

COAST DISTRIBUTION SYSTEM INC  
Form DEF 14A  
July 28, 2014

**SCHEDULE 14A**

**(Rule 14a-101)**

**SCHEDULE 14A INFORMATION**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

**THE COAST DISTRIBUTION SYSTEM, INC.**

**(Name of Registrant as Specified In Its Charter)**

**N/A**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

July 28, 2014

Dear Fellow Stockholder:

On behalf of the Board of Directors, I would like to extend a cordial invitation to you to attend the Annual Meeting of Stockholders of The Coast Distribution System, Inc. (the Company). The Annual Meeting will be held on Tuesday, August 26, 2014, at 10:00 A.M., Pacific Time, at the Company's executive offices at 350 Woodview Avenue, Morgan Hill, California 95037.

The attached Notice of Annual Meeting and Proxy Statement describe the matters to be voted on at the Annual Meeting. At the Annual Meeting we also will be discussing the Company's operations. Your participation in Company activities is important, and we hope you will attend.

**YOUR VOTE IS IMPORTANT.** Whether or not you plan to attend the Annual Meeting, we urge you to vote as soon as possible in order to ensure that your vote will be counted. You may vote by any of the three following methods:

1. By telephone; or
2. On the Internet; or
3. By completing, signing, dating and returning the enclosed proxy card by mail in the postage prepaid return envelope that is enclosed for your convenience.

Voting by any of these methods will not prevent you from attending and voting your shares in person at the Annual Meeting, if you so choose.

Please review the instructions with respect to your voting options contained in the accompanying Proxy Statement and described on the proxy card enclosed with the Notice of Annual Meeting and Proxy Statement.

Also, please let us know if you plan to attend our Annual Meeting by indicating your plans when prompted to do so (if you are voting by telephone or over the Internet) or by marking the appropriate box on the enclosed proxy card if you will be voting by mail.

Thank you for your ongoing support. We look forward to seeing you at our Annual Meeting.

**Whether or not you plan to attend the Annual Meeting, please be sure to vote by telephone, over the Internet or by completing, signing, dating and returning the enclosed proxy card in the accompanying postage-paid reply envelope, so that your shares may be voted in accordance with your wishes. Voting by any of these methods will not prevent you from voting in person if you choose to attend the Annual Meeting.**

Sincerely,

Thomas R. McGuire

Chairman of the Board of Directors

**THE COAST DISTRIBUTION SYSTEM, INC.**

**350 Woodview Avenue**

**Morgan Hill, California 95037**

**(408) 782-6686**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held August 26, 2014**

NOTICE IS HEREBY GIVEN that the 2014 Annual Meeting of Stockholders of The Coast Distribution System, Inc., a Delaware corporation (the Company), will be held at the Company's executive offices located at 350 Woodview Avenue, Morgan Hill, California 95037, at 10:00 A.M. Pacific Time on Tuesday, August 26, 2014, for the following purposes, as more fully described in the accompanying Proxy Statement:

- (1) *Election of Directors.* To elect James Musbach and Thomas G. Faludy as the Class II Directors of the Company for a term of three years and until their successors are elected;
- (2) *Ratification of the Appointment of Independent Registered Public Accountants.* To ratify the appointment of Burr Pilger Mayer Inc. as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2014; and
- (3) *Advisory Vote on the Compensation of Our Named Executive Officers.* To approve, by non-binding advisory vote, the compensation of our named executive officers for the year ended December 31, 2013.

*Other Business.* To transact such other business as may properly come before the Annual Meeting or at any adjournment or postponement thereof.

Only stockholders of record at the close of business on July 21, 2014 are entitled to vote at the Annual Meeting or any adjournment or postponement thereof.

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU SHOULD VOTE YOUR SHARES BY ONE OF THE METHODS DESCRIBED IN THE ACCOMPANYING PROXY STATEMENT. BY DOING SO, YOU WILL BE ASSURED THAT YOUR VOTE WILL BE COUNTED AND IT WILL NOT PREVENT YOU FROM VOTING IN PERSON IF YOU CHOOSE TO ATTEND THE ANNUAL MEETING.**

Pursuant to rules promulgated by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card and a copy of our 2013 Annual Report to Stockholders, and by notifying you of the availability of those proxy materials on the Internet at <http://investors.coastdistribution.com>. In order to protect the privacy of our stockholders, that website does not have cookies or other tracking features that would make it possible to identify visitors to the website.

By Order of the Board of Directors

Sandra A. Knell

*Executive Vice President and Secretary*

July 28, 2014

**Important Notice Regarding the Availability of Proxy Materials for the  
Annual Meeting of Stockholders to be held on Tuesday, August 26, 2014.**

**This Notice and the accompanying Proxy Statement, proxy card and our Annual Report to Stockholders  
are available online at <http://investors.coastdistribution.com>.**

**THE COAST DISTRIBUTION SYSTEM, INC.**

350 Woodview Avenue

Morgan Hill, California 95037

**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS**

To be Held August 26, 2014

**INTRODUCTION**

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of The Coast Distribution System, Inc., a Delaware corporation (Coast or the Company), for use at its 2014 Annual Meeting of Stockholders to be held at 10:00 A.M. Pacific Time on Tuesday, August 26, 2014, at the executive offices of the Company located at 350 Woodview Avenue, Morgan Hill, California 95037. This Proxy Statement and the accompanying proxy card, together with the Company's 2013 Annual Report to Stockholders, are first being mailed to stockholders on or about July 28, 2014.

**YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE ENCOURAGE YOU TO READ THIS PROXY STATEMENT AND PROVIDE US WITH YOUR PROXY OR VOTING INSTRUCTIONS AS SOON AS POSSIBLE BY ONE OF THE METHODS DESCRIBED BELOW.**

Some stockholders may have their shares registered in different names or hold shares in different capacities. For example, a stockholder may have some shares registered in his or her name, individually, and others in his or her capacity as a custodian for minor children or as a trustee of a trust. In that event, you will receive multiple copies of this Proxy Statement and multiple proxy cards. **If you want all of your votes to be counted, please be sure to vote in each of those capacities by one of the methods described in the subsection entitled How Can I Vote My Shares? below.**

**Who May Vote?**

If you were a stockholder of record of the Company at the close of business on July 21, 2014, you are entitled to vote at the 2014 Annual Meeting, either in person or by proxy. On that day, a total of 5,315,852 shares of our common stock were outstanding and entitled to be voted at the Annual Meeting.

**How Many Votes Do I Have?**

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You are entitled to cast one vote for each share of common stock that you owned of record on July 21, 2014 on all matters presented for a vote of the stockholders. However, our Certificate of Incorporation provides that, if any stockholder, who is entitled to vote and is present in person at the Annual Meeting, announces, prior to the voting, an intention to cumulate votes in the election of directors, then all stockholders will be entitled to cumulate votes in that election. In an election held by cumulative voting, each stockholder is entitled to cast a number of votes equal to the number of directors to be elected (which, at this year's Annual Meeting, will be two) multiplied by the number of shares of common stock held by the stockholder, and the stockholder may cast all of those votes for a single nominee or may divide those votes between any two of the nominees standing for election to the Board in such proportions as the stockholder chooses. However, in accordance with the applicable provisions of the Company's Certificate of Incorporation, no stockholder may cast any votes for the election of an individual as a director unless that individual's name has been properly placed in nomination before the



voting. Our Bylaws provide that any stockholder may nominate, at any annual meeting of stockholders, one or more candidates for election to the Board of Directors, provided that the stockholder has given the Company written notice (addressed to the Secretary of the Company at the Company's principal offices) of the stockholder's intention to do so by no later than 120 days prior to the first anniversary of the date on which the proxy materials for the prior year's annual meeting were first sent to stockholders. If, however, the date of the annual meeting has been changed by more than 30 calendar days from the first anniversary of the date of the prior year's meeting, then such notice must have been received not later than the close of business on the tenth day following the day on which public announcement of the date of such meeting is made. That notice must have been accompanied by certain information regarding both the nominating stockholder and his or her candidate for election to the Board, and the written consent of each such candidate to be named as a nominee and, if nominated and elected, to serve as a director. Any stockholder nomination at any annual meeting that does not comply with these Bylaw requirements will be ineffective and disregarded. For additional information regarding this notice requirement, see **CORPORATE GOVERNANCE** **Nomination of Directors** below.

No stockholder submitted a notice of an intention to nominate any candidates for election to the Board at this year's Annual Meeting. Consequently, the election of directors at the Annual Meeting will be uncontested.

### **How Can I Vote My Shares?**

If you were a stockholder of record on July 21, 2014, you may vote by any of the following methods:

*Voting by Telephone or over the Internet.* Stockholders may vote by telephone by calling, toll-free, 1-800-652 VOTE (8683). Alternatively, stockholders may vote on the Internet by following the instructions provided at <http://www.investorvote.com/CRV>. Telephone and Internet voting are available 24 hours a day until 1:00 A.M. Pacific Time on August 26, 2014. Our telephone and Internet voting procedures are designed to authenticate each stockholder by using an individual control number that is located on your proxy card. If you vote by telephone or on the Internet, you do not need to return your proxy card.

*Voting by Mail.* As in past years, stockholders may vote by mail, by completing, dating and signing and then returning the enclosed proxy card in the postage prepaid return envelope that accompanies this Proxy Statement.

*Voting In Person at the Annual Meeting.* As always, you may vote in person if you attend the Annual Meeting.

Even if you vote by telephone, on the Internet or by mail, you may later change your vote by taking, prior to the Annual Meeting, one of the actions described in the subsection below entitled **How Can I Revoke My Proxy and Change My Vote?** or by attending the Annual Meeting and voting in person.

**However, if your shares are held in a brokerage or bank account or by a nominee holder, please read the information below under the subcaptions **Voting Shares Held by Brokers, Banks and Other Nominee Holders** and **Required Vote** regarding how your shares may be voted in accordance with your wishes.**

### **Voting Shares Held by Brokers, Banks or Other Nominee Holders**

If you hold your shares of common stock in a brokerage, bank or nominee account, you are the beneficial owner of those shares, holding them in street name and the broker, bank or nominee is the record owner of and is entitled to vote your shares. As a result, in order for you to be able to have your shares voted in accordance with your wishes, you must give voting instructions to the broker, bank or other nominee holder of your shares. We ask brokers, banks and other nominee holders to obtain voting instructions from the beneficial owners of our common stock. Proxies that are returned to us by brokers, banks or other nominee holders on your behalf will count toward a quorum and will be voted in accordance with the voting instructions you have sent to your broker, bank or other nominee holder. In the alternative, if you are a beneficial owner of any shares and want to vote those shares yourself, then you must obtain a proxy authorizing you to do so from your broker, bank or other nominee holder. **If you do not provide voting instructions to, and do not obtain a proxy from, your broker, bank or other nominee holder, your shares cannot be voted at the Annual Meeting.**

### **How Will The Board Vote My Proxy?**

If you grant us your proxy to vote your shares (whether by telephone or over the Internet or by completing, signing and returning your proxy card by mail), and you do not revoke that proxy prior to the Annual Meeting, your shares will be voted as directed by you. If you return your proxy, but you do not provide any specific direction as to how your shares should be voted, your shares will be voted: **FOR** the election of the two nominees named in the accompanying Notice of Annual Meeting, who are standing for election as the Class II Directors to serve for a term of three years and until their successors are elected (*Proposal No. 1*); **FOR** ratification of the appointment of Burr Pilger Mayer Inc. as our independent registered public accounting firm for the fiscal year ending December 31, 2014 (*Proposal No. 2*); and **FOR** approval, on a non-binding advisory basis, of the compensation of our named executive officers for the fiscal year ended December 31, 2013 (*Proposal No. 3*).

If any other matter should be presented at the Annual Meeting upon which a vote may properly be taken, the shares represented by your proxy will be voted in accordance with the judgment of the holders of the proxy. However, if your shares are held in a brokerage account or by a nominee, please read the information above under the caption **Voting Shares Held by Brokers, Banks and Other Nominee Holders** regarding how your shares may be voted.

