MainStay DefinedTerm Municipal Opportunities Fund
Form N-CSRS
February 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act File Number 811-22551

MAINSTAY DEFINEDTERM

MUNICIPAL OPPORTUNITIES FUND

(Exact name of Registrant as specified in charter)

51 Madison Avenue, New York, NY 10010

(Address of principal executive offices) (Zip code)

J. Kevin Gao, Esq.

30 Hudson Street

Jersey City, New Jersey 07302

(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 576-7000

Date of fiscal year end: May 31

Date of reporting period: November 30, 2016

FORM N-CSR

Item 1. **Reports to Stockholders.**

MainStay DefinedTerm Municipal Opportunities Fund

Message from the President and Semiannual Report

Unaudited | November 30, 2016 | NYSE Symbol **MMD**

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Message from the President

During the six months ended November 30, 2016, the U.S. stock and bond markets were somewhat volatile but generally provided positive returns. In late June, the United Kingdom voted to leave the European Union in a referendum popularly known as Brexit. The news caused a temporary slump in stocks around the world. Although the British pound dropped in value following the vote, stocks generally recovered through the end of the reporting period. Domestic stocks gained momentum after the U.S. presidential election in early November 2016.

According to FTSE-Russell data, U.S. stocks tended to provide positive returns during the reporting period regardless of company size. Smaller-capitalization stocks generally outperformed stocks of larger companies. Value stocks outpaced growth stocks at all capitalization levels, with the largest differences being between value micro-cap stocks and growth micro-cap stocks.

Stocks of major developed markets outside the United States and Canada generally declined during the reporting period. When stocks of all countries around the world were taken into account, however, the results were positive although there were differences by market and region. Stocks of major European markets tended to see prices fall, largely as a result of Brexit and economic weakness in certain countries. On the other hand, stock markets throughout the Pacific Rim including Australia, New Zealand, Japan, Taiwan, Korea and others tended to provide positive returns. In emerging-markets including several Latin American countries and smaller markets in Europe, the Middle East and Africa stocks tended to provide solid overall performance, boosted by advances in Latin America and stabilizing prices for oil, metals and other commodities.

Anticipation of a possible Federal Reserve rate hike led to volatility in the bond market, but the Federal Open Market Committee chose not to raise the federal funds target rate during the reporting period. Even so, U.S. Treasury yields rose across the maturity spectrum, taking a toll on bond prices. Central banks around the world remained highly accommodative during the reporting period, particularly in light of Brexit. As of June 30, 2016, more than a third of all sovereign debt carried negative yields. Total returns for many domestic fixed-income asset classes were negative for the six-month reporting period, including virtually all types of municipal bonds.

Municipal bonds suffered from a broad sell-off that began in October and accelerated in November following the outcome of the U.S. presidential election. The president-elect s anticipated stimulus and tax platforms along with expectations that the Federal Reserve would move to raise interest rates in December 2016 contributed to municipal bond redemptions in the last month of the reporting period, especially among lower-rated municipal credits. Despite setbacks in the municipal market, however, high-yield, convertible and emerging-market bonds generally provided positive returns during the reporting period.

At MainStay, we know that political, economic and market events may influence the performance of your Fund investments. While our portfolio managers often pay close attention to such events, their primary emphasis is seeking to invest for the long-term investment needs of our shareholders. With this in mind, they seek to pursue the investment objectives of their respective Funds using the principal investment strategies and investment processes outlined in the prospectus. By placing your assets in the care of our investment professionals, you gain access to their extensive market insight, strategic investment discipline and in-depth experience in risk management over a wide range of market cycles.

The report that follows provides more detailed information about the market forces, portfolio strategies and individual securities that influenced the performance of MainStay DefinedTerm Municipal Opportunities Fund during the six months ended November 30, 2016. We invite you to read the report carefully as part of your personal investment-review process.

We thank you for your business, and we look forward to a continuing relationship as you pursue your long-range financial goals.

Sincerely,

Stephen P. Fisher

President

The opinions expressed are as of the date of this report and are subject to change. There is no guarantee that any forecast made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment. Past performance is no guarantee of future results.

Not part of the Semiannual Report

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Certain material in this report may include statements that constitute forward-looking statements under the U.S. securities laws. Forward-looking statements include, among other things, projections, estimates and information about possible or future results or events related to the Fund, market or regulatory developments. The views expressed herein are not guarantees of future performance or economic results and involve certain risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially from the views expressed herein. The views expressed herein are subject to change at any time based upon economic, market, or other conditions and the Fund undertakes no obligation to update the views expressed herein.

Fund Performance and Statistics (Unaudited)

Performance data quoted represents past performance of Common shares of the Fund. Past performance is no guarantee of future results. Because of market volatility and other factors, current performance may be lower or higher than the figures shown. Investment return and principal value will fluctuate, and as a result, when shares are redeemed, they may be worth more or less than their original cost. For performance information current to the most recent month-end, please visit mainstayinvestments.com/mmd.

Total Returns	**Six Months**	**One Year**	**Since Inception 6/26/12**
Net Asset Value (NAV[1])	4.87%	4.49%	6.72%
Market Price[1]	5.07	4.60	4.65
Bloomberg Barclays Municipal Bond Index[2]	3.52	0.22	2.61
Average Lipper General & Insured Municipal Debt Fund (Leveraged)[3]	5.35	0.43	4.83

Fund Statistics (as of May 31, 2016)

NYSE Symbol	MMD	Premium/Discount[4]	3.98%
CUSIP	56064K100	Total Net Assets (millions)	$ 526.1
Inception Date	6/26/12	Total Managed Assets (millions)[5]	$ 819.6
Market Price	$18.33	Leverage[6]	35.4%
NAV	$19.09	Percent of AMT Bonds[7]	2.22%

1. Total returns assume dividends and capital gains distributions are reinvested. For periods of less than one year, total return is not annualized.
2. The Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment-grade, tax-exempt bonds with a maturity of at least one year. Bonds subject to the alternative minimum tax or with floating or zero coupons are excluded. An investment cannot be made directly in an index.
3. The Average Lipper General & Insured Municipal Debt Fund (Leveraged) is representative of funds that either invest primarily in municipal debt issues rated in the top four credit ratings or invest primarily in municipal debt issues insured as to timely payment. These funds can be leveraged via use of debt, preferred equity, and/or reverse repurchase agreements. This benchmark is a product of Lipper Inc. Lipper Inc. is an independent monitor of fund performance. Results are based on average total returns of similar funds with all dividend and capital gain distributions reinvested.
4. Premium/Discount is the percentage (%) difference between the market price and the NAV price. When the market price exceeds the NAV, the Fund is trading at a Premium. When the market price is less than the NAV, the Fund is trading at a Discount.
5. Managed Assets is defined as the Fund s total assets, minus the sum of its accrued liabilities (other than Fund liabilities incurred for the purpose of creating effective leverage (i.e. tender option bonds) or Fund liabilities related to liquidation preference of any preferred shares issued).
6. Leverage is based on the use of proceeds received from tender option bond transactions, issuing Preferred Shares, funds borrowed from banks or other institutions or derivative transactions, expressed as a percentage of Managed Assets.
7. Alternative Minimum Tax (AMT) is a separate tax computation under the Internal Revenue Code that, in effect, eliminates many deductions and credits and creates a tax liability for an individual who would otherwise pay little or no tax.

Portfolio Composition as of November 30, 2016 (Unaudited)

Puerto Rico	14.1%
Illinois	13.1
Michigan	12.7
California	10.4
Florida	4.8
New York	4.3
Ohio	4.0
New Jersey	3.7
Virginia	3.5
Maryland	2.8
Nebraska	2.7
Kansas	2.6
Texas	2.6
Washington	2.5
Pennsylvania	2.5
Utah	2.4
U.S. Virgin Islands	2.0
Rhode Island	2.0
Nevada	1.6
Guam	1.5%
Tennessee	1.0
Louisiana	0.7
Alabama	0.7
Iowa	0.5
New Hampshire	0.4
Arizona	0.4
District of Columbia	0.4
Connecticut	0.3
Missouri	0.3
Minnesota	0.2
Indiana	0.1
Wisconsin	0.1
Colorado	0.0
Georgia	0.0
Other Assets, Less Liabilities	0.9
	100.0%

See Portfolio of Investments beginning on page 9 for specific holdings within these categories.

Top Ten Holdings or Issuers Held as of November 30, 2016# (excluding short-term investment) (Unaudited)

1. Commonwealth of Puerto Rico, Public Improvement, Unlimited General Obligation, 5.00% 6.00%, due 7/1/19 7/1/37 (a)
2. Great Lakes Water Authority, Sewage Disposal System, Revenue Bonds, 4.00% 5.00%, due 7/1/34
3. Puerto Rico Highways & Transportation Authority, Revenue Bonds, 4.95% 5.50%, due 7/1/18 7/1/38 (a)
4. Metropolitan Pier & Exposition Authority, McCormick Place Expansion, Revenue Bonds, Zero Coupon & 5.50%, due 6/15/29 6/15/50
5. University of California, Regents Medical Center, Revenue Bonds, 5.00%, due 5/15/43
6. County of Orange FL Tourist Development Tax Revenue, Revenue Bonds, 4.00%, due 10/1/33
7. New York Transportation Development Corp., LaGuardia Airport Terminal B Redevelopment Project, Revenue Bonds, 4.00% 5.00%, due 7/1/36 7/1/41
8. Chicago Board of Education, Unlimited General Obligation, 5.50% 7.00%, due 12/1/39 12/1/44 (a)
9. Michigan Finance Authority, Trinity Health Corp., Revenue Bonds, 5.25%, due 12/1/41
10. Virginia Commonwealth Transportation Board, Capital Projects, Revenue Bonds, 5.00%, due 5/15/31

Credit Quality as of November 30, 2016 (Unaudited)

Ratings apply to the underlying portfolio of bonds held by the Fund and are rated by an independent rating agency, such as Standard & Poor s (S&P), Moody s Investors Service, Inc. and/or Fitch Ratings, Inc. If ratings are provided by the ratings agencies, but differ, the higher rating will be utilized. If only one rating is provided, the available rating will be utilized. Securities that are unrated by the rating agencies are reflected as such in the breakdown. Unrated securities do not necessarily indicate low quality. S&P rates borrowers on a scale from AAA to D. AAA through BBB- represent investment grade, while BB+ through D represent non-investment grade.

As a percentage of Managed Assets.
Less than one-tenth of a percent.
\# Some of these holdings have been transferred to a Tender Option Bond (TOB) Issuer in exchange for the TOB residuals and cash.
As a percentage of total investments.
(a) Municipal security features credit enhancements, such as bond insurance.

Portfolio Management Discussion and Analysis (Unaudited)

Questions answered by portfolio managers Robert DiMella, CFA, John Loffredo, CFA, Michael Petty, Scott Sprauer and David Dowden of MacKay Shields LLC, the Fund s Subadvisor.

How did MainStay DefinedTerm Municipal Opportunities Fund perform relative to its benchmark and peers during the six months ended November 30, 2016?

For the six months ended November 30, 2016, MainStay DefinedTerm Municipal Opportunities Fund returned 4.87% based on net asset value applicable to Common shares and 5.07% based on market price. At net asset value and at market price, the Fund underperformed the 3.52% return of the Bloomberg Barclays Municipal Bond Index[1] and outperformed the 5.35% return of the Average Lipper[2] General & Insured Municipal Debt Fund (Leveraged) for the six months ended November 30, 2016.

What factors affected the Fund s relative performance during the reporting period?

