Egan-Jones Proxy Services

Research Report

Company		Ticker Symbol	CUSIP
RTI SURGICAL, INC.		RTIX	74975N105
Guideline	**Meeting Date**	**Record Date**	**Date Published**
Standard	05/26/16	04/13/16	05/18/16

Meeting Information	
Meeting Type	Annual
Meeting Date	05/26/16
Record Date	04/13/16

Items & Recommendations

We recommend that clients holding shares of RTI SURGICAL, INC. vote:

Item	Egan-Jones Recommendation	Management Recommendation
1 – Election of Directors	FOR ALL	FOR ALL
2 – Advisory Vote on Executive Compensation	FOR	FOR
3 – Ratification of Auditors	FOR	FOR

Considerations and Recommendations

Egan-Jones' review centered on the Proposals in the context of maximizing shareholder value, based on publicly available information.

NOTE THAT THE AGENDA ITEMS AND RECOMMENDATIONS PROVIDED IN THIS REPORT PERTAIN TO THE AGENDA ON THE WHITE PROXY CARD PROVIDED BY MANAGEMENT. WE RECOMMEND VOTING FOR MANAGEMENT'S WHITE PROXY CARD.

Board and Compensation Rating Score Summary

Ticker	RTIX
Company name	RTI Surgical, Inc.

Board Rating Score

Item	TRUE/FALSE
CEO and Chairman Separate	TRUE
Annual Director Elections	TRUE
One Class of Voting Stock Only	FALSE
Compensation Committee with All Independents	TRUE
Audit Committee with All Independents	TRUE
Nominating Committee with All Independents	TRUE
Non-binding Compensation Vote on Agenda	TRUE
Majority Independent Directors on Board	TRUE
Over-boarded CEO Director	FALSE
Over-boarded Non-CEO Director	FALSE
Major cyber security breach	FALSE
Failure to implement sufficient carbon risk plan	FALSE
Other financial or operational risk control failure	FALSE
Other serious reputational risk failure by the Board	FALSE
Version	VER 1.02 2/21/2015
Sub Total	90.00
Performance Adjustment	6.92
Total	96.92
Final Board Score	Good

Compensation Rating Score

CEO Total Comp($)	1,444,775
CEO Salary ($)	573,269
TSR (%)	18.8
Market Capitalization ($M)	327.3
Wealth Creation ($M)	61.7
Wealth Creation/CEOPAY	42.7
Raw Score (pre adjustments)	Superior
Final Score	Superior
Rating Model Version	VER 2.41 4/1/2016
High CEO Total Compensation	Not Relevant
CEO Salary Under $1 Million Limit	Positive Adjustment
Other Adjustments:	No Adjustment

Item 1

Election of Directors

NOTE THAT THE AGENDA ITEMS AND RECOMMENDATIONS PROVIDED IN THIS REPORT PERTAIN TO THE AGENDA ON THE WHITE PROXY CARD PROVIDED BY MANAGEMENT. WE RECOMMEND VOTING FOR MANAGEMENT'S WHITE PROXY CARD.

This solicitation is being made to the shareholders of RTI Surgical, Inc. (the Company). Krensavage Asset Management, LLC and certain of its affiliates have notified the Company that Krensavage intends to nominate a slate of four nominees for election as directors at the meeting in opposition to nominees recommended by the Board of Directors.

PARTICIPANTS IN THE SOLICITATION:

RTI Surgical, Inc., together with its subsidiaries, designs, develops, manufactures, and distributes orthopedic and other surgical implants for use in various surgical procedures worldwide. The company provides natural tissue implants, as well as metal and synthetic implants for the treatment of spinal and other orthopedic disorders. It processes donated human musculoskeletal and other tissues, including bone, cartilage, tendons, ligaments, fascia lata, pericardium, sclera, cornea, and dermal tissues, as well as bovine and porcine animal tissues to produce allograft and xenograft implants by using its proprietary BIOCLEANSE, TUTOPLAST, and CANCELLE SP sterilization processes. The companyÂ's implants are used in the fields of spine, sports medicine, ortho fixation, bone graft substitutes and general orthopedic, surgical specialties, and dental. RTI Surgical, Inc. markets its products through its direct distribution force, as well as through a network of independent distributors to hospitals and surgeons. The company was formerly known as RTI Biologics, Inc. and changed its name to RTI Surgical, Inc. in July 2013. RTI Surgical, Inc. was founded in 1997 and is headquartered in Alachua, Florida. As of the record date there were 57,767,231 shares of common stock outstanding.

Krensavage Partners, LP ("Krensavage Partners"), Krensavage Partners Too, LP ("Krensavage Partners Too"), Krensavage Advisors, LLC ("Krensavage Advisors"), Krensavage Advisors Too, LLC ("Krensavage Advisors Too"), Krensavage Asset Management, LLC ("Krensavage Asset Management"), and Michael P. Krensavage (collectively, "Krensavage") are significant stockholders of RTI Surgical, Inc., a Delaware corporation ("RTI Surgical" or the "Company"), who, together with the other participants in this solicitation, beneficially own 3,447,090 shares of common stock, par value $0.001 per share (the "Common Stock"), of the Company.

BACKGROUND OF THE SOLICITATION:

On May 29, 2014, Michael P. Krensavage, Managing Member of Krensavage, sent a private letter to Dean Bergy regarding his desire for management changes contingent on the Company's future performance.

On November 17, 2015, Mr. Krensavage met with Mr. Bergy, Brian Hutchison, Curt Selquist and other members of the management. During this meeting, Mr. Krensavage indicated that Krensavage had certain ideas and plans for the Company but he did not share the specifics of such ideas and plans.

On February 8, 2016, Ned Villers, one of the former directors, received a call from John S. Watts, Jr., one of Krensavage's former proposed nominees to the Board of Directors. On this call, Mr. Watts requested that Mr. Villers make an introduction for Mr. Sweeney, one of the current directors, to Mark Stolper, Executive Vice President and Chief Financial Officer at RadNet, Inc. and also one of Krensavage's proposed nominees to the Board of Directors. Mr. Sweeney and Mr. Stolper spoke via phone later on February 8 and discussed the potential nomination by Krensavage of outside director nominees. Mr. Sweeney told Mr. Stolper that the Board of Directors would be pleased to evaluate additional outside director nominees, the Board of Directors was then in the process of evaluating certain new director candidates and that Mr. Selquist, as the chair of the Nominating and Governance Committee, should be the primary contact person for communication going forward.

On February 17, 2016, Mr. Stolper sent an email to Messrs. Selquist and Sweeney. In that email, Mr. Stolper stated that it was Krensavage's view that it would be beneficial to the Company and all of its stakeholders to have additional shareholder representatives on the Board of Directors. Mr. Stolper also mentioned that he was working in conjunction with Krensavage to put together a group of individuals to propose as nominees to the Board of Directors. Mr. Stolper also indicated that he and Krensavage would like to have a constructive dialogue with the Company regarding their nominees and that they would prefer "to go through proper channels" for purposes of their nominees' consideration.

