

ANI PHARMACEUTICALS INC
Form 10-Q
November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number 001-31812

ANI PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware

58-2301143

(State or other jurisdiction of

(IRS Employer Identification Number)

incorporation or organization)

210 Main Street West

Baudette, Minnesota

(Address of principal executive offices)

(218) 634-3500

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO "

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES x NO "

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

Large accelerated filer " Accelerated filer x

Non-accelerated filer " Smaller reporting company "

Emerging growth company "

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

As of October 30, 2018, there were 11,846,735 shares of common stock and 10,864 shares of class C special stock of the registrant outstanding.

ANI PHARMACEUTICALS, INC.

FORM 10-Q — Quarterly Report

For the Quarterly Period Ended September 30, 2018

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Exchange Act. Such statements include, but are not limited to, statements about future operations, products, financial position, operating results, prospects, pipeline or potential markets therefor, and other statements that are not historical in nature, particularly those that utilize terminology such as "anticipates," "will," "expects," "plans," "potential," "future," "believes," "intends," "continue," other words of similar meaning, derivations of such words, and the use of future dates.

Uncertainties and risks may cause our actual results to be materially different than those expressed in or implied by such forward-looking statements. Uncertainties and risks include, but are not limited to, the risk that we may face with respect to importing raw materials, increased competition, acquisitions, contract manufacturing arrangements, delays or failure in obtaining product approvals from the U.S. Food and Drug Administration ("FDA"), general business and economic conditions, market trends, product development, regulatory, and other approvals and marketing.

These factors should not be construed as exhaustive and should be read in conjunction with our other disclosures, including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2017, including the factors described in "Item 1A. Risk Factors." Other risks may be described from time to time in our filings made under the securities laws, including our quarterly reports on Form 10-Q and our current reports on Form 8-K. New risks emerge from time to time. It is not possible for our management to predict all risks. The forward-looking statements contained in this document are made only as of the date of this document. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

NOTE REGARDING TRADEMARKS

Cortenema®, Cortrophin® Gel, Cortrophin-Zinc®, Inderal® LA, Inderal® XL, InnoPran XL®, Lithobid®, Reglan®, and Vancocin® are registered trademarks subject to trademark protection and are owned by ANI Pharmaceuticals, Inc. and its consolidated subsidiaries. Atacand® and Atacand HCT® are the property of AstraZeneca AB and are licensed to ANI Pharmaceuticals, Inc. for U.S. sales of those products. Arimidex® and Casodex® are the property of AstraZeneca UK Limited and are licensed to ANI Pharmaceuticals, Inc. for U.S. sales of those products.

ANI PHARMACEUTICALS, INC. AND SUBSIDIARIES**Condensed Consolidated Balance Sheets***(in thousands, except share and per share amounts)**(unaudited)*

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 44,136	\$ 31,144
Accounts receivable, net of \$50,603 and \$34,686 of adjustments for chargebacks and other allowances at September 30, 2018 and December 31, 2017, respectively	67,647	58,788
Inventories, net	40,006	37,727
Prepaid income taxes, net	-	1,162
Prepaid expenses and other current assets	5,004	2,784
Total Current Assets	156,793	131,605
Property and equipment, net	37,418	20,403
Restricted cash	5,014	5,006
Deferred tax assets, net of deferred tax liabilities and valuation allowance	25,082	22,667
Intangible assets, net	209,544	229,790
Goodwill	4,180	1,838
Other long-term assets	1,412	829
Total Assets	\$ 439,443	\$ 412,138
Liabilities and Stockholders' Equity		
Current Liabilities		
Current component of long-term borrowing, net of deferred financing costs	\$ 5,692	\$ 3,353
Accounts payable	7,257	3,630
Accrued expenses and other	2,818	1,571
Accrued royalties	7,455	12,164
Accrued compensation and related expenses	2,773	2,306
Current income taxes payable, net	318	-
Accrued government rebates	9,014	7,930
Returned goods reserve	10,840	8,274
Deferred revenue	735	-
Total Current Liabilities	46,902	39,228
Long-term Liabilities		
Long-term borrowing, net of deferred financing costs and current borrowing component	65,954	69,946
Convertible notes, net of discount and deferred financing costs	134,122	128,208
Total Liabilities	\$ 246,978	\$ 237,382

Commitments and Contingencies (Note 12)

