more or less frequently than the option preferred by the stockholders. The vote will not be construed to create or imply any change or addition to the fiduciary duties of the Company or the Board.

**THE BOARD OF DIRECTORS RECOMMENDS**

**A VOTE IN FAVOR OF THREE YEARS ON PROPOSAL NO. 4.**

**PROPOSAL NO. 5.****RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS**

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2011 and has further directed that management submit the selection of our independent registered public accounting firm for ratification by our stockholders at the annual meeting. Deloitte & Touche LLP has audited the Company's financial statements since 1999. Representatives of Deloitte & Touche LLP are expected to be present at the 2011 Annual Meeting of Stockholders. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Company's Bylaws nor other governing documents or law require stockholder ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm. However, the Audit Committee is submitting the selection of Deloitte & Touche LLP to our stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and our stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy entitled to vote at the annual meeting will be required to ratify the selection of Deloitte & Touche LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

**Principal Accountant Fees and Services**

In connection with the audit of the 2010 financial statements, and the review of the 2010 quarterly financial statements, the Company entered into an engagement agreement with Deloitte & Touche LLP which sets forth the terms by which Deloitte & Touche LLP will perform audit services for the Company. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages. The following table represents aggregate fees billed to the Company for the fiscal years ended December 31, 2010 and 2009 by Deloitte & Touche LLP, the Company's principal accountant, and its affiliates.

	<b>Fiscal Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Audit Fees(1)	\$ 724,111	\$ 955,700
Audit-related Fees		
Tax Fees(2)	98,115	197,900
All Other Fees(3)	2,200	2,400
<b>Total Fees</b>	<b>\$ 824,426</b>	<b>\$ 1,156,000</b>

- (1) Represents fees for services rendered for the audit and/or reviews of our financial statements. Also includes fees for services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings (e.g., consents), assistance in responding to SEC comment letters and audit services provided in connection with other statutory or regulatory filings.
- (2) Represents fees for professional services rendered for tax compliance, tax advice and tax planning. The nature of these services was to prepare state and federal income tax returns and extensions for returns, to respond to requests related to various state and city audits and tax-related notices, to investigate various options related to international tax planning strategies, and to assist in determining appropriate structures for foreign branches and subsidiaries.
- (3) Represents fees for a subscription to Deloitte & Touche LLP's accounting research tool during the fiscal years ended December 31, 2010 and 2009.





All fees described above were approved by the Audit Committee.

During the fiscal year ended December 31, 2010, none of the total hours expended on our financial audit by Deloitte & Touche LLP were provided by persons other than Deloitte & Touche LLP's full-time permanent employees.

**Pre-Approval Policies and Procedures**

The Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent auditor, Deloitte & Touche LLP. The Audit Committee's approval of the scope and fees of the engagement of the independent auditor is given on an individual explicit case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to the full Audit Committee at its next scheduled meeting.

The Audit Committee has determined that the rendering of the services other than audit services by Deloitte & Touche LLP is compatible with maintaining Deloitte & Touche LLP's independence.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2011.**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information regarding the beneficial ownership of our common stock as of February 1, 2011 by: (i) each of our directors and nominees, (ii) each of our Named Executive Officers, (iii) all of our directors, nominees and executive officers as a group and (iv) each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock. The table is based upon information supplied by our officers, directors and principal stockholders and a review of Schedules 13D and 13G, if any, filed with the SEC. Unless otherwise indicated in the footnotes to the table and subject to community property laws where applicable, we believe that each of the stockholders named in the table has sole voting and investment power with respect to the shares indicated as beneficially owned.

Applicable percentages are based on 56,326,482 shares outstanding on February 1, 2011, adjusted as required by rules promulgated by the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of common stock issuable pursuant to the exercise of stock options or warrants that are either immediately exercisable or exercisable on April 2, 2011, which is 60 days after February 1, 2011. These shares are deemed to be outstanding and beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Certain of the options in this table are exercisable at any time but, if exercised, are subject to a lapsing right of repurchase until the options are fully vested.

Beneficial Owner(1)	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
Goldman Capital Management, Inc. 767 Third Avenue, 25th Fl New York, NY 10017	6,087,965	10.81%
Royce & Associates, LLC 745 Fifth Avenue New York, NY 10151	3,016,832	5.36%
Dana Kammersgard(2)	1,526,575	2.66%
Hanif I. Jamal(3)	557,586	*
Charles Christ(4)	423,561	*
Richard Mejia, Jr.(5)	80,000	*
Roderick Sherwood, III(6)	120,000	*
Thomas H. Marmen(7)	80,000	*
All directors, nominees and executive officers as a group (six persons)(8)	2,787,722	4.94%

\* Less than one percent.

- (1) Except as otherwise noted above, the address for each person or entity listed in the table is c/o Dot Hill Systems Corp., 1351 South Sunset Street, Longmont, Colorado 80501.
- (2) Includes 218 shares held by Lisa Kammersgard, the spouse of Mr. Kammersgard, as to which shares Mr. Kammersgard disclaims beneficial ownership, 75,000 shares of performance-based restricted stock and options to purchase 1,040,936 shares exercisable within 60 days of February 1, 2011.
- (3) Includes 58,333 shares of performance-based restricted stock and options to purchase 452,603 shares exercisable within 60 days of February 1, 2011.
- (4) Includes options to purchase 218,000 shares exercisable within 60 days of February 1, 2011.

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- (5) Includes options to purchase 70,000 shares exercisable within 60 days of February 1, 2011 (20,833 of which are unvested).

- (6) Includes options to purchase 110,000 shares exercisable within 60 days of February 1, 2011.
- (7) Includes options to purchase 70,000 shares exercisable within 60 days of February 1, 2011 (22,917 of which are unvested).
- (8) Includes options to purchase 1,961,539 shares exercisable within 60 days of February 1, 2011 (43,750 of which are unvested).

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2010, all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with.

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EXECUTIVE COMPENSATION

**Compensation Discussion and Analysis**

The following Compensation Discussion and Analysis describes the material elements of compensation for our Named Executive Officers for 2010 – Dana W. Kammersgard, President and Chief Executive Officer and Hanif I. Jamal, Senior Vice President, Chief Financial Officer, Treasurer, and Corporate Secretary. Our Compensation Committee is primarily responsible for decisions regarding compensation of our Named Executive Officers.

*Executive Summary*

Our goal is to provide a competitive total compensation package with significant emphasis on pay-for-performance. Accordingly, a significant portion of our executive officers' compensation is contingent on the Company's performance in order to drive accomplishments that enhance stockholder value and align the interests of our executives and our stockholders. This means that our executives will not realize the total potential value of their compensation package unless performance goals, the significant majority of which are directly tied to Company performance, are achieved. The Company remains committed to this philosophy of paying for performance, recognizing that the competitive market for talented executives and the volatility of its business may result in highly variable compensation in any particular time period. The Compensation Committee gives careful consideration to the Company's executive compensation program, including each element of compensation for each executive officer. The Compensation Committee believes our executive compensation program is reasonable in light of the programs of our peer group companies and the Company's current financial position. The Compensation Committee believes that the programs used by our peer group companies should serve as a guide, but should not necessarily be the exact program that is used to compensate our Named Executive Officers. Our Compensation Committee also believes that our compensation program gives the executive officers appropriate incentives, based on each officer's responsibilities, achievements and ability to contribute to the Company's performance. We also believe that our executive officers and senior management make significant contributions toward creating stockholder value. Finally, we believe that the Company's compensation structure and practices encourages management to work for real innovation, business improvements and outstanding stockholder returns, without taking unnecessary or excessive risks.

2010 Compensation Program Highlights:

A significant portion of our executive officers' compensation is contingent on the Company's performance. We granted restricted stock to our Named Executive Officers which vests based on the achievement of specified corporate objectives. We also granted stock options and time-based restricted stock awards. The economic benefit of these awards is directly linked with the performance of the Company and increasing stockholder value.

In connection with expense reduction measures, we reduced base salaries during 2010 and we eliminated the annual cash bonus program and previously approved stretch cash bonus pool for our Named Executive Officers. The Compensation Committee recognizes that based on the peer group benchmarks and guidelines, total expected cash compensation (base salary plus bonus) for 2010 for our Named Executive Officers is below the 25<sup>th</sup> percentile of these established benchmark guidelines. Based on our financial condition and operating results and the individual performances of our Named Executive Officers, we intend to restore this compensation gradually to reach our target philosophy to compensate them around the 50<sup>th</sup> percentile of these benchmarks.

In line with our pay-for-performance philosophy, we offer reasonable employment agreements that do not contain multi-year guarantees for salary increases or non-performance-based guaranteed bonuses.

Each of the Named Executive Officers is employed at will and is expected to demonstrate exceptional performance in order to continue serving as a member of the executive team.

We grant stock options and restricted stock under our 2009 Plan. The 2009 Plan prohibits the re-pricing, exchange or cashing out of stock awards, including stock options, without stockholder approval within 12 months prior to such re-pricing. We did not re-price any stock options in 2010, despite the fact that our executives hold stock options which are underwater. This reflects our commitment to our pay-for-performance philosophy.

We do not provide excessive severance or change of control arrangements which provide for cash payments exceeding three times an executive's base salary and bonus. Our change of control arrangements with our Named Executive Officers provide for cash payments of up to a maximum of 1.25 times annual base salary (not including bonus) upon the occurrence of certain change of control events.

We do not provide any tax gross-up benefits for excise taxes associated with change of control compensation.

Our Compensation Committee regularly assesses the Company's individual and total compensation programs against peer companies, the general marketplace and other industry data points and the Compensation Committee utilizes an independent consultant to engage in ongoing independent review of all aspects of our executive compensation programs. These inputs and data serve as guidelines to our Compensation Committee in determining the compensation programs and levels for our Named Executive Officers.

**General**

Our executive compensation structure is designed to attract, motivate and retain the services of executive management and to align the interests of our executives with those of our stockholders. We aim to provide what we believe is a competitive total compensation package to our executive management team through a combination of base salary, annual performance-based bonus and long-term and performance-based equity incentives. We place significant emphasis on pay-for-performance-based incentive compensation programs. These programs are designed to reward the achievement of corporate and individual goals. This Compensation Discussion and Analysis explains our compensation philosophy, policies and practices with respect to our Named Executive Officers.

Our executive compensation program has been designed by the Compensation Committee of our Board of Directors to:

Attract and retain highly skilled and experienced team members by targeting a compensation structure that is competitive with those offered by other companies with whom we compete for management talent;

Closely align compensation for our executive management team with our short-term and long-term performance;

Build stockholder value by providing incentives based on achievement of corporate goals;

Establish compensation programs that are equitable internally within Boeing; and

Provide differentiated compensation based on individual performance.

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The Compensation Committee is comprised of independent directors within the meaning of the applicable SEC and NASDAQ rules. The Compensation Committee responsibilities and duties are outlined in detail under the heading Information Regarding the Board of Directors and Corporate Governance Compensation Committee and the Compensation Committee charter, which is available on our website at [www.dothill.com](http://www.dothill.com). A primary responsibility of the Compensation Committee is to determine compensation for our Named Executive Officers, including reviewing and approving annual corporate and individual goals.

To aid the Compensation Committee in performing its duties, our Chief Executive Officer provides recommendations concerning the compensation of the executive officers, excluding himself. The Compensation Committee deliberates and discusses the performance of the Chief Executive Officer with input from the Board of Directors and is solely responsible for determining the Chief Executive Officer's compensation. Additionally, each executive officer participates in establishing the key policies for Dot Hill as well as the objectives of our company as a whole. Likewise, our executive officers are asked to provide feedback on their own performance. We see this process both as the optimal means of assembling accurate information regarding the expectation and realization of performance, as well as an integral part of our culture of collaborative, team-oriented management.

We evaluate the achievement of our corporate and individual goals on a quarterly basis as well as at the end of the completed fiscal year. At the end of each quarter, we review the progress being made toward achievement of the corporate financial goals as well as each executive's overall ongoing performance, if necessary. At the end of the year, we review final results versus goals and establish performance goals for the next fiscal year.

#### ***Competitive Market Review***

Our market for experienced management is highly competitive. We aim to attract and retain the most highly qualified executives to manage each of our business functions. In doing so, we attempt to draw upon a pool of talent that is highly sought after by both large and established high tech companies. We believe we have competitive advantages in our ability to offer significant upside potential through long-term and performance-based equity incentives. Nonetheless, we must recognize market cash compensation levels and satisfy the day to day financial requirements of our candidates through competitive base salaries and performance-based bonuses. For 2010, we examined market data from various sources including Radford's Global Technology Survey, proxy data from public competitors which includes storage and network companies, peer company data provided by Consult RJ, as well as information we generated internally as guidelines for establishing a compensation program and levels for our Named Executive Officers.