### **Vote Required**

*Quorum Requirement.* Our Bylaws require that a quorum that is, the holders of a majority of all of the shares entitled to vote at the Annual Meeting must be present, in person or by proxy, before any business may be transacted at the Meeting (other than adjourning the Meeting to a later date to allow time to obtain additional proxies to satisfy the quorum requirement).

*Election of Directors (Proposal No. 1).* The two nominees standing for election as the Class II Directors who receive the highest number of votes cast in the election of directors will be elected and, as a result, any shares voted to Withhold Authority and broker non-votes will not have any effect on the outcome of the election. However, shares voted to Withhold Authority and broker non-votes are considered present at the meeting for purposes of determining whether a quorum is present.

*Ratification of Appointment of Independent Accountants (Proposal No. 2).* The affirmative vote of a majority of the shares that are voted, in person or by proxy, on this proposal at the Annual Meeting is required to ratify the appointment of Burr Pilger & Mayer, Inc. as the Company's independent registered public accounting firm for the year ending December 31, 2014. Shares voted by record stockholders or by brokers or other nominee holders on this proposal will be counted. Abstentions will have the same effect as votes cast against the Proposal.

*Advisory Vote on the Compensation of our Named Executive Officers (Proposal No. 3).* The affirmative vote of a majority of the shares that are voted, in person or by proxy, on this proposal at the Annual Meeting is required to approve, on a non-binding advisory basis, the compensation that was paid to our named executive officers for 2013, which is described below in this Proxy Statement. Abstentions will have the same effect as votes against this proposal. Broker non-votes, on the other hand, will have no effect on the outcome of the vote on this proposal.

### **What are Broker Non-Votes and How Will They Affect the Voting at the Annual Meeting?**

Under rules applicable to securities brokerage firms, a broker who holds your shares in street name does not have the authority to vote those shares on any *non-routine* proposal, except in accordance with voting instructions received from you. On the other hand, your broker may vote your shares on certain *routine* proposals (such as the ratification of the appointment of independent registered public accountants), if the broker has transmitted proxy-soliciting materials to you, as the beneficial owner of the shares, but has not received voting instructions from you on such proposals. If the broker does not receive voting instructions from you, but

chooses to vote your shares on a routine matter, then your shares will be deemed to be present by proxy and will count toward a quorum at the Annual Meeting, but will not be counted as having been voted on, and as a result will be deemed to constitute *broker non-votes* with respect to, non-routine proposals which, at this year's Annual Meeting will consist of: the election of the Class II Directors for a term of three years and the proposal to approve, on a non-binding advisory basis, the compensation of our named executive officers for 2013. We will treat broker non-votes as follows:

Broker non-votes will have the same effect as a vote against a proposal if approval of the proposal requires the affirmative vote of the holders of a majority of the outstanding shares, but broker non-votes will be counted as present for quorum purposes.

Broker non-votes will not be counted as present or entitled to be voted, and will not affect the outcome of the voting, on any non-routine proposal which, to be approved, requires the affirmative vote of the holders of a plurality of the shares that are present (in person or by proxy) and voted on the proposal, but broker non-votes will be counted as present for quorum purposes.

#### **How Can I Revoke My Proxy and Change My Vote?**

If you are a registered owner and have given us your proxy (whether by mail, by telephone or over the Internet), you may change your vote by taking any of the following actions:

Sending a written notice to us that you are revoking your proxy, addressed to the Secretary of the Company, at 350 Woodview Avenue, Morgan Hill, California 95037, and then voting again by one of the methods described immediately below. To be effective, the notice of revocation must be received by the Company before the Annual Meeting commences. If, however, after sending us a written notice of revocation, you fail to vote your shares by either of the following two methods, then none of your shares can be voted at the Annual Meeting.

Giving us another proxy, by mail, at a later date than your earlier proxy. However, to be effective, that later dated proxy must be received by the Company before the Annual Meeting commences and must be dated and signed by you. If you fail to date or fail to sign that later-dated proxy, it will not be treated as a revocation of an earlier dated proxy and your shares will be voted in accordance with your earlier voting instructions.

Attending the Annual Meeting and voting in person in a manner that is different than the voting instructions contained in your earlier proxy or voting instructions.

**However, if your shares are held by a broker or other nominee holder, you will need to contact your broker or the nominee holder if you wish to revoke any voting instructions that you previously gave to your broker or other nominee holder.**

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**PRINCIPAL STOCKHOLDERS**

The following table sets forth, as of July 21, 2014, information regarding the ownership of the Company's outstanding shares of common stock by (i) each person known to management to own, beneficially or of record, more than five percent (5%) of the outstanding shares of our common stock, (ii) each director, including each of the nominees standing for election to the Board of Directors at the 2014 Annual Meeting, and each of the executive officers of the Company, and (iii) all of those directors, nominees and executive officers as a group. As of July 21, 2014, a total of 5,315,852 shares of our common stock were outstanding.

Name and Address of Beneficial Owners	Amount and Nature of Beneficial Ownership(1)	Percent of Shares Outstanding(1)
Robert E. Robotti Robotti & Company Incorporated 52 Vanderbilt Avenue  New York, NY 10017	420,039(2)	7.9%
JB Capital Partners, L.P. and Alan W. Weber 5 Evan Place  Armonk, NY 10504	375,100(3)	7.1%
Dimensional Fund Advisors, LP 1299 Ocean Avenue  Santa Monica, CA 90401	351,730(4)	6.6%
James Musbach 350 Woodview Avenue  Morgan Hill, CA 95037	348,674(5)	6.6%
Thomas R. McGuire 350 Woodview Avenue  Morgan Hill, CA 95037	328,367(6)	6.2%
Robert S. Throop	45,000(7)	*
John W. Casey(8)	43,000(7)	*
Ben A. Frydman	31,000(7)	*
Leonard P. Danna	20,000(7)	*
Thomas G. Faludy	2,000(7)	*
Sandra A. Knell	161,882(9)	3.0%
Dennis A. Castagnola	151,765(9)	2.9%
David A. Berger	122,551(9)	2.3%
All directors and executive officers as a group (10 persons)	1,254,239	23.2%

\* Less than 1%.

- (1) Under SEC rules (i) a person is deemed to be the beneficial owner of shares of our common stock if that person has, either alone or with others, the power to vote or dispose of those shares; and (ii) if a person holds options to purchase shares of our common stock, that person will be deemed to be the beneficial owner of the number of those shares that may be purchased by exercise of those options at any time during a 60 day period which, for purposes of this table, began on July 21, 2014 and will end on September 19, 2014. The number of

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shares subject to options that are exercisable or may become exercisable during that 60-day period are deemed outstanding for purposes of computing the number of shares beneficially owned by, and

the percentage ownership of, the person holding such options, but not for computing the percentage ownership of any other stockholder. Except as otherwise noted below, the persons named in the table have sole voting and dispositive power with respect to all shares shown as beneficially owned by them, subject to community property laws where applicable.

- (2) In a report filed by Robert E. Robotti with the SEC on June 17, 2014, of these 420,039 shares of the Company's common stock, Mr. Robotti shares voting and dispositive power with respect to 400,039 shares, in various proportions, with Robotti & Company Incorporated, Robotti & Company LLC, Robotti Company Advisors LLC, Kenneth R. Wasiak, Ravenswood Investment Company, L.P. and Ravenswood Management Company, LLC. The report states that these 420,039 shares also include 20,000 shares of common stock as to which Suzanne Robotti, Mr. Robotti's wife, has sole voting and dispositive power because, as a result of their marriage, he may be deemed to share voting and dispositive power with respect to those 20,000 shares. However, the report also states that each of the above-named persons and entities disclaims beneficial ownership of the shares held by each of the other named persons and entities.
- (3) In a report filed with the SEC, JB Capital Partners, L.P. and Alan W. Weber, its general partner, reported that they share voting and dispositive power and, therefore, share beneficial ownership, with respect to 371,100 of these shares and that Mr. Weber is the sole beneficial owner of, with sole voting and dispositive power over, the other 4,000 shares. The report also states that each of JB Capital Partners and Mr. Weber disclaims beneficial ownership in the shares owned by the other, except to the extent of any pecuniary interest that such reporting person has in the shares of the other.
- (4) Dimensional Fund Advisors, LP (DFA) is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940. According to a report filed by DFA with the SEC: (i) these 351,730 shares are owned by four investment companies registered under the Investment Company Act of 1940 and certain commingled group trusts and separate accounts, and (ii) in its capacity as investment advisor to those investment companies and investment manager of those trusts and accounts, DFA exercises sole voting power with respect to 349,530 of these shares and sole dispositive power with respect to all 351,730 of these shares. However, in that report DFA disclaimed beneficial ownership of all of these shares.
- (5) Includes 94,001 unvested restricted shares with respect to which Mr. Musbach has the power to vote, but over which Mr. Musbach does not have dispositive power, and which are subject to possible forfeiture.
- (6) Includes 23,667 unvested restricted shares with respect to which Mr. McGuire has the power to vote, but over which he does not have dispositive power, and which are subject to possible forfeiture.
- (7) Includes shares subject to outstanding stock options which are or may become exercisable at any time during the 60-day period ending September 19, 2014, as follows: Mr. Casey 20,000 shares; Mr. Throop 20,000 shares; Mr. Frydman 20,000 shares, Mr. Danna 20,000 shares; and Mr. Faludy 2,000 shares.
- (8) Mr. Casey, who currently is and since 1997 has been a Class II Director of the Company, has decided not to stand for reelection to the Board and, therefore, his term of office will expire on the date of the upcoming Annual Meeting of Stockholders.
- (9) Includes shares subject to outstanding stock options which are or may become exercisable at any time during the 60-day period ending September 19, 2014, as follows: Ms. Knell 5,000 shares; Mr. Castagnola 5,000 shares; and Mr. Berger 5,000 shares. Also includes unvested restricted shares with respect to which each such executive officer has voting power, but over which he or she (as the case may be) does not have dispositive power, as follows: Ms. Knell 46,999 shares; Mr. Castagnola 46,999 shares; and Mr. Berger 46,999 shares. Those unvested restricted shares are subject to possible forfeiture.

**ELECTION OF DIRECTORS**

**(Proposal No. 1)**

The Board of Directors is currently comprised of seven directors and is divided into three classes, designated as Class I, Class II and Class III, respectively. Class I and Class III are comprised of two directors each and Class II is currently comprised of three directors. However, one of the current Class II directors, John W. Casey, has decided not to stand for reelection to the Board and, therefore, his term of office will expire on August 26, 2014, the date of this year's Annual Meeting. For that reason, the Board of Directors, pursuant to its authority under the Company's Bylaws, has approved a reduction in the authorized number of directors from seven to six, effective at the close of business on August 25, 2014.

The directors in each class stand for election in successive years, each for a three year term. The election of the Class II directors will take place at this year's Annual Meeting and the Board of Directors has nominated James Musbach and Thomas G. Faludy for election at the Annual Meeting to serve as the Company's Class II Directors. Mr. Musbach was elected by the stockholders as a Class II director at the 2011 Annual Stockholders Meeting. Mr. Faludy was elected to the Board in November 2013 by unanimous vote of the members of the Board. Messrs. Musbach and Faludy have consented to serve as Class II members of the Board if elected at this year's Annual Meeting. The election of the Class III and Class I directors will take place at the 2015 and 2016 Annual Meetings, respectively.

Unless authority to vote has been withheld, the named proxyholders intend to vote the shares represented by the proxies they receive for the election of Messrs. Musbach and Faludy as the Class II directors of the Company to serve for a term of three years and until their successors are elected. If, for any reason, either of Messrs. Musbach or Faludy should become unable to serve, then the Board of Directors may reduce the authorized number of Class II directors to one, in which case only one Class II director-nominee will stand for election at the 2014 Annual Meeting. The Board of Directors has no reason to believe that either Mr. Musbach or Mr. Faludy will become unable to serve.