Stockholders' Equity

Common Stock, \$0.0001 par value, 33,333,334 shares authorized; 11,857,914 shares issued and 11,846,735 shares outstanding at September 30, 2018; 11,655,768 shares issued and 11,650,565 outstanding at December 31, 2017	1	1
Class C Special Stock, \$0.0001 par value, 781,281 shares authorized; 10,864 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	-	-
Preferred Stock, \$0.0001 par value, 1,666,667 shares authorized; 0 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	-	-
Treasury stock, 11,179 shares of common stock, at cost, at September 30, 2018 and 5,203 shares of common stock, at cost, at December 31, 2017	(659)	(259)
Additional paid-in capital	186,532	179,020
Retained earnings/(accumulated deficit)	6,058	(4,006)
Accumulated other comprehensive income, net of tax	533	-
Total Stockholders' Equity	192,465	174,756
Total Liabilities and Stockholders' Equity	\$ 439,443	\$ 412,138

The accompanying notes are an integral part of these condensed consolidated financial statements.

ANI PHARMACEUTICALS, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Operations***(in thousands, except per share amounts)**(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Revenues	\$ 50,703	\$ 48,164	\$ 144,454	\$ 129,556
Operating Expenses:				
Cost of sales (excluding depreciation and amortization)	15,605	21,078	52,891	58,586
Research and development	4,667	2,634	11,906	6,419
Selling, general, and administrative	11,769	8,022	30,687	22,695
Depreciation and amortization	8,548	7,099	25,056	20,906
Total Operating Expenses	40,589	38,833	120,540	108,606
Operating Income	10,114	9,331	23,914	20,950
Other Expense, net				
Interest expense, net	(3,768)	(3,052)	(11,132)	(9,009)
Other income/(expense), net	20	95	(71)	58
Income Before Provision for Income Taxes	6,366	6,374	12,711	11,999
Provision for income taxes	(1,329)	(1,654)	(2,647)	(3,446)
Net Income	\$ 5,037	\$ 4,720	\$ 10,064	\$ 8,553
Basic and Diluted Earnings Per Share:				
Basic Earnings Per Share	\$ 0.43	\$ 0.41	\$ 0.85	\$ 0.74
Diluted Earnings Per Share	\$ 0.42	\$ 0.40	\$ 0.85	\$ 0.73
Basic Weighted-Average Shares Outstanding	11,706	11,553	11,659	11,542
Diluted Weighted-Average Shares Outstanding	11,804	11,677	11,767	11,666

The accompanying notes are an integral part of these condensed consolidated financial statements.

ANI PHARMACEUTICALS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2018	2017	2018	2017
Net income	\$ 5,037	\$ 4,720	\$ 10,064	\$ 8,553
Other comprehensive income, net of tax:				
Change in fair value of interest rate swap, net of tax	317	-	533	-
Total other comprehensive income, net of tax	317	-	533	-
Total comprehensive income, net of tax	\$ 5,354	\$ 4,720	\$ 10,597	\$ 8,553

The accompanying notes are an integral part of these condensed consolidated financial statements.

ANI PHARMACEUTICALS, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Cash Flows***(in thousands)**(unaudited)*

	Nine Months Ended September	
	30,	
	2018	2017
Cash Flows From Operating Activities		
Net income	\$ 10,064	\$ 8,553
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Stock-based compensation	4,954	4,668
Deferred taxes	(2,581)	(4,602)
Depreciation and amortization	25,056	20,906
Acquired in-process research and development ("IPR&D")	1,335	-
Non-cash interest relating to convertible notes and loan cost amortization	6,392	5,723
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,548)	(16,279)
Inventories, net	118	4,605
Prepaid expenses and other current assets	(1,769)	(1,365)
Accounts payable	2,250	2,078
Accrued royalties	(4,709)	(840)
Accrued compensation and related expenses	(194)	378
Current income taxes, net	1,480	(4,450)
Accrued government rebates	1,084	(136)
Returned goods reserve	2,566	2,561
Accrued expenses and other	1,344	1,814
Net Cash and Cash Equivalents Provided by Operating Activities	39,842	23,614
Cash Flows From Investing Activities		
Acquisition of WellSpring Pharma Services Inc., net of cash acquired	(17,067)	-
Acquisition of product rights, IPR&D, and other related assets	(5,169)	(50,956)
Acquisition of property and equipment, net	(4,736)	(6,922)
Net Cash and Cash Equivalents Used in Investing Activities	(26,972)	(57,878)
Cash Flows From Financing Activities		
Payment of debt issuance costs	(153)	-
Payments on term loan agreement	(1,875)	-
Net borrowings under line of credit agreement	-	25,000
Proceeds from stock option exercises	2,817	191
Treasury stock purchases for restricted stock vestings	(659)	(259)