During the reporting period, the Fund maintained a longer duration[3] than the Bloomberg Barclays Municipal Bond Index and had a lower investment-grade rating profile than the Index. These factors contributed to the Fund s underperformance relative to the Bloomberg Barclays Municipal Bond Index during the reporting period. The Fund s use of leverage also contributed to underperformance relative to the Index during the reporting period. Below-investment-grade tobacco securities held by the Fund suffered as high-yield mutual fund complexes sold tobacco bonds to meet redemptions. Special-tax U.S. Virgin Island bonds held by the Fund also detracted from performance. Despite the challenges facing the U.S. Virgin Islands, the Fund chose to hold the securities because of underlying bond features and legislation passed by the territory to further insulate the securities from economic and budget difficulties in the U.S. Virgin Islands.

How was the Fund s leverage strategy implemented during the reporting period?

The Fund utilized preferred shares with Citigroup and several tender option bond trusts to achieve leverage in its portfolio. During the reporting period, the Fund initiated three new tender option bond trusts and closed one trust because of the relative value and call structure of the position.

During the reporting period, how was the Fund s performance materially affected by investments in derivatives?

During the reporting period, the Fund used a short U.S. Treasury futures hedge position to manage the overall duration of its

portfolio. The short position benefited from rising rates among 10-year U.S. Treasury securities during the reporting period.

What was the Fund s duration strategy during the reporting period?

At the beginning of the reporting period, the Fund s duration was longer than that of the Bloomberg Barclays Municipal Bond Index, and it remained longer at the end of the reporting period, which contributed to the Fund s underperformance relative to the Index. The Fund did reduce the degree to which it was overweight duration by coming down the yield curve[4] as well as holding higher-coupon and shorter-call structures that were better protected relative to the benchmark in a rising rate environment. As of November 30, 2016, the Fund s unleveraged modified duration to worst[5] was approximately 5.7 years.

What specific factors, risks or market forces prompted significant decisions for the Fund during the reporting period?

The outcome of the U.S. election and market expectations of potential inflationary policies caused several large municipal mutual fund complexes to sell attractive securities to meet redemption requests. As a closed-end fund, MainStay DefinedTerm Municipal Opportunities Fund did not experience any of these redemption requests, which allowed it to operate fully invested and maximize its tax-exempt income stream. Without the redemption pressure that some open-end funds experienced, the Fund was better positioned to take advantage of market opportunities toward the end of the reporting period.

The Fund chose to reduce exposure to tobacco-backed bonds during the early part of the reporting period because of the strong performance these bonds had experienced in prior periods. While the Fund remained overweight relative to the benchmark in tobacco-backed bonds, the decision to reduce exposure to this market segment helped offset some of the Fund s underperformance. As of November 30, 2016, the Fund held 7.6% of it s total investments in tobacco-backed bonds.

Which sectors were the strongest positive contributors to the Fund s performance and which sectors were particularly weak?

The Fund s exposure to insured Puerto Rico securities produced positive absolute returns during the reporting period, helping to partially offset underperformance in the rest of the portfolio. The

1. See footnote on page 5 for more information on the Bloomberg Barclays Municipal Bond Index.
2. See footnote on page 5 for more information on Lipper Inc.
3. Duration is a measure of the price sensitivity of a fixed-income investment to changes in interest rates. Duration is expressed as a number of years and is considered a more accurate sensitivity gauge than average maturity.
4. The yield curve is a line that plots the yields of various securities of similar quality typically U.S. Treasury issues across a range of maturities. The U.S. Treasury yield curve serves as a benchmark for other debt and is used in economic forecasting.
5. Modified duration is inversely related to the approximate percentage change in price for a given change in yield. Duration to worst is the duration of a bond computed using the bond s nearest call date or maturity, whichever comes first. This measure ignores future cash flow fluctuations due to embedded optionality.

outperformance of these securities resulted from an improved market perception regarding claims-paying ability of the bond

insurers as well as the fact that these securities were not as widely held by mutual funds that faced redemption pressure.

Tobacco-backed bonds underperformed, but as previously noted, the Fund benefited by reducing its position in these bonds early in the reporting period.

Did the Fund make any significant purchases or sales during the reporting period?

The Fund increased its exposure to a 2036 maturity insured New York State Transportation Development Corporation special facility revenue bond that will finance improvements to LaGuardia Airport Terminal B under a multibillion-dollar public private partnership.

The Fund reduced its exposure to tobacco-backed bonds by partially selling a position in the Tobacco Settlement Financing Corporation of New Jersey maturing in 2041 early in the reporting period because of strong demand from high-yield mutual fund complexes and limited total-return prospects on the security.

How did the Fund s sector weightings change during the reporting period?

The Fund s strategy did not materially change during the reporting period, so there were no major changes to the structure of the Fund. During the reporting period, the Fund reduced its exposure to tobacco-backed bonds and increased its exposure to water/sewer and health care bonds.

How was the Fund positioned at the end of the reporting period?

As of November 30, 2016, the Fund maintained an overweight position relative to the Bloomberg Barclays Municipal Bond Index in the industrial development revenue/pollution control revenue sector, which contains tobacco bonds, as well as an overweight exposure to the special tax and health care sectors. From a quality perspective, we favored credits with AA (enhanced) and below-investment-grade credits while underweighting A+[6] credits relative to the benchmark. As of November 30, 2016, the Fund s unleveraged modified duration was slightly longer than the duration of the Bloomberg Barclays Municipal Bond Index.

6. An obligation rated AA by Standard & Poor s (S&P) is deemed by S&P to differ from the highest-rated obligations only to a small degree. In the opinion of S&P, the obligor s capacity to meet its financial commitment on the obligation is very strong. An obligation rated A by S&P is deemed by S&P to be somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. In the opinion of S&P, however, the obligor s capacity to meet its financial commitment on the obligation is still strong. Ratings from AA to CCC may be modified by the addition of a plus (+) or minus ( ) sign to show relative standing within the major rating categories. When applied to Fund holdings, ratings are based solely on the creditworthiness of the bonds in the portfolio and are not meant to represent the security or safety of the Fund.

The opinions expressed are those of the portfolio managers as of the date of this report and are subject to change. There is no guarantee that any forecasts made will come to pass. This material does not constitute investment advice and is not intended as an endorsement of any specific investment.

Portfolio of Investments November 30, 2016 (Unaudited)

	Principal Amount	Value
Municipal Bonds 157.2%		
Alabama 1.0% (0.7% of Managed Assets)		
Alabama Special Care Facilities Financing Authority, Methodist Home For The Aging, Revenue Bonds 5.25%, due 6/1/25	$ 1,000,000	$ 1,017,840
Jefferson County, Public Building Authority, Revenue Bonds Insured: AMBAC 5.00%, due 4/1/26	4,500,000	4,522,500
		5,540,340
Arizona 0.6% (0.4% of Managed Assets)		
Phoenix Industrial Development Authority, Downtown Phoenix Student LLC, Revenue Bonds Series A, Insured: AMBAC 4.50%, due 7/1/42	150,000	150,245
Phoenix Industrial Development Authority, Espiritu Community Development Corp., Revenue Bonds Series A 6.25%, due 7/1/36	2,000,000	2,001,120
Pima County Industrial Development Authority, PLC Charter Schools Project, Revenue Bonds 6.75%, due 4/1/36	1,075,000	1,075,806
		3,227,171
California 16.2% (10.4% of Managed Assets)		
California County Tobacco Securitization Agency, Asset-Backed, Revenue Bonds 5.60%, due 6/1/36 (a)	2,575,000	2,617,513
California Municipal Finance Authority, Southwestern Law School, Revenue Bonds 6.50%, due 11/1/41	2,165,000	2,523,827
Carson Redevelopment Agency, Redevelopment Project Area 1, Tax Allocation Series B, Insured: NATL-RE (zero coupon), due 10/1/25	75,000	51,767
Ceres Unified School District, Unlimited General Obligation Series A (zero coupon), due 8/1/43	6,375,000	1,097,648
City of Sacramento, California, Water, Revenue Bonds 5.00%, due 9/1/42 (b)(c)	19,500,000	21,466,185

	Principal Amount	Value
California 16.2% (10.4% of Managed Assets) (continued)		
Golden State Tobacco Securitization Corp., Asset-Backed, Revenue Bonds		
Series A-1 5.00%, due 6/1/33	$ 4,000,000	$ 3,628,640
Series A-2 5.30%, due 6/1/37 (a)	5,000,000	4,619,600
Riverside County Transportation Commission, Limited Tax, Revenue Bonds Series A 5.25%, due 6/1/39 (b)(c)	19,100,000	21,525,696
Stockton Public Financing Authority, Parking & Capital Projects, Revenue Bonds Insured: NATL-RE 4.50%, due 9/1/17	100,000	99,454
Insured: NATL-RE 4.80%, due 9/1/20	105,000	102,374
Stockton Public Financing Authority, Water System, Capital Improvement Projects, Revenue Bonds Series A, Insured: NATL-RE 5.00%, due 10/1/31	175,000	175,452
¨University of California, Regents Medical Center, Revenue Bonds Series J 5.00%, due 5/15/43 (b)(c)	23,260,000	25,656,450
Westminster School District, Unlimited General Obligation Series B, Insured: BAM (zero coupon), due 8/1/48	10,000,000	1,442,400

		85,007,006
Colorado 0.1% (0.0% of Managed Assets)		
E-470 Public Highway Authority, Revenue Bonds Series B, Insured: NATL-RE (zero coupon), due 9/1/29	660,000	337,656
Connecticut 0.5% (0.3% of Managed Assets)		
Connecticut State Health & Educational Facility Authority, Connecticut College, Revenue Bonds Series L-1 4.00%, due 7/1/39	2,730,000	2,676,137
District of Columbia 0.6% (0.4% of Managed Assets)		
Metropolitan Washington Airports Authority, Revenue Bonds Series C, Insured: AGC 6.50%, due 10/1/41 (a)	2,400,000	3,022,032

Percentages indicated are based on Fund net assets.

¨ Among the Fund s 10 largest holdings or issuers held, as of November 30, 2016. May be subject to change daily.

The notes to the financial statements are an integral part of,
and should be read in conjunction with, the financial statements.

Portfolio of Investments November 30, 2016 (Unaudited) (continued)

Municipal Bonds (continued)
Florida 7.5% (4.8% of Managed Assets)
¨County of Orange FL Tourist Development Tax Revenue, Revenue Bonds
4.00%, due 10/1/33
JEA Electric System, Revenue Bonds
Series C
5.00%,&nbk management policies, including our investment policies.

Nominating and Corporate Governance Committee

In 2014, the Nominating and Corporate Governance Committee consisted of directors Armas Clifford Markkula, Jr., Robert R.
current members of the Nominating and Corporate Governance Committee are Armas Clifford Markkula, Jr. (Chair), Robert R
Nominating and Corporate Governance Committee held two meetings during 2014. Among other items, the Nominating and C
responsibility and authority is to:

determine that our Board of Directors is properly constituted to meet its fiduciary obligations to stockholders;

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assist our Board of Directors by identifying prospective director nominees and to recommend to our Board of I next annual meeting of stockholders;

develop and recommend to our Board of Directors the governance principles applicable to our Company; and

prepare the report that the rules of the SEC require to be included in our annual proxy statement.

The responsibilities of the Nominating and Corporate Governance Committee include evaluating the composition, organization Directors and its committees, including determining future requirements; overseeing the performance evaluation process of our committees; making recommendations to our Board of Directors concerning the appointment of directors to committees, and se proposing the slate of directors for election.