**Vote Required and Vote Recommended by the Board of Directors**

Under Delaware law, the two nominees for election as Class II directors receiving the highest number of votes, whether in person or by proxy, at the Annual Meeting will be elected.

If the election of the Class II directors at the 2014 Annual Meeting is held by cumulative voting, because a stockholder who is entitled to vote and is present in person at the Annual Meeting has given notice at the Annual Meeting of his or her intention to cumulate votes in the election of directors, the proxyholders will have the discretion to cumulate the votes represented by the proxies they hold and to cast those votes in such proportions as they deem appropriate for either or all of the nominees named above, except with respect to any shares as to which authority to vote for a named nominee has been withheld by a stockholder.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION OF JAMES MUSBACH AND THOMAS G. FALUDY**

**AS THE COMPANY'S CLASS II DIRECTORS**

**Nominees and Directors**

Set forth below are the names and certain information, as of July 21, 2014, about the nominees for election as Class II Directors and the Directors whose term of office will continue until either 2015 or 2016.

Name and Age	Positions with the Company	Director Since	Current Term Expires
<b>Class II Directors/Nominees</b>			
James Musbach, 64	President, Chief Executive Officer & Director	2007	2014
Thomas G. Faludy, 67	Lead Director	2013	2014
<b>Class III Directors</b>			
Thomas R. McGuire, 70	Executive Chairman of the Board	1977	2015
Ben A. Frydman, 67	Director	1988	2015
<b>Class I Directors</b>			
Robert S. Throop, 74	Director	1995	2016
Leonard P. Danna, 60	Director	2003	2016
<b>Class II Directors and Nominees</b>			

Set forth below is information regarding the Board's nominees who will be standing for election at the 2014 Annual Meeting, for a term of three years and until their successors are elected. Both of the nominees are incumbent directors of the Company.

*James Musbach* is, and since April 2008 has been, the Chief Executive Officer of the Company. From September 2006 until his promotion to CEO in 2008, Mr. Musbach was the Company's President and Chief Operating Officer and since November 2007 has been a member of the Board of Directors. From 1995 until 2004, Mr. Musbach was Executive Vice President of Raytek Corporation, a manufacturer of infrared non-contact temperature measurement tools, sensors and systems. While at Raytek, Mr. Musbach also served as General Manager of Raytek's Portable Products Division and, in that capacity, directed that Division's global operations. Prior to joining Raytek, Mr. Musbach held various executive positions, including Executive Vice President and General Manager and Vice President of Sales and Marketing, with Import Parts America, a North American distributor of automotive aftermarket parts and accessories with relationships in Asia and Europe. As a result, Mr. Musbach has extensive experience and knowledge about managing and growing businesses, managing foreign business relationships and developing and implementing product marketing and distribution programs. Such knowledge and experience already have been and will continue to be of considerable importance to the Company in implementing and expanding its proprietary products strategy and its initiative to sell products not only into the RV and boating markets, but also into other markets, such as the outdoor power equipment market.

*Thomas G. Faludy* was elected as a member of our board of directors in November 2013. Mr. Faludy has more than 30 years of experience in the recreational vehicle industry, including serving as a board member of the Recreational Vehicle Industry Association (RVIA). He recently completed a more than 20 year career with Scott Fetzer Co., a Berkshire Hathaway company that manufactures a broad range of consumer, medical and industrial products, including RV products. In 2004, Mr. Faludy was appointed as Vice President Group and Corporate Development of Scott Fetzer Co. In 2008, he was promoted to Executive Vice President of Scott Fetzer Co., where he had management authority and responsibility for 10 of Scott Fetzer's businesses and was in charge of business acquisitions. From 1989 to 2003, Mr. Faludy served as President of Scott Fetzer's CareFree Division, which manufactures and sells RV awnings and other accessories primarily to RV manufacturers. In 2011, following his retirement from Scott Fetzer Co., Mr. Faludy formed TGF Enterprises, a management advisory and strategic planning firm. Mr. Faludy serves in advisory and board positions for Jayco, Inc., an RV manufacturer, the Ryan Group of Companies of Australia, a multi-division conglomerate with manufacturing and distribution operations, and LMS Inc., a manufacturer of residential outdoor products and equipment marketed under the Cal Spas brand name, all of which are private companies. Having had 30 years of experience in the recreational



vehicle industry, including as a member of the a board member of the RVIA and his experience as President of the Scott Fetzer's CareFree Division, Mr. Faludy brings to the Board considerable knowledge regarding the RV market generally and also the perspective of an aftermarket product manufacturer and supplier to the RV industry. Additionally, Mr. Faludy's management experience at Scott Fetzer Co. provides valuable insight to the Board regarding the management and the internal operations of and the risks faced by companies that manufacture and market RV after-market products, such as the Company's proprietary products.

### **Class III Directors**

Set forth below is information regarding the Class III directors whose term of office will end on the date of the 2015 Annual Meeting of Stockholders.

*Thomas R. McGuire* is a founder of the Company and has been the Chairman of the Board of the Company since its inception in 1977. Mr. McGuire also served as the Company's Chief Executive Officer from 1977 until April 2008, when he relinquished that position upon Mr. Musbach's promotion to CEO. Mr. McGuire retains the position of Executive Chairman of the Company and continues as Chairman of the Board of Directors. Having been the Company's founder and its CEO for more than 25 years, and having been the principal architect of its growth strategies, Mr. McGuire brings a wealth of knowledge to the Board regarding the Company's operations, markets and growth strategies, and the business risks that the Company faces, including the strategies for dealing with the cyclical nature of the Company's business.

*Ben A. Frydman* has served as a director of the Company since 1988. Mr. Frydman is and for more than the past 30 years has been engaged in the private practice of law, as a member and shareholder of Stradling Yocca Carlson & Rauth, a Professional Corporation, which provided legal services to the Company in 2013 and is providing legal services to the Company in 2014. Mr. Frydman received a Bachelor's Degree, with honors, from UCLA in 1968 and earned a J.D. Degree, with honors, from Harvard Law School in 1973. Mr. Frydman is also one of the founders, and for more than the past 15 years has been a member of the Board, of the Forum for Corporate Directors of Orange County, which is a nonprofit corporation that develops and conducts educational programs, focusing on and promoting good corporate governance practices, primarily for directors and officers of public companies based in Southern California. Mr. Frydman has been the Company's outside counsel since 1983 and, in that capacity, has been an advisor to management and the Board in connection with virtually all of the Company's major corporate transactions and acquisitions and the implementation of its growth strategies. As a result, he has a keen knowledge of the Company's business and the management of business risks that the Company encounters in connection with its operations and growth strategies. Moreover, as a result of his knowledge of corporate governance principles and practices, he is an effective and valuable member of the Board's Nominating and Governance Committee.

### **Class I Directors**

Set forth below is information regarding the Class I directors whose term of office will end on the date of the 2016 Annual Meeting of Stockholders.

*Robert S. Throop* has served as a director of the Company since 1995. Until his retirement in late 1996, and for more than the prior five years, Mr. Throop was the Chairman and Chief Executive Officer of Anthem Electronics, Inc., which is a national distributor of semiconductor and computer products and was, during Mr. Throop's tenure as its Chairman and CEO, a New York Stock Exchange listed company. Mr. Throop served as a director of the Manitowoc Company, a publicly traded company that is a leading manufacturer of industrial cranes, until he retired from its board in 2007. Mr. Throop also is a director of Azerity, which is a privately owned business. Having been the CEO of a publicly owned national distribution company for many years, Mr. Throop brings to the Board a wealth of knowledge regarding the management and operations of and the risks faced by national product distribution companies, such as the Company.

*Leonard P. Danna* has served as a director of the Company and Chairman of the Audit Committee of the Board of Directors since November 2003. Mr. Danna is, and since April 1999 has been, an audit partner with the accounting firm of Vavrinek, Trine Day & Co., LLP. From August 1985 to April 1999, Mr. Danna was an audit partner with Grant Thornton LLP. As a result of his accounting experience, Mr. Danna is familiar with financial reporting requirements applicable to and financial issues faced by publicly traded companies, making him an effective and valuable member of Audit Committee, of which he is the Chairman.

There are no family relationships among any of the Company's officers or directors.

## THE BOARD OF DIRECTORS

*Role of the Board of Directors.* In accordance with Delaware law and our Bylaws, the Board of Directors oversees the management of the business and affairs of the Company. The members of the Board keep informed about our business through discussions with management, by reviewing analyses and reports sent to them by management and outside consultants, and by participating in Board and Board committee meetings.

Our Board members are encouraged to prepare for and to attend all meetings of the Board and the Board committees of which they are members and all stockholder meetings. During the fiscal year ended December 31, 2013, the Board of Directors of the Company held a total of four meetings and each director attended at least 80% of the total of those meetings and the meetings of the Board committees on which he served during 2013. All of the then incumbent directors also attended the Annual Meeting of Stockholders held in August 2013. Although we have no formal policy requiring director attendance at annual meetings of stockholders, we attempt to schedule each annual meeting for a date that is convenient for all directors to attend.

### *Role of the Board in Risk Management*

Management is responsible for the day-to-day management of risk and implementation of appropriate risk management controls and procedures. The Board's responsibilities include oversight of the Company's key risks and management's processes and controls. In meeting these responsibilities, at its meetings the Board members discuss with management the principal risks facing the Company and its financial condition and the performance and actions that have taken, and the processes that have been implemented, by management to address and mitigate those risks to the extent practicable. Management also conducts quarterly evaluations of the effectiveness of the Company's disclosure controls and annual evaluations of the effectiveness of the Company's internal control over its financial reporting under the oversight of the Audit Committee.

### *Board Leadership Structure*

The Board does not have a formal policy with respect to whether the roles of Chief Executive Officer and Chairman of the Board should be separate and, if they are to be separate, whether the Chairman of the Board should be selected from among the non-employee directors or management. The Board believes that it should be free to make a choice from time to time in any manner that it concludes is in the best interests of the Company and its stockholders.

Thomas R. McGuire, the Chairman of the Board, is an executive officer and past President and CEO of the Company. In electing Mr. McGuire as Chairman, the Board considered the fact that Mr. McGuire is a large stockholder of the Company and, as a result, the other Board members believe that his interests are closely aligned with those of the stockholders. In addition, Mr. McGuire has extensive knowledge about and is well-known by customers in the Company's marketplace and, as a result, he is able to identify strategic opportunities for our Company in the market.

Our Board also has determined that maintaining the independence of a majority of our directors helps maintain the Board's independent oversight of management and ensures that the appropriate level of independence is applied to all Board decisions. In addition, the Board has appointed Tom Faludy, one of the independent directors on the Board, as Lead Director. The Lead Director's duties include working with the Chairman to develop and approve Board agendas, developing meeting schedules with the Chairman to ensure there is sufficient time for discussion of agenda topics, advising the Chairman as to the quality, quantity and timeliness of the information sent to the Board by management, developing agendas for and chairing executive sessions of the Board (in which the non-management directors meet without management), acting as a liaison between the independent directors and the Chairman and CEO, and performing such other duties as the Board may determine from time to time.

Our Audit, Compensation and Nominating and Governance Committees, which oversee critical matters, such as our accounting principles and financial reporting processes, our executive compensation programs and the selection and evaluation of our directors and director nominees, respectively, are comprised solely of independent directors.

### **Committees of the Board of Directors**

The Board has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. Information regarding the members of each of those Committees and their responsibilities and the number of meetings held by those Committees in 2013 is set forth below.

*Audit Committee and Financial Experts.* The members of the Audit Committee are Leonard P. Danna, its Chairman, and Robert S. Throop and John W. Casey. The Board of Directors has determined that all of the members of the Audit Committee are independent within the meaning of the NYSE MKT listed company rules and the enhanced independence requirements for audit committee members contained in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act). Due to Mr. Casey's decision to retire from the Board, rather than stand for reelection at this year's Annual Meeting, it is expected that Thomas G. Faludy, the Board's lead director, will be appointed to fill the vacancy created by Mr. Casey's retirement. Our Board also has determined that each of Messrs. Danna and Throop meets the definition of audit committee financial expert adopted by the SEC. The Audit Committee has a written charter that specifies its responsibilities, which include oversight of the financial reporting process and system of internal accounting controls of the Company, and appointment and oversight of the independent registered public accounting firm engaged to audit the Company's financial statements. Interested stockholders can view a copy of that charter in the investor relations section of our website at [www.coastdistribution.com](http://www.coastdistribution.com). To ensure independence, the Audit Committee meets separately with our outside auditors and members of management, respectively. The Audit Committee held a total of four meetings in 2013.