On February 17, 2016, Mr. Selquist sent a reply email to Mr. Stolper encouraging the submission of the nominees for review and requesting background information for each nominee.

On February 18, 2016, Mr. Stolper sent another email to Messrs. Selquist and Sweeney. In this email, Mr. Stolper expressed Krensavage's wish to engage constructively with the Company to reconstitute the Board of Directors in what they regarded as the best interest of the Company's shareholders. He attached biographies of himself and three other individuals, Jeff Goldberg, Mr. Watts and Frank Williams, who he believed could contribute positively to the Board of Directors. Mr. Stolper stated that Krensavage hoped to engage in constructive dialogue with the Company to reach an outcome in the best interest of all stakeholders and to avoid a proxy contest. He also indicated that Krensavage would be submitting a formal nomination letter to the Company on February 19 in an effort to preserve Krensavage's right to nominate directors.

On February 19, 2016, Krensavage submitted a formal nomination letter notifying the company of its intent to nominate Messrs. Goldberg, Stolper, Watts and Williams as nominees to be elected to the Board of Directors at the Annual Meeting.

On February 23, 2016, Krensavage filed a Schedule 13D with the SEC regarding its nomination letter and the four director nominees described in such letter.

On February 24, 2016, the Company issued a press release regarding Krensavage's announcement. In that press release, Mr. Selquist stated that the Nominating and Governance Committee would review Krensavage's four director nominees under its process to evaluate director candidates. Mr. Selquist indicated that the evaluation process would be the same, whether the candidates were identified by the Nominating and Governance Committee or by stockholders.

Also on February 24, 2016, Krensavage submitted a books and records request to the Company. The request focused on certain information regarding the Company's stockholders as of February 29, 2016, which Krensavage incorrectly believed was the record date established by the Company for the Annual Meeting.

On February 26, 2016, the Company issued a press release stating, among other things, that the Annual Meeting would be scheduled later than the Company's usual April timeframe to allow sufficient time for the Nominating and Governance Committee to complete its thorough process to evaluate the director candidates recently proposed by Krensavage, along with other potential candidates. In this press release, the Company also stated that Mr. Bergy stepped down as Chairman of the Board of Directors effective February 24, 2016, and that he would not be a candidate for re-election at the Annual Meeting. The press release also stated that Mr. Selquist was elected as the new Chairman of the Board of Directors.

On March 2, 2016, Krensavage issued a press release praising the appointment of Mr. Selquist as the new Chairman of the Board of Directors and reiterating its belief that the Board of Directors would benefit from additional shareholder representation. Krensavage also stated in this press release that it continued to encourage constructive dialogue with the Company about the composition of the Board of Directors and that it remained open to discussions with the Company to reach a resolution.

Also on March 2, 2016, the Company responded to Krensavage's February 24, 2016 books and records request. Because the Company had not yet at that time set a record date for the Annual Meeting, it could not provide much of the information requested by Krensavage in its request.

During the period from March 2, 2016 through March 24, 2016, the Nominating and Governance Committee conducted a thorough evaluation of a number of potential director candidates to identify individuals who possess the right qualities and expertise to strengthen the Board of Directors and help enhance shareholder value. The Committee used a set of pre-determined criteria, in its evaluation. The process included a review of all four Krensavage nominees, existing Board members and other individuals. The process culminated with a series of in-person interviews on March 23 and 24.

On March 28, 2016, two existing Board members, Philip R. Chapman and Adrian J. R. Smith informed the Board of their decisions to not be candidates for re-election at the Annual Meeting. Later, on March 28, 2016, the Board of Directors met and approved a slate of nominees for election at the Annual Meeting.

On March 29, 2016, Messrs. Selquist and Bergy spoke with two executives of Krensavage. Messrs. Selquist and Bergy informed the Krensavage executives that two of the Company's current directors had elected not to seek re-election and the Board had nominated a slate of directors that did not include any of the Krensavage nominees. Messrs. Selquist and Bergy explained the reasoning of the Nominating and Governance Committee. The parties agreed to continue a dialogue.

On March 30, 2016, Mr. Selquist again reached out to Krensavage. He spoke with a Krensavage executive and asked if Krensavage was satisfied with the slate of directors proposed by the Company and whether it would support the slate. Later that day, the Krensavage executive contacted Mr. Selquist and stated that Krensavage needed additional time to evaluate the slate and the proxy before responding.

On April 1, 2016, the Company filed a preliminary proxy statement with the SEC in connection with the Annual Meeting. Also on April 1, 2016, the Company announced that Messrs. Chapman and Smith would not be standing for re-election at the Annual Meeting.

On April 6, 2016, Krensavage issued a press release calling for the replacement of Mr. Hutchison as the Company's chief executive officer and Peter F. Gearen, M.D. as a member of the Company's board of directors. In addition, the press release contained critical statements by Mr. Krensavage regarding the Company's recent financial performance and the independence of the Company's director selection process.

In the evening of April 12, 2016, Krensavage informed the Company that it was withdrawing the nomination of Mr. Watts and substituting a new nominee, Darren P. Lehrich. A biography of Mr. Lehrich was attached. Also, in the evening of April 12, 2016, Krensavage filed a Preliminary Proxy Statement on Form PREC 14A with the SEC.

On April 14, 2016, a Company shareholder and Mr. Selquist discussed a potential settlement between Krensavage and the Company regarding the composition of the Board of Directors. In addition, on April 15, 2016, counsel for the Company contacted counsel for Krensavage regarding such conversation. On April 18, 2016, counsel for Krensavage contacted counsel for the Company with a settlement offer that: (a) significantly differed from the potential offer discussed on April 14, 2016 by a Company shareholder and Mr. Selquist and (b) the Company did not find acceptable.

MANAGEMENT'S POSITION (WHITE PROXY CARD):

The management and the Board of Directors recommend the shareholders to vote FOR the management proposals. In recommending the advisability to vote for the management's proposals, we considered the following factors as disclosed by the Company:

RTI'S Independent Nominating And Governance Committee Conducted A Thorough Evaluation To Identify Director Nominees With The Right Skills, Qualifications And Experience To Help Grow Value For All Stockholders

The committee thoroughly evaluated all candidates, including those proposed by Krensavage, against the pre-determined set of criteria that was established by the board ahead of commencing the evaluation process and before Krensavage proposed any of its candidates. These criteria generally include a candidate's understanding of RTI and its business and industry, proven judgment and skills, depth and breadth of professional experience or other background characteristics, independence, and willingness to devote the time and effort necessary to be an effective board member.

Upon completion of this thorough process, the committee identified and unanimously determined the proposed nominees to be the best candidates for election as board members to help the Company execute the strategic plan and enhance value for the stockholders.

The Company believes RTI's Director Nominees Are The Best Leadership Team To Direct The Business And Increase Long-Term Stockholder Value

The Company believes RTI's slate of nominees has the right mix of experiences, qualifications and skill sets to oversee the continued execution of the strategy and increase value for ALL stockholders. Election of the Company's slate will result in a board with eight independent directors out of nine, including two directors associated with the largest preferred stockholder and investor with the largest economic stake in the Company (Water Street Healthcare Partners). The Company also has separate CEO and chairman roles, with the current Chairman elected earlier in 2016.