A comprehensive market review is conducted at least every other year, and in advance of determining compensation levels for key hires and promotions. Our management and Compensation Committee review survey data from these various sources prepared by Radford that analyzes various cross-sections of our industry, as well as relevant geographical areas. Barring extraordinary circumstances, our targeted guideline pay position to the market is around the 50<sup>th</sup> percentile for all compensation elements. Commencing in January 2011, the Compensation Committee engaged Radford, an Aon Consulting company, to provide an independent review of the peer group and to advise the Compensation Committee on any changes to be aligned with current best practices. Radford was then asked to independently collect and analyze market data to complete an analysis of our programs for the Named Executive Officers.

#### ***Role of our Independent Compensation Consultants***

During fiscal 2010, the Compensation Committee directly engaged Consult RJ as compensation consultants to review the compensation data, including both cash and equity compensation, for Chief Executive Officers and Chief Financial Officers of the following companies in the hardware industry, with whom the Company competes for executive talent: Adaptec Inc., Brocade Communications Systems, Inc., Emulex Corporation, QLogic Corporation, Quantum Corporation, LSI Corporation, Compellent Technologies Inc., 3PAR Inc., Super Micro Computer Inc., Epicor Software Corporation, Rackable Systems Inc. (formerly Silicon Graphics, Inc.),

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Falconstor Software, Inc., Double-Take Software, Inc. and Overland Storage Inc. In addition, the Compensation Committee reviewed compensation data from Radford's Global Technology Survey for the following categories of companies: Survey Totals Revenues of \$200 million to \$499.9 million, Semiconductors Revenues of \$200 million to \$1.0 billion, Software Revenues of \$200 million to \$1.0 billion, Northern California Revenues of \$200 million to \$1.0 billion, Total US except Northern California Revenues of \$200 million to \$1.0 billion and the average of these five indices.

As indicated above, in January 2011, the Compensation Committee engaged the services of Radford to conduct a competitive review and analysis of the current compensation arrangements for the Company's Named Executive Officers. The review included assessments of Dot Hill's compensation philosophy and peer group used to conduct compensation benchmarking assessments. In addition, the Compensation Committee asked Radford to perform a detailed examination and competitive assessment based on their recommended peer group for base salary, target total cash, actual total cash, long-term incentives, beneficial ownership, value of current executive holdings, overall equity usage and equity allocation.

In February 2011, Radford presented a recommended list of peer companies that included a broad group of technology companies. After discussion, the Compensation Committee decided that the peer list would include data storage companies, storage and systems management software companies, server and mainframe companies, a storage networking company, network access and communications devices companies, a computer networking company and a routing and switching company. Radford also suggested and the Compensation Committee agreed that these companies should have revenues generally in \$100 million to \$500 million range with some exceptions, with employee size between 150 and 1,000 with some exceptions to reflect organizational complexity and with market capitalization between \$135 million and \$500 million with some exceptions. Based on these parameters, the Compensation Committee elected to establish the following list of peer group companies that included: BigBand Networks, Inc., Communications Systems Inc., Digi International Inc., Echelon Corporation, Emulex Corporation., Extreme Networks Inc. Falconstor Inc., NetScout Systems Inc., OPNET Technologies, Quantum Corporation, Radisys Corporation, SeaChange International Inc., Silicon Graphics International Inc. STEC and Super Micro Computer Inc.

The Compensation Committee also elected to continue to target competitive positioning for base salary, target total cash which includes base salary and cash bonus and long-term equity incentives around the 50<sup>th</sup> percentile of the Company's peer companies for 2011. These companies range from below to above market levels to attract and retain talent based on individual performance, experience and position criticality.

In March 2011, Radford presented their assessment to the Compensation Committee with specific recommendations to the Compensation Committee on where to set salary, incentives and equity grants for the Named Executive Officers for 2011.

### ***Market Benchmarks and Other Considerations***

#### *Fiscal 2010*

In the fourth quarter of 2009 and the first quarter of 2010, the Compensation Committee reviewed compensation data with Consult RJ for fiscal 2007-2009 for the following companies with whom the Company competes for executive talent: Adaptec Inc., Brocade Communications Systems, Inc., Emulex Corporation, QLogic Corporation, Quantum Corporation, LSI Corporation, Compellent Technologies Inc., 3PAR Inc., Super Micro Computer Inc., Epicor Software Corporation, Silicon Graphics International, Inc. (formerly Rackable Systems Inc.), Falconstor Software, Inc., Double-Take Software, Inc. and Overland Storage Inc. In addition, the Compensation Committee reviewed compensation data from the Radford Global Technology Survey for the following categories of companies: Survey Totals Revenues of \$200 million to \$499.9 million, Semiconductors Revenues of \$200 million to \$1.0 billion, Software Revenues of \$200 million to \$1.0 billion, Northern California Revenues of \$200 million to \$1.0 billion, Total US except Northern California Revenues



of \$200 million to \$1.0 billion and the average of these five indices. This competitive group and survey data served as a reference point and guideline for compensation decisions, and along with a number of other factors, including corporate financial performance and individual performance, was used by the Compensation Committee to set executive compensation, particularly with respect to establishing base salaries and maximum payouts on the performance-based cash bonus programs (which were ultimately cancelled). Management also recommended and the Compensation Committee adopted management's recommendation, that it re-instate the performance-based cash bonus program for critical employees including the Named Executive Officers, but suggested that the target payout under this program be a maximum of 50% of the participating employees' target cash bonus compensation. As with historical practice, performance-based cash bonuses were tied to both corporate financial performance as well as individual objectives for all employees other than the Chief Executive Officer. The Chief Executive Officer's cash bonus will only be tied to corporate financial performance. The corporate financial performance criteria were mostly based the company's 2010 Annual Operating Plan, which was approved by the Board of Directors.

In addition, management recommended and the Compensation Committee resolved to establish a stretch cash bonus pool of a maximum of \$1 million that would only be funded if the Company achieved specific levels of non-GAAP EBITDA that exceeds the 2010 Annual Operating Plan. Any amounts earned from this stretch cash bonus pool would be shared by specified participants on a pro rata basis. The Named Executive Officers are among over 30 employees eligible to a cash distribution from this stretch cash bonus pool. The Chief Executive Officer's and the Chief Financial Officer's estimated share of this stretch bonus pool of a maximum of \$1 million would have been 21% and 13% of the pool, respectively, if the plan had not been cancelled and had the company met the performance criteria for establishing the bonus pool.

The Compensation Committee also accepted management's recommendation to continue a practice first established in fiscal 2009 to issue performance-based restricted stock as part of the long-term incentive compensation plan. As such all employees at the Vice President or above level and other key employees in the Company, including the Named Executive Officers, would receive long-term incentive compensation in the form of performance-based restricted stock, as well as stock options. The performance criteria for vesting the restricted stock are based on corporate financial goals for fiscal 2010. The performance-based restricted stock vests in two equal installments over two years based on the achievement of specific corporate objectives, as determined by the Board or the Compensation Committee subsequent to December 31, 2010, but no later than the date that our Annual Report on Form 10-K is filed with the SEC for the year ending December 31, 2010. The stock options vest over four years in accordance with the 2009 Plan. The Compensation Committee elected to accept management's recommendation to issue stock options that vested over four years and to have the performance-based restricted stock vest over two years in order to create balance between short-term and long-term compensation.

In June 2010, management recommended and the Board and Compensation Committee approved expense reductions measures that included a 10% salary reduction for most employees at the Vice-President and above levels including our Named Executive Officers. In addition, most of the other employees were subject to a 5% reduction in base salary. Included in these expense reduction measures was the termination of the performance-based cash bonus program and the stretch cash bonus pool.

#### ***Components of Executive Compensation Program***

To accomplish our executive compensation program objectives, compensation for our executive officers generally consists of the following components: base salary; annual bonus based on corporate and individual performance; and long-term equity incentives, such as stock options, restricted stock and performance-based restricted stock intended to provide long-term and performance-based incentives tied to corporate financial performance and increases in the value of our common stock and our performance generally. Prior to 2008, the Compensation Committee used stock options as the exclusive means to provide long-term equity incentives. However, in 2008, the Compensation Committee instituted the use of both time-based restricted stock and performance-based restricted stock tied to financial objectives.

In addition to the compensation set forth in our annual compensation programs, our executive officers are also entitled to potential payments upon specified terminations and in connection with a change of control event. Additionally, our executive officers are entitled to other benefits, such as medical insurance and 401(k) matching, that are generally available to our employees, and perquisites that may be available to select Named Executive Officers and key employees as well. Our Named Executive Officers and other key employees do not accrue vacation time. Instead, if they wish to take paid time off they are required to obtain agreement from their immediate supervisor.

### ***Base Salary***

#### *Fiscal 2010*

The amount of salary paid during 2010 to each of our Named Executive Officers is shown in the Summary Compensation Table below. The initial base salary for each executive officer was established after taking into account the officer's qualifications, experience, prior salary, competitive salary information and internal equity. Each executive officer's salary is reviewed annually by the Compensation Committee. In 2010, base salaries were determined by the Compensation Committee based on an assessment of the executive's performance against job responsibilities, overall company performance and competitive salary information. In assessing competitive salary information, the Compensation Committee reviews and considers peer group information as described above, as a guideline to establishing base salary for each of the Named Executive Officers. Furthermore, when considering annual base salary increases, the Compensation Committee also considers total cash compensation, which is comprised of both base salary and the annual performance-based cash bonus described below.

In January 2010, the Compensation Committee approved the 2010 Executive Compensation Plan, which set forth executive compensation for Messrs. Kammersgard and Jamal. Messrs. Kammersgard and Jamal had not received an increase to their base salary since they assumed their roles within the Company in 2006. The Compensation Committee reviewed benchmark compensation data as described above in relation to each of their contributions to the Company and the performance of the Company in 2009, and, pursuant to the 2010 Executive Compensation Plan, accordingly increased Mr. Kammersgard's base salary to \$400,000 from \$367,500 and Mr. Jamal's base salary to \$310,000 from \$270,000. Effective July 1, 2010, Mr. Kammersgard and Mr. Jamal's annual base salary were reduced by 10% to \$360,000 and \$279,000 respectively as part of the corporate wide expense reduction measures.

#### *Fiscal 2011*

In March 2011, the Compensation Committee approved the 2011 Executive Compensation Plan after reviewing the competitive assessment provided by Radford and specific recommendations from Radford with regard to compensation for Messrs. Kammersgard and Jamal. Given the Company's fiscal restraints and desire to return to sustained non-GAAP profitability, the Compensation Committee decided to defer reinstating the 10% base salary reduction that Messrs. Kammersgard and Jamal received effective July 1, 2010. Accordingly, Messrs. Kammersgard and Jamal's base salary levels remain unchanged at \$360,000 and \$279,000 respectively from their base salaries in effect since July 1, 2010. As a result, Mr. Kammersgard's base salary was below the 25<sup>th</sup> percentile of the new benchmark of peer companies established in March 2011 by the Compensation Committee with counsel from Radford and Mr. Jamal's annual base salary was between the 25<sup>th</sup> and 50<sup>th</sup> percentile of the new benchmark.

### ***Annual Performance-Based Bonus***

Annual bonuses may be awarded to our Named Executive Officers in accordance with the executive compensation plan for the applicable year, as established by the Compensation Committee.

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*Fiscal 2010*

In January 2010, the Compensation Committee approved the 2010 Executive Compensation Plan, which re-instated the performance-based cash bonus program for the Named Executive Officers that had been suspended in 2009. The maximum target payout under this program was 50% of each of the Named Executive Officer's target cash bonus. The target cash bonus for Messrs. Kammersgard and Jamal was 80% and 65% of their base salaries and therefore the target cash bonus for 2010 was established as 40% and 32.5% of each of Messrs. Kammersgard and Jamal's base salary, respectively. As with historical practice, performance-based cash bonuses were tied to both corporate financial performance as well as individual objectives for all employees other than the Chief Executive Officer. The Chief Executive Officer's cash bonus was only tied to corporate financial performance. The Chief Financial Officer's cash bonus was tied 80% to corporate financial performance and 20% to achievement of specified goals related to the Company's Sarbanes Oxley compliance for fiscal 2010.