*Compensation Committee.* The members of the Compensation Committee are John W. Casey, who serves as the Committee's Chairman, Robert S. Throop and Leonard P. Danna, each of whom is independent (as defined in the NYSE MKT listed company rules). The Compensation Committee (i) sets the salaries of the Company's executive officers; (ii) adopts non-equity incentive compensation and other non-equity benefit plans for our executive officers and sets the performance targets and determines the incentive compensation awards that may be earned under those plans; and (iii) oversees the administration of, and makes determinations with respect to the granting and terms of stock options and restricted shares granted under, the Company's equity incentive plans. The Compensation Committee operates under a charter that sets forth the role and responsibilities of the Committee. Interested stockholders can view a copy of that charter in the investor relations section of our website at [www.coastdistribution.com](http://www.coastdistribution.com). The Compensation Committee held two meetings in 2013. There will be a vacancy on the Compensation Committee due to Mr. Casey's retirement from the Board, effective August 26, 2014. The Board intends to appoint another of its independent directors to fill that vacancy.

Mr. Musbach sometimes participates in meetings of the Compensation Committee to provide the Committee with information with respect to the performance of the Company's other executive officers who report to him, but does not participate in the deliberations or votes of the Committee.

*Nominating and Governance Committee.* The members of the Nominating and Governance Committee are Robert S. Throop, its Chairman, Ben A. Frydman and John W. Casey, each of whom is independent within the meaning of the NYSE MKT Listing Rules. This Committee has a written charter that sets forth its responsibilities, which include identifying and recommending nominees for election to the Board; making recommendations to the Board regarding the directors to be appointed to each of its standing Committees; developing and recommending corporate governance guidelines for adoption by the Board of Directors; and overseeing the annual self-assessments by the Company's Directors of the performance of the Board of Directors and its Committees. A copy of the Committee's charter may be viewed in the investor relations section of our website at [www.coastdistribution.com](http://www.coastdistribution.com). The Committee held one meeting in 2013.

## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

Our Directors believe that sound governance policies and practices provide an important framework to assist them in fulfilling their duties to the Company's stockholders. Our Board of Directors has adopted the following governance guidelines, which include a number of policies and practices under which our Board has operated for some time, together with concepts suggested by various authorities in corporate governance and the requirements under the NYSE MKT listed company rules and the Sarbanes-Oxley Act of 2002. Some of the principal subjects covered by those guidelines include:

*Director Qualifications.* Candidates for election to the Board will be evaluated on the basis of their integrity, independence and freedom from conflicts of interest; their experience and expertise; their ability to make independent analytical inquiries; their understanding of our business and the business environment in which we operate; and their ability and willingness to devote adequate time and effort to Board responsibilities.

*Independence and Responsibilities of Directors.* A majority of the Directors, but in no event less than three directors, will be independent directors (as defined in the NYSE MKT listed company rules). Additionally, Directors are expected to act in the best interests of all stockholders; develop and maintain a sound understanding of our business and the industry in which we operate; prepare for and attend Board and Board committee meetings; and provide active, objective and constructive participation at those meetings.

*Director Access to Management.* Directors are to be permitted access to members of management and members of management are to provide Board presentations regarding the functional areas of our business for which they are responsible.

*Adequate Funding for the Board and its Committees.* The Company will provide the funding necessary to enable the Board and each of its committees to retain independent advisors as the Board, or such committees acting independently of the Board, deem to be necessary or appropriate.

*Director Participation in Continuing Education Programs.* New directors will participate in programs designed to familiarize them with our business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct and corporate governance guidelines. In addition, each incumbent director is expected to participate in continuing education programs relating to developments in the Company's business and to corporate governance.

*Annual Performance Evaluations.* The Board and each Board committee will conduct an annual self-assessment of its performance.

*Executive Sessions without Management.* The independent directors of the Board will hold separate sessions, outside the presence of management, to consider and evaluate the performance of the Company and its management and such other matters as they deem appropriate. In addition, the Audit Committee shall meet separately with the Company's outside auditors.

### Director Independence and Diversity

Coast's corporate governance guidelines require that the Board be comprised of at least a majority of independent directors. For a director to be considered independent, the Board must affirmatively determine that he does not have any direct or indirect material relationship with Coast that, in the opinion of the Board, would interfere with the exercise of that director's independent judgment in carrying out his responsibilities as a director.

A director will not be deemed to be an independent director if:

the director is, or at any time during the preceding three years was, employed by Coast; or

the director or an immediate family member of the director (i) is, or at any time during the previous three years was, employed as an executive officer of Coast, or (ii) received compensation in excess of \$120,000 in any 12 month period during the immediately preceding three years for services rendered to the Company, other than as a member of the Board of Directors or any committee thereof; or

the director, or an immediate family member of the director is a current partner of Coast's outside auditor, or was a partner or employee of Coast's outside auditor who worked on Coast's audit at any time during the previous three years; or

a present Coast executive officer was on the compensation committee of the board of directors of another company during the previous three years that concurrently employed, as one of its executive officers, a Coast director or an immediate family member of a Coast director; or

the director or an immediate family member of the director is a partner, executive officer, or controlling shareholder of another company or professional or other firm (including any law firm or investment banking firm) to which Coast made, or from which Coast received, payments for property or services in the current year or in any of the past three fiscal years that exceeded the greater of (i) 5% of consolidated gross revenues of that other company or professional or other firm for that year, or (ii) \$200,000.

On the basis of the above criteria, the Board has determined that five of the Company's seven current directors are independent, including Mr. Frydman, and that Messrs. McGuire and Musbach are not independent because they are executive officers of the Company. Moreover, even though John Casey, one of the five independent directors, is retiring from the Board, independent directors will still comprise four of the six members of the Board. In determining that Mr. Frydman is independent, the other independent directors did consider the fact that Mr. Frydman is a shareholder (but not a controlling shareholder) in the law firm of Stradling Yocca Carlson & Rauth, which provided legal services to Coast during each of the past three years and is providing legal services to Coast in 2014. However, on the basis of the criteria set forth above and their evaluation of Mr. Frydman's past performance as a director, the other independent directors determined that this relationship did not interfere with the exercise of his independent judgment in carrying out his responsibilities as a director of the Company.

The Board of Directors believes that differences in experience, knowledge, skills and viewpoints enhance the Board of Directors' performance. Accordingly, the Nominating Committee considers such diversity in selecting, evaluating and recommending, and the Board considers diversity in approving, proposed Board nominees. However, the Board of Directors has not implemented a formal policy with respect to the consideration of diversity for the composition of the Board of Directors.

#### **Code of Business Conduct**

We have adopted a Code of Business Conduct for our officers and employees that has been approved by the Board of Directors. The Code sets forth specific ethical policies and principles that apply to our Chief Executive Officer, Executive Chairman, Chief Financial Officer and other key accounting and financial personnel. A copy of our Code of Business Conduct is posted in the investor relations section of our website at [www.coastdistribution.com](http://www.coastdistribution.com). We also intend to disclose, on that website, any amendments to our Code of Business Conduct and any waivers of its requirements that may be granted to our Chief Executive Officer, Executive Chairman or Chief Financial Officer. To date, no such waivers have been granted.

#### **Communications with the Board**

Stockholders and other parties interested in communicating with the non-management directors as a group may do so by writing to the Corporate Secretary, The Coast Distribution System, Inc., 350 Woodview Avenue, Suite 100, Morgan Hill, California 95037. The Corporate Secretary will review and forward to the appropriate member or members of the Board copies of all such correspondence that, in the opinion of the Corporate

Secretary, deals with the functions of the Board or its committees or that she otherwise determines requires their attention. Questions relating to accounting, internal controls or auditing matters will be brought promptly to the attention of the Chairman of the Audit Committee and will be handled in accordance with procedures established by that Committee.

The Audit Committee also has established a financial integrity hotline (i) for Company employees and others to be able to communicate, anonymously, to the Audit Committee any questions or concerns they may have regarding accounting or auditing matters and (ii) for the receipt, retention and treatment of those communications and any complaints that might be received with respect to such matters.

### **Nomination of Directors**

In identifying candidates for membership on the Board, the Nominating and Governance Committee will seek recommendations from existing Board members and executive officers. In addition, that Committee will consider any candidates that may be recommended by any of the Company's stockholders who make those recommendations in accordance with the procedures described below. The Committee also has the authority to engage an executive search firm and other advisors, as it deems appropriate, to assist it in identifying qualified Board candidates. In assessing and selecting new candidates for Board membership, the members of the Nominating and Governance Committee will consider such factors, among others, as the candidate's integrity and independence and freedom from conflicts of interest, his or her experience and expertise, as demonstrated by past employment and board experience, whether or not the candidate's other time commitments will enable him or her to devote the time required to fulfill the duties of a director of the Company, and whether the candidate's skills and experience will add to the overall competencies represented on the Board. The Committee also will conduct background inquiries of and interviews with the candidates.

*Stockholder Recommendation of Board Candidates.* Any stockholder desiring to submit a recommendation for consideration by the Nominating and Governance Committee of a candidate whom the stockholder believes is qualified to be a nominee for election to the Board at any annual stockholders' meeting may do so by submitting that recommendation in writing to the Committee not later than 120 days prior to the first anniversary of the date on which the proxy materials for the prior year's annual meeting were first sent to stockholders. However, if the date of an annual stockholders' meeting has been changed by more than 30 days from the anniversary date of the prior year's annual meeting, the recommendation must be received within a reasonable time before the Company begins to print and mail its proxy materials for the upcoming annual meeting. In addition, the recommendation should be accompanied by the following information: (i) the name and address of the nominating stockholder and each person that the nominating stockholder is recommending for consideration as a candidate for Board membership; (ii) the number of shares of voting stock of the Company that are owned by the nominating stockholder, his or her recommended candidate and any other stockholders known by the nominating stockholder to be supporting the nomination of that candidate; (iii) a description of any arrangements or understandings that relate to the election of directors of the Company, between the nominating stockholder, or any person that (directly or indirectly through one or more intermediaries) controls, or is controlled by, or is under common control with, such stockholder, on the one hand, and any person that the nominating stockholder is recommending for election to the Board or any other person or persons (naming each such person), on the other hand; (iv) such other information regarding the recommended candidate as would be required to be included in a proxy statement prepared in accordance with and filed pursuant to the SEC's proxy rules; and (v) the written consent of the recommended candidate to be named as a nominee and, if nominated and elected, to serve as a director.

*Stockholder Nominations.* Our Bylaws provide that any stockholder also may nominate, at any annual meeting of stockholders, one or more candidates for election to the Board of Directors, by giving the Company written notice (addressed to the Secretary of the Company at the Company's principal offices) of such stockholder's intention to do so not later than 120 days prior to the first anniversary of the date on which the proxy materials for the prior year's annual meeting were first sent to stockholders. That notice must be



accompanied by (i) the same information, described in the immediately preceding paragraph, regarding such candidate or candidates to be nominated for election to the Board and with respect to the nominating stockholder and any other stockholders known by the nominating stockholder to be supporting the nomination or election of that candidate, and (ii) the written consent of each such candidate to be named as a nominee and, if nominated and elected, to serve as a director. Any stockholder nomination at any annual meeting that does not comply with these Bylaw requirements will be ineffective and disregarded.

The foregoing discussion of these Bylaw requirements is not intended to be complete and interested stockholders are encouraged to review the Company's Bylaws, a copy of which is posted in the investor relations section of our website at [www.coastdist.com](http://www.coastdist.com). In addition, the SEC maintains a website at <http://www.sec.gov> where a copy of our Bylaws can be obtained without charge.