The board has recommended the election of three new directors because their experience and qualifications position them to be active directors who can meaningfully contribute to the goal of increasing stockholder value. In addition, the board has recommended the re-election of Messrs. Gearen, Hutchison and McEachin and Ms. Weis. These directors, who have accumulated deep experience in the healthcare sector and as directors of publicly held companies, have proven to be active and engaged members of the board and have all made significant contributions to the Company's business.

Mr. Curtis M. Selquist and Mr. Christopher R. Sweeney, the Company's two "preferred directors" and associated with the largest investor, Water Street Healthcare Partners, are appointed by holders of RTI's preferred stock and not up for re-election at the 2016 annual meeting. Both these directors have deep expertise in the healthcare sector and experience working as directors to grow companies for the benefit of stockholders.

The Company believes Krensavage's Nominees Are Less Qualified To Serve On The RTI Board

The committee concluded that Krensavage's nominees were less qualified to serve on the RTI board for a number of reasons:

· Jeff Goldberg: The committee concluded that Mr. Goldberg's primary experience as a lawyer was not the most appropriate background to add to the board at the current time, when RTI is primarily focused on driving revenue growth and controlling costs. Mr. Goldberg has significantly less operating, finance and sales experience, particularly related to medical device companies, than the board's recommended nominees.

· Darren Lehrich: Based on a careful review of Mr. Lehrich's credentials submitted by Krensavage, the committee concluded that Mr. Lehrich lacks direct in-depth knowledge and experience with RTI's business and industry (specifically orthopedics and medical devices) and does not possess the skill sets that should be represented on the board. Furthermore, Mr. Lehrich does not possess experience as either a board member or executive officer. The committee also noted that Mr. Lehrich is the investor relations director for a company currently involved in a time-consuming initial public offering. The committee was concerned that the short and long term demands of Mr. Lehrich's current employment position would interfere with his ability to devote the time and effort necessary to be an effective RTI board member.

· Mark Stolper: The committee concluded that Mr. Stolper did not fulfill the board's pre-identified criteria for the addition of a financial expert with public accounting experience. The board placed significant emphasis on public accounting experience because the current chair of the three-person audit committee, Mr. Dean H. Bergy, a certified public accountant, and one of the current members of the audit committee, Mr. Philip R. Chapman, are retiring from the board at the upcoming annual meeting. In contrast, the board-recommended nominee Mr. Singer is a certified public accountant with experience at a big four accounting firm, in addition to having public-company CFO experience.

· Frank Williams: The committee concluded that Mr. Williams would not be a suitable addition to the board because his primary background is in banking, with a specific focus on mergers and acquisitions and leveraged finance. The committee considered that the Company's primary focus is organic growth opportunities and the Company would benefit most from board members with significant operating, finance and sales experience in the life sciences industry. The committee also noted that, if needed, the board has the benefit of the transaction experience of Mr. Christopher J. Sweeney and Mr. Curtis M. Selquist, both current board members and representatives of Water Street Healthcare Partners, RTI's largest investor.

As mentioned above, Krensavage had originally proposed a slate of nominees that included John Watts, who was subsequently withdrawn by Krensavage. The committee and Mr. Watts determined that he would be a less qualified addition to the board given his skills and experience overlap with those of current board member Ms. Weis.

RTI Is Committed To Stockholder Engagement And A Governance Framework That Supports The Creation Of Long-Term Stockholder Value

As part of the Company's commitment to good corporate governance, the nominating and governance committee continually reassesses the board composition and the need for new directors. In fact, prior to Krensavage's notification of its intent to propose director candidates, the committee was already in the midst of an ongoing, proactive evaluation process of potential candidates in order to make changes to the board.

The Company believes the three new director candidates the Board is nominating – Messrs. Thomas, Singer and Valeriani – represent a continuation of the ongoing, proactive effort to refresh the board, bring in new skill sets and enhance the ability to execute the strategic plan and deliver value to ALL the stockholders. When RTI's new director candidates are elected to the board at the upcoming annual meeting, seven of the nine directors will have served in their positions for less than three years.

The Company is always open to constructive input from the stockholders, and it respects the right of stockholders to nominate directors. The Company delayed the date of the annual meeting from its usual April timeframe in order to give the nominating and governance committee sufficient time to thoroughly review Krensavage's originally proposed nominees before making its recommendation for nominees. Furthermore, the recently declassified board structure gives the stockholders the opportunity each year to vote on all directors (with the exception of the two directors appointed by RTI's preferred stockholders, Water Street Healthcare Partners). The Company welcomed the opportunity to meet with Krensavage's nominees. However, the Company is confident that the proposed slate of directors comprises the best candidates and will make for a strong and refreshed board that will help the Company in executing the strategic plan and enhancing value for all stockholders.

RTI Is Making Significant Progress Executing Its Plan To Grow Revenue, Increase Profit Margins And Enhance Stockholder Value

The Company has outlined and continue to execute against a clear strategic plan to invest in the direct sales business and broaden the implant portfolio to include metals and synthetics, while controlling the operating cost base. In contrast, Krensavage has consistently failed to offer any plans or ideas despite the engagement efforts of the board and management team.

Under RTI's current strategy, the Company believes it has the strategy in place to become a $500-million-revenue company by growing revenue faster than the market with gross margins approaching 60% and operating margins approaching 20% of total revenues. And the Company is making significant progress executing the strategy:

· The Company has aligned the organization with three key growth areas: 1) focused products that the Company expects to grow revenues at a 5-year compound annual growth rate approaching 50% and generate margins of approximately 70%; 2) hardware that it expects to grow revenues at a 5-year compound annual growth rate in the mid-teens and generate margins of approximately 70%; and 3) base biologics that the Company expects to grow revenues at a 5-year compound annual growth rate in the mid-single digits and generate margins of approximately 40%.

· The Company has grown the direct sales, which have higher gross margins than the commercial sales and greater predictability, from 40% of revenues in 2001 to 50% of revenues in 2015, and expect to grow direct sales to 60% of revenues in the long-term.

· The Company acquired Pioneer Surgical Technology in 2013 and have integrated the business, bolstering the direct sales channels and accelerating the diversification of the implant portfolio into metals and synthetics, while also adding a next-generation synthetic biologics platform.

· The Company believes it has developed a strong pipeline of new products to support future growth. For example, earlier this year the Company signed an agreement with Oxford Performance Materials to exclusively license its 3-D printing technology platform and proprietary OXPEKK® polymer to manufacture spinal implants for the U.S. markets. Additionally, so far this year the Company has introduced the Unison™-C Anterior Cervical Fixation system for stand-alone anterior cervical interbody fusion and deformity instrumentation for the Streamline® TL spinal fixation system. Both introductions are important and much-anticipated additions to the spine portfolio. The Company also expects the first human implantation of the long-term bovine project in mid-2016 pending ethical committee reviews. This is an exciting project that could revolutionize treatment for ligament reconstruction, which the bovine tendon would be the first product to have significant and relevant clinical data.