The corporate financial performance criteria were established to be largely consistent with the 2010 Annual Operating Plan. The specified corporate financial targets and weighting is as follows: 25% upon achievement of specified 2010 revenue targets relating to certain business units; 10% upon achievement of a specific 2010 product margin target; 20% upon achievement of a specified 2010 EBITDA target; 25% upon achievement of specified business unit specific EBITDA targets; and 20% upon achievement of a specified target cash balance at December 31, 2010. All of the financial targets are calculated in accordance with our methodologies for financial reporting purposes and, with the exception of cash, exclude the impact of stock-based compensation expense, intangible asset amortization, restructuring and severance charges, contingent consideration adjustments, Cloverleaf acquisition costs and the effects of foreign currency gains or losses and any other non-recurring, one-time charges or adjustments that the Compensation Committee, in its sole discretion, deems appropriate. The achievement of the financial targets and goals shall be determined by our Compensation Committee or our Board of Directors after the completion of fiscal 2010. The achievement of goals related to the Company's Sarbanes Oxley compliance shall be determined by the Audit Committee or the Board of Directors following the completion of our fiscal 2010 audit by our independent registered public accountants.

In addition, management recommended and the Compensation Committee resolved to establish a stretch cash bonus pool of a maximum of \$1 million that would only be funded if the Company achieved certain levels of non-GAAP EBITDA that exceeds the 2010 Annual Operating Plan. Any amounts earned from this stretch cash bonus pool would be shared by specified participants on a pro rata basis. The Named Executive Officers were among over 30 employees eligible to a cash distribution from this stretch cash bonus pool. Messrs. Kammersgard and Jamal's estimated share of this stretch bonus pool of a maximum of \$1 million would have been 21% and 13% of the pool, respectively.

The financial goals and individual objectives for the 2010 performance-based cash bonus program were established by the Compensation Committee and were weighted based on importance. The financial goals relate to revenue, product margin and EBITDA of our operating segments and cash and cash equivalents and the individual objectives are focused on each executive's respective area of responsibility and designed to support overall corporate goal achievement. These goals were collectively designed to be challenging, and similar goals for the Named Executive Officers were not all met in the three most recent fiscal years (2007, 2008, and 2009) when such plans were in effect.

In June 2010, management recommended and the Compensation Committee resolved to terminate the performance-based cash bonus program and stretch cash bonus pool for all employees including our Named Executive Officers, as a part of our corporate expense reduction measures.

*Fiscal 2011*

In March 2011, the Compensation Committee approved the 2011 Executive Compensation Plan and established an annual performance-based bonus program. In addition, the Compensation Committee determined

that the payout under such plan for 2011 shall be in the form of the Company's common stock rather than cash, due to the Company's fiscal restraints and desire to return to non-GAAP sustained profitability. The payout under the plan will be determined based upon the achievement of performance goals, with a maximum payout consisting of a number of shares of common stock with a value equal to 85% and 65% of Messrs. Kammersgard and Jamal's base salaries, respectively, as of the date of determination of the level of achievement of the performance goals. The price used to calculate the value of the common stock grants shall be the closing sales price for such stock as reported on the NASDAQ Stock Market on the date of determination of the level of achievement of the performance goals. The Compensation Committee established five equally weighted principal corporate financial goals. These financial goals were derived from the Company's internal operating plan that was approved by the Board in December 2010. The specified financial goals include two targets based on meeting or exceeding revenue targets for certain business lines, two targets based on meeting non-GAAP operating profits for certain business lines and meeting or exceeding a specific cash and cash equivalents goal as of December 31, 2011. All of the financial goals shall be calculated in accordance with our methodologies for financial reporting purposes and, with the exception of cash and cash equivalents, exclude the impact of stock-based compensation expense, intangible asset amortization, restructuring and severance charges, contingent consideration adjustments, Cloverleaf acquisition costs and the effects of foreign currency gains or losses and any other non-recurring, one-time charges or adjustments that the Compensation Committee, in its sole discretion, deems appropriate. Additionally, the Company has established internal methodologies for the allocation of common costs and overhead to the various business lines and the Compensation Committee in its sole discretion may alter these allocation methodologies for the purposes of determining the results for the five specified financial targets that will help determine the size of the common stock grant to awarded to our Named Executive Officers under the Annual Performance-Based Bonus program. Finally, the Compensation Committee will have the discretion to determine whether any of the financial goals are met and as such whether common stock shall be granted for achievement of a goal, notwithstanding the fact that a goal is not met, in extraordinary circumstances.

The Compensation Committee determined that 100% and 80% respectively of Messrs. Kammersgard and Jamal's annual performance-based bonus will be tied to achieving the five equally weighted financial goals described above. In addition, 20% of Mr. Jamal's annual performance-based bonus will be tied to achievement of a specified goal related to the Company's Sarbanes Oxley compliance for fiscal 2011. The achievement of this Sarbanes Oxley goal, will be determined by the Audit Committee or the Board of Directors and the achievement of the financial goals will be determined by the Compensation Committee or the Board of Directors subsequent to December 31, 2011, but no later than the date that our Annual Report on Form 10-K is filed with the SEC for the year ending December 31, 2011.

#### ***Long-Term and Performance-Based Equity Incentives***

Historically, our long-term and performance-based equity incentives were primarily in the form of stock options granted pursuant to our 2000 Amended and Restated Equity Incentive Plan, or the 2000 Plan. In 2008, we incorporated the use of both time-based restricted stock and performance-based restricted stock granted pursuant to the 2000 Plan. In 2009, our stockholders approved the 2009 Plan and we plan to continue to incorporate the use of stock options as well as both time-based restricted stock and performance-based restricted stock there-under. The objective of the stock option and restricted stock awards is to further enhance our executive officers' long-term incentive to increase stockholder value, including our stock price, and company performance. We believe that stock option and restricted stock-based compensation achieves this objective by directly linking the economic benefit to recipients of stock option and restricted stock awards with the performance of the Company and its stock price. We also believe that the performance of the executive team has a direct effect on stock price and general company performance, and that time and performance-based stock option and performance-based restricted stock compensation encourages executive retention and performance because the awards are designed to vest over time and upon achievement of specific performance goals. The Compensation Committee first introduced the grant of performance-based restricted stock in addition to stock options in August 2008, so as to more clearly correlate financial performance to equity awards and incentives.

Stock options granted to our Named Executive Officers are approved by the Compensation Committee and are granted effective as of the third business day following the first general public release of our annual or quarterly revenues and/or earnings following the date of approval. The Compensation Committee may vary this procedure if it determines applicable circumstances, such as public disclosure requirements or other factors, justify doing so. In addition, the Compensation Committee approves all restricted stock awards to our Named Executive Officers, which are generally approved at times consistent with our stock option grant policy, provided, however, that restricted stock awards are generally effective on the date of approval by the Compensation Committee. Stock options granted to our Named Executive Officers are incentive stock options, to the extent permissible under the Code, and commence vesting upon the effective date of grant. In general and historically, 25% of the shares subject to the stock options vest one year from the effective date of grant and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to acceleration of vesting in certain circumstances described in Employment and Change of Control Agreements.

The equity awards granted to our Named Executive Officers in January 2010 consisted of both stock options and restricted stock grants. The stock options were subject to a time-based vesting requirement, while the restricted stock grants were subject to both time-based and performance-based vesting requirements approved by the Compensation Committee. Stock options granted under the 2000 Plan and the 1995 Incentive Program, as amended, or the Prior Plans expire 10 years from the effective date of grant, and stock options granted under the 2009 Plan expire seven years from the effective date of grant. The exercise price per share of each stock option granted to our Named Executive Officers is equal to the fair market value of our common stock on the effective date of grant. Under the Prior Plans, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the NASDAQ Stock Market on the last market trading day prior to such date. Under the 2009 Equity Incentive Plan, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the NASDAQ Stock Market on such date, or if such date is not a trading day the last market trading day prior to such date.

In general, each Named Executive Officer receives stock option and/or restricted stock grants in connection with his hire or promotion, and annually in the first quarter of each year. The size of each annual grant is based on an analysis of the following key factors for each executive:

benchmarking against our peer group, including an analysis of equity plan utilization percentages;

corporate and individual performance against goals; and

individual stock ownership.

The Company does not currently maintain holding period requirements for stock options and stock awards and does not currently have stock ownership guidelines for its executive officers or directors.

*Fiscal 2010*

In January 2010, the Compensation Committee approved the following equity grants for our Named Executive Officers, Messrs. Kammersgard and Jamal.

Executive Officer	Stock Options
Dana W. Kammersgard	150,000
Hanif I. Jamal	116,667

The options were granted under the 2009 Plan and will terminate seven years after the effective grant date of March 9, 2010, or earlier in the event the executive officer's service to us is terminated, and have an exercise price per share of \$1.44, the closing price of our common stock as reported on the NASDAQ Stock Market as of March 9, 2010. The options were awarded after taking into consideration tenure with Dot Hill, corporate and individual performance, competitive benchmarks and individual stock ownership. The options vest 25% on the first anniversary of the date of grant with the remaining shares vesting monthly over the following three years.

Also, in January 2010, as discussed above, the Compensation Committee approved the following grants of performance-based restricted stock to our Named Executive Officers.

Executive Officer	Restricted Stock
Dana W. Kammersgard	75,000
Hanif I. Jamal	58,333

The restricted stock granted to Messrs. Kammersgard and Jamal vest in two equal annual installments based on the achievement of specified corporate objectives for the fiscal year ending December 31, 2010, as determined the Board or the Compensation Committee subsequent to December 31, 2010 but no later than the date that our Annual Report on Form 10-K is filed with the SEC for the year ending December 31, 2010. The specified financial targets and weighting is as follows: 25% upon achievement of specified 2010 revenue targets relating to certain business units; 10% upon achievement of a specific 2010 product margin target; 20% upon achievement of a specified 2010 EBITDA target; 25% upon achievement of specified business unit specific EBITDA targets; and 20% upon achievement of a specified target cash balance at December 31, 2010. The Compensation Committee has the discretion to determine that a portion of the restricted stock grant should vest, notwithstanding the fact that a goal is not met, in extraordinary circumstances. All of the financial targets shall be calculated in accordance with our methodologies for financial reporting purposes and, with the exception of cash, exclude the impact of stock-based compensation expense, intangible asset amortization, restructuring and severance charges, contingent consideration adjustments, Cloverleaf acquisition costs and the effects of foreign currency gains or losses and any other non-recurring, one-time charges or adjustments that the Compensation Committee, in its sole discretion, deems appropriate.

In March 2011, the Compensation Committee decided that based on the financial results of the Company relative to the previously established goals, 28% of each of Messrs. Kammersgard and Jamal's 2010 performance-based restricted stock shall be eligible for vesting. The Compensation Committee determined that the Company exceeded one of its previously established goals for revenue for a specified business unit which warranted that 10% of the 2010 performance-based restricted stock grant shall be eligible for vesting. Furthermore, while the Company's performance with respect to the management of cash and cash equivalents was below the established goal, the Compensation Committee concluded that despite net losses in 2010, and cash associated with the acquisition in January 2010 of Cloverleaf Communications Inc. cash and cash equivalents was well managed due to improvements in working capital management processes and more disciplined capital and operating expense deployment. The December 31, 2010 cash and cash equivalent level was above the 2010 Annual Operating Plan target that the Board of Directors had approved in December 2009, but slightly below the goal established by the Compensation Committee for determining vesting eligibility for the performance-based restricted stock granted in 2010. Consequently, the Compensation Committee elected to use its discretion and decided to vest 90% of the 20% of the performance-based restricted stock tied to year end 2010 cash and cash equivalents balance. In accordance with the vesting provisions established at the grant date of the 2010 performance-based restricted stock grant, 50% of the stock eligible for vesting would vest immediately on March 1, 2011 and the remaining 50% would vest on March 1, 2012. Consequently, 10,500 and 8,167 of Messrs. Kammersgard and Jamal's performance-based restricted stock vested on March 1, 2011 and 10,500 and 8,166 will vest on March 1, 2012 as long as the respective executive remains employed by the Company and subject to acceleration of vesting pursuant to the change of control agreements described in Employment and Change of Control Agreements.

In March 2011, the Compensation Committee approved the following grants of restricted stock to our Named Executive Officers for their contributions to the improved financial performance of the Company in 2010 which resulted in the Company reporting its first profitable quarter since the fourth quarter of 2005. In addition, the Compensation Committee recognized that using data based on compensation data presented by Radford as a guideline, both Messrs. Kammersgard and Jamal were being compensated at below the 25<sup>th</sup> percentile in terms of total cash and equity based compensation which was also factored into the Compensation Committee's decision when establishing the grants for 2011.