None of our stockholders provided notice to us of an intention to nominate any candidate for election to the Board at the upcoming Annual Meeting of Stockholders and, therefore, the election of the Class II directors at the Annual Meeting will be uncontested.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires each of our directors and executive officers, and any person who owns more than 10% of our common stock (a 10% Stockholder), to file reports with the SEC containing information regarding their ownership and changes in their ownership of our shares of common stock and of options to purchase shares of our common stock and to furnish us with copies of those reports.

Based solely on a review of the copies of those reports that were filed by our executive officers and directors pursuant to Section 16(a) of the Exchange Act, to our knowledge, all of our executive officers and directors complied with all Section 16(a) filing requirements applicable to their transactions in the Company's securities in 2013, except as follows: (i) statements of changes in beneficial ownership on Form 4 ( Form 4s ) to report sales of 1,100 shares and 1,200 shares by Mr. McGuire, our Executive Chairman, were inadvertently filed three days and two days late, respectively; and (ii) a Form 4 to report the purchase, by exercise of an employee stock option, by David Berger, one of our Executive Vice Presidents, of 5,000 shares of our common stock, was inadvertently filed nine days late.

## EXECUTIVE COMPENSATION

### Compensation Philosophy and Objectives

We believe that the success of our business and the creation of long term stockholder value depend to a large extent on our ability to retain and to attract superior management employees and, to the extent practicable, to align their interests with those of our stockholders. Therefore, the Compensation Committee's primary objectives, when setting management compensation, is to enable the Company to retain its existing and, when the need arises to attract new or additional, executive officers and other key management employees and to incentivize them to achieve improvements in the Company's financial performance that will lead to increases in our share prices. Our Compensation Committee attempts to accomplish these objectives by:

Offering competitive salaries and benefits to our Chief Executive Officer and the other executive officers named in the Summary Compensation Table below (our named executive officers or NEOs) and our other officers and key management personnel;

Providing our NEOs and other key management employees the opportunity to earn additional compensation, either in the form of cash bonuses or equity incentive awards, the vesting of which is made contingent on the achievement of one or more annual corporate financial goals established by the Compensation Committee; and

Aligning more closely the financial interests of our NEOs and other key management employees with those of our stockholders, primarily by means of grants of stock options or grants of shares of restricted stock, which reward the NEOs and other key management employees for improvements in the Company's financial performance and increases in the market prices of our common stock.

It also is the Compensation Committee's policy (i) to submit all stock incentive plans pursuant to which option and other equity-based compensation awards are granted for approval by our stockholders, (ii) to place limits on the number of shares for which options or other equity incentive awards may be granted under those plans and (iii) generally to provide for stock based compensation awards to become exercisable (i.e., vest) in annual installments over multi-year periods as a means of creating incentives for our officers and other key management employees to focus on achieving longer term corporate objectives and to remain in our employ.

The market for talented and experienced executives is competitive nationally, and particularly in the San Francisco Bay Area where the Company is headquartered. While we consider peer groups, no single factor is determinative in setting compensation structure or allocating among elements of compensation. To ensure that we are appropriately compensating our NEOs and other key management employees and that we have appropriate human resources to execute on our business plans, the members of our Compensation Committee review information that is available to them and use their judgment in making compensation decisions. The Compensation Committee performs annual reviews of our executive compensation programs to evaluate their competitiveness and their consistency with our overall management compensation philosophy and objectives.

In addition, the Compensation Committee reviews the Company's executive and employee compensation practices to assess (i) whether they create incentives that are effective in terms of achieving our management compensation objectives, which are described above, and (ii) if any of those practices operate in a manner that may present material risks to the Company. Based on these assessments, the Compensation Committee has determined that none of the Company's compensation practices for its NEOs or other employees is reasonably likely to have a material adverse effect on the Company.

### Components of Executive Compensation

We generally provide three major categories of executive compensation: (i) base salary; (ii) annual cash bonus compensation; and (iii) equity compensation in the form of stock option or restricted stock grants. We believe that the

combination of these three components enables us to retain existing and attract new management employees in the competitive local and national markets and to balance the motivation of our NEOs and other management employees to execute on immediate goals while remaining conscious of our strategic objectives and longer term goals.

The allocation of the individual components of executive compensation is based on a number of factors, including competitive market conditions and the positions within our organization held by our NEOs and other key management employees, which determines their ability to influence our financial performance. Generally, the percentage of compensation at risk, either in the form of bonus or equity compensation that is tied to the achievement by the Company of financial goals, is higher for our NEOs and other executive officers than for other management employees, because the performance of our NEOs and other executive officers generally has a greater impact on whether or not we achieve our strategic objectives and longer term goals.

*Salaries and Employee Benefit Programs*

In order to retain executives and other key employees, and to be able to attract additional well qualified executives when the need arises, we strive to offer salaries and health care and other employee benefit programs to our executives and other key management employees that are competitive with those offered by comparable businesses. In establishing salaries, the Compensation Committee reviews (i) the historical performance of our NEOs; and (ii) available information regarding prevailing salaries and compensation programs offered by comparable businesses. Another factor which is considered in establishing salaries of our executive offers are the costs of living in the San Francisco Bay Area where the Company is headquartered, as such costs generally are higher than in other parts of the country.

*Performance Based Compensation*

The Compensation Committee believes that, as a general rule, annual compensation in excess of base salaries should be made dependent primarily on the Company's financial performance.

2013 Cash Incentive Plan. Accordingly, as in prior years, the Compensation Committee established an annual cash incentive compensation plan for our NEOs and the Company's other executive officers and key management personnel for 2013 (the Cash Incentive Plan or the Plan). Two of our NEOs, Mr. Musbach and Ms. Knell, were designated by the Committee as participants in that Plan.

The Committee established a range of pre-tax earnings goals for 2013, beginning with a minimum or threshold pre-tax earnings goal which was required to be achieved by the Company for Mr. Musbach and Ms. Knell, as well as other participants in the Plan (collectively, the Plan Participants), to earn any cash incentive awards under this Plan for 2013. On the other hand, if the threshold pre-tax earnings goal was achieved or exceeded, then each of Mr. Musbach and Ms. Knell, as well as each of the other Plan Participants, would have earned a cash incentive award under the Plan. The following table sets forth the cash incentive award that each of Mr. Musbach and Ms. Knell could have earned under the Plan, expressed as a percentage of their respective 2013 annual base salaries, assuming the threshold pre-tax earnings goal was achieved and depending on whether and the extent to which that goal was exceeded.

	Percentages of 2013 Annual Base Salaries Performance Goal Achieved		
	Threshold	Target	Maximum
James Musbach	15%	25%	30%
Sandra Knell	10%	20%	25%

For purposes of the 2013 Cash Incentive Plan pre-tax earnings was defined as the Company's 2013 pre-tax earnings, as determined for financial reporting purposes, increased by the amount of the Company's non-cash equity compensation expense and any cash awards earned under the Plan.

The pre-tax earnings goals under the 2013 Cash Incentive Program were established on the basis of the Company's annual operating plan that was initially developed by management and then was submitted to the

Board of Directors for its review, possible modification and approval. The annual operating plan is designed to maximize the profitability of the Company within the context of prevailing economic and market conditions. In deciding whether or not to approve or require modifications to the annual operating plan proposed by management, the Board reviewed market conditions and trends and other factors which, based on historical experience, were expected to affect the Company's revenues and profitability, including historical operating costs, as adjusted for anticipated increases in costs resulting from, among other things, pricing changes by vendors and anticipated economic and competitive conditions in the Company's markets. By taking all of these factors into account, the various pre-tax earnings goals under the 2013 Cash Incentive Plan were fixed at what the Compensation Committee believed were realistic goals so as to make the incentives under the Plan meaningful to the NEOs and other Plan Participants and to avoid unduly penalizing them for unexpected events or conditions outside of their control.

However, the 2013 threshold financial performance goal under the 2013 Cash Incentive Plan was not achieved and, as a result, none of the NEOs or other Plan Participants earned or received any cash bonus awards under the Plan for 2013.

Equity Incentive Awards.

Equity Incentives Generally. In order to more closely align the financial interests of our NEOs and other key management employees with those of our stockholders, the Compensation Committee grants stock options and shares of restricted stock to our NEOs, usually on a pre-determined date early in each fiscal year under stockholder-approved equity incentive plans. Stock option and restricted stock grants, in particular, reward NEOs and other officers and key management employees for performance that results in increases in the market price of our common stock, which directly benefits all stockholders. Moreover, such equity incentives generally are granted on terms requiring the NEOs to remain in the Company's employ over a multi-year period, usually ranging from three to five years, before the options or restricted shares can become fully vested. The Compensation Committee believes that these features of the option and restricted stock grants provide an incentive for NEOs and other key management employees to remain in the employ of the Company over a multi-year period and, at the same time, make the Company's financial performance and longer term growth in the share prices important for the executives who receive such equity incentive grants.

2013 Performance-Based Equity Incentive Program. In 2013, the Compensation Committee adopted an equity incentive program pursuant to which it granted to our NEOs and other key management employees restricted shares of common stock the vesting of which was made contingent on the achievement by the Company of financial performance goals in 2013, 2014 and 2015, which increase from year to year.

Under that program, for each of those three years in which the Company achieves the financial performance goal established for that year, one-third of the restricted shares would vest. On the other hand, one-third of those restricted shares would be forfeited for each of those years in which the financial goal is not achieved. The primary purpose of these restricted stock grants is to align more closely the interests of our NEOs with those of our stockholders, by (i) providing meaningful financial incentives, in the form of equity incentive awards, to our NEOs for making significant contributions to the Company's achievement of financial performance goals, and to remain in the Company's employ, over a multi-year period, (ii) making the compensation which each NEO can earn in fiscal 2013, 2014 and 2015, in excess of his or her annual base salary, more dependent on the Company's achievement of financial performance goals in those years, and (iii) providing financial incentives for performance by our NEOs which results in increases in our share prices.

The following table sets forth the maximum number of restricted shares which each of our NEOs could earn under this Performance-Based Equity Incentive Program, if the respective financial performance goals for 2013, 2014 and 2015 were achieved:

Named Executive Officer	Maximum Number of Restricted Shares(1)
James Musbach	40,000
Thomas R. McGuire	20,000
Sandra A. Knell	20,000

(1) If all of the respective annual financial goals are achieved in the years ended December 31, 2013, 2014 and 2015. For each year in which the financial goal is not achieved, one-third of these shares will be forfeited.

The 2013 financial goal established under this program was not achieved and, as a result, one-third of the restricted shares granted to our NEOs, as well as other participants in this program, were forfeited.

Under the terms of this program, if a change of control of the Company were to occur prior to December 31, 2015, any of the then remaining unvested restricted shares (that is, restricted shares which have not yet been earned or forfeited) would become vested, unless the party acquiring control of the Company agrees to assume, or to substitute comparable equity incentives for, the outstanding equity incentive awards on terms approved by the Compensation Committee.

For additional information regarding the compensation received by our Named Executive Officers for 2013, please review the discussion under the caption Narrative to Summary Compensation Table set forth below in this proxy statement.

*Perquisites and Other Elements of Compensation*

As a matter of policy, the Company does not provide perquisites, or perks to our NEOs or other management employees. Instead, the employee benefit plans, which include a health insurance plan, are available on the same terms not only to our NEOs and other executive officers, but also to all other full time employees of the Company.

**Compensation Committee Interlocks and Insider Participation**

During 2013, none of the members of the Compensation Committee were officers or employees of the Company and no executive officer of the Company served on the board of directors or compensation committee of any entity which had one or more executive officers serving as members of our Board of Directors or Compensation Committee.