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Net Cash and Cash Equivalents Provided by Financing Activities	130	24,932
Change in Cash, Cash Equivalents, and Restricted Cash	13,000	(9,332)
Cash, cash equivalents, and restricted cash, beginning of period	36,150	32,367
Cash, cash equivalents, and restricted cash, end of period	\$ 49,150	\$ 23,035
Reconciliation of cash, cash equivalents, and restricted cash, beginning of period		
Cash and cash equivalents	31,144	27,365
Restricted cash	5,006	5,002
Cash, cash equivalents, and restricted cash, beginning of period	36,150	32,367
Reconciliation of cash, cash equivalents, and restricted cash, end of period		
Cash and cash equivalents	44,136	18,031
Restricted cash	5,014	5,004
Cash, cash equivalents, and restricted cash, end of period	49,150	23,035
Supplemental disclosure for cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 3,763	\$ 2,197
Cash paid for income taxes	\$ 3,890	\$ 12,493
Supplemental non-cash investing and financing activities:		
Property and equipment purchased and included in accounts payable	\$ 110	\$ 354

The accompanying notes are an integral part of these condensed consolidated financial statements.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS

Overview

ANI Pharmaceuticals, Inc. and its consolidated subsidiaries, ANIP Acquisition Company and ANI Pharmaceuticals Canada Inc. (together, “ANI,” the “Company,” “we,” “us,” or “our”) is an integrated specialty pharmaceutical company focused on delivering value to our customers by developing, manufacturing, and marketing high quality branded and generic prescription pharmaceuticals. We focus on niche and high barrier to entry opportunities including controlled substances, anti-cancer (oncolytics), hormones and steroids, and complex formulations. Our three pharmaceutical manufacturing facilities, of which two are located in Baudette, Minnesota and one is located in Oakville, Canada are capable of producing oral solid dose products, as well as semi-solids, liquids and topicals, controlled substances, and potent products that must be manufactured in a fully-contained environment. Our strategy is to use our assets to develop, acquire, manufacture, and market branded and generic specialty prescription pharmaceuticals. By executing this strategy, we believe we will be able to continue to grow our business, expand and diversify our product portfolio, and create long-term value for our investors.

On August 6, 2018, our subsidiary, ANI Pharmaceuticals Canada Inc. (“ANI Canada”), acquired all the issued and outstanding equity interests of WellSpring Pharma Services Inc. (“WellSpring”), a Canadian company that performs contract development and manufacturing of pharmaceutical products for a purchase price of \$18.0 million, subject to certain customary adjustments. Subject to further adjustments, the estimated consideration was \$17.3 million. The consideration was paid entirely from cash on hand. In conjunction with the transaction, we acquired WellSpring’s pharmaceutical manufacturing facility, laboratory, and offices, its current book of commercial business, as well as an organized workforce. Following the consummation of the transaction, WellSpring was merged into ANI Canada with the resulting entity’s name being ANI Pharmaceuticals Canada Inc.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In our opinion, the accompanying unaudited interim condensed consolidated financial statements include all adjustments, consisting of

normal recurring adjustments, which are necessary to present fairly our financial position, results of operations, comprehensive income/(loss), and cash flows. The consolidated balance sheet at December 31, 2017, has been derived from audited financial statements of that date. The unaudited interim condensed consolidated results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to instructions, rules, and regulations prescribed by the United States Securities and Exchange Commission. We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited interim condensed consolidated financial statements are read in conjunction with the audited financial statements and notes previously distributed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation

The unaudited interim condensed consolidated financial statements include the accounts of ANI Pharmaceuticals, Inc. and its subsidiaries. All inter-company accounts and transactions are eliminated in consolidation.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS – continued

Foreign Currency

The company has a subsidiary located in Canada. The subsidiary conducts its transactions in U.S. dollars and Canadian dollars, but its functional currency is the U.S. dollar. The results of any non-U.S. dollar transactions are remeasured in U.S. dollars at the average exchange rates during the period and resulting foreign currency transaction gains and losses are included in the determination of net income. Unless otherwise noted, all references to “\$” or “dollar” refer to the U.S. dollar.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In the accompanying unaudited interim condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, accruals for chargebacks, administrative fees and rebates, government rebates, returns and other allowances, allowance for inventory obsolescence, valuation of financial instruments and intangible assets, accruals for contingent liabilities, fair value of long-lived assets, income tax provision, deferred taxes and valuation allowance, purchase price allocations, and the depreciable lives of long-lived assets. Because of the uncertainties inherent in such estimates, actual results may differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for reasonableness.

Geographic Information

Based on the distinct nature of our operations, our internal management structure, and the financial information that is evaluated regularly by our Chief Operating Decision Maker (“CODM”), we determined that we operate in one

reportable segment. Our operations are located in the United States and Canada.