Executive Officer	Restricted Stock
Dana W. Kammersgard	100,000
Hanif I. Jamal	75,000

The grant date of these restricted stock awards will be the third business day after the first general release of the Company's first quarter 2011 revenue and/or earnings and 50% of such grant shall vest immediately and the remaining 50% shall vest one year after the grant date.

*Fiscal 2011*

In March 2011, the Compensation Committee approved the following equity grants for our Named Executive Officers, Messrs. Kammersgard and Jamal.

Executive Officer	Stock Options
Dana W. Kammersgard	200,000
Hanif I. Jamal	80,000

The options will terminate seven years after the effective date of grant, or earlier in the event the executive officer's service to us is terminated. The grant date of these stock options will be the third business day after the general release of the Company's first quarter 2011 revenue and/or earnings. The exercise price per share of these stock options will be the closing price of our common stock as reported on the NASDAQ Stock Market on the grant date. The options were awarded after taking into consideration tenure with Dot Hill, corporate and individual performance, competitive benchmarks, recommendations from Radford and individual stock ownership. The options vest 25% on the first anniversary of the date of grant with the remaining shares vesting monthly over the following three years.

Also in March 2011, the Compensation Committee approved the following grants of restricted stock to our Named Executive Officers.

Executive Officer	Restricted Stock
Dana W. Kammersgard	75,000
Hanif I. Jamal	37,500

The grant date of this restricted stock will be the third business day after the general release of the Company's first quarter 2011 revenue and/or earnings. The restricted stock granted to Messrs. Kammersgard and Jamal vest in two equal annual installments commencing on the first anniversary of the grant date.

***Change of Control Payments***

We have entered into employment and change of control agreements with each of our Named Executive Officers, the terms of which are described under the headings "Employment and Change of Control Agreements" and "Potential Payments Upon Termination or Change of Control." We believe that these change of control benefits are an essential element of our executive compensation package and assist us in recruiting and retaining talented individuals. We do not provide excessive severance or change of control arrangements which provide for

payments exceeding three times an executive's base salary and bonus. Our change of control agreements for our Named Executive Officers provide only for payments of 1.25 times the annual base salary (not including bonus) in the event of a change in control.

#### ***Employee Stock Purchase Plan***

We have also established our 2000 Amended and Restated Employee Stock Purchase Plan, as amended, or the Amended Purchase Plan, available to all of our employees, including our Named Executive Officers, which is intended to encourage employees to continue in our employ and to motivate employees through an ownership interest in Dot Hill. Under the Amended Purchase Plan, employees may purchase shares of our common stock at a discount to the market price, subject to certain limits, with the objective of allowing employees to profit when the value of our common stock increases over time.

#### ***Other Benefits***

We provide benefits such as an opportunity to participate in our 401(k) savings/retirement plan, medical, dental and life insurance and disability coverage to all our employees, including our Named Executive Officers. We also provide personal paid time off and other paid holidays to all employees, including our Named Executive Officers, which are comparable to those provided at similar companies. Effective January 26, 2009, we eliminated our vacation accrual policy for our executive officers and most of our management. Our Named Executive Officers and management are entitled to paid time-off based on approval of their immediate superior.

#### ***Accounting and Tax Considerations***

Section 162(m) of the Code generally prohibits us from deducting any compensation over \$1 million per taxable year paid to any of our Named Executive Officers unless such compensation is treated as performance-based compensation within the meaning of the Code. As the total compensation paid by us to our Named Executive Officers excluding performance-based compensation is expected to be below \$1 million, the Compensation Committee believes that Section 162(m) will not affect the tax deductions available to Dot Hill with respect to the compensation of its Named Executive Officers. In determining the form and amount of compensation for our Named Executive Officers, the Compensation Committee will continue to consider all elements of the cost of such compensation, including the potential impact of Section 162(m).

#### ***Risk Analysis of Our Compensation Plans***

The Compensation Committee has reviewed our compensation policies as generally applicable to our employees and believes that our policies do not encourage excessive and unnecessary risk-taking, and that the level of risk that they do encourage is not reasonably likely to have a material adverse effect on the Company. The design of our compensation policies and programs encourage our employees to remain focused on both the short-and long-term goals of the Company. For example, while our performance-based restricted stock programs measure performance on an annual basis, our other equity awards typically vest over a number of years, which we believe encourages our Named Executive Officers to focus on sustained stock price appreciation, thus limiting the potential value of excessive risk-taking.



**COMPENSATION OF DIRECTORS**

The following table sets forth in summary form information concerning the compensation that we paid or awarded during the year ended December 31, 2010 to each of our non-employee directors:

**DIRECTOR COMPENSATION FOR FISCAL 2010**

Name	Fees	Stock	Option	Total
	Earned or Paid in Cash (\$)(1)	Awards (\$)(2)(3)	Awards (\$)(2)(4)	
Charles F. Christ(5)	\$ 101,621	\$ 79,604	\$ 11,752	\$ 192,977
Thomas H. Marmen	\$ 43,667	\$ 8,750	\$ 11,752	\$ 64,169
Richard Mejia, Jr.	\$ 63,600	\$ 8,750	\$ 11,752	\$ 84,102
Roderick M. Sherwood, III	\$ 51,000	\$ 8,750	\$ 11,752	\$ 71,502
Kimberly E. Alexy(6)	\$ 23,400	\$	\$	\$ 23,400
Joseph D. Markee(6)	\$ 16,667	\$	\$	\$ 16,667

- (1) Cash amounts in this column represent the portion of the annual retainers, committee fees and meeting fees earned with respect to service during the Company's 2010 fiscal year.
- (2) Amounts listed in this column represent the aggregate grant date fair value of the awards established in accordance with Financial Accounting Standards Board Statement ASC Topic 718 (ASC Topic 718). Assumptions made for the purpose of computing these amounts are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010 in Note 10 to Consolidated Financial Statements under the heading "Stockholders' Equity, Equity Incentive Plans and Warrants."
- (3) The aggregate number of shares subject to stock awards as of December 31, 2010 was 205,561 for Mr. Christ and 10,000 for each of Mr. Marmen, Mr. Mejia and Mr. Sherwood. Each non-employee director was granted a stock award on May 3, 2010 in the amount of 5,000 shares. In addition, Mr. Christ was granted an additional stock award on July 15, 2010 in the amount of 56,683 shares for his service on the Operations Committee. The weighted average grant date fair value of Mr. Christ's 2010 stock awards was \$1.29 per share and the grant date fair value of each of the 2010 stock awards granted to Mr. Marmen, Mr. Mejia and Mr. Sherwood was \$1.75 per share.
- (4) The aggregate number of shares subject to outstanding option awards as of December 31, 2010 was 218,000; 70,000; 70,000; and 110,000 for Mr. Christ, Mr. Marmen, Mr. Mejia, and Mr. Sherwood, respectively. Each non-employee director was granted an option award on May 3, 2010 in the amount of 10,000 shares, for which the grant date fair value was \$1.18 per share.
- (5) Compensation for Mr. Christ includes \$5,621 which is included in the column entitled "Fees Earned or Paid in Cash," and \$70,854 which is included in the column entitled "Stock Awards," for his service as a member of the Operations Committee. In July 2010, in further consideration for service on the Operations Committee, the Board approved additional director compensation for Mr. Christ, which included payment for services rendered in 2010 of \$52,000 and payment for services rendered in prior fiscal years of \$21,074. The Operations Committee compensation of \$73,074, consisted of i) a grant of 56,683 shares of restricted stock valued at the closing price of our common stock on the NASDAQ Stock Market as of June 30, 2010 and ii) a cash payment equal to the difference between the \$73,074 and the value of the restricted awards, resulting in cash consideration of \$5,621.
- (6) Ms. Alexy and Mr. Markee ceased serving as directors after the 2010 Annual Meeting of Stockholders. Each of our non-employee directors, excluding the Chairman of the Board, receives an annual fee of \$24,000 plus an additional fee of \$1,000 for each scheduled regular meeting of the Board. The Chairman of the Board receives an annual fee of \$72,000 plus an additional fee of \$1,000 for each scheduled regular meeting of the Board.



Members of the Audit, Compensation and Nominating and Corporate Governance Committees of our Board of Directors also receive additional fees. Each Audit Committee member receives an annual fee of \$5,000, with the exception of the Chair of the Audit Committee, who receives an annual fee of \$7,000.

Each Compensation and Nominating and Corporate Governance Committee member receives an annual fee of \$3,000 for each such committee on which they serve, with the exception of the Chair of each of the committees, who receives an annual fee of \$4,000. Committee members also receive \$1,000 for each committee meeting attended, independent of the particular committee.

Members of the Special Litigation Committee also receive \$200 for each hour of committee service provided.

In addition, Mr. Christ received an additional fee for his service as a member of the Operations Committee. During the fiscal year ended December 31, 2010, Mr. Christ earned \$52,000 for service on the Operations Committee pursuant to terms approved by the Board. In July 2010, in further consideration for service on the Operations Committee, the Board approved this additional director compensation for Mr. Christ, which included payment for services rendered in 2010 of \$52,000 and payment for services rendered in prior fiscal years of \$21,074. The Operations Committee compensation of \$73,074, consisted of i) a grant of 56,683 shares of restricted stock valued at the closing price of our common stock on the NASDAQ Stock Market as of June 30, 2010 and ii) a cash payment equal to the difference between the \$73,074 and the value of the restricted awards, resulting in cash consideration of \$5,621. Subject to his continued service to us, 25% of the restricted stock award vests on each of the first, second, third and fourth anniversaries of the date of the grant, such that the restricted stock award will be fully vested four years from the date of the grant.

During the fiscal year ended December 31, 2010, the total cash compensation paid to non-employee directors was \$407,150. All members of our Board of Directors are also eligible for reimbursement for their expenses incurred in connection with attendance at Board and committee meetings or other Board related functions in accordance with Dot Hill policy.

Each of our non-employee directors may receive discretionary equity award grants under our 2009 Plan and also receives non-discretionary stock option grants under the Directors' Plan. Only our non-employee directors are eligible to receive options under the Directors' Plan. Options granted under the Directors' Plan are intended not to qualify as incentive stock options under the Code.

Option grants under the Directors' Plan are non-discretionary. Each person who is elected or appointed as a director and who, for at least one year preceding such election or appointment, has at no time served as a non-employee director, is automatically granted under the Directors' Plan, without further action by us, our Board of Directors or our stockholders, an option to purchase 50,000 shares of our common stock as of the date of such election or appointment. In addition, as of the date of the annual meeting each year, each member of our Board of Directors who is not an employee and has served as a non-employee director for at least four months is automatically granted under the Directors' Plan and without further action by us, our Board of Directors or our stockholders, an option to purchase 10,000 shares of our common stock. During the 2009 Annual Meeting, the Board approved an amendment to the Directors' Plan to reduce the number of shares available to the automatic annual grant from 20,000 to 10,000 stock options. The Board also approved an automatic grant under the 2009 Plan, as of the date of the annual meeting each year and without further action by us, of 5,000 shares of common stock to each of our non-employee directors. The first such automatic grant was effected on the date of our 2009 Annual Meeting of the Stockholders. No other options may be granted at any time under the Directors' Plan.

The exercise price of options granted under the Directors' Plan may not be less than 100% of the fair market value of the common stock subject to the option on the date of the option grant, which is deemed to be equal to the closing sales price of our common stock as reported on the NASDAQ Stock Market on the last market trading day prior to the effective date of grant. Initial option grants under the Directors' Plan become exercisable, or vest,

over four years during the option holder's service as a director of the Company and any subsequent employment of the option holder by, and/or service by the option holder as a consultant to, us or an affiliate, collectively referred to as service. With respect to any initial grant of options, 25% of such options vest after one year of service and the remainder vest monthly over the next 36 months. Initial option grants under the Directors' Plan permit exercise prior to vesting, but in such event, the option holder is required to enter into an early exercise stock purchase agreement that allows us to repurchase unvested shares, generally at their exercise price, should the option holder's service terminate. Annual option grants under the Directors' Plan are fully vested on the date of grant. The term of options granted under the Directors' Plan is 10 years. In the event of our merger with or into another corporation or a consolidation, acquisition of assets or other change of control transaction involving us, the vesting of each option will accelerate and the option will terminate if not exercised prior to the consummation of the transaction.