Director Independence

Our Board of Directors has affirmatively determined that each of its members, other than Ronald A. Sege, are independent dire Marketplace Rules of NASDAQ and applicable SEC rules, and that all of its members, other than Mr. Sege, were independent the Marketplace Rules of NASDAQ in the three prior years.

Our Board of Directors has also determined that all directors serving as members of our Audit Committee, Compensation Com Governance Committee are independent under the NASDAQ listing standards and the rules of the SEC. Additionally, our Boar members of the Compensation Committee meet the non-employee director definition of Rule 16b-3 promulgated under Section 1934, as amended, and the outside director definition of Section 162(m) of the Internal Revenue Code of 1986, as amended (th

Director Compensation

Each non-employee director is eligible to receive a cash payment of $40,000 per fiscal year, one-quarter of which is to be paid Directors. In addition, each non- employee director is eligible to receive a cash payment of $1,000 per Board of Directors meet our Compensation and/or Nominating and Corporate Governance Committee is eligible to receive a cash payment of $1,000 fo member of our Audit Committee is eligible to receive a cash payment of $2,000 per Audit Committee meeting attended, in ack commitment and risks attendant to that Committee. In 2014, our Board of Directors also continued to utilize the ad hoc Strateg assist the Company in evaluating strategic opportunities that arise from time to time. Commencing with the third quarter of 201 paid to any member for service on the Strategic Committee. From time to time, our Board of Directors may establish additional specific purpose or purposes. Payments, if any, to directors for serving on these committees are determined by our Board of Di and committee meeting consideration is payable quarterly in arrears of the quarter in which the date of such meeting occurred.

Furthermore, our Board of Directors adopted a program for automatically granting awards of nonqualified stock options to non Stock Plan. Such program provides for the automatic grant of an option to purchase 25,000 shares of common stock on the date

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first becomes a non-employee director. Additionally, each non-employee director shall automatically be granted a 10,000 share
meeting of stockholders, provided he or she is re-elected to our Board of Directors or otherwise remains on our Board of Direct
such date he or she shall have served on our Board of Directors for at least the preceding six months. All options granted under
On May 20, 2014, the date of our 2014 annual meeting of stockholders, directors Finocchio, Markkula, Maxfield, Moley and R
option to purchase 10,000 shares at a per share exercise price of $2.42, the closing price of our common stock on that date.

Director Summary Compensation Table for Fiscal 2014

The table below summarizes the compensation paid by our Company to non-employee directors for the fiscal year ended Decer

Name	Fees Earned or Paid in Cash ($)	O
Robert J. Finocchio, Jr. (4)	67,000	
Armas Clifford Markkula, Jr.	55,000	
Robert R. Maxfield (4)	69,000	
Richard M. Moley (4)	64,000	
Betsy Rafael (4)	72,000	

(1) Amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown are the grant c
(disregarding an estimate of forfeitures) as determined in accordance with FASB ASC Topic 718, which were recognized
assumptions used in the valuation of these awards are set forth in the notes to our consolidated financial statements, which
Form 10-K for the year ended December 31, 2014, filed with the SEC on March 12, 2015. These amounts do not correspo
recognized by the directors upon exercise or sale of such awards.

(2) On May 20, 2014, the date of our annual meeting of stockholders, each non-employee director serving in such capacity fo
granted a fully vested option to purchase 10,000 shares at a per share exercise price of $2.42, the closing price of our com

(3) As of December 31, 2014, the aggregate number of shares underlying options outstanding for each of our non-employee d

Name
Robert J. Finocchio, Jr.
Armas Clifford Markkula, Jr.
Robert R. Maxfield
Richard M. Moley
Betsy Rafael

(4) Includes payments for participation on the ad hoc Strategy Committee in the amount of $5,000 for each of the first two qu

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PROPOSAL ONE

ELECTION OF DIRECTORS

General

We currently have six members on our Board of Directors. Our Board of Directors is divided into three classes, with each direc class being elected at each year s annual meeting of stockholders. Robert J. Finocchio, Jr., Armas Clifford Markkula, Jr. and R directors whose terms will expire at the 2015 Annual Meeting of Stockholders, and each has been nominated by our Board of D Meeting of Stockholders to be held May 19, 2015. Richard M. Moley and Betsy Rafael are the Class C directors whose terms w of Stockholders, and Ronald A. Sege is the Class A director whose term will expire at the 2017 Annual Meeting of Stockholder Class B nominees, are incumbent directors. There are no family relationships among any of our directors or executive officers, mentioned above. Unless otherwise instructed, the holders of proxies solicited by this Proxy Statement will vote the proxies rec nominees. In the event that any of Mr. Finocchio, Mr. Markkula, or Mr. Maxfield is unable or declines to serve as a director at proxy holders will vote for a nominee designated by the present Board of Directors to fill the vacancy. We are not aware of any nominees will be unable or will decline to serve as a director. Our Board of Directors recommends a vote FOR the election o

Director Information

Current Directors

The names of the members of our Board of Directors, including the Class B nominees, their ages as of March 26, 2015, and cer forth below.

Name	Age	Principal O
Robert J. Finocchio, Jr. (1) (4)	63	Corporate director, private investor and p
Armas Clifford Markkula, Jr. (2) (3) (4)	73	Vice Chairman of the Board of Directors
Robert R. Maxfield (1) (3) (4)	73	Private investor
Richard M. Moley (2) (3)	76	Private investor
Betsy Rafael (1) (2)	53	Corporate Director
Ronald A. Sege (5)	57	Chairman of the Board, Chief Executive

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Corporate Governance Committee.
(4) Denotes nominee for election at the 2015 Annual Meeting of Stockholders.
(5) Sole member of the stock option committee.

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Director Biographies

The business experience and other specific skills, attributes and qualifications of each member of our Board of Directors is as f

Class B Directors Nominees for Election

Robert J. Finocchio, Jr. has been a director of our Company since 1999. Mr. Finocchio served as Chairman of the Board of Inf management software Company, from August 1997 to September 2000. Since September 2000, Mr. Finocchio has been a dean University s Leavey School of Business. From July 1997 until July 1999, Mr. Finocchio served as President and Chief Execut December 1988 until May 1997, Mr. Finocchio was employed with 3Com Corporation, a global data networking Company, wh recently serving as President, 3Com Systems. Mr. Finocchio also serves as a director of Broadcom Corporation and served as a December 2011 and as a director of Sun Microsystems from 2006 to January 2010. Mr. Finocchio is Chair of the Board of Trus Mr. Finocchio holds a B.S. degree in Economics from Santa Clara University and an M.B.A. degree from the Harvard Business

Our Nominating and Corporate Governance Committee has reviewed Mr. Finocchio s qualifications and background and has c executive and financial experience, Mr. Finocchio is well qualified to serve as a director of our Company in light of our Compa

Armas Clifford Markkula, Jr. is the founder of our Company and has served as a director since 1988. He has been Vice Chairm 1989. Mr. Markkula was Chairman of the Board of Apple Computer from January 1977 to May 1983 and from October 1993 t from 1977 to 1997. A founder of Apple, he held a variety of positions there, including President/Chief Executive Officer and V founding Apple, Mr. Markkula was with Intel Corporation as Marketing Manager, Fairchild Camera and Instrument Corporatio Semiconductor Division, and Hughes Aircraft as a member of the technical staff in the Company s research and development trustee of Santa Clara University and served as Chair of the Board of Trustees from 2003 through 2009. Mr. Markkula received Engineering from the University of Southern California.

Our Nominating and Corporate Governance Committee has reviewed Mr. Markkula s qualifications and background and has c executive experience, Mr. Markkula is well qualified to serve as a director of our Company in light of our Company s business

Robert R. Maxfield has been a director of our Company since 1989 and served as President and Chief Executive Officer of our August 18, 2010 and as assistant to the CEO/President from August 19, 2010 to November 4, 2010. He also served as our Com Products from April 2008 through September 2008 and a consultant to our Company from October 2008 through April 2009. H and served as Executive Vice President and a director until ROLM s merger with IBM in 1984. Following the merger, he cont ROLM until 1988. Since 1988, he has been a private investor. Mr. Maxfield was a venture partner with Kleiner, Perkins, Caufi from 1989 to 1992. Mr. Maxfield received B.A. and B.S.E.E. degrees from Rice University, and M.S. and Ph.D. degrees in Ele University.

Our Nominating and Corporate Governance Committee has reviewed Mr. Maxfield s qualifications and background and has d executive experience, Mr. Maxfield is well qualified to serve as a director of our Company in light of our Company s business

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Continuing Directors

Ronald A. Sege has been President, Chief Executive Officer and a member of our Board of Directors since August 19, 2010. Ou
Mr. Sege as Chairman of the Board on October 12, 2011. Mr. Sege served as President and Chief Operating Officer and a mem
Corporation (3Com) from April 2008 until the acquisition of 3Com by Hewlett-Packard Company effective April 12, 2010.
served as President and Chief Executive Officer of Tropos Networks, Inc., a provider of wireless broadband networks, from 20
was President and Chief Executive Officer of Ellacoya Networks, Inc., a provider of broadband service optimization solutions
technology, from 2001 to 2004. Prior to Ellacoya, Mr. Sege was Executive Vice President of Lycos, Inc., an internet search eng
Lycos, Mr. Sege spent nine years at 3Com, from 1989 to 1998, serving in a variety of senior management roles including Exec
Business Unit. Mr. Sege joined the Board of Directors of Ubiquiti Networks, Inc. in October 2012. Mr. Sege holds an M.B.A.
degree from Pomona College.

Our Nominating and Corporate Governance Committee has reviewed Mr. Sege s qualifications and background and has deter
executive experience, Mr. Sege is well qualified to serve as a director of our Company in light of our Company s business acti

Richard M. Moley has been a director of our Company since 1997. Since August 1997, Mr. Moley has been a private investor.
served as Senior Vice President, Wide Area Business Unit and as a director of Cisco Systems, following Cisco Systems purch
Chairman of the Board, Chief Executive Officer and President. Mr. Moley also serves as a director of Linear Technology. Mr.
Electrical Engineering from Manchester University, an M.S. degree in Electrical Engineering from Stanford University and an
University.

Our Nominating and Corporate Governance Committee has reviewed Mr. Moley s qualifications and background and has dete
executive experience, Mr. Moley is well qualified to serve as a director of our Company in light of our Company s business ac

Betsy Rafael has been a director of our Company since 2005. Ms. Rafael served as Principal Accounting Executive of Apple In
2012 and as its Vice President and Corporate Controller until October 19, 2012. From September 2006 to August 2007, Ms. Ra
President, Corporate Finance for Cisco Systems. From April 2002 to September 2006, she served as Vice President, Corporate
Officer of Cisco Systems. From December 2000 to April 2002, Ms. Rafael was the Executive Vice President, Chief Financial
Officer of Aspect Communications, Inc., a provider of customer relationship portals. From April 2000 to November 2000, Ms.
CFO of Escalate Inc., an enterprise e-commerce application service provider. From 1994 to 2000, Ms. Rafael held a number of
culminating her career at Silicon Graphics as Senior Vice President and Chief Financial Officer. Prior to SGI, Ms. Rafael held
finance with Sun Microsystems and Apple Computer. Ms. Rafael began her career with Arthur Young & Company. Ms. Rafae
Inc. and GoDaddy Inc. Ms. Rafael received a B.S.C. degree in Accounting from Santa Clara University.