The following table depicts the Company's revenue by geographic operations during the following periods:

(in thousands) Location of Operations	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
United States	\$ 48,961	\$ 48,164	\$ 142,712	\$ 129,556
Canada	1,742	-	1,742	-
Total Revenue	\$ 50,703	\$ 48,164	\$ 144,454	\$ 129,556

The following table depicts the Company's property, plant, and equipment, net according to geographic location as of:

(in thousands)	September 30, 2018	December 31, 2017
United States	\$ 23,645	\$ 20,403
Canada	13,773	-
Total Property, Plant, and Equipment, net	\$ 37,418	\$ 20,403

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS – continued

Recent Accounting Pronouncements

Recent Accounting Pronouncements Not Yet Adopted

In October 2018, the Financial Accounting Standards Board (“FASB”) issued guidance for accounting for derivatives and hedging. The guidance provides for the inclusion of the Secured Overnight Financing Rate (“SOFR”) Overnight Index swap rate as a benchmark interest rate for hedge accounting purposes. In July 2017, the Financial Conduct Authority in the United Kingdom announced that it would phase out London Interbank Offered Rate (“LIBOR”) as a benchmark by the end of 2021. As a result, the U.S. Federal Reserve identified the SOFR as its preferred alternative reference rate, calculated with a broad set of short-term repurchase agreements backed by treasury securities. Amounts drawn under our five-year senior secured credit facility bear interest rates in relation to LIBOR, and our interest rate swap is designated in LIBOR. The guidance is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance must be adopted on a modified retrospective basis and provides for certain practical expedients. We will adopt this guidance as of January 1, 2019.

In August 2018, the Securities and Exchange Commission (“SEC”) adopted the final rule amending certain disclosure requirements that have become redundant, duplicative, overlapping, outdated, or superseded. In addition, the amendments expand the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The rule was effective on November 5, 2018 and will be effective for the quarter that begins after the effective date. The adoption of this guidance will result in the inclusion of the statement of stockholder’s equity in our interim financial statement filings.

In August 2018, the FASB issued guidance modifying the disclosure requirements on fair value measurements. The amendments add, modify, and eliminate certain disclosure requirements on fair value measurements. The guidance is effective for reporting periods beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact, if any, that the adoption of this guidance will have on our consolidated financial statements.

In June 2018, the FASB issued guidance simplifying the accounting for nonemployee stock-based compensation awards. The guidance aligns the measurement and classification for employee stock-based compensation awards to nonemployee stock-based compensation awards. Under the guidance, nonemployee awards will be measured at their grant date fair value. Upon transition, the existing nonemployee awards will be measured at fair value as of the adoption date. The guidance is effective for reporting periods beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact, if any, that the adoption of this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued guidance with respect to measuring credit losses on financial instruments, including trade receivables. The guidance eliminates the probable initial recognition threshold that was previously required prior to recognizing a credit loss on financial instruments. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of certain amendments of this guidance must be applied on a modified retrospective basis and the adoption of the remaining amendments must be applied on a prospective basis. We currently expect that the adoption of this guidance will likely change the way we assess the collectability of our receivables and recoverability of other financial instruments. We have not yet begun to evaluate the specific impacts of this guidance nor have we determined the manner in which we will adopt this guidance.

In February 2016, the FASB issued guidance for accounting for leases. The guidance requires lessees to recognize assets and liabilities related to long-term leases on the balance sheet and expands disclosure requirements regarding leasing arrangements. In July 2018, the FASB issued additional guidance, which offers a transition option to entities adopting the new lease standards. Under the transition option, entities can elect to apply the new guidance using a modified retrospective approach at the beginning of the year in which the new lease standard is adopted, rather than to the earliest comparative period presented in their financial statements. The guidance is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance must be adopted on a modified retrospective basis and provides for certain practical expedients. We will elect to use the transition option and adopt the guidance using the modified retrospective approach as of January 1, 2019. We are currently reviewing our leases and other contracts to determine the impact the adoption of this guidance will have on our consolidated financial statements, and we will continue to assess any new lease arrangements entered into during 2018. We currently expect that the adoption of this guidance will likely change the way we account for our operating leases and will likely result in recording right-of-use assets and liabilities in our consolidated balance sheets and result in additional lease-related disclosures in the footnotes to our consolidated financial statements.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS – continued

We have evaluated all other issued and unadopted Accounting Standards Updates and believe the adoption of these standards will not have a material impact on our condensed consolidated statements of operations, balance sheets, or cash flows.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued guidance improving accounting for hedging activities. The guidance is intended to simplify hedge accounting by better aligning how an entity's risk management activities and hedging relationships are presented in its financial statements. The guidance also simplifies the application of hedge accounting guidance in certain situations. The guidance is effective for the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption was permitted, including adoption in an interim period. The guidance with respect to the cash flow and net investment hedge relationships existing on the date of adoption must be applied on a modified retrospective basis and the new disclosure requirements must be applied on a prospective basis. We adopted this guidance as of January 1, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements. However, the adoption of this guidance did impact how we accounted for the interest rate swap we entered into in April 2018. See Note 5 for further details regarding the interest rate swap.