During 2010, we granted options under the Directors' Plan covering 10,000 shares to each of our four non-employee directors as of our 2010 Annual Meeting of Stockholders, at an exercise price of \$1.75 per share (based on the closing sales price reported on the NASDAQ Stock Market on the date of grant). During 2010, we also granted common stock under the 2009 Plan covering 5,000 shares to each of our four non-employee directors as of our 2010 Annual Meeting of Stockholders. The closing price of our common stock on the date of grant was \$1.75 per share. In 2010, we also granted Mr. Christ 56,683 shares of restricted stock under the 2009 Plan for his service on the Operations Committee. The restricted stock is subject to vesting as follows: 25% of the restricted stock award vests on each of the first, second, third and fourth anniversaries of the date of the grant, such that the restricted stock award will be fully vested four years from the date of the grant. The term of options and restricted stock awards granted under the 2009 Plan is seven years.

#### COMPENSATION OF EXECUTIVE OFFICERS

##### Summary of Compensation

The following table sets forth in summary form information concerning the compensation that was earned during the fiscal years ended December 31, 2008, 2009 and 2010 by our Chief Executive Officer and Chief Financial Officer. We refer to these officers in this proxy statement as our Named Executive Officers.

Summary Compensation Table(1)

Name and Principal Position	Year	Salary	Bonus(2)	Stock Awards(3)	Option Awards(4)	All Other Compensation(5)	Total
Dana W. Kammersgard	2010	\$ 380,000	\$	\$ 63,375	\$ 140,625	\$ 10,640(6)	\$ 594,640
	2009	\$ 367,500	\$ 50,000	\$ 40,250	\$	\$ 110,040(7)	\$ 567,790
<i>President and Chief Executive Officer</i>	2008	\$ 367,500	\$	\$	\$ 259,300	\$	\$ 626,800
Hanif I. Jamal <i>Senior Vice President, Chief Financial Officer, Treasurer, and Corporate Secretary</i>	2010	\$ 294,500	\$	\$ 49,291	\$ 109,375	\$ 44,015(8)	\$ 497,181
	2009	\$ 270,000	\$ 50,000	\$ 34,500	\$	\$	\$ 354,500
	2008	\$ 270,000	\$	\$	\$ 259,300	\$	\$ 529,300

- (1) In accordance with the rules of the SEC, the compensation described in this table does not include various perquisites and other personal benefits received by a Named Executive Officer which do not exceed \$10,000 in the aggregate.
- (2) The Compensation Committee approved discretionary cash bonuses of \$50,000 to each Messrs. Kammersgard and Jamal on January 20, 2010 in consideration for services provided in 2009. There were no cash bonuses earned during the fiscal years ended December 31, 2010 and 2008, respectively.
- (3) Amounts listed in this column represent the aggregate grant date fair value calculated in accordance with ASC Topic 718 during the applicable fiscal year. Assumptions made for the purpose of computing these

amounts are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010 in Note 10 to Consolidated Financial Statements under the heading "Stockholders' Equity, Equity Incentive Plans and Warrants."

Messrs. Kammersgard and Jamal received performance-based restricted stock awards in fiscal 2010 covering 75,000 and 58,333 shares, respectively, for which 50% of the performance target benchmarks were considered probable of occurring at the grant date for each of Mr. Kammersgard and Mr. Jamal. Assuming 100% of the performance target benchmarks were achieved, the grant date fair value would have been \$126,750 and \$98,583 for Mr. Kammersgard and Mr. Jamal, respectively. In March 2011, the Compensation Committee decided that based on the financial results of the Company relative to the previously established goals for fiscal year 2010, 28% of each of Messrs. Kammersgard and Jamal's 2010 performance based restricted stock was eligible for vesting. In accordance with the vesting provisions established at the grant date of the 2010 performance based restricted stock grant, 50% of the stock eligible for vesting vest immediately on March 1, 2011 and the remaining 50% vest on March 1, 2012. Consequently, 10,500 and 8,167 shares of the performance-based restricted stock granted to Messrs. Kammersgard and Jamal, respectively, vested on March 1, 2011 and 10,500 and 8,166 shares will vest on March 1, 2012 as long as the respective executive remains employed by the Company.

Messrs. Kammersgard and Jamal received performance-based restricted stock awards in fiscal 2009 covering 175,000 and 125,000 shares, respectively, for which 50% and 60%, respectively, of the performance target benchmarks were considered probable of occurring at the grant date. Assuming 100% of the performance target benchmarks were achieved, the grant date fair value would have been \$80,500 and \$57,500 for Mr. Kammersgard and Mr. Jamal, respectively. In March 2010, based on the financial results of the Company relative to the previously established goals, the Compensation Committee approved that 50% of Mr. Kammersgard's and 60% of Mr. Jamal's performance based restricted awards would vest.

Messrs. Kammersgard and Jamal received performance-based restricted stock awards in fiscal year 2008 covering 50,000 and 30,000 shares, respectively, for which we recognized no compensation expense during fiscal 2009 as we determined that it was not probable that the performance criteria would be met. Assuming 100% of the performance target benchmarks were achieved, the grant date fair value would have been \$122,500 and \$73,500 for Mr. Kammersgard and Mr. Jamal, respectively.

- (4) Amounts listed in this column represent the aggregate grant date fair value calculated in accordance with ASC Topic 718 during the applicable fiscal year. Assumptions made for the purpose of computing these amounts are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010 in Note 10 to Consolidated Financial Statements under the heading "Stockholders' Equity, Equity Incentive Plans and Warrants." For financial statement reporting purposes, we recognize only the portion of the above values related to those awards which vested during the period.
  - (5) Amounts listed in this column represent perquisites and personal benefits in which the aggregate amount for any given individual exceeded \$10,000 for the fiscal year.
  - (6) Includes \$9,600 for an annual automobile allowance and \$1,040 of company-paid life insurance premiums.
  - (7) Includes \$101,000 paid by the Company to cover costs of relocating from California to Colorado, \$8,000 for an annual automobile allowance, and \$1,040 of company-paid life insurance premiums.
  - (8) Includes \$12,958 paid by the Company to cover costs of relocating from California to Colorado, \$20,417 of relocation allowance earned in 2010, \$9,600 for an annual automobile allowance, and \$1,040 of company-paid life insurance premiums.
- As a result of Mr. Jamal relocating from California to Colorado, the Company will pay for all of his eligible household goods and family moving expenses in accordance with the Company's relocation policy. In addition, the Company will provide Mr. Jamal with a monthly relocation allowance over a 24 month period equal to \$150,000 less the amount of costs paid by the Company for Mr. Jamal's household goods and family moving expenses.

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## Employment and Change of Control Agreements

In December 2008, we entered into an Amended and Restated Employment Agreement, or the CEO Agreement, with Mr. Kammersgard. The CEO Agreement replaced and superseded the Employment Agreement and Change of Control Agreement we entered into with Mr. Kammersgard on August 2, 1999 and April 6, 2006, respectively, referred to together as the Prior Agreements.

The Prior Agreements were replaced by the CEO Agreement primarily to address changes in the tax laws, including changes governing nonqualified deferred compensation arrangements (such as severance arrangements) under Section 409A of the Code. The CEO Agreement provides that any payments and benefits pursuant to the CEO Agreement, referred to as Severance Benefits, that constitute deferred compensation within the meaning of Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect, referred to collectively as Section 409A, shall not commence following termination of employment unless and until Mr. Kammersgard has also incurred a separation from service (as such term is defined in Treasury Regulation Section 1.409A-1(h)), unless we reasonably determine that such amounts may be paid without causing Mr. Kammersgard to incur the additional 20% tax under Section 409A. However, if we determine that the Severance Benefits constitute deferred compensation under Section 409A and Mr. Kammersgard is, upon termination, a specified employee of ours (as such term is defined in Section 409A(a)(2)(B)(i) of the Code), then the timing of payment by us of Severance Benefits may be delayed solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A.

Additionally, under the CEO Agreement, Mr. Kammersgard is eligible to receive, subject to approval by our Compensation Committee, an annual discretionary bonus pursuant to our executive compensation plans for each fiscal year. Consistent with his previous severance benefits, if Mr. Kammersgard is terminated without cause or terminates his employment for good reason prior to the effective date of a change of control, then he is entitled to a single lump sum cash payment equal to 100% of his then current base salary. If Mr. Kammersgard continues his employment through the effective date of a change of control, then he is entitled to a single lump sum cash payment equal to 125% of his annual base salary in effect immediately prior to the change of control, referred to as the CEO Change of Control Bonus. If Mr. Kammersgard is terminated without cause or terminates his employment for good reason following the effective date of a change of control, then he is entitled to a single lump sum cash payment equal to 100% of his annual base salary in effect at the time of termination, less any CEO Change of Control Bonus paid to Mr. Kammersgard and provided that his annual base salary at the time of termination exceeds his annual base salary in effect immediately prior to the change of control by at least 25%. Further, in the event Mr. Kammersgard continues his employment through the effective date of a change of control, all unvested equity awards granted to Mr. Kammersgard will accelerate in full. In the event his employment is terminated, other than for death or complete disability, we have the right to retain Mr. Kammersgard as a consultant during the 12 months following his termination, referred to as the CEO Consulting Period, for a period of up to 12 days during such CEO Consulting Period. In exchange for his availability during the CEO Consulting Period, Mr. Kammersgard is entitled to a cash payment equal to 25% of his annual base salary at the time of termination, payable in four equal quarterly installments commencing within five days of his termination.

In March 2009, we entered into an Amended and Restated Employment Agreement, or the CFO Agreement, with Mr. Jamal. The CFO Agreement replaces and supersedes the Employment Agreement entered into with Mr. Jamal on December 18, 2008.

Under the CFO Agreement, Mr. Jamal is eligible to receive, subject to approval by our Compensation Committee, an annual discretionary bonus pursuant to our executive compensation plans for each fiscal year. If Mr. Jamal is terminated without cause or terminates his employment for good reason prior to the effective date of a change of control, then he is entitled to a single lump sum cash payment equal to 100% of his then current base salary. If Mr. Jamal continues his employment through the effective date of a change of control, then he is

entitled to a single lump sum cash payment equal to 125% of his annual base salary in effect immediately prior to the change of control, referred to as the CFO Change of Control Bonus. If Mr. Jamal is terminated without cause or terminates his employment for good reason following the effective date of a change of control, then he is entitled to a single lump sum cash payment equal to 100% of his annual base salary in effect at the time of termination, less any CFO Change of Control Bonus paid to Mr. Jamal and provided that his annual base salary at the time of termination exceeds his annual base salary in effect immediately prior to the change of control by at least 25%. Further, in the event Mr. Jamal continues his employment through the effective date of a change of control, all unvested equity awards granted to Mr. Jamal will accelerate in full. In the event his employment is terminated, other than for death or complete disability, we have the right to retain Mr. Jamal as a consultant during the 12 months following his termination, referred to as the CFO Consulting Period, for a period of up to 12 days during such CFO Consulting Period. In exchange for his availability during the CFO Consulting Period, Mr. Jamal is entitled to a cash payment equal to 25% of his annual base salary at the time of termination, payable in four equal quarterly installments commencing within five days of his termination.

In establishing the triggering events for payment obligations in connection with termination and/or change of control events under our employment and change of control agreements with our Named Executive Officers, the Compensation Committee carefully considered a variety of factors. Payments upon termination by us without cause or by the employee for good reason are provided because we consider such a termination to be generally beyond the control of a terminated employee and a termination that under different circumstances would not have occurred. The termination benefits are intended to ease the consequences to an employee of an unexpected termination of employment. Dot Hill benefits by requiring a general release from terminated employees. In addition, Dot Hill may request non-compete and non-solicitation provisions in connection with individual separation agreements. Payments and option acceleration in connection with a change of control are intended to mitigate the distraction and loss of key management personnel that may occur in connection with rumored or actual fundamental corporate changes. Such payments protect stockholder interests by enhancing employee focus during rumored or actual change of control activity through providing incentives to remain with Dot Hill despite uncertainties while a transaction is under consideration and by encouraging the executives responsible for negotiating potential transactions to do so with independence and objectivity. Furthermore, these payments assist the Company in attracting and retaining highly valued executives.

#### Potential Payments Upon Termination or Change Of Control

The following table sets forth potential payments to our Named Executive Officers upon various termination or change of control events assuming such events occurred as of December 31, 2010.

Name	Benefit(1)	Termination Without Cause or Upon Good Reason	Change of Control	Termination Without Cause or Upon Good Reason after Change of Control
Dana W. Kammersgard	lump sum cash	\$ 360,000	\$ 450,000	(2)
	option vesting acceleration		\$ 46,500	
	restricted stock vesting acceleration		\$ 18,375	
Hanif I. Jamal	lump sum cash	\$ 279,000	\$ 348,750	(2)
	option vesting acceleration		\$ 36,167	
	restricted stock vesting acceleration		\$ 14,291	

(1) Amounts shown for option vesting acceleration represent the value of in-the-money unvested options that would have accelerated if the change of control occurred on December 31, 2010 based on the difference between the market value of our common stock on that date and the exercise price of the respective options.