Our Nominating and Corporate Governance Committee has reviewed Ms. Rafael s qualifications and background and has dete
executive and financial experience, Ms. Rafael is well qualified to serve as a director of our Company in light of our Company

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Vote Required

Directors shall be elected by a plurality vote. The Class B nominees for director receiving the highest number of affirmative vo
represented by proxy and entitled to be voted at the annual meeting shall be elected as directors. Votes against, abstentions and
on the election of any director due to the fact that such election is by a plurality.

Board Recommendation

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE PROPOSED CLASS B DI

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

With authority granted by our Board of Directors, the Audit Committee of our Board of Directors has appointed KPMG LLP as
accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2015, and our Board of I
stockholders vote FOR ratification of such appointment.

KPMG LLP was originally appointed as our independent registered public accounting firm on March 21, 2002, when we retain
of our financial statements for the fiscal year ended December 31, 2002. A representative of KPMG LLP is expected to be pres
opportunity to make a statement if he or she so desires and is expected to be available to respond to appropriate questions from

Audit and Non-Audit Fees

The following table sets forth fees for services KPMG LLP provided during fiscal years 2014 and 2013:

Audit fees (1)
Audit-related fees
Tax fees (2)
All other fees (3)
Total

(1) Represents fees for professional services provided in connection with the audit of our annual financial statements and our
reporting, the review of our quarterly financial statements, and other advice on accounting matters. The audit fees for 2014
Company as of the date of this Proxy Statement.
(2) Represents fees for professional services provided to assist expatriate non-executive employees to comply with U.S. and/o
(3) All other fees in 2014 and 2013 represent fees for due diligence services provided in connection with contemplated busine

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Our Audit Committee has considered whether the non-audit services provided by KPMG LLP are compatible with maintaining has concluded that the independence of KPMG LLP is maintained and is not compromised by the services provided. In accorda Committee approves in advance all audit and non-audit services to be provided by KPMG LLP. During fiscal year 2014, 100% the Audit Committee in accordance with this policy.

Stockholder ratification of the selection of KPMG LLP as our independent registered public accounting firm is not required by requirement. However, our Board of Directors is submitting the selection of KPMG LLP to our stockholders for ratification as our stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the s Committee at its discretion may direct the appointment of a different independent accounting firm at any time during the year i would be in our best interests and the best interests of our stockholders.

Vote Required

Ratification of the appointment of KPMG LLP as our independent registered public accounting firm requires the affirmative vo in person or represented by proxy and entitled to be voted at the annual meeting.

Board Recommendation

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR RATIFICATION OF LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

SHARE OWNERSHIP BY PRINCIPAL STOCKHOLDERS AND MANAGEMEN

To our knowledge, the following table sets forth certain information with respect to beneficial ownership of our common stock

- each person who we know beneficially owns more than 5% of our common stock;
- each of our directors and the director nominees;
- each of the Named Executive Officers; and
- all of our directors and Section 16 executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with resp indicated by footnote, and subject to applicable community property laws, each person identified in the table possesses sole vot to all shares of common stock shown held by them. The number of shares of common stock outstanding used in calculating the includes shares of common stock underlying options or other rights held by such person that are exercisable within 60 calendar shares of common stock underlying options or other rights held by any other person. Percentage of beneficial ownership is base stock outstanding as of March 26, 2015.

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Name	Shar Benefi Own
5% Stockholders:	
ENEL Investment Holding BV (1)	3,0
Barbara S. Oshman (2)	2,5
Royce & Associates, LLC (3)	2,2
Directors and Executive Officers:	
Armas Clifford Markkula, Jr. (4) (5)	1,8
Ronald A. Sege (4) (6)	6
Robert R. Maxfield (4) (7)	4
Richard M. Moley (4) (8)	2
William R. Slakey (4)	1
Russell R. Harris (4) (9)	1
Robert J. Finocchio, Jr. (4) (10)	1
Betsy Rafael (4)	
Alicia J. Moore (4)	
Michael T. Anderson (11)	
All directors and Section 16 executive officers as a group (11 persons) (4)	3,7

* Less than 1%.

(1) Affiliate of Enel S.p.A. The principal address is Viale Regina Margherita 137, Rome, Italy 00198.

(2) The number of shares beneficially owned is as reported in a Schedule 13G/A filed by Barbara S. Oshman with the SEC o Oshman s address is c/o 545 Middlefield Road, Suite 165, Menlo Park, California 94025. As of December 31, 2014 sha which Barbara S. Oshman serves as sole trustee: (i) 2,461,400 by the M. Kenneth and Barbara S. Oshman Trusts dated J Peter Lawrence Oshman 2010 Trust.

(3) The number of shares beneficially owned is as reported in a Schedule 13G filed by Royce & Associates, LLC with the S Royce & Associates, LLC is 745 Fifth Avenue, New York, NY 10151.

(4) Includes, for the applicable director or executive officer, the following shares exercisable within 60 days of March 26, 20 performance shares and/or SARs, as shown in the table below. The number of shares issued upon the exercise of SARs v by (i) a number of shares sufficient to cover the grant price times the number of shares with respect to which the SAR is shares sufficient to cover the amount of certain minimum withholding taxes due at the time of exercise. The number of s and withholding taxes will be calculated based on the fair market value of our common stock on the date of exercise.

Name	Options
Armas Clifford Markkula, Jr.	50,000
Ronald A. Sege	105,000
Robert R. Maxfield	40,000
Richard M. Moley	50,000
Russell R. Harris	55,200
Robert J. Finocchio, Jr.	50,000
William R. Slakey	62,100
Betsy Rafael	50,000
Alicia J. Moore	45,000
All directors and executive officers as a group	522,300

(5) Includes 1,655,110 shares held by Armas Clifford Markkula, Jr. and Linda Kathryn Markkula, Trustees of the Restated A
and 121,928 shares held by the Markkula Family Limited

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Partnership. Mr. Markkula and his spouse disclaim beneficial ownership of all but 27,500 of the shares held by the Mark

(6) Includes 197,107 shares held by R. A. Sege & E. Sege Co-TTEE Ronald A. and Eugenia Sege TR U/T/A DTD 10/19/20 *Related Matters Compensation Discussion and Analysis, Outstanding Equity Awards at 2014 Fiscal Year-End*, fo *Upon Termination or Change in Control* for information regarding vesting criteria applicable to the outstanding shares 2015, 62,500 unvested shares acquired by Mr. Sege in August 2010 pursuant to a restricted stock award agreement will l transferred to and reacquired by the Company at no cost to the Company as required performance criteria were not satisf

(7) Includes 373,983 shares held by Robert R. Maxfield, Trustee UA DTD 12/14/87.

(8) Includes 175,589 shares held by the Richard Michael Moley and Elizabeth Moley 1989 Revocable Trust dtd 9/29/89, as

(9) Includes 86,492 shares held by The Harris living Trust dated March 22, 2004, and 20,000 shares held by The Russell R. April 22, 2004. Mr. Harris served as Senior Vice President, Operations until his termination on March 16, 2015.

(10) Includes 65,000 shares held by the Robert J. and Susan H. Finocchio Family Trust dated January 9, 1990.

(11) Mr. Anderson served as Senior Vice President and General Manager Grid Modernization until September 30, 2014.

EXECUTIVE COMPENSATION AND RELATED MATTERS

Compensation Discussion and Analysis

This section discusses the principles underlying our policies and our Compensation Committee s decisions concerning the com the reasons those decisions were made.

Executive Summary

Pay for Performance

The cornerstone of our executive compensation program is pay for performance. Accordingly, while we pay competitive base s portion of the Named Executive Officers compensation opportunity is based on variable pay.

In 2014, our Company responded to challenging and dynamic business and market conditions by implementing a fundamental structure designed to bring more focus and accountability to distinct market opportunities in the respective Grid Modernization of Things markets. Our goal was to streamline decision-making, create clearer accountability for short- and long-term results, a priorities for our business.

Recognizing the continuing challenges facing our business and focusing on pay for performance within the revised structure, th not to make any adjustments to the base salaries of the Named Executive Officers for 2014. Reflecting its pay for performance Committee approved a 2014 Bonus Plan to be funded by cash generated above the operating plan target and to pay out for achi in alignment with the Company s business plan, for each of the Internet of Things, Grid Modernization and Shared Services gr revenue, bookings, contribution margin and operating expense targets.

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The Plan as it applied to the Company s Senior Vice President and General Manager, Grid Modernization, was tied to 33.3% t targets and 33.3% to contribution margin, in each case for the full year 2014.

The Plan as it applied to the Chief Executive Officer and Chief Financial Officer and certain other officers eligible to earn cash Things revenue and contribution margin targets, 33.3% to Grid Modernization revenue, bookings and contribution margin targe targets.

Following the end of fiscal 2014, the Compensation Committee reviewed achievement against the 2014 Bonus Plan metrics, an metrics had not been met. Accordingly, no participant received any of the target annual cash incentive under the 2014 Bonus Pl

The Compensation Committee also approved an equity participation incentive program for 2014 consisting of performance bas this program were divided and tied to specific performance criteria by each functional group across the Company, including the Modernization, Finance, Human Resources, Information Technology, Legal, Marketing, and Operations. The performance RSU Officer and Chief Financial Officer and certain other officers would be earned based on: 33% for Grid Modernization performa Things performance criteria, 17% for Finance/HR/IS/Legal performance criteria and 17% for Marketing performance criteria. T Senior Vice President and General Manager, Grid Modernization, would be earned based on 100% for Grid Modernization per an additional condition that the participant remain an employee through March 14, 2015 in order to vest. In this manner, the Co performance rewards with Company goals, align objectives with creation of shareholder value, and retain talent.

Following the end of fiscal 2014, the Compensation Committee reviewed the performance criteria, and determined that out of t program, 419,100 were cancelled due to termination of employment, largely in conjunction with the sale of the Company s Gr remaining 534,200 shares eligible for vesting, 280,950 shares were forfeited because the Company did not fully meet each elem Things performance, 90,950 shares were forfeited because the Company did not fully meet each element of the criteria for the G 13,251 shares were forfeited because the Company did not fully meet each element of the criteria for the performance in Marke were met resulted in an aggregate of 149,049 earned performance RSUs that were eligible to vest, and did vest, on March 14, 2 ***Compensation Committee make with respect to long-term incentive compensation in 2014,*** for a chart detailing the grants an Officers under this equity incentive program.

Corporate Governance Best Practices

Our Company endeavors to maintain sound governance standards consistent with our executive compensation policies and prac evaluates our executive compensation program on an ongoing basis to ensure that it is consistent with our Company s short-ter dynamic nature of our business and the market in which we compete for executive talent. The following policies and practices

Independent Compensation Committee. The Compensation Committee is comprised solely of independent di means for communicating with stockholders regarding their executive compensation ideas and concerns.

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Independent Compensation Committee Advisors. The Compensation Committee engaged its own compensati
compensation reviews. This consultant performed no consulting or other services for our Company.

Annual Executive Compensation Review. The Compensation Committee conducted an annual review and app
including a review to ensure that our compensation-related risks are not reasonably likely to have a material ad

Executive Compensation Policies and Practices. Our compensation philosophy and related corporate governa
complemented by several specific compensation practices that are designed to align our executive compensatio
interests, including the following:

Compensation At-Risk. Our executive compensation program is designed so that a significant portion o
corporate performance, as well as equity-based to align the interests of our executive officers and stockh

No Special Retirement Plans. We do not currently offer, nor do we have plans to provide, pension arran
the broad-based Company-sponsored 401(k) plan) or nonqualified deferred compensation plans or arran

No Perquisites. We do not provide any perquisites or other personal benefits to our executive officers;

No Tax Reimbursements. We do not provide any tax reimbursement payments (including gross- ups
benefits, other than standard relocation benefits;

No Special Health or Welfare Benefits. Our executive officers participate in broad-based Company-spo
programs on the same basis as our other full-time, salaried employees;

Double-Trigger Change in Control Arrangements. All change in control payments and benefits are
(that is, they require both a change in control of our Company plus a qualifying termination of employm
paid);

Performance-Based Incentives. We use performance-based short- and long-term incentives;

Multi-Year Vesting Requirements. The new-hire and annual equity awards granted to our executive off
multi-year periods, consistent with current market practice and our retention objectives; and

Hedging Prohibited. We prohibit our employees from hedging any securities of our Company.