**Summary Compensation Table**

The following table sets forth the compensation received in the years ended December 31, 2013 and 2012 by the Company's Chief Executive Officer, and the next two highest paid executive officers whose aggregate cash compensation for services rendered to the Company in all capacities in 2013 exceeded \$100,000 (collectively, the "NEOs" or "Named Executive Officers"):

Name and Principal Position	Year	Salary	Equity Incentive Plan Awards(1)	Non-Equity Incentive Compensation(2)	All Other Compensation(3)	Total
James Musbach, President and Chief Executive Officer	2013	\$ 245,675	\$ 78,900	\$	\$ 6,000	\$ 330,575
	2012	237,500	91,200		5,980	334,680
Thomas R. McGuire, Executive Chairman	2013	\$ 222,650	\$ 39,500	\$	\$ 6,000	\$ 268,150
	2012	232,164	22,800		5,980	260,944
Sandra A. Knell, Executive Vice President and Chief Financial Officer	2013	\$ 202,435	\$ 39,500	\$	\$	\$ 241,935
	2012	195,700	45,600			241,300

- (1) The amounts in this column represent the aggregate grant date fair value of the respective awards computed in accordance with FASB ASC Topic 718 (ASC 718). According to Instruction 3 to Item 402(c)(2)(v) of Regulation S-K, for awards that are subject to the satisfaction of performance conditions, the amounts reported reflect the grant date fair values based upon the probable outcome of the performance conditions at grant date and for service-based awards, the amounts reflect the grant date fair values based on the assumption that 100% of the awards will vest.

The equity incentive awarded to Mr. Musbach in 2013 consisted of 40,000 performance-contingent restricted shares with an aggregate grant date fair value of \$78,900, based on the probable outcome of the performance conditions measured as of the grant date. The aggregate grant date fair value of this award, assuming the maximum performance goals were to be achieved, would have been \$118,400.

The equity incentives awarded to each of Mr. McGuire and Ms. Knell in 2013 consisted of 20,000 performance-contingent restricted shares, in each case with an aggregate grant date fair value of \$39,500, based on upon the probable outcome of the performance conditions measured as of the grant date. The aggregate grant date fair value of each of these awards, assuming the maximum performance goals were to be achieved, would have been \$59,200.

- (2) None of the NEOs received any cash or other non-equity incentive compensation awards for 2013 or 2012. See Narrative to Summary Compensation Table below.
- (3) The other compensation received by Messrs. Musbach and McGuire in 2013 and 2012 consisted solely of automobile allowances to reimburse them for the expenses they incurred in using their personal automobiles on Company business.

**Narrative to Summary Compensation Table***Annual Base Salaries*

Mr. Musbach served as the Company's President and Chief Operating Officer until April 2008, when he was promoted to Chief Executive Officer. Although the Compensation Committee approved an increase in Mr. Musbach's annual base salary from \$250,000 to \$300,000 in conjunction with that promotion, he declined to accept that increase as his contribution to a cost reduction program adopted by the Board in response to the economic recession and credit crisis. As a result, Mr. Musbach's annual base salary in 2008 was \$250,000. Then, effective February 1, 2009, Mr. Musbach reduced his annual base salary by another 10%, to \$225,000, as part of



a number of cost-cutting measures being implemented by the Company in that year. Effective July 1, 2010, all salaries and wages of the Company's employees then in effect, including Mr. Musbach's salary, which had been reduced by 10% in 2009, were increased by 5%. Then, in March 2013, all salaries and wages of the Company's employees, including Mr. Musbach's salary, were increased by another 5%, thereby effectively restoring all of the salaries of the Company's employees, including Mr. Musbach's, to their 2009 levels. As a result, Mr. Musbach's annual base salary in 2013 reflects that second 5% salary increase for 10 months of 2013.

In 2008, Mr. McGuire's annual base salary was \$360,000. However, as his contribution to the Company's cost reduction programs, Mr. McGuire voluntarily reduced his annual base salary on two occasions in 2008: (i) a \$50,000 reduction, effective June 1, 2008, bringing his annual base salary from \$360,000 to \$310,000 and (ii) an additional \$60,000 reduction, effective December 1, 2008, bringing his annual base salary from \$310,000 to \$250,000, which was 30% lower than the amount of his annual base salary at the beginning of 2008. Then, effective February 1, 2009, Mr. McGuire reduced his then annual base salary by an additional 10%, to \$225,000, as part of a number of cost-cutting measures being implemented by the Company in that year. Effective July 1, 2010, all salaries and wages of the Company's employees, including Mr. McGuire's salary, which had been reduced by 10% in 2009, were increased by 5%. As a result, Mr. McGuire's annual base salary for 2011 included that 5% salary increase. However, Mr. McGuire agreed to reduce his annual salary by 10% effective September 15, 2012. As a result, his annual salary in 2012 gives effect to that reduction for the last three and one-half months of that year and his annual salary in 2013 gives effect to that reduction for the entirety of that year.

Ms. Knell, like the other NEOs, agreed to reduce her annual base salary by 10%, effective February 1, 2009 as part of a number of cost-cutting measures being implemented by the Company in that year. Effective July 1, 2010, all salaries and wages of the Company's employees, including Ms. Knell's salary, which had been reduced by 10% in 2009, were increased by 5%. Then, in March 2013, the salaries of all Company employees, including Ms. Knell's salary, were increased by another 5%, effectively restoring her salary to its 2009 level. As a result, Ms. Knell annual base salary in 2013 reflects that second 5% salary increase for 10 months of 2013.

#### *Equity and Non-Equity Incentive Compensation*

##### *The 2012 Equity Incentive Plan.*

With the approval of our stockholders, we adopted an equity incentive plan in 2012 (the "2012 Equity Incentive Plan"). That Plan set aside shares of our common stock for future grants of equity awards which, to date, have consisted of stock options and restricted stock awards. Those awards are intended to create incentives, in the form of financial rewards, to NEOs and other management employees for performance that leads to increases in our stock price, so as to more closely align the financial interests of our NEOs and other key management employees with those of our stockholders.

Additionally, in order to earn equity incentive awards, the recipients of the awards are required to remain in the Company's employ over vesting periods that, in most cases, range from three-to-five years. Generally, if an executive's employment with the Company is terminated (whether by the executive or the Company) prior to the expiration of the multi-year vesting period, the unvested portion of the equity award is forfeited. As a result, such awards also provide an incentive for our Named Executive Officers and other officers and key management employees to remain in the Company's employ over a multi-year period and to focus their efforts on the Company's achievement of longer term financial results.

The Compensation Committee oversees the administration of the 2012 Equity Incentive Plan and, in that capacity, determines (i) the executive officers and other management employees who will be granted equity incentive awards under that Plan, (ii) the number of shares that Plan participants may receive pursuant to such awards, and (iii) the nature and terms of, and the vesting conditions that will apply to, such awards. Generally, the Compensation Committee grants equity incentive awards to our NEOs and other key management employees on the commencement of their employment with the Company, and annually thereafter at a pre-scheduled Compensation Committee meeting usually held during the first quarter of each year.



The 2012 Equity Incentive Plan provides that all unvested equity incentive awards, whether held by our NEOs or other employees, will become vested on a change of control of the Company, unless the party acquiring control of the Company agrees to assume or to substitute comparable equity incentives for the outstanding equity incentive awards on terms approved by the Compensation Committee.

*2013 Performance-Based Equity Incentive Program.*

In fiscal 2013, the Compensation Committee, pursuant to the 2012 Equity Incentive Plan, granted to our executive officers, including our NEOs and other key management employees, restricted shares of common stock the vesting of which was made contingent on the achievement by the Company of financial performance goals for 2013, 2014 and 2015, which increase from year to year.

Those grants provide that, for each of those years in which the Company achieves the financial performance goal established for such year, one-third of the restricted shares would vest. On the other hand, one-third of those restricted shares would be forfeited for each of those years in which the financial goal is not achieved. The primary purpose of these restricted stock grants is to align more closely the interests of our NEOs and other executive officers with those of our stockholders by (i) providing meaningful financial incentives, in the form of equity incentive awards, to our NEOs and other executive officers for making significant contributions to the Company's achievement of financial performance goals, and to remain in the Company's employ, over a multi-year period, (ii) making the compensation which each NEO and other executive officer could earn in fiscal 2013, 2014 and 2015, in excess of his or her annual base salary, dependent to a considerable extent on the Company's achievement of financial performance goals in those years, and (iii) providing financial incentives for performance by our NEOs which would result in increases in our share prices.

However, the 2013 financial goal established under this program was not achieved and, as a result, one third of the restricted share granted under this program were forfeited.

*Cash Incentive Plan.*

The Compensation Committee adopted an annual cash incentive plan for 2013, as it had in previous years, to provide our executive officers and other key management employees with the opportunity to earn cash incentive awards or bonuses based on the Company's financial performance for the year. The primary purposes of these annual cash incentive plans are to (i) provide meaningful incentives in the form of financial awards to our executive officers and other key management employees for making significant contributions to the Company's achievement of one or more annual financial goals, and (ii) to make the portion of the annual cash compensation of each NEO and the other key management employees participating in the plan, in excess of their respective annual base salaries, dependent to a greater extent on the Company's financial performance and, thereby, promote the interests of the Company and its stockholders. The NEOs who were designated as participants in this plan were Mr. Musbach and Ms. Knell. The amount of the potential bonus award that each of them could have earned under this plan ranged from 10% to 35% of their respective 2013 annual base salaries, if a threshold pre-tax earnings goal, established by the Compensation Committee, was achieved and depending on whether and the extent to which that goal was exceeded. However, no cash bonus awards were earned or paid to any of the NEOs or other participants under the 2013 cash incentive plan, because the Company did not achieve the 2013 threshold financial performance goal established under that plan.

For additional information regarding the 2013 Performance-Based Equity Incentive Program and Cash Incentive Plan, see **Components of Executive Compensation** *Performance Based Compensation* above in this Proxy Statement.

During the first quarter of this year, the Compensation Committee adopted a similar cash incentive plan for 2014.

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

The following table sets forth information regarding unexercised options and restricted stock awards that have been granted to our NEOs and were outstanding as of December 31, 2013.

Names	Stock Option Awards Outstanding at December 31, 2013					Restricted Share Awards Outstanding at December 31, 2013		
	Grant Dates	Number of Shares underlying		Option Exercise Price\$(1)	Expiration Dates(2)	Grant Dates	Number of Shares Not Yet Vested	Market Value of Shares Not Yet Vested\$(3)
		Options						
		Exercisable	Not Yet Exercisable					
James Musbach	1/27/09	100,000		\$ 1.22	1/27/14			
						3/15/11	28,000(4)	\$ 91,560
						3/27/12	26,667(5)	\$ 87,201
						5/21/13	26,667(6)	\$ 87,201
Thomas R. McGuire	3/26/09	20,000		\$ 0.90	3/26/14			
						3/15/11	14,000(4)	\$ 45,780
						3/27/12	6,667(5)	\$ 21,804
						5/21/13	13,333(6)	\$ 43,599
Sandra A. Knell	1/08/04(7)	5,000		\$ 6.10	1/08/14(7)			
	2/17/05	5,000		\$ 7.29	2/17/15			
						3/15/11	14,000(4)	\$ 45,780
						3/27/12	13,333(5)	\$ 43,599
						5/21/13	13,333(6)	\$ 43,599

- (1) Each option grant was made at an exercise price equal to 100% of the closing price per share of our common stock on the date of grant as reported on the NYSE MKT.
- (2) The expiration dates of the option awards range from five to ten years from their respective dates of grant, subject to earlier termination on cessation of the NEO's service with the Company.
- (3) The market value of restricted share awards that had not yet vested as of December 31, 2013 was determined by multiplying the number of shares subject to each award by \$3.27, which was the closing price, as reported by the NYSE MKT, of the Company's common stock on the last trading day of 2013.
- (4) These restricted shares vest, subject to the continued service of the NEO with the Company, in two annual installments, each with respect to 50% of the restricted shares, commencing on the third anniversary of the date of grant.
- (5) Each of these restricted share awards vests, subject to the continued service of the NEO with the Company, in three annual installments, each with respect to 33.3% of the restricted shares, commencing on the first anniversary of the date of grant.
- (6) These restricted shares vest, subject to performance goals and continued service of the NEO with the Company, in three annual installments, each with respect to 33.3% of the restricted shares, commencing on the first anniversary of the date of grant. The first third of these shares expired at December 31, 2013, when the Company failed to achieve the performance goal established for that year.
- (7) These options expired on January 8, 2014.