These important steps are already delivering stronger financial performance. As detailed in the fourth quarter 2015 earnings release issued February 16, 2016, for the full year 2015, revenues grew 7.4% (9% on a constant currency basis), adjusted EBITDA, as detailed in the reconciliation provided at the end of this letter, grew 36.4%, and adjusted net income per fully diluted common share, as detailed in the reconciliation at the end of this letter, grew 109%. While the Company expects revenue growth in 2016 to moderate due to the outperformance of the commercial business in 2015, it expects both the commercial and direct sales businesses will continue to perform in line with the long-term expectations and the direct sales business is expected to grow in the mid-teens year over year in 2016.

RTI Is Successfully Transitioning To A Majority Of Sales Through A Direct Model To Drive Higher Revenue Growth, Expand Margins And Increase Long-Term Stockholder Value

The Company is strategically shifting its focus onto direct sales because the Company believes they have more growth potential, higher gross margins and greater predictability than commercial sales. Since the Company launched the direct sales force in 2005, it has successfully grown direct sales faster than the market with a compound annual growth rate of 29% between 2005 and 2015, and the Company increased direct sales 11% year over year in the first quarter of 2016. As a result, the Company has been able to increase the direct sales from approximately 40% of revenues in 2011 to approximately 50% of revenues in 2015, and expect to grow direct sales to approximately 60% of revenues in the long-term.

As the Company pivots its business to higher-growth and higher-margin direct sales, it continues to maintain the commercial business that sells through distributors. This business contributed 46% of the total revenue in fiscal year 2015 and contributes cash flow that helps fund the expansion of the direct business. Additionally, these are long-term contracts and are extremely important to maximize the gift of donated tissue that is being entrusted to the Company.

RTI Has Successfully Completed M&A That It Believes Has Been Transformational And Has Accelerated The Value-Creation Strategy, Helped Adapt To A Changing Market, And Better Positioned The Business For Long-Term Growth

In an effort to capitalize on the growth opportunities in the market and to transform RTI into a leading global surgical implant company, the Company has successfully acquired and integrated Tutogen Medical in 2008 and Pioneer Surgical Technology in 2013. At the time of RTI's IPO in 2000, the Company was primarily a tissue bank with insufficient use of tissues other than bone tissue and limited relationships with Organ Procurement Organizations ("OPO"). RTI had no direct sales force and only had relationships with two commercial distributors, contributing to low profitability and no free cash flow generation. Through mergers and acquisitions that the Company believes are strategic and well-executed, the Company has accelerated the strategy to develop direct sales, drive growth and increase margins.

· Merger with Tutogen Medical (2008): The Company believes the merger with Tutogen Medical met several strategic objectives including: creating a stronger market positon by becoming the number two tissue-based implant company; adding new tissue applications to maximize the donation; building and strengthening relationships with OPOs and tissue banks; and expanding and diversifying commercial distributor relationships. The merger contributed to stronger financial performance and following the merger, the Company achieved low to mid-single-digit operating margin and turned cash flow positive.

· Acquisition of Pioneer Surgical Technology (2013): The Company believes the acquisition of Pioneer Surgical Technology positioned RTI to capitalize on the changing healthcare landscape by: adding scale to the direct channel in the U.S. and globally; broadening and diversifying RTI's product portfolio by adding metals and synthetics; adding nanOss® advanced bone graft substitute, one of the focused products growing at approximately 50% a year; and expanding and strengthening the commercial distribution relationships. The acquisition strengthened the financial performance with revenue growing from $178 million in 2012, the year before the acquisition, to $282 million in 2015, and operating margin improving from 7% in 2012 to 9% in 2015.

Together these two transactions have, in the opinion, established the platform for RTI's long-term growth with enhanced profitability and cash flow. They have accelerated execution of the strategy and enabled the transition to a larger direct sales model that, in the view, will underpin sustainable and lower-risk value creation for all stockholders.

The Company believes RTI's Board Nominees Have The Right Mix Of Qualifications, Experience And Skill Sets To Successfully Direct RTI And Oversee Execution Of Management's And The Board's Value-Creation Strategy

As the Company has entered new stages of development and transformed to address the changing industry and healthcare paradigm, the nominating and governance committee has recognized the need for change and has led the endeavor to refresh the Board in an effort to ensure the Company has the right leadership team to enhance long-term stockholder value. If the slate of nominees is elected at the upcoming meeting of stockholders, seven of nine directors will have served in their positions for three years or less.

RTI's slate of nominees together represent an array of experience that the Board believes will be instrumental in helping RTI capitalize on the opportunities in the market and enter the next chapter of growth. The slate provides CEO experience at an orthopedic and medical device company, public company CFO and big four accounting firm experience, public company board experience, orthopedic surgeon experience to ensure the customer voice is represented, and provider and payor experience.

RTI's independent nominating and governance committee conducted a thorough evaluation to identify director nominees with, it believes, the right skills, qualifications and experience to help grow value for all RTI stockholders. This process included an evaluation of a number of candidates, including all the director candidates proposed by the dissident stockholder Krensavage Partners, LP ("Krensavage"). The nominating and governance committee unanimously determined that RTI's director nominees are the better leadership team to direct the next phase of growth and increase long-term stockholder value.

DISSIDENT SHAREHOLDERS' POSITION (GREEN PROXY CARD):

The dissident shareholders believe that the Board of Directors of the Company (the "Board") must be significantly reconstituted to ensure that the Board takes the necessary steps for the Company's stockholders to realize the maximum value of their investment.

The Dissident Shareholders Believe That Significant Improvement To Rti Surgical's Board Is Needed Now

Krensavage has been a stockholder of RTI Surgical for more than two years. Over this time, the dissident shareholders have conducted extensive due diligence on the Company and its business, including a careful analysis of the Company's operating and stock price performance. The dissident shareholders believe RTI Surgical requires new leadership, including a reconstituted Board, in light of the Company's poor stock price performance, apparent destruction of stockholder value, questionable compensation practices and poor corporate governance.

The dissident shareholders have engaged in ongoing dialogue with certain members of the Board and management team in which the dissident shareholders have clearly articulated views and concerns regarding the direction of the Company under the leadership of its current management team as well as the opportunities that the dissident shareholders believe are available to drive stockholder value for the benefit of all RTI Surgical stockholders.

The Company's failure to engage in meaningful dialogue with the dissident shareholders to reach a resolution that embraces the level of change that the dissident shareholders believe is necessary to reverse the Company's prolonged underperformance has only solidified the belief that change is needed on the Board immediately. The dissident shareholders have little confidence that the Board, as currently composed, will take the steps necessary to enhance stockholder value at RTI Surgical given its failure to hold management accountable for the Company's poor performance or to appropriately govern the Company in a manner that the dissident shareholders believe to be commensurate with proper corporate governance. The dissident shareholders are therefore soliciting your support to elect the Nominees at the Annual Meeting, who they believe would bring significant and relevant industry experience, new insight and fresh perspectives to the Board.