(2) Each Named Executive Officer is entitled to a lump sum cash payment equal to 100% of his annual base salary in effect at the time of termination, less any lump sum cash payments previously made to the Named Executive Officer in connection with a change of control. Lump sum payments reflected in this column are

contingent upon the Named Executive Officer's annual base salary at the time of termination exceeding his annual base salary in effect immediately prior to the change of control by at least 25%. If following a change of control, the Named Executive Officer's termination without cause or resignation for good reason occurred on December 31, 2010, and assuming Messrs. Kammersgard and Jamal's annual base salaries were \$360,000 and \$279,000, respectively, as of such date, Messrs. Kammersgard and Jamal would not receive any payments in connection with such termination.

**Grants of Plan-Based Awards During Fiscal Year Ended 2010**

Historically, we granted stock awards to our executive officers under the 2000 Plan. On June 15, 2009, the stockholders approved the 2009 Plan, which both increased the number of shares available for future awards to both executives and non-executive employees, as well as modified certain terms of future awards.

Subsequent to the 2009 Annual Meeting of the Stockholders, we granted stock awards to our executive officers under the 2009 Plan. As of February 1, 2011, options to purchase a total of 978,500 shares were outstanding, awards other than stock options and stock appreciation rights covering an aggregate of 1,538,326 shares were outstanding and 2,087,866 shares were available for future grant under the 2009 Plan. As of February 1, 2011, options to purchase a total of 4,774,759 shares were outstanding under the 2000 Plan.

All stock options granted to our Named Executive Officers are incentive stock options, to the extent permissible under the Code. Generally, 25% of the shares subject to options vest one year from the date of grant and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to acceleration of vesting pursuant to the change of control agreements described in Employment and Change of Control Agreements. However, commencing with grants in February 2009 and thereafter, 25% of the shares subject to stock option and restricted stock awards typically vest on each anniversary from the effective date of grant, subject to acceleration of vesting pursuant to the change of control agreements described in Employment and Change of Control Agreements. Options under the Prior Plans expire 10 years from the date of grant, and options under the 2009 Plan expire seven years from the date of grant. The exercise price per share of each option granted to our Named Executive Officers was equal to the fair market value of our common stock on the date of the grant. Under the Prior Plans, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the NASDAQ Stock Market on the last market trading day prior to such date. Under the 2009 Plan, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the NASDAQ Stock Market on such date, or if such date is not a trading day, the last market trading day prior to such date.

The following table provides information regarding grants of plan-based awards to the Named Executive Officers in the fiscal year ended December 31, 2010.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Dana W. Kammersgard	1/20/10	\$	\$ 160,000	\$		75,000				\$	\$ 126,750
	3/9/10	\$	\$	\$				150,000		\$ 1.44	\$ 140,625
Hanif I. Jamal	1/20/10	\$	\$ 100,750	\$		58,333				\$	\$ 98,583
	3/9/10	\$	\$	\$				116,667		\$ 1.44	\$ 109,375

(1) In June 2010, the Compensation Committee terminated both the 2010 Executive Compensation Plan and the stretch cash bonus pool. Accordingly, no awards were granted, earned or paid under these plans. The target payout under the 2010 Executive Compensation Plan was 40% and 32.5% of each of Messrs. Kammersgard's and Jamal's base salary, respectively. There were no thresholds or maximums established under the 2010 Executive Compensation



Plan. The target payout under the stretch cash bonus pool was \$205,662 and \$129,503, respectively, for Messrs. Kammergard and Jamal. A description of the non-equity based compensation plans terminated in July 2010 can be found under the heading Compensation Discussion and Analysis Annual Performance-Based Bonus.

- (2) The amounts shown in these columns represent the maximum and target vesting levels for the fiscal 2010 performance-based restricted stock awards. 28% of Mr. Kammergard's and Mr. Jamal's performance-based restricted stock awards granted in 2010 were achieved during 2010, of which 50% of such shares vested on March 1, 2011 and 50% are scheduled to vest on March 1, 2012. Please see Compensation Discussion and Analysis Long-Term and Performance-Based Equity Incentives in this proxy statement for a detailed description of the vesting provisions applicable to these restricted stock awards.
- (3) Amounts listed in this column represent the aggregate full grant date fair value computed in accordance with ASC Topic 718. Assumptions made for the purpose of computing these amounts are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010 in Note 10 to Consolidated Financial Statements under the heading Stockholders' Equity, Equity Incentive Plans and Warrants.

**Outstanding Equity Awards at Fiscal Year-End 2010**

The following table provides information regarding all outstanding equity awards held by each of our Named Executive Officers as of December 31, 2010.

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Dana W. Kammergard	100,000	(1)		\$ 1.89	7/23/2011				
	50,000	(1)		\$ 3.10	1/1/2013				
	50,000	(1)		\$ 15.15	1/1/2014				
	250,000	(1)		\$ 6.25	11/1/2014				
	80,000	(1)		\$ 6.10	1/31/2015				
	150,000	(1)		\$ 6.87	3/7/2016				
	191,667	8,333(1)		\$ 3.57	2/27/2017				
	68,749	31,251(1)		\$ 2.40	3/18/2018				
	43,749	31,251(1)		\$ 2.36	8/11/2018				
	150,000(2)		\$ 1.44	3/9/2017					
							75,000	\$ 126,750	
Hanif Jamal	225,000	(1)		\$ 3.03	7/31/2016				
	71,875	3,125(1)		\$ 3.57	2/27/2017				
	68,748	31,252(1)		\$ 2.40	3/18/2018				
	43,750	31,250(1)		\$ 2.36	8/11/2018				
		116,667(2)		\$ 1.44	3/9/2017				
							58,333	\$ 98,583	

- (1) Unvested options granted under the 2000 Plan. 25% of the shares subject to the options vest one year from the date of grant and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to acceleration of vesting pursuant to the

change of control agreements described in Employment and Change of Control Agreements.

- (2) Unvested options granted under the 2009 Plan. 25% of the shares subject to the options vest one year from the date of grant and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to acceleration of vesting pursuant to the change of control agreements described in Employment and Change of Control Agreements.
- (3) Shares appearing in this column are performance-based restricted stock awards for 2010. Please see Compensation Discussion and Analysis in this proxy statement for a detailed description of the vesting provisions applicable to these restricted stock awards.

**Option Exercises and Stock Vested During Fiscal Year-End 2010**

None of our Named Executive Officers exercised stock options during 2010. The following table shows, for the fiscal year ended December 31, 2010, certain information regarding stock vested during the last fiscal year with respect to the Named Executive Officers:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise(\$)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting(\$)
Dana W. Kammersgard			87,500	\$ 147,875
Hanif Jamal			75,000	\$ 126,750

Messrs. Kammersgard and Jamal received performance-based restricted stock awards in fiscal 2009 covering 175,000 and 125,000 shares, respectively, for which 87,500 shares granted to Mr. Kammersgard vested in 2010 and 75,000 shares granted to Mr. Jamal vested in 2010.

**Pension Benefits at Fiscal Year-End 2010**

We have no pension plans.

**Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans at Fiscal Year-End 2010.**

We have no nonqualified defined contribution or other nonqualified deferred compensation plans.

**POLICIES AND PROCEDURES WITH RESPECT TO RELATED PARTY TRANSACTIONS**

Our Board of Directors is committed to upholding the highest legal and ethical conduct in fulfilling its responsibilities and recognizes that related party transactions can present a heightened risk of potential or actual conflicts of interest. Accordingly, as a general matter, it is Dot Hill's preference to avoid related party transactions. Our Audit Committee Charter requires that members of the Audit Committee, all of whom are independent directors, review and approve all related party transactions for which such approval is required under applicable law, including SEC rules and NASDAQ listing standards. A related party transaction includes any transaction, arrangement or relationship involving an amount that exceeds \$120,000 in which Dot Hill is a participant and in which any of the following persons has or will have a direct or indirect interest: any executive officer, director, or more than 5% stockholder of Dot Hill, including any of their immediate family members, and any entity owned or controlled by such persons.

In addition, the Audit Committee is responsible for reviewing and investigating any matters pertaining to the integrity of management, including conflicts of interest and adherence to our Code of Business Conduct and Ethics. Under our Code of Business Conduct and Ethics, directors, officers and all other members of the workforce are expected to avoid any relationship, influence or activity that would cause or even appear to cause a conflict of interest.

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**TRANSACTIONS WITH RELATED PERSONS**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

During the fiscal year ended December 31, 2010, we granted options to purchase an aggregate of 40,000 shares of our common stock to our non-employee directors, each with an exercise price per share of \$1.75. During the fiscal year ended December 31, 2010, we also granted common stock covering an aggregate of 20,000 shares to our non-employee directors. The closing price of our common stock on the date of grant was \$1.75 per share. During the fiscal year ended December 31, 2010, we also granted an aggregate of 56,683 shares of restricted stock to one non-employee director. The closing price of our common stock on the date of grant was \$1.25 per share.

During the fiscal year ended December 31, 2010, we granted options to purchase an aggregate of 266,667 shares of our common stock to our Named Executive Officers, each with an exercise price per share of \$1.44. Additionally, during the fiscal year ended December 31, 2010, we granted restricted stock awards to our Named Executive Officers covering an aggregate of 133,333 shares of our common stock. The closing price of our common stock on the date of grant was \$1.69 per share.

Our bylaws provide that we will indemnify our directors and executive officers, and may indemnify other officers, employees and other agents, to the fullest extent permitted by law. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us. We have obtained a policy of directors and officers liability insurance.

We have entered, and intend to continue to enter, into indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, require us to indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

Please see [Employment and Change of Control Agreements](#) and [Potential Payments Upon Termination or Change-in-Control](#).

**HOUSEHOLDING OF PROXY MATERIALS**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for Annual Meeting materials with respect to two or more stockholders sharing the same address by delivering a single set of Annual Meeting materials addressed to those stockholders. This process, which is commonly referred to as [householding](#), potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are Dot Hill common stockholders will be [householding](#) the Company's proxy materials. A single set of Annual Meeting materials will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be [householding](#) communications to your address, [householding](#) will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in [householding](#) and would prefer to receive a separate set of Annual Meeting materials, please notify your broker or the Company. Direct your written request to Hanif Jamal (*Chief Financial Officer*), 1351 South Sunset Street, Longmont, CO 80501 or contact Hanif Jamal at (303) 845-3200. Stockholders who currently receive multiple copies of the Annual Meeting materials at their addresses and would like to request [householding](#) of their communications should contact their brokers.

**OTHER MATTERS**

Our Board of Directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

/s/ DANA W. KAMMERSGARD

Dana W. Kammersgard

*President and Chief Executive Officer*

Longmont, Colorado

March 25, 2011

**A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC is available without charge upon written request to: 1351 South Sunset Street, Longmont, CO 80501, Attn: Secretary.**

**DOT HILL SYSTEMS CORP.**

**2009 EQUITY INCENTIVE PLAN**

**ADOPTED BY THE BOARD OF DIRECTORS: APRIL 27, 2009**

**APPROVED BY THE STOCKHOLDERS: JUNE 15, 2009**

**AMENDMENT ADOPTED BY THE BOARD OF DIRECTORS: MARCH 1, 2011**

**AMENDMENT APPROVED BY THE STOCKHOLDERS: MAY 2, 2011**

**TERMINATION DATE: APRIL 26, 2019**

**1. GENERAL.**

**(a) Successor to and Continuation of Prior Plans.** The Plan is intended as the successor to and continuation of the Dot Hill Systems Corp. 2000 Amended and Restated Equity Incentive Plan and the Dot Hill Systems Corp. 1995 Incentive Program, as Amended and Restated (the *Prior Plans* ). Following the Effective Date, no additional stock awards shall be granted under the Prior Plans. Any shares remaining available for issuance pursuant to the exercise of options or settlement of stock awards under the Prior Plans as of the Effective Date (the *Prior Plans Available Reserve* ) shall become available for issuance pursuant to Stock Awards granted hereunder. From and after the Effective Date, all outstanding stock awards granted under the Prior Plans shall remain subject to the terms of the Prior Plans; *provided, however*, any shares subject to outstanding stock awards granted under the Prior Plans that expire or terminate for any reason prior to exercise or settlement (the *Returning Shares* ) shall become available for issuance pursuant to Awards granted hereunder. All Awards granted on or after the Effective Date of this Plan shall be subject to the terms of this Plan.