**Options Exercised and Restricted Shares Vested in 2013**

The table below presents information about stock options exercised by the NEOs and the number and the value of the NEOs stock awards that became vested during the fiscal year ended December 31, 2013.

Names	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise(1)	Number of Shares Acquired on Vesting	Value Realized on Vesting(2)
James Musbach		\$	37,000	\$ 95,233
Thomas R. McGuire		\$	11,667	\$ 30,334
Sandra A. Knell	10,000	\$ 34,700	11,667	\$ 29,167

(1) Calculated as the aggregate market value on the exercise date of the shares of the Company's stock received upon exercise of options, less the exercise price of the options.

(2) The market value of each NEO's vested shares was determined by multiplying the number of his or her vested shares by the closing price, as reported on the NYSE MKT, of the Company's common stock on the date of vesting.

**Nonqualified Deferred Compensation Plans**

We have not established any nonqualified deferred compensation programs for our NEOs or any other officers or employees.

**CEO Employment Agreement and Potential Severance and Change of Control Payments**

**Employment Agreement with Mr. Musbach.** On July 22, 2013, the Company entered into an employment agreement with its President and Chief Executive Officer, James Musbach (the "Employment Agreement"). Set forth below is a summary of the material terms of the Agreement. However, this summary is not intended to be complete and is qualified in its entirety by reference to the Employment Agreement, which is incorporated herein by this reference from Exhibit 10.99 to the Company's Current Report on Form 8-K dated July 22, 2013, filed with the Securities and Exchange Commission on July 24, 2013.

**Certain Material Employment Terms.** The Employment Agreement originally provided that, unless sooner terminated or extended, the term of the Agreement would continue until December 31, 2014. However, with the unanimous approval of Compensation Committee, effective as of July 22, 2014 the term of the Employment Agreement and Mr. Musbach's employment thereunder were extended by one year to December 31, 2015. The Agreement provides for payment to Mr. Musbach of a base salary of \$250,000 per year, which was unchanged from his base annual salary that had been in effect since March 1, 2013. The Employment Agreement also entitles Mr. Musbach to participate in employee benefit programs that are generally made available to other full time employees and in cash bonus and stock incentive plans in which other executive officers are eligible to participate. If the Agreement expires on December 31, 2015, Mr. Musbach will continue to be employed, as an at-will employee of the Company, holding the position of President and Chief Executive of the Company, in which case his employment will be terminable thereafter by him or by the Company, with or without cause. Therefore, in the event of any termination of Mr. Musbach's employment after expiration of the term of his Employment Agreement, whether by the Company or Mr. Musbach, the Company's sole obligation to Mr. Musbach would be to pay him any unpaid salary and any fully vested but unpaid employee benefits accrued to the effective date of such termination.

**Early Termination of Employment.** The Employment Agreement provides that if Mr. Musbach's employment is terminated, prior to the expiration of the term of the Employment Agreement (other than as a result of or in connection with a change of control of the Company), either by the Company without cause or by Mr. Musbach due to certain actions taken by the Company that adversely affect his position as CEO (each of such actions, a "Good Reason Event"), Mr. Musbach would be entitled to receive a lump sum severance payment

in an amount equal to the lesser of (i) one year's salary, at the annual rate then in effect, or (ii) the salary he would have been paid during what would have been the then remaining term of the Agreement had there been no such termination of employment, and all accrued or fully vested but unpaid benefits. If Mr. Musbach's employment is terminated by the Company for Cause (as defined in the Agreement) or due Mr. Musbach's death or disability, then the Company's sole obligation will be to pay to Mr. Musbach (or, in the event of his death, to his heirs) any then accrued but unpaid salary and benefits to the date of such termination of employment.

*Termination of Employment on or in connection with a Change of Control of the Company.* If, during the term of the Employment Agreement a change of control of the Company (as defined in that Agreement) occurs, and Mr. Musbach's employment is terminated, on or within 12 months of the occurrence of the change of control, either by the Company or its successor, without Cause or by Mr. Musbach due to the occurrence of a Good Reason Event, Mr. Musbach would receive severance compensation consisting of (i) a lump sum payment in an amount equal to one year's annual base salary at the annual rate then in effect, (ii) the payment to him of his then accrued or fully vested but unpaid benefits, (iii) the payment or reimbursement by the Company thereafter of 50% of his COBRA health insurance premium, and (iv) the vesting of his then unvested options and restricted shares.

*No Other Employment, Severance Compensation or Change of Control Agreements.* We do not have any other employment, severance or change of control agreements with any of our other NEOs or other executive officers.

However, our stock incentive plans provide that all unvested options or restricted shares, whether held by NEOs or other employees, will become vested on a change of control of the Company unless the party acquiring control of the Company agrees to assume, or substitute comparable equity incentives for, those outstanding options or restricted shares on terms approved by the Compensation Committee.

#### **Director Compensation**

Only non-employee directors receive compensation for service on the Board of Directors and committees of the Board. In 2013, each non-employee director was entitled to receive a retainer of \$6,000 per year for his service as member of the Board of Directors, payable in quarterly installments of \$1,500 each, and a fee of \$1,500 (i) for each Board meeting he attended and (ii) for each committee meeting he attended on a date other than a date on which a Board meeting was held ( Meeting Fees ). Non-employee directors also are reimbursed for their out-of-pocket expenses incurred in attending those meetings.

In March 2014, the annual retainer and the Meeting Fees to be paid to non-management directors was increased to \$8,000 per year (payable in quarterly installments of \$2,000 each) and \$2,000 per Meeting, respectively.

Pursuant to the Company's stockholder-approved employee stock incentive plans, each year each non-employee director is automatically granted an option to purchase 2,000 shares of common stock at an exercise price that is equal to the per share closing price of the Company's shares on the date of grant, as reported by the NYSE MKT. These options become fully exercisable six months after the date of grant. Upon joining the Board, any new non-employee director is granted an option to purchase 2,000 shares, which becomes exercisable in full one year after the date of grant.

The following table sets forth, for each non-employee director, information regarding the cash compensation paid and the stock options granted for service on the Board and its committees during 2013.

Name	Fees Earned or Paid in Cash(1)	Option Awards (\$)(2)	All Other Compensation	Total
John W. Casey	\$ 16,500	\$ 5,640	\$	\$ 22,140
Leonard P. Danna	\$ 16,500	\$ 5,640	\$	\$ 22,140
Ben A. Frydman	\$ 16,500	\$ 5,640	\$	\$ 22,140
Robert S. Throop	\$ 16,500	\$ 5,640	\$	\$ 22,140
Thomas G. Faludy	\$	\$ 5,160	\$	\$ 5,160

- (1) This column reports the amount of cash compensation earned in 2013 for Board and Committee service. Mr. Faludy was elected to the Board of Directors in November 2103 and no Board or Committee meetings were held during the period in 2013 that he served on the Board. As a result, he did not earn any cash compensation for his service as a director in 2013.
- (2) Amounts in this column represent the fair values of stock options granted to each director at the date of grant of the options, determined in accordance with FASB ASC 718. The fair values of options were estimated using a binomial option valuation model which incorporates certain assumptions relating to a risk-free market interest rate, expected dividend yield of the Company's common stock, expected option life and expected volatility in the market value of the our common stock. For a complete description of the valuation methodology and the assumptions used in estimating those fair values, please refer to Note E, STOCK INCENTIVE PLANS to the Company's consolidated financial statements included in our Annual Report to Stockholders which accompanies this Proxy Statement.

On March 18, 2014, the Board of Directors appointed Thomas G. Faludy as the lead director of the Board. Mr. Faludy's responsibilities, in that capacity, include working with the Chairman to develop and approve Board agendas, developing meeting schedules with the Chairman to ensure there is sufficient time for discussion of agenda topics, advising the Chairman as to the quality, quantity and timeliness of information sent to the Board by management, developing agendas for and chairing executive sessions of the Board (in which the non-management directors meet without management), and acting as a liaison between the independent directors and the Chairman and CEO. Due to Mr. Faludy's additional responsibilities as lead director, he receives a quarterly retainer of \$4,000 and a per-Meeting Fee of \$4,000 for his preparation for and attendance at Board meetings. On the other hand, he will receive the same committee meeting fee as other members of the committees on which he serves, which is \$2,000 for each committee meeting attended on a day other than the date of a Board meeting.

#### Certain Transactions

During the period from January 1, 2013 to the date of this Proxy Statement, the Company has not engaged in any transactions or any series of related transactions in which any NEO or director of the Company, or any holder of 5% or more of the Company's common stock, or any member of the immediate family or any affiliates of any of the foregoing persons, had any direct or indirect material interest, nor are there any such transactions currently contemplated by the Company.

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**REPORT OF THE AUDIT COMMITTEE**

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended December 31, 2013 (the 2013 Financial Statements).

*Audit Committee Report*

The Audit Committee reviewed and discussed the 2013 Financial Statements with management and with Burr Pilger & Mayer Inc., the Company's independent registered public accountants (Burr Pilger). The Audit Committee also discussed with Burr Pilger the matters required to be discussed pursuant to Auditing Standard No. 16 *Communications with Audit Committees* (formerly, Auditing Standard No. 61), as adopted by the Public Company Accounting Oversight Board, the written disclosures and the letter from Burr Pilger required by applicable requirements of the Public Company Accounting Oversight Board regarding Burr Pilger's communications with the Audit Committee concerning independence and has discussed the independence disclosures and that letter with Burr Pilger. Based solely on the Audit Committee's review of the matters noted above and its discussions with Burr Pilger and the Company's management, the Audit Committee recommended to the Board of Directors that the Company's 2013 financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for filing with the SEC.

The foregoing report is qualified by the following discussion of the role and responsibilities of the Audit Committee.

*The Role and Responsibilities of the Audit Committee*

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, internal controls and financial reporting process and the procedures designed to assure compliance with accounting standards and applicable laws and regulations. Burr Pilger is responsible for auditing the financial statements and for expressing an opinion as to whether the financial statements present fairly the consolidated financial position, results of operations, and cash flows of the Company in conformity with generally accepted accounting principles in the United States. By contrast, the Audit Committee's duty is one of oversight as set forth in its Charter. It is not the duty of the Audit Committee to prepare the Company's financial statements, to plan or conduct audits, or to determine whether the financial statements are complete and accurate and are in accordance with generally accepted accounting principles. With the exception of Mr. Danna, the members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and none of the Audit Committee members, including Mr. Danna is, and none of them represents himself to be, performing the functions of auditors or accountants for the Company.

Accordingly, in rendering this report, the Audit Committee relied, without independent verification, on the information provided to them and on the representations made by management and Burr Pilger. Moreover, the Audit Committee's oversight does not provide a basis on which it is able to make an independent determination that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The Audit Committee's considerations and discussions referred to above also do not assure that the audit of the financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company's auditors are in fact independent.

Respectfully Submitted,

Leonard P. Danna

Robert S. Throop

John W. Casey

*Notwithstanding anything to the contrary set forth in any Company filing under the Securities Act of 1933, as amended (the Securities Act), or the Securities Exchange Act of 1934, as amended (the Exchange Act), whether made before or after the date hereof and irrespective of any general incorporation language in any such filings, including this Proxy Statement, the foregoing report of the Audit Committee is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any filing of the Company under the Exchange Act or the Securities Act.*

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

**(Proposal No. 2)**

The Audit Committee has appointed the accounting firm of Burr Pilger Mayer Inc. to serve as the Company's independent registered public accountants and, in that capacity, to audit the Company's consolidated financial statements for the fiscal year ending December 31, 2014. Burr Pilger performed audits of the Company's consolidated financial statements for the fiscal years ended December 31, 2013, 2012 and 2011. A representative of Burr Pilger is expected to attend the Annual Meeting, and will be afforded an opportunity to make a statement and to respond to appropriate questions from stockholders in attendance at the Meeting.