In May 2017, the FASB issued guidance clarifying when modification accounting should be used for changes to the terms or conditions of a share-based payment award. The guidance does not change the accounting for modifications, but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The guidance is effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption was permitted, including adoption in an interim period. We adopted this guidance as of January 1, 2018 on a prospective basis. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to

review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue arising from contracts with customers. In August 2015, the FASB issued guidance approving a one-year deferral, making the standard effective for reporting periods beginning after December 15, 2017, with early adoption permitted only for reporting periods beginning after December 15, 2016. In March 2016, the FASB issued guidance to clarify the implementation guidance on principal versus agent considerations for reporting revenue gross rather than net, with the same deferred effective date. In April 2016, the FASB issued guidance to clarify the implementation guidance on identifying performance obligations and the accounting for licenses of intellectual property, with the same deferred effective date. In May 2016, the FASB issued guidance rescinding SEC paragraphs related to revenue recognition, pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force meeting. In May 2016, the FASB also issued guidance to clarify the implementation guidance on assessing collectability, presentation of sales tax, noncash consideration, and contracts and contract modifications at transition, with the same effective date. In September 2017, the FASB issued guidance amending and rescinding prior SEC staff announcements and observer comments related to revenue recognition, pursuant to the SEC Staff Announcement at the July 20, 2017 Emerging Issues Task Force meeting.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS, PRESENTATION, AND RECENT ACCOUNTING PRONOUNCEMENTS – continued

We performed a comprehensive review of our existing revenue arrangements as of January 1, 2018 following the five-step model. Our analysis indicated that there were no significant changes to how the amount and timing of revenue is recognized under the new guidance as compared to existing guidance. Additionally, our analysis indicated that there were no significant changes to how costs to obtain and fulfill our customer contracts are recognized under the new guidance as compared to existing guidance. We adopted this guidance as of January 1, 2018 using the modified retrospective method and the impact of adoption on our consolidated balance sheet, statement of operations, and statement of cash flows was not material. The adoption of the new guidance impacted the way we analyze, document, and disclose revenue recognition under customer contracts beginning on January 1, 2018 and resulted in additional disclosures in our financial statements. ANI Canada adopted this guidance as of the acquisition date, August 6, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements.

2. REVENUE RECOGNITION AND RELATED ALLOWANCES

Revenue Recognition

As of January 1, 2018, we adopted guidance for revenue recognition for contracts, using the modified retrospective method. The implementation of the guidance had no material impact on the measurement or recognition of revenue from customer contracts of prior periods. For our revenue recognition policies prior to adopting the guidance for revenue recognition for contracts, please see Item 8. Consolidated Financial Statements, Note 1, *Description of Business and Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 31, 2017.

Upon adoption of this new guidance, we recognize revenue using the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;

- Determination of the transaction price, including the identification and estimation of variable consideration;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when we satisfy a performance obligation.

We derive our revenues primarily from sales of generic and branded pharmaceutical products. Revenue is recognized when our obligations under the terms of our contracts with customers are satisfied, which generally occurs when control of the products we sell is transferred to the customer. We estimate variable consideration after considering applicable information that is reasonably available. We generally do not have incremental costs to obtain contracts that would otherwise not have been incurred. We do not adjust revenue for the promised amount of consideration for the effects of a significant financing component because our customers generally pay us within 100 days.