The Dissident Shareholders Are Concerned with the Company's Prolonged Stock Price Underperformance

RTI Surgical shares have underperformed the NASDAQ Composite and S&P 500 Health Care Equipment Index over almost any relevant time period.

In fact, since RTI Surgical went public at $14 a share in August of 2000 through the end of fiscal 2015, its shares have dropped more than 70%. By comparison, the S&P 500 generated a total return of 42% during this time.

Notably, in the second half of 2015, RTI shares lost 39%, erasing roughly $144.5 million of stockholder wealth.

The Dissident Shareholders Are Concerned with the Company's Poor Operating Performance

The dissident shareholders believe RTI Surgical's stock price underperformance is linked to its poor operating performance. Since the Company went public in 2000, it has produced a cumulative net loss of $235.5 million and negative free cash flow (defined as operating cash flow less capital spending) of $68 million, based on the analysis. Notably, since going public in 2000, the Company generated positive free cash flow in only 4 out of the past 15 years, which the dissident shareholders find deeply concerning, and generated a negative free cash flow of $36.9 million in just the past 3 years.

Further, the dissident shareholders believe the Company's missed targets and revised guidance demonstrates that the Board has failed to install a management team that understands the Company's business. While the dissident shareholders had hoped that the Company had learned from its October 2013 guidance debacle, in which it slashed its revenue goal 10 weeks after providing it, the dissident shareholders were clearly mistaken. On October 29, 2015, RTI Surgical reported less-than-expected third-quarter revenue and cut its 2015 revenue and earnings targets. The dissident shareholders were therefore not surprised that the Company guided that Q1 2016 revenues will be down between 3.0-4.5% compared to Q1 2015 revenues or down 13.3-14.6% compared to Q4 2015 revenues.

Perhaps even more concerning, the Company recently disclosed troubling shortfalls in its Proxy Statement for the Annual Meeting, which the dissident shareholders believe depict a desperate need for new leadership. Specifically, the Company disclosed that it missed each of four 2015 goals set by its compensation committee after missing all three of 2014's goals. The most-stunning shortfall in the dissident shareholders' view is the Company's failure to hit its $27 million targeted cash flow. It instead generated cash flow of $9 million in 2015, its third-consecutive year of subpar cash flow. In 2014, it achieved cash flow of $6.9 million instead of its target of $26 million. In 2013, it burned $4.5 million of cash instead of reaching its target of $17.2 million of positive cash flow. RTI Surgical's other three targets it missed in 2015 are sales of the three "focused" products as well as overall revenue and operating margin.

The Dissident Shareholders Are Concerned with the Board's Poor Capital Allocation Decisions

The dissident shareholders believe the Board has failed to properly optimize and integrate acquired operations, and stockholders have yet to achieve returns on these material investments. The Company spent $391 million on the acquisition of Pioneer Surgical Technology Inc. ("Pioneer") and Tutogen Medical Inc. ("Tutogen Medical"), yet RTI Surgical's enterprise value is about $354 million.

During a July 2013 conference call to tout RTI Surgical's $130 million purchase of privately held Pioneer, CEO Hutchison said he expected Pioneer's revenue to grow at least 10% a year. The combined company, he said, had pro forma revenue of $263 million in the year ended March 2013. In fact, surgeons who owned shares of Pioneer, disappointed with the sale price, reduced orders of Pioneer's medical devices. As noted above, in October of 2013, RTI Surgical slashed its revenue target 10 weeks after providing it.

The dissident shareholders believe the Pioneer debacle pales in comparison to RTI Surgical's $261 million purchase of Tutogen Medical in February of 2008. The Company paid roughly 5 times revenue and 75 times operating income for a provider of tissue for repair of bone and teeth. Within 10 months, the Company recorded an impairment charge of $103 million after the value of its equity plummeted and wrote off an additional $134.7 million in the third quarter of 2010.

The Company's growing expenses are likewise troubling. Comparing the year 2000 to 2015, the Company's Marketing General & Administrative Expenses have risen a startling 508%, and its R&D expenses have risen 530%.

The Dissident Shareholders Believe the RTI Surgical Board is Misaligned and Requires Change to Improve Operating and Stock Performance

Based upon the analysis of or interactions with the Board, the dissident shareholders believe certain Board members are apathetic towards the Company's underperformance and prefer to insulate themselves from current stockholder accountability rather than engage in constructive dialogue with well-intentioned, long-term stockholders.

Notably, Vice-Chairman Gearen has served on the Board for nearly 18 years alongside CEO Hutchison, who has served as a director for nearly 15 years, both having presided over a prolonged period of underperformance at RTI Surgical. In fact, the Company retained CEO Hutchison in December 2001 and allowed him to serve as both Chairman and CEO from December 2002 until May 2011 despite the Company's prolonged underperformance under his leadership. The dissident shareholders seriously question how the Board, including Dr. Gearen, has failed to hold Mr. Hutchison accountable.

The dissident shareholders also question the Company's appointment of Dr. Gearen as Vice Chairman in February given his long-tenure and apparent failure to hold Mr. Hutchison accountable for the Company's poor performance. In fact, based upon the review of public filings, Dr. Gearen has failed to purchase any shares of RTI Surgical in the open market since April of 2004, which the dissident shareholders believe signals a lack of confidence in the Company to engage in meaningful stock purchases. Dr. Gearen is also a member of the Nominating and Governance Committee, which recently selected three new director nominees for election at the Annual Meeting, despite the repeated and sincere efforts of a large stockholder to reach a mutual resolution to reconstitute the Board for the benefit of all RTI stockholders.

The dissident shareholders believe additional change is required to ensure the Board delivers on its fiduciary duties to properly hold management accountable and provide effective oversight of the Company and to ensure that it pursues opportunities to protect and enhance stockholder value.

The Dissident Shareholders are Concerned with the Company's Executive Compensation Practices

The dissident shareholders believe management's ability to properly evaluate and address the serious challenges facing the Company is compromised by the misalignment between executive compensation and the Company's performance. Despite RTI Surgical's prolonged underperformance, the dissident shareholders believe management has been handsomely compensated at the expense of RTI Surgical stockholders. In the last 10 years, executives and directors have earned more than $40 million. For 2014, CEO Hutchison earned $1.29 million, including $550,000 in salary, while the Company reported a $417,000 loss for common stockholders.

In addition, the dissident shareholders refer to the following events that were approved by the Board under the Company's compensation scheme, which are highly concerning:

· 2014 - After withholding executive bonuses for 2013, the Board awarded cash bonuses for 2014, indicating management met its goal by acquiring Pioneer.

· 2012 - The Board awarded $1.29 million in cash bonuses, including $478,000 to CEO Hutchison. The payments followed a 0.3% increase in net income from 2011. Total director and executive compensation for 2012 amounted to 64% of 2012 net income.