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Results of Prior Stockholder Advisory Vote

At our 2014 Annual Meeting of Stockholders, our stockholders strongly approved the compensation of the Named Executive C
favor of our say-on-pay proposal and 1,261,278 votes cast against the proposal. As we evaluated our executive compensation p
strong support our stockholders expressed in our approach to setting reasonable executive compensation that both retains and m
Officers and closely aligns their interests with those of our stockholders. Accordingly, our Board of Directors determined to ret
structure of our executive compensation program for 2014.

Executive Compensation Questions and Answers

Q. ***What is our Company s overall executive compensation philosophy?***

A. Our executive compensation programs are designed to meet the following objectives:

- Attract and retain motivated and talented executives with a view to the competitive nature of the mark other areas in which we seek talent;

- Motivate our executives to perform to their best abilities through a compensation strategy that include

- Position base salary, targeted variable compensation and equity compensation to the 50th to 75th perc compensation (based on a comparison to similarly situated companies);

- Link executive compensation to our Company s performance and the individual s performance;

- Align the interests of our executives with those of our stockholders by (i) providing our executive offi long-term goals, (ii) specifically linking our financial and operating results to compensation paid to ou respect to long-term equity compensation, generally keeping within industry guidelines for dilution; a

- Provide a compensation structure that is not only competitive in our geographic and industry areas, bu and consistent based on level of responsibilities and performance.

These objectives fit within our overall compensation philosophy by providing incentive to our executive officers continuously t
as well as position our Company for long-term growth. Our compensation philosophy is also intended to enhance stockholder v
regulatory and related requirements, and create a cohesive executive team.

To meet these objectives, we have designed an executive compensation program based on the following general policies:

Pay fixed compensation in the form of base salaries that are competitive with the practices of other co
region.

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Pay for variable compensation:

through an annual bonus plan that is based upon our performance when compared to our annual

by providing significant long-term incentives in the form of equity awards, specifically in the fo
our common stock and/or performance shares awards covering shares of our common stock, to
with the leadership abilities necessary to increase long-term stockholder value, and to align beh

Q. Who are the Named Executive Officers?

A. The Named Executive Officers include our principal executive officer, principal financial officer and the three other mo
officers of our Company as follows:

Title
Chairman of the Board, Chief Executive Officer and President
Executive Vice President and Chief Financial Officer
Former Senior Vice President and General Manager Grid Modernization
Senior Vice President, General Counsel and Secretary
Former Senior Vice President of Operations

(1) Mr. Anderson s position was terminated without cause as a result of the sale of the Grid Modernization business.
(2) Mr. Harris employment with the Company terminated on March 16, 2015.

Q. What is the role of the Compensation Committee of our Board of Directors?

A. The Compensation Committee is responsible for ensuring compliance with our executive compensation objectives and
Compensation Committee reviews and approves our annual executive compensation arrangements, including approving specifi
annual management bonus plan. These arrangements include, among other items, annual base salary, an annual incentive bonus
compensation in the form of equity awards, and certain other benefits. In performing these duties, the Compensation Committe
Department and receives input from our executive management, particularly our Chief Executive Officer, Chief Financial Offic
General Counsel, as well as independent compensation consultants.

Management provides the Compensation Committee with information about our Company and individual executive performan
perspective and recommendations on compensation matters. The Compensation Committee is authorized to obtain the assistanc
consultants at any time, and may also rely on consultants retained by our Company. In 2014, we retained the services of Compe
consulting firm that provides executive compensation advisory services, to provide input regarding executive compensation, in
long-term incentive compensation and other benefits or compensation.

The Compensation Committee approves and interprets our executive compensation and benefits plans and policies, including o
Plan. The Compensation Committee is appointed by our Board of Directors, and consists entirely of directors who are independ

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the listing standards of the NASDAQ Stock Market, outside directors for purposes of Section 162(m) of the Code, and non
Rule 16b-3 of the Securities Exchange Act of 1934, as amended. The Compensation Committee regularly meets in executive se

Q. What is the role of our Chief Executive Officer in compensation decisions?

A. Our Chief Executive Officer sets individual performance objectives, in line with the corporate objectives, for each exec the beginning of the calendar year and reviews the performance of our executive officers during the year as well as during an an of the calendar year. He then presents his findings to the Compensation Committee, together with recommendations for their co our Chief Executive Officer also obtained input about comparative salary data within comparator technology companies from C

In 2014, we implemented an employee performance management feedback program under which employees, including each of establish specific, measurable performance objectives that are consistent with our overall business objectives. Our executive of Chief Executive Officer who evaluates each executive officer periodically against those objectives. In evaluating each executiv Executive Officer and the Compensation Committee that he or she is expected to perform at a very high level and to also functi team. The goals of the performance management feedback program are to provide objective criteria against which to evaluate t officers and support a pay for performance culture.

The Compensation Committee considers these findings and recommendations, but makes its own final determinations. This rev advance of annual base salary adjustments, if any, the adoption of the annual management bonus program for the year, and the

The Compensation Committee alone or in consultation with our full Board of Directors (other than our Chief Executive Officer Chief Executive Officer. As with the other executive officers, our Chief Executive Officer is expected to perform at a very high

Q: What is the role of compensation consultants and competitive positioning in determining executive con

A. In 2013, we engaged Compensia to provide input on a broad range of executive matters, including base salary, annual c compensation, and post-employment compensation practices. Specifically, in 2013 Compensia provided information on annual and post-employment compensation practices. In 2014, we received data from Compensia relating to base salary against compa

The Compensation Committee uses compensation surveys and publicly-available data, as well as advice from our independent not conduct a competitive market analysis for purposes of establishing executive compensation levels in 2014, the Compensatio the data previously collected and analyzed as part of its compensation-setting process. In 2014, the Compensation Committee u peer companies, including the following, as a reference in making its executive compensation decisions:

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Bigband Networks, Inc.	Falconstor Software, Inc.	Radisys Cor
Blue Coat Systems, Inc.	Globecomm Systems Inc.	Silver Sprin
DDi Corp	Infinera Corporation	Sonus Netw
Demandtec, Inc.	Internap Network Services Corporation	Tessera Tec
Digi International Inc.	Maxwell Technologies Inc.	TiVo Inc.
Emulex Corporation	OPNET Technologies, Inc.	Zygo Corpo
Extreme Networks, Inc.	Powersecure International, Inc.	

This compensation peer group was the same group of peer companies that were selected and used for purposes of evaluating th Compensation Committee considered and discussed a number of factors, including the dynamics both in the Company s curre as well as the broad nature of the Internet of Things market, and the wide variety in size and scope of companies focusing on th Committee determined that the size and composition of the existing peer group provided the appropriate benchmarking in 2014

Q. ***What are the elements of our Company s executive compensation program?***

A. ***Our executive officers compensation has three primary components:***

Base salary;

Annual cash bonus opportunities through our annual management bonus plan; and

Long-term incentive compensation in the form of annual equity awards.

In addition, we provide our executive officers with 401(k), vacation, health and welfare benefits that are available to all salarie location in which they are based. We do not provide pension arrangements, deferred compensation or other similar benefits to

We believe that this combination of elements provides an appropriate mix of fixed and variable pay, balances short- term opera stockholder value, and is conducive to executive recruitment and retention.

Q. ***When are decisions concerning executive compensation made?***

A. Typically, the Compensation Committee makes its decisions concerning base salaries and target annual cash bonus opp early in the year, as was the case in 2014. Decisions regarding executive compensation may also be made at other times of the

Our equity compensation grant guidelines, which are described below, call for annual equity awards to be made effective on th Stockholders, or such other date as is selected by the Compensation Committee. Although our most recent Annual Meeting of 2014, because we were determined to revise the design of our equity awards plan to include specific performance criteria to su with the equity grant date the prior year, the equity awards granted to our executive officers, including the Named Executive O

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Q: How are individual performance and other factors taken into consideration when making executive

A: As noted above, the Compensation Committee relies on input from our Chief Executive Officer to evaluate the perforn example, our Chief Executive Officer meets frequently with each of our executive officers, enabling him to develop in-depth kn performance. In addition, in 2014 we continued the implementation of our employee performance management feedback progr program, each executive officer s objectives reflected the applicable department s overall objectives and were approved by ou Executive Officer and each executive officer are expected to periodically evaluate the executive officer s performance against Officer then reviews the strengths, accomplishments and areas for growth of each executive with the Compensation Committee

Q: How are base salaries determined?

A: Base salary is used in our executive compensation program as a means to attract and retain qualified executives, and to region and industry sector. The Compensation Committee sets the base salaries of our executive officers, including the Named them for services rendered during the year, and to meet competitive norms and reward performance on an annual basis. As desc Committee used competitive market data as a reference source when making compensation decisions to keep our base salaries addition, when considering base salary adjustments, the Compensation Committee also considers each executive officer s curr contributions, and internal equity.

For 2014, the Compensation Committee, in recognition of the continuing challenges facing our business and industry sector, de the base salaries of the Named Executive Officers.

The following table sets forth the annual base salaries of the Named Executive Officers for 2014:

Named Executive Officer	Title
Ronald A. Sege	Chairman of the Board, Chief Executive Officer and President
William R. Slakey	Executive Vice President and Chief Financial Officer
Michael T. Anderson	Former Senior Vice President and General Manager Grid Modernization
Alicia J. Moore	Senior Vice President, General Counsel and Secretary
Russell R. Harris	Former Senior Vice President of Operations

In the case of Mr. Anderson, who is a resident of Washington state, we reimbursed him for the California state income taxes pa continued this practice in 2014.

Q: What determinations were made for the Bonus Plan in 2014?

A: ***2014 Bonus Plan***. For 2014, we determined that the key imperatives for our Company continue to be to increase reven control spending and conserve cash. Consequently, the Compensation Committee approved a management bonus plan for 2014 achieving targets for revenue generation, gross margins and non-GAAP operating income or loss (NGOI), as well as reducing e operating plan. For purposes of the 2014 Bonus Plan, NGOI was calculated as our Company s actual net operating income or l

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2014, adjusted to remove stock-based compensation charges and charges related to the sale of the Grid Modernization portion o

In February 2014, the Compensation Committee approved a management bonus plan for 2014 (the 2014 Bonus Plan) pursua including the Named Executive Officers, were eligible to earn cash payments contingent upon the achievement of specified tar performance objectives.

The key features of the 2014 Bonus Plan were as follows:

For the Named Executive Officers, including our Chief Executive Officer, the 2014 Bonus Plan was directly linked to the rever and expense targets of our two divisions; and each participant s target bonus opportunity plan was based on the achievement o

Funding for the 2014 Bonus Plan was based on cash generated by exceeding the 2014 operating plan would pay out fully only after we achieved the cash balance defined by our 2014 annual operating pl

For our Chief Executive Officer, Ms. Moore, and Messrs. Slakey and Harris, 33.3% of their target bo Things revenue and contribution margin targets, 33.3% to Grid Modernization revenue, bookings an 33.3% to Shared Expenses targets.