ANI PHARMACEUTICALS, INC. and subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited)***2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued**

All revenue recognized in the accompanying unaudited interim condensed consolidated statements of operations is considered to be revenue from contracts with customers. The following table depicts the disaggregation of revenue according to contract type:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Sales of generic pharmaceutical products	\$ 30,287	\$ 30,546	\$83,716	\$ 88,608
Sales of branded pharmaceutical products	14,589	15,688	41,714	35,398
Sales of contract manufactured products	2,826	1,829	5,450	5,151
Royalties from licensing agreements	2,409	-	12,560	-
Product development services	288	-	288	-
Other ⁽¹⁾	304	101	726	399
Total net revenues	\$ 50,703	\$ 48,164	\$ 144,454	\$ 129,556

(1) Primarily includes laboratory services and royalties on sales of contract manufactured products

The following table depicts revenue recognized during the following periods:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Performance obligations transferred at a point in time	\$ 50,415	\$ 48,164	\$ 144,166	\$ 129,556
Performance obligations transferred over time	288	-	288	-
Total	\$ 50,703	\$ 48,164	\$ 144,454	\$ 129,556

In the three and nine months ended September 30, 2018, we did not incur, and therefore did not defer, any material incremental costs to obtain contracts. We recognized \$6.4 million of net revenue from performance obligations satisfied in prior periods during the nine months ended September 30, 2018, consisting primarily of royalties from licensing agreements and revised estimates for variable consideration, including chargebacks, rebates, returns, and other allowances, related to prior period sales. In August 2018, we acquired WellSpring (see Note 3), a contract manufacturing company that also provides technical transfer services to customers, for which services are transferred over time. As a result, we had \$14 thousand of contract assets and \$0.7 million of deferred revenue at September 30, 2018. We had no contract assets or deferred revenue at December 31, 2017 or June 30, 2018.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

Revenue from Sales of Generic and Branded Pharmaceutical Products

Product sales consists of sales of our generic and brand pharmaceutical products. Our sole performance obligation in our contracts is to provide pharmaceutical products to customers. Our products are sold at pre-determined standalone selling prices and our performance obligation is considered to be satisfied when control of the product is transferred to the customer. Control is transferred to the customer upon delivery of the product to the customer, as our pharmaceutical products are sold on an FOB destination basis and because inventory risk and risk of ownership passes to the customer upon delivery. Payment terms for these sales are generally less than 100 days.

Sales of our pharmaceutical products are subject to variable consideration due to chargebacks, government rebates, returns, administrative and other rebates, and cash discounts. Estimates for these elements of variable consideration require significant judgment.

Chargebacks

Chargebacks, primarily from wholesalers, result from arrangements we have with indirect customers establishing prices for products which the indirect customer purchases through a wholesaler. Alternatively, we may pre-authorize wholesalers to offer specified contract pricing to other indirect customers. Under either arrangement, we provide a chargeback credit to the wholesaler for any difference between the contracted price with the indirect customer and the wholesaler's invoice price, typically Wholesale Acquisition Cost ("WAC").

Chargeback credits are calculated as follows:

Prior period chargebacks claimed by wholesalers are analyzed to determine the actual average selling price ("ASP") for each product. This calculation is performed by product by wholesaler. ASPs can be affected by several factors such as:

- A change in customer mix

- A change in negotiated terms with customers

- A change in the volume of off-contract purchases

- Changes in WAC

As necessary, we adjust ASPs based on anticipated changes in the factors above.

The difference between ASP and WAC is recorded as a reduction in both gross revenues in the consolidated statements of operations and accounts receivable in the consolidated balance sheets, at the time we recognize revenue from the product sale.

To evaluate the adequacy of our chargeback accruals, we obtain on-hand inventory counts from the wholesalers. This inventory is multiplied by the chargeback amount, the difference between ASP and WAC, to arrive at total expected future chargebacks, which is then compared to the chargeback accruals. We continually monitor chargeback activity and adjust ASPs when we believe that actual selling prices will differ from current ASPs.

Government Rebates

Our government rebates reserve consists of estimated payments due to governmental agencies for purchases made by third parties under various governmental programs. The two largest government programs that impact our net revenue and our government rebates reserve are federal and state Medicaid rebate programs and Medicare.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

We participate in certain qualifying federal and state Medicaid rebate programs whereby discounts and rebates are provided to participating programs after the final dispensing of the product by a pharmacy to a Medicaid plan participant. Medicaid rebates are typically billed up to 120 days after the product is shipped. Medicaid rebate amounts per product unit are established by law, based on the Average Manufacturer Price (“AMP”), which is reported on a monthly and quarterly basis, and, in the case of branded products, best price, which is reported on a quarterly basis. Our Medicaid reserves are based on expected claims from state Medicaid programs. Estimates for expected claims are driven by patient usage, sales mix, calculated AMP or best price, as well as inventory in the distribution channel that will be subject to a Medicaid rebate. As a result of the delay between selling the products and rebate billing, our Medicaid rebate reserve includes both an estimate of outstanding claims for end-customer sales that have occurred but for which the related claim has not been billed, as well as an estimate for future claims that will be made when inventory in the distribution channel is sold through to plan participants.