· 2011 - The Board awarded $1.1 million cash bonuses to the five executives after a 1.2% increase in revenue from 2010. The cash bonuses amounted to 60% of the increased revenue.

· 2008 - Management hit its performance targets and earned discretionary bonuses with the help of the Tutogen merger as the Board apparently ignored impairment charges. RTI Surgical shares dropped 68% in 2008.

The dissident shareholders believe that the Company's poor executive compensation practices have contributed to a management and Board culture that seem indifferent to poor financial and operational results.

The Dissident Shareholders Are Concerned with the Company's Poor Corporate Governance

The dissident shareholders are also concerned with the Company's poor corporate governance that they believe severely limits the ability of stockholders to seek effective change at RTI Surgical. Stockholders are prohibited from taking action by written consent, can call special meetings only with the support of 50.1% of the voting power, and must obtain a prohibitively high supermajority vote of 66 2/3% to amend stockholder-unfriendly provisions in the Company's organizational documents. If elected, the dissident shareholders believe the Nominees will work hard to improve corporate governance at RTI Surgical by seeking to eliminate these anti-stockholder provisions and implement more stockholder friendly provisions in line with corporate governance best practices. The dissident shareholders believe that the Board should not be able to utilize the Company's corporate machinery to insulate itself and prevent change that would benefit all stockholders.

The Dissident Shareholders Believe The Four Nominees Have the Experience, Qualifications, and Commitment Necessary to Fully Explore Available Opportunities to Unlock Value for Stockholders

The dissident shareholders have identified four highly qualified and capable independent directors with valuable and relevant business and financial experience who they believe will bring a fresh perspective into the boardroom and would be extremely helpful in evaluating and executing on initiatives to unlock value at the Company. The dissident shareholders believe RTI Surgical's chronic underperformance warrants directors whose interests are closely aligned with those of all stockholders and who will work constructively with the other members of the Board to protect the best interests of RTI Surgical's stockholders.

ANALYSIS AND CONSIDERATIONS:

Based on our review of publicly available information, we believe that voting FOR the management's nominees and voting FOR its other proposals is in the best interest of the Company and its shareholders. In arriving at that conclusion, we have considered the following factors:

1. The belief that Krensavage has not offered a comprehensive strategic plan compared to what current management is executing would likely be better in terms of risk and shareholder value.

2. We are not convinced that the dissident shareholders' nominees, would work to the benefit of the shareholders given their level of industry expertise, public company experience and diversity.

3. The fact that the solicitation being made by the dissidents could disrupt the ongoing efforts of the management toward the implementation of the strategic plan.

4. The fact that the Board and management have made significant progress transitioning to a majority of sales through a direct model that will support sustainable value creation. The strategy is yielding stronger financial results with direct sales growing double digits and profitability improving with cumulative adjusted operating income from the period 2011 through 2015 as a percent of revenue improving significantly when compared to periods prior to 2011.

5. The fact that the Company is on the right track and focuses to become a $500-million-revenue company with gross margins approaching 60% and operating margins approaching 20% of total revenues.

6. We recognize the Company's efforts in strengthening its corporate governance practices specifically the hiring of new directors who possess the appropriate mix of qualifications and skills that the Company needs to continue its growth transition.

There is a single slate of nominees, the nominees appear qualified and we**recommend a vote "FOR" this Proposal.**

We note the presence of the key Board committees namely Audit, Compensation and Corporate Governance/Nominating committees, comprised solely of Independent outside directors. During 2015, each incumbent director attended at least 75% of the total number of board meetings and the total number of meetings held by all committees on which he or she then served.

The Board currently consists of nine directors. Pursuant to the terms of the Preferred Stock, two directors have been appointed by Water Street Healthcare Partners ("Water Street"), the Company's largest stockholder. The remaining seven directors are elected by holders of common stock and preferred stock voting together as a single class. We prefer that companies do not utilize dual class capital structures to provide equal voting rights to all shareholders.

DIRECTOR NOMINEES:

Peter F. Gearen, M.D.

Dr. Gearen joined the Board of Directors in 1998 and was appointed Vice Chairman of the Board of Directors in February 2016. Dr. Gearen was an Associate Professor of Orthopedics at the University of Florida College of Medicine from 1993 to 2012. Dr. Gearen also was Chief of Staff at the Shands Hospital at the University of Florida and served as Assistant Dean of Clinical Affairs at the University of Florida College of Medicine from 1992 until 1999. Dr. Gearen was appointed Chairman of the Department of Orthopedics in May 2002 and stepped down as Chairman on June 30, 2010. Dr. Gearen retired from practice on June 30, 2012. Dr. Gearen holds a B.A. from Spring Hill College and an M.D. from the Stritch Loyola Medical School. Dr. Gearen has a depth of medical experience and healthcare knowledge and, as a former practicing orthopedic surgeon, is knowledgeable about the Company's products and the orthopedic products market in general. The Company regards this perspective to be of high importance because physicians are a key target market of the Company. In addition, the Company believes that his length of time on the Board of Directors has provided him with valuable, long-term knowledge of the Company's operations and its products.

Brian K. Hutchison

Mr. Hutchison joined RTI in December 2001 and was elected Chairman of the Board of Directors in December 2002. On May 5, 2011, Mr. Hutchison stepped down as Chairman while continuing to serve as President and Chief Executive Officer and a member of the Board of Directors. In this role, Mr. Hutchison oversees all aspects of the company and its affiliates. Mr. Hutchison spent the previous 12 years with Stryker Corporation. His last position at Stryker was Vice President, Worldwide Product Development and Distribution. Mr. Hutchison earned a bachelor's degree in business administration from Grand Valley State University in 1981. He also completed the Program for Management Development at Harvard Business School. As the only management representative on the Board, Mr. Hutchison provides an insider's perspective in Board discussions relating to the business and strategic direction of the company and has experience in all aspects of the company's worldwide business. The Company believes Mr. Hutchison's length of service at RTI provides the Board of Directors with detailed knowledge and unique perspectives and insights regarding the strategic and operational opportunities and challenges, economic and industry trends, and competitive and financial positioning of the Company and its business. The Company also believes it is customary for the Chief Executive Officer to serve on the Board of Directors.

Thomas A. McEachin

Mr. McEachin joined the Board of Directors in December 2015. Mr. McEachin has been retired since 2012. Prior to his retirement, he served in executive capacities with Covidien Surgical Solutions, a division of Covidien plc, from 2008-2012, first as Vice President, Finance (2008-2011), and then as Vice President and Group Chief Financial Officer (2011-2012). Prior to joining Covidien, Mr. McEachin served United Technologies and its subsidiaries in various finance capacities during the period 1997-2008. Prior to joining United Technologies, Mr. McEachin served in various executive capacities with Digital Equipment Corporation (1986-1997) and Xerox Corporation (1975-1986). Mr. McEachin holds a B.S. from New York University and an MBA from Stanford University. Mr. McEachin's finance and executive management experience provides the Board of Directors with valuable financial reporting, compliance, accounting and controls, and corporate governance experience. Mr. McEachin qualifies as an "Audit Committee financial expert."