**(b) Eligible Award Recipients.** The persons eligible to receive Awards are Employees, Directors and Consultants.

**(c) Available Awards.** The Plan provides for the grant of the following Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Performance Stock Awards, (vii) Performance Cash Awards, and (viii) Other Stock Awards.

**(d) Purpose.** The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Awards as set forth in Section 1(b), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Awards.

**2. ADMINISTRATION.**

**(a) Administration by Board.** The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

**(b) Powers of Board.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time (A) which of the persons eligible under the Plan shall be granted Awards; (B) when and how each Award shall be granted; (C) what type or combination of types of Award shall be granted; (D) the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive cash or Common Stock pursuant to a Stock Award; (E) the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person; and (F) the Fair Market Value applicable to a Stock Award.

1.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

(v) To suspend or terminate the Plan at any time. Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or to bring the Plan or Awards granted under the Plan into compliance therewith, subject to the limitations, if any, of applicable law. However, except as provided in Section 9(a) relating to Capitalization Adjustments, to the extent required by applicable law or listing requirements, stockholder approval shall be required for any amendment of the Plan that either (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (D) materially extends the term of the Plan, or (E) expands the types of Awards available for issuance under the Plan. Except as provided above, rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (1) the Company requests the consent of the affected Participant, and (2) such Participant consents in writing.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding incentive stock options or (C) Rule 16b-3.

(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided however*, that except with respect to amendments that disqualify or impair the status of an Incentive Stock Option, a Participant's rights under any Award shall not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent if necessary to maintain the qualified status of the Award as an Incentive Stock Option or to bring the Award into compliance with Section 409A of the Code.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.



(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States.

**(c) DELEGATION TO COMMITTEE.**

**(i) General.** The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revert in the Board some or all of the powers previously delegated.

**(ii) Section 162(m) and Rule 16b-3 Compliance.** The Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3.

**(d) Effect of Board's Decision.** All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

**(e) Cancellation and Re-Grant of Stock Awards.** Neither the Board nor any Committee shall have the authority to: (i) reduce the exercise price of any outstanding Options or Stock Appreciation Rights under the Plan, or (ii) cancel any outstanding Options or Stock Appreciation Rights that have an exercise price or strike price greater than the current Fair Market Value of the Common Stock in exchange for cash or other Stock Awards under the Plan, unless the stockholders of the Company have approved such an action within twelve (12) months prior to such an event.

**3. SHARES SUBJECT TO THE PLAN.**

**(a) Share Reserve.** Subject to Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards from and after the Effective Date shall not exceed 20,520,535 shares (the **Share Reserve**), which number is the sum of (i) the number of shares subject to the Prior Plans Available Reserve, (ii) an additional 12,500,000 new shares, plus (iii) an additional number of shares in an amount not to exceed 7,112,217 shares (which number consists of the Returning Shares, if any, as such shares become available from time to time). For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of the Common Stock that may be issued pursuant to the Plan and does not limit the granting of Stock Awards except as provided in Section 7(a). Shares may be issued in connection with a merger or acquisition as permitted by, as applicable, NASDAQ Marketplace Rule 4350(i)(1)(A)(iii), NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable stock exchange rules, and such issuance shall not reduce the number of shares available for issuance under the Plan. Furthermore, if a Stock Award or any portion thereof (i) expires or otherwise terminates without all of the shares covered by such Stock Award having been issued or (ii) is settled in cash (*i.e.*, the Participant receives cash rather than stock), such expiration, termination or settlement shall not reduce (or otherwise offset) the number of shares of Common Stock that may be available for issuance under the Plan.

**(b)** Subject to subsection 3(c), the number of shares available for issuance under the Plan shall be reduced by: (i) one (1) share for each share of stock issued pursuant to (A) an Option granted under Section 5, or (B) a Stock Appreciation Right granted under Section 5 with respect to which the strike price is at least one hundred percent (100%) of the Fair Market Value of the underlying Common Stock on the date of grant; and (ii) 1.5 shares for each share of Common Stock issued pursuant to a Restricted Stock Award, Restricted Stock Unit Award, Performance Stock Award or Other Stock Award.

**(c) Reversion of Shares to the Share Reserve.**

**(i) Shares Available For Subsequent Issuance.** If any shares of common stock issued pursuant to a Stock Award are forfeited back to the Company because of the failure to meet a contingency or condition required to vest such shares in the Participant, then the shares that are forfeited shall revert to and again become available for issuance under the Plan. Notwithstanding the provisions of this Section 3(c)(i), any such shares shall not be subsequently issued pursuant to the exercise of Incentive Stock Options. To the extent there is issued a share of Common Stock pursuant to a Restricted Stock Award, Restricted Stock Unit Award, Performance Stock Award or Other Stock Award, and such share of Common Stock again becomes available for issuance under the Plan pursuant to this Section 3(c), then the number of shares of Common Stock available for issuance under the Plan shall increase by 1.5 shares.

**(ii) Shares Not Available For Subsequent Issuance.** If any shares subject to a Stock Award are not delivered to a Participant because the Stock Award is exercised through a reduction of shares subject to the Stock Award (*i.e.*, net exercised ), the number of shares that are not delivered to the Participant shall not remain available for issuance under the Plan. Also, any shares reacquired by the Company pursuant to Section 8(g) or as consideration for the exercise of an Option shall not again become available for issuance under the Plan.

**(d) Incentive Stock Option Limit.** Notwithstanding anything to the contrary in this Section 3 and, subject to the provisions of Section 9(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options shall be the number of shares in the Share Reserve.

**(e) Source of Shares.** The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

**4. ELIGIBILITY.**

**(a) Eligibility for Specific Stock Awards.** Incentive Stock Options may be granted only to employees of the Company or a parent corporation or subsidiary corporation thereof (as such terms are defined in Sections 424(e) and (f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided, however*, Nonstatutory Stock Options and SARs may not be granted to Employees, Directors, and Consultants who are providing Continuous Services only to any parent of the Company, as such term is defined in Rule 405 promulgated under the Securities Act, unless such Stock Awards comply with the distribution requirements of Section 409A of the Code.

**(b) Ten Percent Stockholders.** A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

**(c) Section 162(m) Limitation on Annual Grants.** Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, no Participant shall be eligible to be granted during any calendar year Options, Stock Appreciation Rights and Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value on the date the Stock Award is granted covering more than 2,000,000 shares of Common Stock.

**5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.**

Each Option or SAR shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates shall be issued for

shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, then the Option shall be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Option Agreement or Stock Appreciation Right Agreement shall conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

**(a) Term.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR shall be exercisable after the expiration of seven (7) years from the date of its grant or such shorter period specified in the Award Agreement.

**(b) Exercise Price.** Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise price (or strike price) of each Option or SAR shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Option or SAR is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise price (or strike price) lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR if such Option or SAR is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Sections 409A and, if applicable, 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

**(c) Purchase Price for Options.** The purchase price of Common Stock acquired pursuant to the exercise of an Option shall be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board shall have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to utilize a particular method of payment. The permitted methods of payment are as follows:

**(i)** by cash, check, bank draft or money order payable to the Company;

**(ii)** pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

**(iii)** by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

**(iv)** if the option is a Nonstatutory Stock Option, by a net exercise arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued; *provided, further*, that shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are reduced to pay the exercise price pursuant to the net exercise, (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

**(v)** in any other form of legal consideration that may be acceptable to the Board.

**(d) Exercise and Payment of a SAR.** To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right. The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of

shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (B) the strike price that will be determined by the Board at the time of grant of the Stock Appreciation Right. The appreciation distribution in respect to a Stock Appreciation Right may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Stock Appreciation Right Agreement evidencing such Stock Appreciation Right.

**(e) Transferability of Options and SARs.** The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board shall determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs shall apply:

**(i) Restrictions on Transfer.** An Option or SAR shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant; *provided, however*, that the Board may, in its sole discretion, permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws upon the Participant's request. Except as explicitly provided herein, neither an Option nor a SAR may be transferred for consideration.

**(ii) Domestic Relations Orders.** Notwithstanding the foregoing, an Option or SAR may be transferred pursuant to a domestic relations order; *provided, however*, that if an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

**(iii) Beneficiary Designation.** Notwithstanding the foregoing, the Participant may, by delivering written notice to the Company, in a form provided by or otherwise satisfactory to the Company and any broker designated by the Company to effect Option exercises, designate a third party who, in the event of the death of the Participant, shall thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, the executor or administrator of the Participant's estate shall be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise.

**(f) Vesting Generally.** The total number of shares of Common Stock subject to an Option or SAR may vest and therefore become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

**(g) Termination of Continuous Service.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates (other than for Cause or upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

**(h) Extension of Termination Date.** If the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause or upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR shall terminate on the earlier of (i) the expiration

of a total period of three (3) months (that need not be consecutive) after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant's Award Agreement, if the sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR shall terminate on the earlier of (i) the expiration of a period equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

**(i) Disability of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the time specified herein or in the Award Agreement (as applicable), the Option or SAR (as applicable) shall terminate.

**(j) Death of Participant.** Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement after the termination of the Participant's Continuous Service for a reason other than death, then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Award Agreement), or (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the time specified herein or in the Award Agreement (as applicable), the Option or SAR shall terminate.

**(k) Termination for Cause.** Except as explicitly provided otherwise in a Participant's Award Agreement, if a Participant's Continuous Service is terminated for Cause, the Option or SAR shall terminate upon the date on which the event giving rise to the termination occurred, and the Participant shall be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

**(l) Non-Exempt Employees.** No Option or SAR granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option or SAR. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Participant's death or Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Award Agreement or in another applicable agreement or in accordance with the Company's then current employment policies and guidelines), any such vested Options and SARs may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay.

**6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARs.**

**(a) Restricted Stock Awards.** Each Restricted Stock Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. To the extent consistent with the Company's Bylaws, at the Board's election, shares of Common Stock may be (x) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (y) evidenced by a certificate, which certificate shall be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical; *provided, however*, that each Restricted Stock Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration (including future services) that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

**(iii) Termination of Participant's Continuous Service.** If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

**(iv) Transferability.** Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board shall determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

**(v) Dividends.** A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

**(b) Restricted Stock Unit Awards.** Each Restricted Stock Unit Award Agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical; *provided, however*, that each Restricted Stock Unit Award Agreement shall conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

**(i) Consideration.** At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

**(ii) Vesting.** At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

**(iii) Payment.** A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

**(iv) Additional Restrictions.** At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

**(v) Dividend Equivalents.** Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

**(vi) Termination of Participant's Continuous Service.** Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

**(c) PERFORMANCE AWARDS.**

**(i) Performance Stock Awards.** A Performance Stock Award is a Stock Award that may vest or may be exercised contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee, in its sole discretion. The maximum number of shares covered by an Award that may be granted to any Participant in a calendar year attributable to Stock Awards described in this Section 6(c)(i) (whether the grant, vesting or exercise is contingent upon the attainment during a Performance Period of the Performance Goals) shall not exceed 2,000,000 shares of Common Stock. The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a Participant to elect for, the payment of any Performance Stock Award to be deferred to a specified date or event. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

**(ii) Performance Cash Awards.** A Performance Cash Award is a cash award that may be paid contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. At the time of grant of a Performance Cash Award, the length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained shall be conclusively determined by the Committee, in its sole discretion. In any calendar year, the Committee may not grant a Performance Cash Award that has a maximum value that may be paid to any Participant in excess of \$2,000,000. The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a Participant to elect for, the payment of any Performance Cash Award to be deferred to a specified date or event. The Committee may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Board may specify, to be paid in whole or in part in cash or other property.

**(iii) Section 162(m) Compliance.** Unless otherwise permitted in compliance with the requirements of Section 162(m) of the Code with respect to an Award intended to qualify as performance-based

compensation thereunder, the Committee shall establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period, or (b) the date on which twenty-five (25%) of the Performance Period has elapsed, and in any event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as performance-based compensation under Section 162(m) of the Code, the Committee shall certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where such relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction of any completion of any Performance Goals, to the extent specified at the time of grant of an Award to covered employees within the meaning of Section 162(m) of the Code, the number of Shares, Options, cash or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, shall determine.

**(d) Other Stock Awards.** Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (e.g., options or stock rights with an exercise price or strike price less than 100% of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board shall have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

#### **7. COVENANTS OF THE COMPANY.**

**(a) Availability of Shares.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock reasonably required to satisfy such Stock Awards.

**(b) Securities Law Compliance.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant shall not be eligible for the grant of a Stock Award or the subsequent issuance of Common Stock pursuant to the Stock Award if such grant or issuance would be in violation of any applicable securities law.