**Proposal to Ratify Appointment of Independent Registered Public Accountants**

A proposal will be presented at the Annual Meeting to ratify the Audit Committee's appointment of Burr Pilger as the Company's independent registered public accountants for the fiscal year ending December 31, 2014. Although ratification by stockholders is not a prerequisite to the power and authority of the Audit Committee to appoint Burr Pilger as the Company's independent registered public accountants, the Audit Committee considers such ratification to be desirable. In the event of a negative stockholder vote on such ratification, the Audit Committee will reconsider its appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the fiscal year if the Audit Committee determines that such a change would be in the best interests of the Company and its stockholders.

**Audit and Other Services Rendered and Related Fees**

Burr Pilger served as the Company's independent registered public accounting firm for the years ended December 31, 2013 and 2012. Set forth below is information regarding the services it rendered and the fees it received for those services in 2013 and 2012, respectively.

*Audit Services.* During each of the years ended December 31, 2013 and 2012, Burr Pilger rendered audit services to us consisting of: (i) the annual audit of our consolidated financial statements for each of those years; and (ii) reviews of our interim consolidated financial statements that were included in our Quarterly Reports on Form 10-Q, filed with the SEC for the quarters ended March 31, June 30 and September 30, in each of those years, respectively. Fees paid for those audit services totaled \$283,760 for 2013 and \$269,670 for 2012.

*Audit Related Services.* During 2013 and 2012 Burr Pilger did not provide any audit related services to us.

*Other Services.* Burr Pilger did not provide any consulting or other services to us in 2013. In 2012, Burr Pilger performed tax consulting services for us for which we paid fees of \$11,200.

**Audit Committee Pre-Approval Policy**

The Audit Committee's policy is to pre-approve services to be performed by the Company's independent registered public accountants in the categories of audit services, audit-related services, tax services and other services. This policy is designed to ensure that the provision of any non-audit services does not impair the independence of the Company's independent registered public accounting firm. Additionally, the Audit Committee will consider on a case-by-case basis and, if appropriate, approve specific engagements that are not otherwise pre-approved.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE***

***FOR THE RATIFICATION OF THE APPOINTMENT OF BURR PILGER AS THE***

***COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM***

***FOR THE FISCAL YEAR ENDING DECEMBER 31, 2014.***



**ADVISORY VOTE ON OUR NAMED EXECUTIVE OFFICER COMPENSATION**

**(Proposal No. 3)**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables our stockholders to vote to approve, on an advisory (nonbinding) basis, the compensation paid to our Named Executive Officers, which is described above in this Proxy Statement.

We are asking our stockholders to approve, by advisory vote, at the 2014 Annual Meeting, the compensation paid to our Named Executive Officers for 2013, as reported in this Proxy Statement. As described in the Executive Compensation section of this Proxy Statement, the Compensation Committee has structured our named executive officer compensation programs to enable the Company to achieve the following objectives:

retain and attract key executives;

pay for performance;

align the interests of our executives more closely with those of our stockholders; and

provide incentives for our named executive officers to remain in the employ of the Company over multi-year periods and to focus on the longer term performance of the Company.

We urge stockholders to carefully read the Executive Compensation section of this Proxy Statement, the Summary Compensation Table and the other compensation-related tables and the notes and narrative that follow those tables.

The Board and the Compensation Committee believe that the compensation policies and practices described in this Proxy Statement have been effective in achieving our compensation objectives.

In accordance with SEC rules, and as a matter of good corporate governance, we are asking our stockholders to approve the following advisory resolution at the 2014 Annual Meeting:

RESOLVED, that the Company's stockholders hereby approve, on an advisory basis, the compensation paid to the Company's Named Executive Officers for the year ended December 31, 2013, as described in the Executive Compensation section of the Proxy Statement for the 2014 Annual Meeting of Stockholders.

Because this vote is advisory, it will not be binding on the Board of Directors or the Compensation Committee. However, the Compensation Committee will give serious consideration to the outcome of this vote when establishing executive compensation programs in the future.

***THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR PROPOSAL NO. 3***

***TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS***

***FOR 2013 AS DESCRIBED IN THIS PROXY STATEMENT***

### **SOLICITATION**

We will be soliciting proxies from our stockholders and will pay the costs of doing so. In order to ensure adequate representation at the Annual Meeting, Company directors, officers and employees (who will not receive any additional compensation therefor) may communicate with stockholders, brokerage houses and others by telephone, email, or other means of communication or in person, to request that proxies be furnished. We will reimburse brokerage houses, banks, custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy materials to the beneficial owners of the Company's shares.

### **STOCKHOLDER PROPOSALS**

Under Rule 14a-8 promulgated by the SEC under the Exchange Act, any stockholder desiring to submit a proposal for inclusion in our proxy materials for our 2015 Annual Meeting of Stockholders must provide us with a written copy of that proposal, addressed to our Corporate Secretary at the principal executive offices of the Company at 350 Woodview Avenue, Morgan Hill, California 95037, by no later than March 30, 2015, which is the 120th day before the first anniversary of the release of our proxy materials for this year's Annual Meeting. However, if the date of our Annual Meeting in 2015 changes by more than 30 days from the first anniversary of the date on which our 2014 Annual Meeting is held, then the deadline will be a reasonable time before we begin to print and mail our proxy materials for our 2015 Annual Meeting. Any proposal received after the date or time within which such proposal is required to be submitted to us will not be considered or submitted to a vote of the shareholders. Matters pertaining to such proposals, including the number and length thereof, eligibility of persons entitled to have such proposals included and other aspects are governed by the Exchange Act, and the rules of the SEC thereunder and other laws and regulations to which interested stockholders should refer.

A stockholder seeking to submit a proposal for a vote of the stockholders, but which is not to be included in our proxy materials for our 2015 annual stockholders' meeting must provide specified information in writing to our Corporate Secretary, The Coast Distribution System, Inc., 350 Woodview Avenue, Morgan Hill, California 95037, by no later than March 30, 2015. However, if the date of our 2015 annual meeting of stockholders changes by more than 30 days from the first anniversary of the date on which our 2014 Annual Meeting was held, to be timely notice by the stockholder must be received not later than the close of business on the tenth day following the day on which notice of the date of the 2015 Annual Meeting is mailed to our stockholders or is publicly announced, whichever is earlier.

You also are advised to review our Bylaws, which contain a description of the information required to be submitted as well as additional requirements about advance notice of stockholder proposals and director nominations.

Additionally, under Rule 14a-4, as promulgated under the Exchange Act, if a shareholder fails to notify the Company of a proposal which the shareholder plans to present for a vote at the next annual meeting of shareholders at least 45 days before the first anniversary of the mailing date of the prior year's proxy statement, then the Board of Directors will be permitted to exercise its discretionary authority in voting proxies received from shareholders on that proposal at the meeting. In the case of the Company's 2015 Annual Meeting of Stockholders, if such a shareholder proposal is not received by June 12, 2015, then the Board of Directors will be entitled to exercise discretionary authority when voting proxies received from shareholders on such shareholder proposal.

### **OTHER MATTERS**

We are not aware of any other matters to come before the Annual Meeting. If any other matter not mentioned in this Proxy Statement is properly submitted to a vote of stockholders at the Meeting, the proxyholders named in the enclosed proxy will have discretionary authority to vote all proxies with respect to such matter in accordance with their judgment.

**ANNUAL REPORT**

The 2013 Annual Report to Stockholders of the Company is being sent with this Proxy Statement to each stockholder of record as of July 21, 2014. The Annual Report is not to be regarded as proxy solicitation material.

By Order of the Board of Directors

Sandra A. Knell  
Executive Vice President & Secretary

July 28, 2014

**COPIES OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K, AS AMENDED TO DATE, FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013, WHICH HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WILL BE PROVIDED (WITHOUT EXHIBITS) TO STOCKHOLDERS, AT NO CHARGE, UPON WRITTEN REQUEST TO THE SECRETARY, THE COAST DISTRIBUTION SYSTEM, INC., 350 WOODVIEW AVENUE, MORGAN HILL, CALIFORNIA 95037.**

**The Coast Distribution System**

**Electronic Voting Instructions**

**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED  
BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or August 26,  
2014.**

**Vote by Internet**

Go to [www.investorvote.com/CRV](http://www.investorvote.com/CRV)

Or scan the QR code with your  
smartphone

Follow the steps outlined on the  
secure website

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683) within the  
USA, US territories & Canada on a touch tone  
telephone

Using a **black ink** pen, mark your votes with an **X** x  
as shown in this example. Please do not write  
outside the designated areas.

Follow the instructions provided by the recorded  
message.

**q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q**

**A Proposals** The Board of Directors recommends a vote FOR all of the nominees named below, and FOR Proposals 2 and 3

Election of Directors	For	Withhold	For	Withhold
01 James Musbach	..	..	02 - Thomas G. Faludy	.. .. +
			<b>For Against Abstain</b>	<b>For Against Abstain</b>
2. Ratification of Appointment of Independent Public Accountants.			.. ..	3. To approve, by a non-binding advisory vote, the compensation of our named executive officers for 2013, as described in the Proxy Statement.
				.. ..

IN THEIR DISCRETION, ON ANY OTHER BUSINESS WHICH PROPERLY COMES BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF.

**B Non-Voting Items**

**Change of Address** Please print new address below.

**Meeting Attendance** ..  
Mark box to the right if you plan to attend the Annual Meeting.

**C Authorized Signatures** This section must be completed for your vote to be counted. Date and Sign Below

Please sign your name exactly as it appears hereon. Executors, administrators, guardians, officers of corporations and others signing in fiduciary capacities should state their titles as such.

(mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.



**q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q**

**Proxy THE COAST DISTRIBUTION SYSTEM, INC.**

**ANNUAL MEETING OF STOCKHOLDERS August 26, 2014**

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS**

The undersigned hereby revokes all previously granted proxies of the undersigned, with respect to the shares of Common Stock of The Coast Distribution System, Inc. (the Company), which the undersigned is entitled to vote; and the undersigned does hereby appoint Robert S. Throop, Thomas R. McGuire and Leonard P. Danna, and each of them individually, with full power of substitution, as the attorneys and proxies of the undersigned, to represent the undersigned and to vote as indicated below all the shares of Common Stock of the Company which the undersigned is entitled to vote at the Company's Annual Meeting of Stockholders to be held at the Company's Executive Offices at 350 Woodview Avenue, Morgan Hill, California, on Tuesday, August 26, 2014, at 10:00 A.M., Pacific Time, and at any postponements or adjournments of the Annual Meeting.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER BELOW. IF NO DIRECTION IS GIVEN, SUCH SHARES WILL BE VOTED **FOR** THE ELECTION, AS THE COMPANY'S CLASS II DIRECTORS, OF THE NOMINEES NAMED ON THE REVERSE SIDE OF THIS PROXY; **FOR** RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM; AND **FOR** APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS FOR 2013. THIS PROXY CONFERS DISCRETIONARY AUTHORITY TO CUMULATE VOTES FOR ANY OR ALL OF THE NOMINEES FOR ELECTION OF DIRECTORS FOR WHOM AUTHORITY TO VOTE HAS NOT BEEN WITHHELD AND TO VOTE ON ALL OTHER MATTERS THAT MAY BE PROPERLY PRESENTED FOR A VOTE OF THE STOCKHOLDERS AT THE ANNUAL MEETING.

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOU ARE URGED TO VOTE YOUR SHARES BY TELEPHONE OR OVER THE INTERNET OR BY SIGNING, DATING AND RETURNING THIS PROXY BY MAIL, NONE OF WHICH WILL PREVENT YOU FROM CHANGING YOUR VOTE OR REVOKING YOUR PROXY OR ATTENDING THE MEETING AND VOTING IN PERSON.**

**IMPORTANT** PLEASE SIGN AND DATE THIS PROXY WHERE INDICATED ON THE REVERSE SIDE AND RETURN PROMPTLY.