For Mr. Anderson, our former Senior Vice President and General Manager, Grid Modernization, 33. was tied to revenue targets, 33.3% to bookings targets, and 33.3% to contribution margin targets for

Under the 2014 Bonus Plan, the total management bonus payout for our executive officers that could be earned was limited to a achievement except in Mr. Sege s case which was limited to a total of 150% of the target bonus per his employment agreemen

Target Bonus Opportunities. The 2014 target bonus opportunity for each of the Named Executive Officers was not changed fr relative to each such executive officer s total compensation and internal equity. The 2014 Bonus Plan design funded payouts f target set by the 2014 operating plan in place at the beginning of the year. Specific performance metrics for the participants var specific criteria from elements such as total revenue, revenue by focus area, bookings, NGOI, and cash reserve conservation.

Actual Bonus Decisions. At the end of 2014, our Company did not satisfy the target levels for the performance measures in 20 contribution were below 2014 Bonus Plan in the Grid Modernization business prior to its sale; revenue and contribution margin the business also missed achieving the targets. The expense reductions in the shared services component of the plan fell just sh Compensation Committee determined that no cash bonus would be paid out under the plan formula.

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The bonuses paid to the Named Executive Officers under the 2014 Bonus Plan were as follows:

Named Executive Officer	Title
Ronald A. Sege	Chairman of the Board, Chief Executive Officer and President
William R. Slakey	Executive Vice President and Chief Financial Officer
Michael T. Anderson	Former Senior Vice President and General Manager Grid Modernization
Alicia J. Moore	Senior Vice President, General Counsel and Secretary
Russell R. Harris	Former Senior Vice President of Operations

Q: ***What is the basis for equity awards?***

A: Equity awards are made under our 1997 Stock Plan, which was last approved by our stockholders at our 2013 annual m
for the grant of the following types of incentive awards:

- Stock options;
- Stock purchase rights;
- Stock appreciation rights (SARs);
- Restricted Stock Units (RSUs);
- Performance units and performance shares; and
- Restricted stock.

As of March 26, 2015, a total of 9,125,955 shares of our common stock were reserved for issuance under our 1997 Stock Plan,
to outstanding awards and 6,166,128 of such shares remaining available for new awards to be granted in the future.

Q. ***What forms of equity awards may our Company grant each year?***

A. The Compensation Committee regularly monitors equity compensation practices based upon data from Compensia and
changes to our equity compensation program to help us meet our goals, including achieving long-term stockholder value and en
use various equity vehicles to motivate, retain and reward long-term performance. Typically, we have granted stock options, pe
restricted stock awards, each of which carries a time-based vesting requirement.

Each year, the Compensation Committee approves an equity award for our executive officers, including the Named Executive
The Compensation Committee intends that equity awards granted under our 1997 Stock Plan provide an appropriate incentive f
with our Company and continue to perform well.

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Q: What decisions did the Compensation Committee make with respect to long-term incentive compensation in 2014?

A: In 2014, the Compensation Committee granted equity awards to the Named Executive Officers consisting of performar covering shares of our common stock. These RSUs were designed to motivate strong future performance by our executive offic increases if and as our common stock value appreciates. These awards, which were conditioned on achievement of specific per time-based vesting, were granted to meet our retention objectives for each executive officer.

In determining the amount of the 2014 equity awards for each of the Named Executive Officers, including our Chief Executive reviewed our most recent executive compensation analysis, as well as the current value of each executive officer s outstanding target multiplier of the executive officer s target annual cash compensation. In determining the amount of the 2014 equity awa the Compensation Committee also sought to reward and retain our most valuable contributors and reinforce our pay- for-perfor Compensation Committee reviewed the individual performance of each Named Executive Officer (other than our Chief Execut our Chief Executive Officer and based the amount of his or her award on this assessment as well as the individual s perceived Compensation Committee reviewed the individual performance of our Chief Executive Officer, following input on his perform (excluding our Chief Executive Officer).

The following equity awards were granted to the Named Executive Officers in June 2014 as part of the Company s annual gra

Name	Granted	Performance-based Earned and Vested (1)
Ronald A. Sege	100,000	28,333
William R. Slakey	55,000	15,583
Michael T. Anderson	30,000	--
Alicia J. Moore	30,000	8,500
Russell R. Harris	30,000	8,500

(1) Represents the number of shares earned and vested effective March 14, 2015.

(2) Represents the number of shares cancelled and forfeited because the Company did not fully meet each element of the cri Internet of Things and Marketing organizations.

In addition, in March 2014, Messrs. Anderson and Harris were awarded time-based RSUs for 45,000 shares and 25,000 shares,

Q: How does our Company determine grant dates for equity awards?

A: In May 2014, our Board of Directors and the Compensation Committee approved equity compensation grant guidelines equity awards to our employees, including our executive officers.

The equity compensation grant guidelines provide that awards will generally be granted on the 10th day of the calendar month (day is not a business day). The grant date of the award is also the date that the exercise price (determined as the closing price fo Stock Market) and vesting date(s) are set. Awards may be approved in advance of the grant date

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for that month. Generally, award approvals by the Compensation Committee will be made at an in-person or telephonic commi by unanimous written consent, the effective date of such written consent will be the date the last signature is obtained.

The guidelines apply to awards for both new and existing employees, including executive officers. The grant date for new emp the month following the date the award is approved, provided that the grant date cannot be prior to the employee s first day of that, in the case of the annual equity award to all or any subset of existing employees, the grant date will be the date of our Ann year, or such other date as determined by the Compensation Committee. In the case of awards to our executive officers (includi Company s insider trading window is not then open, the grant date shall be the day the insider trading window next opens.

The Compensation Committee has not granted, nor does it intend to grant in the future, equity awards in anticipation of the rele that is likely to result in changes to the price of our common stock, such as a significant positive or negative earnings announce Committee has not timed, nor does it intend to time in the future, the release of material nonpublic information based on equity

Q: How was the compensation for our Company s Chief Executive Officer and other Named Executiv

A: In February and May 2014, the Compensation Committee reviewed Mr. Sege s compensation, which was initially set b him and our Company. The employment agreement had provided for Mr. Sege s compensation for 2010 and 2011 to be $400,0 target bonus opportunity (prorated, in the case of 2010, for the period of time during which Mr. Sege was an employee of our C performance criteria to be established by the Compensation Committee.

The Compensation Committee determined that Mr. Sege had performed well in 2014, he was initiating necessary actions with r adverse market conditions were not within our control. Given the continued challenging market environment for our Company, determined not to make any changes to the level of Mr. Sege s compensation in 2014, and determined that the performance cri target bonus opportunity should be identical to the performance criteria applicable to the other Named Executive Officers, excl were limited to the Grid Modernization objectives only. The performance criteria, which are described in more detail above, w the contribution margins, and control spending. Mr. Sege s potential 2014 bonus was capped at 150% of his target bonus oppo employment agreement.

In February and May 2014, the Compensation Committee also reviewed the accomplishments, strengths and areas for growth o Slakey, Anderson, and Harris and Ms. Moore, and determined that each of these Named Executive Officers was performing we continued challenging market environment for our Company s products, the Compensation Committee determined not to mak compensation in 2014 for the Named Executive Officers.

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Q: Does our Company maintain stock ownership guidelines for its directors and executive officers?

A: Our Board of Directors adopted stock ownership guidelines applicable to our executive officers and non-employee direct directors who are not also executive officers of our Company are expected to own and hold shares of common stock of our Co $100,000. In addition, the following guidelines apply to our executive officers:

Position	Minimum Ownership Guideline
Chief Executive Officer	Shares with a value equal to five times bas
President, Chief Operating Officer, Chief Financial Officer	Shares with a value equal to three times ba
Senior Vice President	Lesser of 20,000 shares or shares with a va

The shares of our common stock that count towards satisfying the guidelines include:

Shares owned outright by the director or executive officer and his or her immediate family members household, whether held individually or jointly, and shares held in trust where the director or executi owner;

Shares owned outright and resulting from the exercise of stock options or SARs and the release of pe

Shares purchased in the open market.

Under current guidelines, our executive officers and non-employee directors are expected to achieve the above specified stock the August 2007 adoption date of the guidelines, in the case of individuals who were executive officers or non-employee direct the date of their appointment as a director or executive officer, in the case of new appointments. The Compensation Committee in 2015 in light of the divestiture of the Grid Modernization business and volatility of the Company s stock. Three of five non- Named Executive Officers exceed these stock ownership guidelines. Of the Named Executive Officers who currently do not ov guidelines, one, Mr. Anderson, is no longer an employee and three have not exhausted the time period within which to comply

Q: Does our Company offer other benefits and programs to our executive officers?

A: We offer a number of other benefits to our employees, including our executive officers, including vacation, medical, dent short-term disability insurance, life and accidental death and dismemberment insurance, health and dependent care flexible spe educational assistance, and employee assistance programs. We also maintain a tax-qualified 401(k) Plan, which provides for br Company does not offer matching for 401(k) Plan contributions, nor does our Company offer a pension program, except as ma

We believe that the availability of these benefits programs generally enhances employee productivity and loyalty to our Compa benefits programs are to give our employees access to quality healthcare, financial protection from unforeseen events, assistanc

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goals, and enhanced health and productivity. These generally available benefits typically do not specifically factor into decision total compensation or equity award package.

Q: Does our Company provide perquisites or other personal benefits?

A: Currently, we do not view perquisites or other personal benefits as a significant component of our executive compensatio provide perquisites to our executive officers, except in limited situations where we believe it is appropriate to assist an individu duties, to make our executive officers more efficient and effective, and for recruitment and retention purposes.

In the future, we may provide perquisites or other personal benefits in limited circumstances, such as where we believe it is app executive officer in the performance of his or her duties, to make our executive officers more efficient and effective, and for rec purposes. All future practices with respect to perquisites or other personal benefits will be approved and subject to periodic rev

Q: Does our Company maintain any employment arrangements with our Named Executive Officers?

A: ***Chief Executive Officer***. Effective August 19, 2010, Mr. Sege entered into an employment agreement with our Company Mr. Sege under the employment agreement is described above, and his post- employment compensation arrangements are desc either terminate Mr. Sege s employment for any reason other than cause or Mr. Sege resigns for good reason (either even subject to his execution of a release of claims in favor of our Company which subsequently becomes effective, he will be entitl equal to the sum of 12 months of his then-current base salary plus an amount equal to the pro-rata portion of his then-current ta COBRA reimbursement; and (c) 12 months vesting acceleration of his then outstanding and unvested equity awards other than stock award. Under Mr. Sege s employment agreement, in the event our Company experiences a change in control and he is su (not for cause) during the three month period prior to the change in control or following the change in control, then subject to h favor of our Company that subsequently becomes effective, he would be entitled to receive: (x) a lump sum payment equal to 1 annual bonus (based on the average annual bonus paid over the last two years or the current target annual bonus, whichever is h COBRA reimbursement; and (z) 100% vesting acceleration of outstanding and unvested equity awards (including at the target unvested performance-based awards).