Many of our products are also covered under Medicare. We, like all pharmaceutical companies, must provide a discount for any products sold under New Drug Applications (“NDAs”) to Medicare Part D participants. This applies to all products sold under NDAs, regardless of whether the products are marketed as branded or generic. Our estimates for these discounts are based on historical experience with Medicare rebates for our products. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future rebates. Medicare rebates are typically billed up to 120 days after the product is shipped. As a result of the delay between selling the products and rebate billing, our Medicare rebate reserve includes both an estimate of outstanding claims for end-customer sales that have occurred but for which the related claim has not been billed, as well as an estimate for future claims that will be made when inventory in the distribution channel is sold through to Medicare Part D participants.

To evaluate the adequacy of our government rebate reserves, we review the reserves on a quarterly basis against actual claims data to ensure the liability is fairly stated. We continually monitor our government rebate reserve and adjust our estimates if we believe that actual government rebates may differ from our established accruals. Accruals for government rebates are recorded as a reduction to gross revenues in the consolidated statements of operations and as an increase to accrued government rebates in the consolidated balance sheets.

Returns

We maintain a return policy that allows customers to return product within a specified period prior to and subsequent to the expiration date. Generally, product may be returned for a period beginning six months prior to its expiration date to up to one year after its expiration date. Our product returns are settled through the issuance of a credit to the customer. Our estimate for returns is based upon historical experience with actual returns. While such experience has allowed for reasonable estimation in the past, history may not always be an accurate indicator of future returns. We continually monitor our estimates for returns and make adjustments when we believe that actual product returns may differ from the established accruals. Accruals for returns are recorded as a reduction to gross revenues in the consolidated statements of operations and as an increase to the return goods reserve in the consolidated balance sheets.

Administrative Fees and Other Rebates

Administrative fees or rebates are offered to wholesalers, group purchasing organizations and indirect customers. We accrue for fees and rebates, by product by wholesaler, at the time of sale based on contracted rates and ASPs.

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued**

To evaluate the adequacy of our administrative fee accruals, we obtain on-hand inventory counts from the wholesalers. This inventory is multiplied by the ASPs to arrive at total expected future sales, which is then multiplied by contracted rates. The result is then compared to the administrative fee accruals. We continually monitor administrative fee activity and adjust our accruals when we believe that actual administrative fees will differ from the accruals. Accruals for administrative fees and other rebates are recorded as a reduction in both gross revenues in the consolidated statements of operations and accounts receivable in the consolidated balance sheets.

Prompt Payment Discounts

We often grant sales discounts for prompt payment. The reserve for prompt payment discounts is based on invoices outstanding. We assume, based on past experience, that all available discounts will be taken. Accruals for prompt payment discounts are recorded as a reduction in both gross revenues in the consolidated statements of operations and accounts receivable in the consolidated balance sheets.

The following table summarizes activity in the consolidated balance sheets for accruals and allowances for the nine months ended September 30, 2018 and 2017, respectively:

(in thousands)	Accruals for Chargebacks, Rebates, Returns, and Other Allowances				
	Chargebacks	Government Rebates	Returns	Administrative Fees and Other Rebates	Prompt Payment Discounts
Balance at December 31, 2016	\$ 26,785	\$ 5,891	\$ 5,756	\$ 3,550	\$ 1,554
Accruals/Adjustments	133,849	7,807	8,949	16,840	5,960
Credits Taken Against Reserve	(134,412)	(7,943)	(6,388)	(15,448)	(5,617)
Balance at September 30, 2017	\$ 26,222	\$ 5,755	\$ 8,317	\$ 4,942	\$ 1,897
Balance at December 31, 2017	\$ 28,230	\$ 7,930	\$ 8,274	\$ 5,226	\$ 1,834
Accruals/Adjustments	170,533	8,097	10,942	23,148	6,744

Credits Taken Against Reserve	(156,750)	(7,013)	(8,376)	(21,418)	(6,373)
Balance at September 30, 2018	\$ 42,013	\$ 9,014	\$ 10,840	\$ 6,956	\$ 2,205

Contract Manufacturing Product Sales Revenue

Contract manufacturing arrangements consists of agreements in which we manufacture a pharmaceutical product on behalf of third party. Our performance obligation is to manufacture and provide pharmaceutical products to customers, typically pharmaceutical companies. The contract manufactured products are sold at pre-determined standalone selling prices and our performance obligations are considered to be satisfied when control of the product is transferred to the customer. Control is transferred to the customer when the product leaves our dock to be shipped to the customer, as our pharmaceutical products are sold on an FOB shipping point basis and the inventory risk and risk of ownership passes to the customer at that time. Payment terms for these sales are generally less than two months. We estimate returns based on historical experience. Historically, we have not had material returns for contract manufactured products.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. REVENUE RECOGNITION AND RELATED ALLOWANCES – continued

As of September 30, 2018, the value of our unsatisfied performance obligations (or backlog) was \$5.7 million, which consists of firm orders for contract manufactured products, for which our performance obligations remain unsatisfied and for which the related revenue has yet to be recognized. We anticipate satisfying these performance obligations within six months.