Jonathon M. Singer

Mr. Singer is a new nominee for election to the Board of Directors. Mr. Singer has served as Chief Financial Officer of Sagent Pharmaceuticals since September 2011, and was appointed Executive Vice President and Chief Financial Officer in March 2012. Mr. Singer was Senior Vice President, Treasurer, Secretary and Chief Financial Officer of Landauer, Inc. from 2006 to 2011. From 2004 to 2006, Mr. Singer served as Vice President of Global Finance and Chief Financial Officer of the Medial Segment for Teleflex Inc. Prior to 2004, Mr. Singer worked in various capacities for R. R Donnelly & Sons, Cardinal Health Inc., and KPMG LLP. Mr. Singer is a certified public accountant and received a Bachelor's Degree in Business Administration from Miami University in Ohio and a Master's Degree from Northwestern University's Kellogg Graduate School of Management. Mr. Singer's financial background (particularly as a sitting chief financial officer of a publicly-traded company) and life sciences experience qualifies him to serve on the Board of Directors. Mr. Singer also qualifies as an "Audit Committee financial expert."

Paul G. Thomas

Mr. Thomas is a new nominee for election to the Board of Directors. Mr. Thomas has served as the Chief Executive Officer of Roka Bioscience, Inc. since September 2009, where he also sits on the Board of Directors. Mr. Thomas was the founder of Roka Bioscience, which focuses on the development and commercialization of rapid, accurate and cost-effective molecular assays for biopharmaceutical processing, food safety and other industrial testing applications. Prior to Roka Bioscience, Mr. Thomas previously served as Chairman, Chief Executive Officer and President of LifeCell Corporation, a publicly traded regenerative medicine company, from 1998 until it was acquired by Kinetic Concepts, Inc. in 2008. Prior to joining LifeCell Corporation, Mr. Thomas held various senior positions during his tenure of 15 years with Ohmeda, Inc., a world leader in inhalation anesthetics and acute care pharmaceuticals. Mr. Thomas currently serves on the Board of Directors of AbioMed, Inc. and Aegerion Pharmaceuticals, Inc. Mr. Thomas received his Bachelor of Science in Chemistry from St. Michael's College, his Master of Business Administration from Columbia University, and completed his post graduate studies in chemistry at the University of Georgia. Mr. Thomas' extensive leadership experience with companies in the life science industry qualifies him to serve as a member of the Board of Directors. The Company regards his experience as a Chief Executive Officer to be of great importance to the Company in providing a broad perspective of the industry, as well as management issues.

Nicholas J. Valeriani

Mr. Valeriani is a new nominee for election to the Board of Directors. Mr. Valeriani recently retired as the Chief Executive Officer of West Health, The Gary and Mary West Health Institute, an independent nonprofit medical research organization that works to create new and more effective ways of delivering healthcare at lower costs, a position he has held since 2012. Previously, Mr. Valeriani served 34 years in key positions at Johnson & Johnson, including Company Group Chairman of Johnson & Johnson Ortho-Clinical Diagnostics from 2009 to 2012; Vice President, Office of Strategy and Growth from 2007 to 2009; and, prior to 2007, as Worldwide Chairman, Medical Devices and Diagnostics, and Corporate Vice President, Human Resources. Mr. Valeriani also served on the Executive Committee of Johnston & Johnson during his tenure. Mr. Valeriani currently serves on the Board of Directors of Edwards Lifesciences Corp., and Roka Bioscience, Inc., as well as the Robert Wood Johnson University Hospital. Mr. Valeriani received a Bachelor's Degree in Industrial Engineering and a Master of Business Administration from Rutgers University. Mr. Valeriani's experience in the global medical device industry and his leadership in the areas of strategy, growth and human resources qualifies him to serve on the Board of Directors.

Shirley A. Weis

Ms. Weis joined the Board of Directors in October 2014. Ms. Weis is president of Weis Associates, LLC (a consulting firm focused on healthcare management, strategic planning and leadership development) and emerita Vice President & Chief Administrative Officer of Mayo Clinic. Ms. Weis has worked at Mayo Clinic in many different capacities since 1995, but, most recently, was charged with overseeing the operations of 87 corporations that make up the Mayo Clinic system, including a 57,000 member staff. Ms. Weis was a member of the Mayo Clinic Board of Trustees and served as the secretary for the Mayo Clinic Board of Governors. Ms. Weis currently holds a position on the Board of Directors of Sentry Insurance Company as well as advisory boards for American World Clinics and Women Business Leaders. Ms. Weis is Special Advisor to the President and Professor in the W.P. Carey School of Business and the College of Nursing and Health Innovation at Arizona State University. Ms. Weis graduated with a master's degree in management from Aquinas College and recently received an honorary doctor of science degree from Michigan State University. Ms. Weis's background at the Mayo Clinic provides the Board of Directors with valuable healthcare and business strategy from the perspective of a purchaser of medical products. In addition, she has significant consulting and management experience, which has enabled her to provide valuable insight to the Board of Directors.

PREFERRED DIRECTORS (APPOINTED BY HOLDERS OF PREFERRED STOCK)

Curtis M. Selquist

Mr. Selquist joined the Board of Directors pursuant to the Investment Agreement by and between the Company and WSHP Biologics Holdings, LLC, an affiliate of Water Street Healthcare Partners, in July 2013 (the "Investment Agreement"). Mr. Selquist has been an Operating Partner at Water Street, a strategic investor focused exclusively on the healthcare industry, since April 2007. Mr. Selquist has led and grown a number of global healthcare businesses during a distinguished 35-year career at Johnson & Johnson. Prior to joining Water Street, he was the Company Group Chairman of Johnson & Johnson Medical and Johnson & Johnson Healthcare Systems. Mr. Selquist also served as President of Johnson & Johnson Latin America. He was subsequently appointed Worldwide President of Johnson & Johnson, Merck Consumer Pharmaceuticals and Company Group Chairman, responsible for Johnson & Johnson Medical. Mr. Selquist was the founding Chairman of the Global Healthcare Exchange. He also served as Chairman of the National Alliance for Health Information Technology, and as a board member of the National Quality Forum. Mr. Selquist also chaired the National Quality Forum Leadership Network. Mr. Selquist serves as the Lead Director of Breg, Inc. (a manufacturer of medical braces and splints). He is also a Director of Temp Time, Inc. (a cold chain temperature monitoring business) where he serves as Chair of the Board, Chair of the Compensation Committee and a member of the Audit Committee. He was a Director of Health Fitness Corporation (a provider of health management and corporate fitness solutions) from 2007-2010, where he served on the Compensation Committee and Strategy Committee as Chair. He received a bachelor's degree in Finance and Management from Bradley University.

Christopher R. Sweeney

Mr. Sweeney joined the Board of Directors in October 2015 pursuant to the Investment Agreement. Mr. Sweeney has been employed by Water Street, a strategic investor focused exclusively on the healthcare industry, since 2005, serving initially as a principal and, since 2010, as a partner. Prior to joining Water Street, Mr. Sweeney was employed in various capacities with Cleary & Oxford, a middle market healthcare investment firm, from 1997-2005, ultimately serving as a principal. Mr. Sweeney holds a degree from Williams College.