Chief Financial Officer. We entered into a letter agreement with Mr. Slakey with respect to his appointment as Executive Vice Officer, which became effective on November 7, 2011. The compensation payable to Mr. Slakey under this letter agreement is Compensation and Related Matters section of this Proxy Statement. Mr. Slakey is also eligible for the change in control paym

Other Named Executive Officers. On August 7, 2013, the Compensation Committee approved our Company entering into indi certain individuals reporting to our Chief Executive Officer with operational responsibility over particular critical functions inc Officers. Pursuant to this authorization, our Company entered into agreements with the following individuals:

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Name	Title
William R. Slakey	Executive Vice President and Chief Finan
Michael T. Anderson	Former Senior Vice President and Genera
Alicia J. Moore	Senior Vice President, General Counsel a
Russell R. Harris	Former Senior Vice President of Operatio

Each of these agreements has a term of four years, which renew automatically for additional two year periods, and provide seve event of non-fault involuntary terminations, or 12 months in the event of a change in control of our Company, respectively, in e of a release and continued compliance with our Company s proprietary information agreement. The severance benefits include equal to twice the monthly COBRA premium that would be required to continue group health, dental and vision coverage. Non Officers is a party to any other employment or comparable agreement.

Q: Does our Company provide any of its Named Executive Officers with change in control benefits?

A: In June 2008, our Board of Directors approved modifications to the forms of equity award agreements under our 1997 Sto within 12 months following a change in control of our Company, an employee of our Company or our subsidiaries at the level o to an involuntary (not for cause) termination within the meaning of our 1997 Stock Plan, then certain equity awards of that emp Board of Directors made this decision to reflect common practice among comparable situated companies in the Silicon Valley, and input from our Company s outside counsel.

Q: What is the tax and accounting treatment of our executive compensation?

A: ***Section 162(m)***

Section 162(m) of the Code generally disallows a tax deduction to a public corporation for compensation in excess of $1 millio executive officer or any of the three other most highly compensated executive officers (other than its chief financial officer). Co performance-based compensation is not subject to this deduction limit if certain requirements are met. Our 1997 Stock Plan Company to pay compensation in excess of $1 million per year to our executive officers without compromising the deductibilit Section 162(m). However, the Compensation Committee retains the flexibility to pay compensation to senior executives based that doing so is in the stockholders interests. Our Company does not guarantee that compensation intended to qualify as perfo Section 162(m) so qualifies. Tax deductibility of executive compensation is one of the many factors the Compensation Commit compensation each year. From time to time, the Compensation Committee may, in its judgment, approve compensation for our comply with an exemption from the deductibility limit when it believes that such compensation is in the best interests of our Co

Section 409A

Section 409A of the Code imposes a penalty tax on nonqualified deferred compensation that fails to satisfy the requirements of deferral elections, timing of payments and

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certain other matters. Accordingly, as a general matter, our Company attempts to structure its compensation and benefits plans employees, including the Named Executive Officers, so that they are either exempt from, or satisfy the requirements of, Sectio guarantee that its benefits plans and arrangements all satisfy the requirements of Section 409A.

Accounting Treatment

We account for stock-based compensation in accordance with the requirements of ASC 718. We also take into consideration A accounting principles in determining changes to policies and practices for our stock-based compensation programs.

Compensation Committee Report

The information contained in this report shall not be deemed to be soliciting material or filed with the SEC or subject to Securities Exchange Act of 1934, as amended, except to the extent that Echelon specifically incorporates it by reference into a Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis for fi discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Ana Statement for its 2015 Annual Meeting of Stockholders.

This report is submitted by the Compensation Committee of the Board of Directors of Echelon.

Compensation Committee

Betsy Rafael, Chairperson
Armas Clifford Markkula, Jr.
Richard M. Moley

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Summary Compensation Table

The following table shows compensation information for the fiscal years ended December 31, 2014, December 31, 2013 and D
Executive Officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Grants ($) (1)	Non-Equity Incentive Plan Compensation ($)
Ronald A. Sege (2)	2014	400,000		246,000		
Chairman of the Board, Chief	2013	400,000		71,100	170,517	323,006
Executive Officer and President	2012	400,000		118,875	278,235	
William R. Slakey (3)	2014	312,000		135,300		
Executive Vice President and	2013	312,000		49,770	119,362	100,778
Chief Financial Officer	2012	312,000		65,144	152,473	
Michael T. Anderson (4)	2014	243,750	100,000 (5)	220,050		
Former Senior Vice President	2013	325,000		52,140	125,046	42,013
and General Manager, Grid Modernization	2012	325,000		77,031	180,296	
Russell R. Harris (9)	2014	345,000		155,050		
Former Senior Vice	2013	345,000		45,030	107,994	44,010
President, Operations	2012	345,000		57,377	134,295	
Alicia J. Moore (11)	2014	305,000	65,000 (5)	73,800		
Senior Vice President,	2013	139,792		100,800	242,649	
General Counsel and Secretary	2012					

(1) Amounts shown do not reflect compensation actually received by the Named Executive Officers. Instead, the amounts sho
stock awards (disregarding an estimate of forfeitures) as determined in accordance with FASB ASC Topic 718, which wer
purposes. The assumptions used in the valuation of these awards are set forth in the notes to our consolidated financial stat
Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 12, 2015. These amoun
values that will be recognized by the Named Executive Officers.

(2) Mr. Sege has served as President and Chief Executive Officer of Echelon (the Principal Executive Officer or PEO) a
2010. See *Executive Compensation and Related Matters Compensation Discussion and Analysis* and *Potential Pay
Control* for a description of the material terms of Mr. Sege s employment agreement.

(3) Mr. Slakey has served as Executive Vice President and Chief Financial Officer of Echelon since November 7, 2011.

(4) Mr. Anderson served as Senior Vice President and General Manager Grid Modernization until September 30, 2014.

(5) The Compensation Committee approved certain cash bonus awards to Mr. Anderson and Ms. Moore, respectively in recog
in closing the divestiture of the Grid Modernization business and acquisition of Lumewave.

(6) Represents (i) $4,266 in grossed-up reimbursement in 2014 for California income taxes paid by Mr. Anderson in 2013 and
and $37,955 in COBRA payments following Mr. Anderson s termination of employment, of which $93,902 was paid in 2
pursuant to the terms of the severance agreement.

(7) Represents grossed-up reimbursement in 2013 for California income taxes paid by Mr. Anderson in 2012.

(8) Represents grossed-up reimbursement in 2012 for California income taxes paid by Mr. Anderson in 2011.

(9) Mr. Harris served as Senior Vice President, Operations until March 16, 2015.

(10) Represents length of service award payment.

(11) Ms. Moore has served as Senior Vice President, General Counsel and Secretary since July 15, 2013.

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Grants of Plan-Based Awards in 2014

The following table presents information concerning each grant of an award made to a Named Executive Officer in fiscal 2014
were granted under our 1997 Stock Plan.

Name	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)
Ronald A. Sege	02/03/2014	02/03/2014		400,000	600,000		
	06/10/2014	05/21/2014				100,000 (2)	
William R. Slakey	02/03/2014	02/03/2014		124,800	249,600		
	06/10/2014	05/21/2014				55,000 (2)	
Michael T. Anderson	02/03/2014	02/03/2014		150,000	300,000		
	03/10/2014	03/10/2014				45,000 (3)	
	06/10/2014	05/21/2014				30,000 (2)	
Russell R. Harris	02/03/2014	02/03/2014		54,500	109,000		
	03/10/2014	03/10/2014				25,000 (4)	
	06/10/2014	05/21/2014				30,000 (2)	
Alicia J. Moore	02/03/2014	02/03/2014		95,000	190,000		
	06/10/2014	05/21/2014				30,000 (2)	

(1) The amount shown reflects the grant date fair value of each equity award computed in accordance with FASB ASC Topic 7
forfeitures). The assumptions used in the valuation of these awards are set forth in the notes to our consolidated financial sta
Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on March 12, 2015. These amounts
that will be recognized by the Named Executive Officers upon exercise or sale of such award.

(2) The amount shown reflects a performance share grant, which vests as to 100% of such shares on March 14, 2015 subject to
criteria.

(3) The amount shown reflects a performance share grant, which was to vest as to 100% of such shares on March 10, 2015. Mr.
Company terminated on September 30, 2014 and he did not vest in any of the shares.

(4) The amount shown reflects a performance share grant, which vested as to 100% of such shares on March 10, 2015.

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Outstanding Equity Awards at 2014 Fiscal Year-End

The table below shows all outstanding equity awards held by the Named Executive Officers at the end of our fiscal year ended
granted under our 1997 Stock Plan.

		Option Awards					S	
		Number of Securities Underlying Unexercised Options (#)						
Name	Grant Date	Exercisable	Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market of Sha or Units of That Ha Vest (22)
Ronald A. Sege	8/19/2010	250,000 (1)			7.46	8/19/2017		
	6/11/2012	75,000 (2)	75,000 (2)		3.17	6/11/2022		
	6/10/2013	30,000 (3)	90,000 (3)		2.37	6/10/2023		
	8/10/2011						25,000 (4)	42,5
	6/11/2012						18,750 (5)	31,8
	6/10/2013						22,500 (6)	38,2
	8/19/2010							
	6/10/2014							
William R. Slakey	11/10/2011	75,000 (9)	25,000 (9)		5.53	11/10/2016		
	6/11/2012	41,100 (2)	41,100 (2)		3.17	6/11/2022		
	6/10/2013	21,000 (3)	63,000 (3)		2.37	6/10/2023		
	11/10/2011						12,500 (10)	21,2
	6/11/2012						10,274 (11)	17,4
	6/10/2013						15,750 (12)	26,7
	11/10/2011							
	6/10/2014							
Michael T. Anderson (14)								
Russell R. Harris	6/11/2012	36,200 (2)	36,200 (2)		3.17	6/11/2022		
	6/10/2013	19,000 (3)	57,000 (3)		2.37	6/10/2023		
	8/10/2011						3,750 (15)	6,3
	6/11/2012						9,050 (16)	15,3
	6/10/2013						14,250 (17)	24,2

	3/10/2014					25,000 (18)	42,5
	8/24/2010						
	6/10/2014						
Alicia J. Moore	8/12/2013	45,000 (20)	135,000 (20)	2.24	8/12/2023		
	8/12/2013					33,750 (21)	57,3
	6/10/2014						

(1) This SAR is subject to vesting at the rate of one-fourth of the shares on August 19, 2011 and each one-year anniversary ther
employment with our Company.