**(c) No Obligation to Notify or Minimize Taxes.** The Company shall have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company shall have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of a Stock Award or a possible period in which the Stock Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of a Stock Award to the holder of such Stock Award.

#### **8. MISCELLANEOUS.**

**(a) Use of Proceeds from Sales of Common Stock.** Proceeds from the sale of shares of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.



**(b) Corporate Action Constituting Grant of Stock Awards.** Corporate action constituting a grant by the Company of a Stock Award to any Participant shall be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Stock Award is communicated to, or actually received or accepted by, the Participant.

**(c) Stockholder Rights.** No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until (i) such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms, if applicable, and (ii) the issuance of the Common Stock subject to such Stock Award has been entered into the books and records of the Company.

**(d) No Employment or Other Service Rights.** Nothing in the Plan, any Stock Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

**(e) Incentive Stock Option \$100,000 Limitation.** To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

**(f) Investment Assurances.** The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

**(g) Withholding Obligations.** Unless prohibited by the terms of a Stock Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

**(h) Electronic Delivery.** Any reference herein to a written agreement or document shall include any agreement or document delivered electronically or posted on the Company's intranet.

**(i) Deferrals.** To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

**(j) Compliance with Section 409A.** To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements shall be interpreted in accordance with Section 409A of the Code. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the Shares are publicly traded and a Participant holding an Award that constitutes deferred compensation under Section 409A of the Code is a specified employee for purposes of Section 409A of the Code, no distribution or payment of any amount shall be made before a date that is six (6) months following the date of such Participant's separation from service (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant's death.

**9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.**

**(a) Capitalization Adjustments.** In the event of a Capitalization Adjustment, the Board shall appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(d), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 4(c) and 6(c)(i), and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive.

**(b) Dissolution or Liquidation.** Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) shall terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service, *provided, however,* that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

**(c) Corporate Transaction.** The following provisions shall apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in the instrument evidencing the Stock Award or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award:

**(i) Stock Awards May Be Assumed.** In the event of a Corporate Transaction, any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue any or all Stock Awards outstanding under the Plan or may substitute similar stock

awards for Stock Awards outstanding under the Plan (including but not limited to, awards to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction), and any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to Stock Awards may be assigned by the Company to the successor of the Company (or the successor's parent company, if any), in connection with such Corporate Transaction. A surviving corporation or acquiring corporation (or its parent) may choose to assume or continue only a portion of a Stock Award or substitute a similar stock award for only a portion of a Stock Award, or may choose to assume or continue the Stock Awards held by some, but not all Participants. The terms of any assumption, continuation or substitution shall be set by the Board.

**(ii) Stock Awards Held by Current Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by Participants whose Continuous Service has not terminated prior to the effective time of the Corporate Transaction (referred to as the **Current Participants**), the vesting of such Stock Awards (and, with respect to Options and Stock Appreciation Rights, the time when such Stock Awards may be exercised) shall be accelerated in full to a date prior to the effective time of such Corporate Transaction (contingent upon the effectiveness of the Corporate Transaction) as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five (5) days prior to the effective time of the Corporate Transaction), and such Stock Awards shall terminate if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction, and any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall lapse (contingent upon the effectiveness of the Corporate Transaction).

**(iii) Stock Awards Held by Persons other than Current Participants.** In the event of a Corporate Transaction in which the surviving corporation or acquiring corporation (or its parent company) does not assume or continue such outstanding Stock Awards or substitute similar stock awards for such outstanding Stock Awards, then with respect to Stock Awards that have not been assumed, continued or substituted and that are held by persons other than Current Participants, such Stock Awards shall terminate if not exercised (if applicable) prior to the effective time of the Corporate Transaction; *provided, however*, that any reacquisition or repurchase rights held by the Company with respect to such Stock Awards shall not terminate and may continue to be exercised notwithstanding the Corporate Transaction.

**(iv) Payment for Stock Awards in Lieu of Exercise.** Notwithstanding the foregoing, in the event a Stock Award will terminate if not exercised prior to the effective time of a Corporate Transaction, the Board may provide, in its sole discretion, that the holder of such Stock Award may not exercise such Stock Award but will receive a payment, in such form as may be determined by the Board, equal in value, at the effective time, to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award (including, at the discretion of the Board, any unvested portion of such Stock Award), over (B) any exercise price payable by such holder in connection with such exercise.

The Board need not take the same action or actions with respect to all Stock Awards, portions thereof, or with respect to all Participants. Notwithstanding the foregoing, stock awards granted under the Prior Plans may provide for different treatment upon a Corporate Transaction or similar event, and the provisions of the Prior Plans will be controlling.

**(d) Change in Control.** A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration shall occur.

**10. TERMINATION OR SUSPENSION OF THE PLAN.**

(a) **Plan Term.** The Board may suspend or terminate the Plan at any time. Unless terminated sooner by the Board, the Plan shall automatically terminate on the day before the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) **No Impairment of Rights.** Suspension or termination of the Plan shall not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant.

**11. EFFECTIVE DATE OF PLAN.**

This Plan shall become effective on the Effective Date.

**12. CHOICE OF LAW.**

The law of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

**13. DEFINITIONS.** AS used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

(a) **Affiliate** means, at the time of determination, any parent or subsidiary of the Company as such terms are defined in Rule 405 of the Securities Act. The Board shall have the authority to determine the time or times at which parent or subsidiary status is determined within the foregoing definition.

(b) **Award** means a Stock Award or a Performance Cash Award.

(c) **Award Agreement** means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(d) **Board** means the Board of Directors of the Company.

(e) **Capitalization Adjustment** means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction (as that term is used in Statement of Financial Accounting Standards No. 123 (revised)). Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a Capitalization Adjustment.

(f) **Cause** shall have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term shall mean, with respect to a Participant, the occurrence of any of the following events that has a material negative impact on the business or reputation of the Company: (i) such Participant's attempted commission of, or participation in, a fraud or act of dishonesty against the Company; (ii) such Participant's intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; (iii) such Participant's unauthorized use or disclosure of the Company's confidential information or trade secrets; or (iv) such Participant's gross misconduct. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause shall be made by the Company, in its sole discretion. Any

determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

**(g) *Change in Control*** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

**(i)** any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction;

**(ii)** there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than fifty percent (50%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than fifty percent (50%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction; or

**(iii)** there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition.

Notwithstanding the foregoing or any other provision of this Plan, the term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

**(h) *Code*** means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

**(i) *Committee*** means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

**(j) *Common Stock*** means the common stock of the Company.

**(k) *Company*** means Dot Hill Systems Corp., a Delaware corporation.

**(l) *Consultant*** means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a Consultant for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company's securities to such person.

**(m) *Continuous Service*** means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the

Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, shall not terminate a Participant's Continuous Service; *provided, however*, if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant's Continuous Service shall be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of (i) any leave of absence approved by the Board or Chief Executive Officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

**(n) Corporate Transaction** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

**(i)** the consummation of a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

**(ii)** the consummation of a sale or other disposition of more than fifty (50%) of the outstanding securities of the Company;

**(iii)** the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

**(iv)** the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

**(o) Covered Employee** shall have the meaning provided in Section 162(m)(3) of the Code.

**(p) Director** means a member of the Board.

**(q) Disability** means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and shall be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

**(r) Effective Date** means the effective date of this Plan document, which is the date of the annual meeting of stockholders of the Company held in 2009 provided this Plan is approved by the Company's stockholders at such meeting.

**(s) Employee** means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an Employee for purposes of the Plan.

**(t) Entity** means a corporation, partnership, limited liability company or other entity.

**(u) Exchange Act** means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(v) **Exchange Act Person** means any natural person, Entity or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that Exchange Act Person shall not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities.

(w) **Fair Market Value** means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(x) **Incentive Stock Option** means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an incentive stock option within the meaning of Section 422 of the Code.

(y) **Non-Employee Director** means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ( **Regulation S-K** )), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a non-employee director for purposes of Rule 16b-3.

(z) **Nonstatutory Stock Option** means any option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(aa) **Officer** means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(bb) **Option** means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(cc) **Option Agreement** means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(dd) **Optionholder** means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

**(ee) Other Stock Award** means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

**(ff) Other Stock Award Agreement** means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(gg) Outside Director** means a Director who either (i) is not a current employee of the Company or an affiliated corporation (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an affiliated corporation who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an affiliated corporation, and does not receive remuneration from the Company or an affiliated corporation, either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an outside director for purposes of Section 162(m) of the Code.

**(hh) Own, Owned, Owner, Ownership** A person or Entity shall be deemed to Own, to have Owned, to be the Owner of, or to have acquired Ownership of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

**(ii) Participant** means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

**(jj) Performance Cash Award** means an award of cash granted pursuant to the terms and conditions of Section 6(c)(ii).

**(kk) Performance Criteria** means the one or more criteria that the Board shall select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that shall be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Board: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity or average stockholder's equity; (vi) return on assets, investment, or capital employed; (vii) stock price; (viii) margin (including gross margin); (ix) income (before or after taxes); (x) operating income; (xi) operating income after taxes; (xii) pre-tax profit; (xiii) operating cash flow; (xiv) sales or revenue targets; (xv) increases in revenue or product revenue; (xvi) expenses and cost reduction goals; (xvii) improvement in or attainment of working capital levels; (xviii) economic value added (or an equivalent metric); (xix) market share; (xx) cash flow; (xxi) cash flow per share; (xxii) share price performance; (xxiii) debt reduction; (xxiv) implementation or completion of projects or processes; (xxv) customer satisfaction; (xxvi) stockholders' equity; (xxvii) capital expenditures; (xxviii) debt levels; (xxix) operating profit or net operating profit; (xxx) workforce diversity; (xxxii) growth of net income or operating income; (xxxiii) billings; and (xxxiii) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

**(ll) Performance Goals** means, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board shall appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Goals; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to



exclude the effects of any statutory adjustments to corporate tax rates; and (5) to exclude the effects of any extraordinary items as determined under generally accepted accounting principles. In addition, the Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for such Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

**(mm) Performance Period** means the period of time selected by the Board over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board.

**(nn) Performance Stock Award** means a Stock Award granted under the terms and conditions of Section 6(c)(i).

**(oo) Plan** means this Dot Hill Systems Corp. 2009 Equity Incentive Plan.

**(pp) Restricted Stock Award** means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

**(qq) Restricted Stock Award Agreement** means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(rr) Restricted Stock Unit Award** means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

**(ss) Restricted Stock Unit Award Agreement** means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement shall be subject to the terms and conditions of the Plan.

**(tt) Rule 16b-3** means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

**(uu) Securities Act** means the Securities Act of 1933, as amended.

**(vv) Stock Appreciation Right** or **SAR** means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

**(ww) Stock Appreciation Right Agreement** means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement shall be subject to the terms and conditions of the Plan.

**(xx) Stock Award** means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right, a Performance Stock Award or any Other Stock Award.

**(yy) Stock Award Agreement** means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

**(zz) *Subsidiary*** means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

**(aaa) *Ten Percent Stockholder*** means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.



## Edgar Filing: BOEING CO - Form S-3ASR

RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

<b>The Board of Directors recommends you vote 3 YEARS on the following proposal:</b>	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>Abstain</b>
<b>4</b> An advisory vote on the frequency of holding an advisory vote on executive compensation.	..	..	..	..

<b>The Board of Directors recommends you vote FOR the following proposal:</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
<b>5</b> To ratify the selection by the Audit Committee of the Board of Directors of Deloitte & Touche LLP as independent registered public accounting firm of the Company for its fiscal year ending December 31, 2011.	..	..	..

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice & Proxy Statement, 10K Wrap is/are available at [www.proxyvote.com](http://www.proxyvote.com).

**DOT HILL SYSTEMS CORP.**

**PROXY SOLICITED BY THE BOARD OF DIRECTORS**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 2, 2011**

The undersigned hereby appoints Dana W. Kammersgard and Hanif I. Jamal, and each of them, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of Dot Hill Systems Corp. which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of Dot Hill Systems Corp. to be held at 1351 S. Sunset Street, Longmont, Colorado, on Monday, May 2, 2011, at 8:30 a.m. (Mountain Time), and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions, and with discretionary authority as to any and all other matters that may properly come before the meeting.

Unless a contrary direction is indicated, this Proxy will be voted For the nominees listed in Proposal 1 and For Proposal 2, Proposal 3 and Proposal 5 and 3 years for Proposal 4, all as more specifically described in the Proxy Statement. If specific instructions are indicated, this Proxy will be voted in accordance therewith.

**Continued and to be signed on reverse side**