KEY BOARD COMMITTEE MEMBERSHIPS:

Name	Audit	Compensation	Nominating and Governance	Science and Technology
Dean H. Bergy (I)(1)	C	—	M	—
Philip R. Chapman (I)(2)	M	—	—	M
Peter F. Gearen (I)	—	—	M	C
Brian K. Hutchison	—	—	—	—
Thomas A. McEachin (I)	M	—	—	—
Curtis M. Selquist (I)	—	M	C	—
Adrian J. R. Smith (I)(2)	—	C	—	—
Christopher R. Sweeney (I)	—	—	—	—
Shirley A. Weis (I)	—	M	—	M

C Committee Chairperson

M Member

(I) Independent director

(1) As noted previously, Dean H. Bergy stepped down as Chairman of the Board of Directors in February 2016 and is not standing for re-election at this year's Annual Meeting.

(2) Mr. Chapman and Mr. Smith are not standing for re-election at this year's Annual Meeting.

CERTAIN RELATED TRANSACTIONS:

There were no related party transactions in 2015.

Item 2

Advisory Vote on Executive Compensation

NOTE THAT THE AGENDA ITEMS AND RECOMMENDATIONS PROVIDED IN THIS REPORT PERTAIN TO THE AGENDA ON THE WHITE PROXY CARD PROVIDED BY MANAGEMENT. WE RECOMMEND VOTING FOR MANAGEMENT'S WHITE PROXY CARD.

At Egan-Jones Proxy Services we review a number of factors, both qualitative and quantitative in nature, before issuing a recommendation regarding the advisory vote on executive compensation. These include total CEO compensation, company performance, and any past issues with compensation.

The sum total of our quantitative look at compensation can be found in the compensation corporate governance grade we give this company. Generally and absent other negative factors, we suggest a score of "Good" or higher in compensation merits a positive "say-on-pay" vote. This Company has earned a grade of "Superior" in compensation and thus passes our quantitative tests.

Given the disclosure on its executive compensation practices, and based on our qualitative review of the Company's compensation, we do not find any issues, positive or negative, that would be relevant enough for Egan-Jones to change our recommendation determined by the compensation rating for this Company.

This advisory vote is not binding. Although non-binding, the Compensation Committee will consider the outcome of the advisory vote when making future decisions regarding the executive compensation programs.

Taking into account both the quantitative and qualitative measures outlined above, we believe that shareholders should support the current compensation policies put in place by the Company's directors. Furthermore, we believe that the Company's compensation policies and procedures are centered on a competitive pay-for-performance culture, strongly aligned with the long-term interest of its shareholders and necessary to attract and retain experienced, highly qualified executives critical to the Company's long-term success and the enhancement of shareholder value. **Therefore, we recommend a vote "FOR" this Proposal.**

**See scoring details on the top of the report.*

Item 3

Ratification of Auditors

NOTE THAT THE AGENDA ITEMS AND RECOMMENDATIONS PROVIDED IN THIS REPORT PERTAIN TO THE AGENDA ON

THE WHITE PROXY CARD PROVIDED BY MANAGEMENT. WE RECOMMEND VOTING FOR MANAGEMENT'S WHITE PROXY CARD.

While ratification of auditors is one of the most common proposal submitted to shareholders it should not be overlooked. After employing the most qualified directors and CEO, to manage and grow the company, having equally experienced auditors should be next in importance. Reliable auditors are critical to ensure shareholders receive accurate and timely reports of the Company's financial performance.

Exhibit 1 - Audit Fees

	Current Fiscal Year		Prior Fiscal Year	
Audit Fees	$	1,210,000	$	1,222,189
Audit Related Fees	$	-	$	-
Non Audit and Tax Fees	$	12,665	$	383,663
Total Fees	$	1,222,665	$	1,605,852

Exhibit 2 - Audit Fee Ratios

	Relevant Ratios	Note
Total Fee Increase/Decrease	-23.9%	
Non-Audit Related Fees divided by Total Fees (Current FY):	1.0%	Should not be higher than 50%

Board Auditor Choice: **Deloitte & Touche LLP**

Deloitte & Touche is a PCAOB (Public Company Accounting Oversight Board) registered auditor. Public records show that there have been disciplinary actions taken against this firm and its employees, however, we do not believe this to be unusual for such a large company with a big number of employees, in most of these cases.

Nevertheless, we do note the 2013 PCAOB order (PCAOB Release No. 105-2013-008) for this auditor and its employee Christopher E. Anderson, CPA and the associated penalties imposed in the amount of $2,000,000. In addition PCAOB censured Deloitte & Touche LLP and required the firm to undertake certain remedial actions.

PCAOB imposed these sanctions on the basis of its findings concerning Deloitte's violations of the Sarbanes- Oxley Act of 2002, as amended (the “Act”), and PCAOB rules by permitting a former partner of Deloitte, who was subject to a Board ordered suspension, to become an “associated person” of Deloitte during the period of the suspension.

Moreover, we note the 2007 PCAOB order (PCAOB Release No.105-2007-005) resulting from Deloitte's violations of certain PCAOB rules and auditing standards in auditing the financial statements of Ligand Pharmaceuticals Incorporated (“Ligand” or “the Company”) for 2003 and the improper issuance by Deloitte of a standard report expressing the opinion that these financial statements presented fairly, in all material respects, Ligand's financial position in conformity with U.S. generally accepted accounting principles (“GAAP”). Deloitte assigned final responsibility for its Ligand audit engagements to the same partner (the “Engagement Partner”) beginning with its review for the third quarter of 2000 through its review for the first quarter of 2004. Deloitte was censured, fined with the amount of $2,000,000; and required to undertake certain remedial actions.

While we are concerned about the above issues in the disciplinary record of this auditor, we do not believe that they have risen to the level that this auditor's integrity, professionalism or independence is in question. **We recommend a vote “FOR” this Proposal.**

Disclaimer

While Egan-Jones Proxy Services ("EJP"), a unit of Egan-Jones Ratings Co. ("EJR"), exercised due care in compiling this analysis, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and voting recommendations provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

EJR has established policies and procedures which prohibit the involvement of any of EJR-affiliated persons who are involved as analysts in EJR's credit ratings business in the content of EJP's analyses and vote recommendations. None of such EJR personnel are informed of the contents of any of EJP's analyses or recommendations prior to their publication or dissemination.

One or more of the proponents of a shareholder proposal at an upcoming meeting may be a client of Egan-Jones. Egan-Jones may in some circumstances afford issuers the right to review draft research analyses so that factual inaccuracies may be corrected before the report and recommendations are finalized. Control of research analyses and voting recommendations remains, at all times, with Egan-Jones.

Those wishing to purchase Egan-Jones Proxy reports should contact proxy@egan-jones.com

Interested in learning more about Egan-Jones Proxy? See our website at http://www.ejproxy.com