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(2) This stock option is subject to vesting at the rate of one-fourth of the shares on June 11, 2013 and each one-year anniversa employment with our Company.
(3) This stock option is subject to vesting at the rate of one-fourth of the shares on June 10, 2014 and each one-year anniversa employment with our Company.
(4) This performance share grant was originally for 100,000 shares and subject to vesting at the rate of one-fourth of the share one-year anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 75,000 o released.
(5) This performance share grant was originally for 37,500 shares and subject to vesting at the rate of one-fourth of the shares anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 18,750 of such per
(6) This performance share grant was originally for 30,000 shares and subject to vesting at the rate of one-fourth of the shares anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 7,500 of such perf
(7) This performance-based restricted stock award was originally for 125,000 shares and vests as to 50% of the shares only if Company through August 19, 2011 and only if our Company reports four consecutive quarters of cumulative non-GAAP grant and on or prior to April 1, 2015. The remaining 50% of the shares will vest only if Mr. Sege remains employed with 2012 and only if our Company reports a completed fiscal year with a specified non-GAAP operating profit following the 2015. On May 10, 2012, it was determined that our Company had achieved four consecutive quarters of cumulative non-C December 31, 2014, 62,500 of such shares of restricted stock have vested.
(8) This performance share grant vests as to 100% of the shares on March 14, 2015, subject to the satisfaction of certain perfo
(9) This SAR is subject to vesting at the rate of one-fourth of the shares on November 10, 2012 and each one-year anniversary employment with our Company.
(10) This performance share grant was originally for 50,000 shares and subject to vesting at the rate of one-fourth of the shares one-year anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 37,500 o released.
(11) This performance share grant was originally for 20,550 shares and subject to vesting at the rate of one-fourth of the shares anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 10,276 of such per
(12) This performance share grant was originally for 21,000 shares and subject to vesting at the rate of one-fourth of the shares anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 5,250 of such perf
(13) This performance share grant is subject to vesting at the rate of one-fourth of the shares on November 10, 2012 and each c to continued employment with our Company; provided, however, that vesting is subject to the following additional perfor vest only if our Company reports four consecutive quarters of cumulative non- GAAP operating profit following the date The remaining 50% of the shares will vest only if our Company reports a completed fiscal year with a specified non-GAA of grant on or prior to April 1, 2015.
(14) As a result of termination of Mr. Anderson s employment with our Company on September 30, 2014, he did not hold any December 31, 2014.
(15) This performance share grant was originally for 15,000 shares and subject to vesting at the rate of one-fourth of the shares one-year anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 11,250 o released.
(16) This performance share grant was originally for 18,100 shares and subject to vesting at the rate of one-fourth of the shares anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 9,050 of such perf
(17) This performance share grant was originally for 19,000 shares and subject to vesting at the rate of one-fourth of the shares anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 4,750 of such perf
(18) This performance share grant vested as to 100% of the shares on March 10, 2015.
(19) This performance share grant was originally for 35,000 shares and vests as to 50% of the shares only if Mr. Harris remain the first anniversary of the grant date and only if our Company reports four consecutive quarters of cumulative non-GAAI grant on or prior to April 1, 2015. The remaining 50% of the shares will vest only if Mr. Harris remains employed with ou and only if our Company reports a completed fiscal year with a specified non-GAAP operating profit following the date o May 10, 2012, it was determined that our Company had achieved four consecutive quarters of cumulative non-GAAP ope 2014, 17,500 of such performance shares have been released.

(20) This stock option is subject to vesting at the rate of one-fourth of the shares on August 12, 2014 and each one-year anniver
employment with our Company.

(21) This performance share grant was originally for 45,000 shares and subject to vesting at the rate of one-fourth of the shares
one-year anniversary thereafter, subject to continued employment with our Company. As of December 31, 2014, 11,250 o
released.

(22) The market value is based on the $1.70 per share closing price of our common stock on December 31, 2014, the last mark

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Option Exercises and Stock Vested for Fiscal 2014

The table below shows all stock options and SARs exercised and value realized upon exercise, and all stock awards vested and
Named Executive Officers during the fiscal year ended December 31, 2014.

	Option Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**
Ronald A. Sege		
William R. Slakey		
Michael T. Anderson		
Russell R. Harris		
Alicia J. Moore		

(1) The value realized equals the fair market value of our common stock on the date of vesting, multiplied by the number of

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Potential Payments Upon Termination or Change in Control

The following table provides information concerning the estimated payments and benefits that would have been provided to eac
the event of termination in the regular course of business or termination in connection with a change in control, assuming a tern
See *Executive Compensation and Related Matters Compensation Discussion and Analysis* for a description of Mr. Sege s e
change in control and severance agreements entered into with the other Named Executive Officers.

w

Ronald A. Sege
Salary
Annual Incentive Bonus
Vesting Acceleration on Equity Awards (1)
Reimbursement for Premiums Paid for Continued Health Benefits (2)
Total Termination Benefits
William R. Slakey
Salary
Vesting Acceleration on Equity Awards (1)
Reimbursement for Premiums Paid for Continued Health Benefits (3)
Total Termination Benefits
Russell R. Harris
Salary
Vesting Acceleration on Equity Awards (1)
Reimbursement for Premiums Paid for Continued Health Benefits (3)
Total Termination Benefits
Alicia J. Moore
Salary
Vesting Acceleration on Equity Awards (1)
Reimbursement for Premiums Paid for Continued Health Benefits (3)
Total Termination Benefits

(1) Based on the aggregate market value of unvested SARs, stock options, shares of restricted stock and performance shares
took place on the last business day of fiscal 2014 (December 31, 2014), and the price per share of Echelon s common st
NASDAQ Global Select Market as of that date ($1.70). Aggregate market value for SARs and stock options is computed
between $1.70 and the stated exercise price of the SAR or the stock option, by (ii) the number of shares underlying unve
December 31, 2014. Aggregate market value for shares of restricted stock and performance shares is computed by multip
of restricted stock or the number of shares underlying unvested performance shares at December 31, 2014. There can be
would produce the same or similar results as those estimated if such event occurs on any other date or at any other price,

estimate potential payments and benefits is not correct. Due to the number of factors that affect the nature and amount of
any actual payments and benefits may be different.

(2) Assumes continued coverage of health benefits for eighteen months for Mr. Sege, his spouse and dependents at the same
December 31, 2014.

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(3) Represents twice the monthly COBRA premium in effect at December 31, 2014, payable for nine months not in connect
twelve months in connection with a change in control.

Compensation Committee Interlocks and Insider Participation

During fiscal 2014, the following directors were members of Echelon s Compensation Committee: Armas Clifford Markkula, None of these directors has at any time been an officer or employee of Echelon. None of Echelon s executive officers serves, c member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving Compensation Committee.

Equity Compensation Plan Information

The following table provides information as of December 31, 2014 about our equity compensation plans under which shares of employees, consultants or members of our Board of Directors:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted av exercise pri outstanding o warrants a rights
Equity compensation plans approved by security holders (1)	3,890,220	$	2.2
Equity compensation plans not approved by security holders			
Total	3,890,220	$	2.2

(1) Consists of securities issuable under our 1997 Stock Plan.

(2) The weighted average exercise price reflects the issuance of 1,293,429 performance shares, for which no consideration v weighted average exercise price for the remaining securities to be issued upon exercise of outstanding options, warrants

Policies and Procedures with Respect to Related Party Transactions

Our Corporate Governance Guidelines require our directors to take a proactive, focused approach to their position and to set sta committed to business success through the maintenance of the highest standards of responsibility and ethics. Thus, our Board o the highest legal and ethical conduct in fulfilling its responsibilities and recognizes that related party transactions can present he conflicts of interest. Accordingly, as a general matter, it is Echelon s preference to avoid related party transactions.

The charter of our Audit Committee requires that the members of the Audit Committee, all of whom are independent directors, related party transactions for which approval is required under applicable law. Current SEC rules define a related party transact arrangement or relationship in which our Company is a participant and in which any of the following persons has or will have a

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- an executive officer, director or director nominee of Echelon;
- any person who is known to be the beneficial owner of more than 5% of our common stock;
- any person who is an immediate family member (as defined in Item 404 of Regulation S-K) of an executive of beneficial owner of more than 5% of our common stock; and
- any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or princ such person, together with any other of the foregoing persons, has a 5% or greater beneficial ownership interes

Certain Relationships

Agreements with ENEL

In June 2000, we entered into a stock purchase agreement with Enel pursuant to which Enel purchased 3.0 million newly issued $130.7 million. The closing of this stock purchase occurred on September 11, 2000. At the closing, Enel had agreed that it wou circumstances, sell or otherwise transfer any of those shares for a specified time period. That time period expired September 11 not disposed of any of its 3.0 million shares. Under the terms of the stock purchase agreement, Enel has the right to nominate a representative of Enel is not presently serving on our Board of Directors; however, Livio Gallo, a representative of Enel, served June 30, 2011 until his resignation from our Board of Directors on March 14, 2012.

At the time we entered into the stock purchase agreement with Enel, we also entered into a research and development agreemen Agreement). Under the terms of the R&D Agreement, we cooperated with Enel to integrate our LONWORKS technology into project in Italy, the Contatore Elettronico. We completed the sale of our components and products for the deployment phase of during 2005. During 2006, we supplied Enel and its designated manufacturers with limited spare parts for the Contatore Elettro entered into a new development and supply agreement and a software enhancement agreement with Enel. Under the developme contract manufacturers purchase additional electronic components and finished goods from us. Under the software enhancemen enhancements to Enel for use in its Contatore Elettronico system. The software enhancement agreement expired in December 2 agreement has been extended through December 2015.

OTHER INFORMATION

Section 16(a) Beneficial Ownership Reporting Information

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors and persons who o class of our equity securities to file certain reports with the SEC regarding ownership of, and transactions in, our securities. Suc stockholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file.

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Based solely on our review of such forms furnished to us and written representations from certain reporting persons, we believe to our executive officers, directors and more than 10% stockholders were complied with during the fiscal year ended December

Anti-Hedging and Anti-Pledging Policies

Our insider trading policy prohibits our directors and executive officers from hedging and pledging securities of our Company.

No Incorporation by Reference

In Echelon s filings with the SEC, information is sometimes incorporated by reference. This means that we are referring yo filed with the SEC and the information should be considered as part of the particular filing. As provided under SEC regulations our Board of Directors and the Compensation Committee Report contained in this Proxy Statement specifically are not inc SEC. In addition, this Proxy Statement includes several website addresses. These website addresses are intended to provide ina information on these websites is not part of this Proxy Statement.

Stockholder Proposals 2016 Annual Meeting

Stockholders may present proposals for action at a future meeting if they comply with SEC rules and Echelon s Bylaws. For a submitting proposals, see *Deadline for Receipt of Stockholder Proposals* in this Proxy Statement above. If you would like a Bylaws, please contact: Alicia J. Moore, Senior Vice President, General Counsel and Secretary, Echelon Corporation, 550 Mer 95126.

Available Information

You may obtain a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 without charge by se Corporation, 550 Meridian Avenue, San Jose, California 95126, Attention: Investor Relations. The annual report is also availa SEC s website at www.sec.gov.

REPORT OF THE AUDIT COMMITTEE OF OUR BOARD OF DIRECTORS

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, this report of the Audit Co shall not be deemed filed with the SEC or soliciting material under the Securities Exchange Act of 1934, as amended, an reference into any such filings.

The Audit Committee of our Board of Directors serves as the representative of our Board of Directors for general oversight of process, system of internal control, audit process, and process for monitoring compliance with laws and regulations. Our mana preparing our financial statements and our financial reporting process. Our independent registered public accounting firm, KP an opinion on the conformity of our fiscal year 2014 audited financial statements to generally accepted accounting principles. I hereby reports as follows:

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1. The Audit Committee has reviewed and discussed the audited financial statements with our management, including a di acceptability of the financial reporting, the reasonableness of significant accounting judgments and estimates and the clarity of In connection with this review and discussion, the Audit Committee asked a number of follow-up questions of management and Committee comfort in connection with its review.

2. The Audit Committee has discussed with KPMG LLP the matters required to be discussed by the Statement on Auditing adopted by the Public Company Accounting Oversight Board in Rule 3200T.

3. The Audit Committee has received the written disclosures and the letter from KPMG LLP required by applicable requir Accounting Oversight Board regarding KPMG LLP s communications with the Audit Committee concerning independence, a independence of KPMG LLP.

4. Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommende audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, for

Our Board of Directors has adopted a written charter for the Audit Committee, a copy of which can be viewed at the investor re www.echelon.com. Each of the members of the Audit Committee is independent as defined under the NASDAQ listing standar

Audit Committee

Robert J. Finocchio, Jr., Ch
Robert R. Maxfield
Betsy Rafael

OTHER MATTERS

As of the date hereof, our Board of Directors is not aware of any other matters to be submitted at the annual meeting. If any oth meeting, it is the intention of the persons named as proxies to vote the shares they represent as our Board of Directors recomme advisable.

THE BOARD OF DIRECT

San Jose, California

April 8, 2015

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