Royalties from Licensing Agreements

From time to time, we enter into transition agreements with the sellers of products we acquire, under which we license to the seller the right to sell the acquired products. Therefore, we recognize the revenue associated with sales of the underlying products as royalties. Because these royalties are sales-based, we recognize the revenue when the underlying sales occur, based on sales and gross profit information received from the sellers. Upon full transition of the products and upon launching the products under our own labels, we recognize revenue for the products as sales of generic or branded pharmaceutical products, as described above.

In addition, we receive royalties from a license for patent rights initially owned by Cell Genesys, Inc., which merged with BioSante in 2009. The royalties are the results of sales and milestones related to the Yescarta® product. We recognize revenue for sales-based royalties when the underlying sales occur. We estimate variable consideration related to milestones, which requires significant judgment.

Product Development Services Revenue

We provide product development services to customers, which are performed over time. These services primarily relate to the technical transfer of products to our facility in Oakville, Canada. The duration of these technical transfer projects is generally 18 months to three years. Deposits received from these customers are recorded as deferred revenue until revenue is recognized. For contracts with no deposits and for the remainder of contracts with deposits, we invoice customers as our performance obligations are satisfied. We recognize revenue on a percentage of

completion basis, which results in contract assets on our balance sheet. As of September 30, 2018, the value of our unsatisfied performance obligations for product development services contracts was \$3.5 million. We expect to satisfy these performance obligations in the next 9 to 15 months.

Credit Concentration

Our customers are primarily wholesale distributors, chain drug stores, group purchasing organizations, and pharmaceutical companies.

During the three months ended September 30, 2018, three customers represented 35%, 23%, and 20% of net revenues, respectively. During the nine months ended September 30, 2018, the same three customers represented 34%, 23%, and 20% of net revenues respectively. As of September 30, 2018, accounts receivable from these customers totaled 80% of accounts receivable, net. During the three months ended September 30, 2017, three customers represented 30%, 30%, and 19% of net revenues, respectively. During the nine months ended September 30, 2017, these same three customers represented 31%, 26%, and 21% of net revenues, respectively.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. BUSINESS COMBINATION

Summary

On August 6, 2018, our subsidiary, ANI Canada, acquired all the issued and outstanding equity interests of WellSpring, a Canadian company that performs contract development and manufacturing of pharmaceutical products for a purchase price of \$18.0 million, subject to certain customary adjustments. Subject to further adjustments, the estimated consideration was \$17.3 million. The consideration was paid entirely from cash on hand. In conjunction with the transaction, we acquired WellSpring's pharmaceutical manufacturing facility, laboratory, and offices, its current book of commercial business, as well as an organized workforce. Following the consummation of the transaction, WellSpring was merged into ANI Canada with the resulting entity's name being ANI Pharmaceuticals Canada Inc.

We acquired WellSpring to provide an additional tech transfer site in order to accelerate the re-commercialization of the previously-approved ANDAs in our pipeline, to expand our contract manufacturing revenue base, and to broaden our manufacturing capabilities to three manufacturing facilities.

Transaction Costs

In conjunction with the acquisition, we incurred approximately \$1.0 million in transaction costs, all of which were expensed in 2018.

Purchase Consideration and Net Assets Acquired

The business combination was accounted for using the acquisition method of accounting, with ANI as the accounting acquirer of WellSpring. The acquisition method requires that acquired assets and assumed liabilities be recorded at

their fair values as of the acquisition date.

The following presents the preliminary allocation of the preliminary purchase price to the assets acquired and liabilities assumed on August 6, 2018:

	(in thousands)
Total Purchase Consideration	\$ 17,287
Cash and cash equivalents	220
Accounts receivable	1,311
Inventories	2,197
Prepaid expenses and other current assets	361
Property and equipment	13,935
Goodwill	2,342
Total assets acquired	20,366
Accounts payable and other current liabilities	2,413
Deferred revenue	666
Total liabilities assumed	3,079
Net assets acquired	\$ 17,287

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. BUSINESS COMBINATION – continued

The net assets were recorded at their estimated fair value. In valuing acquired assets and liabilities, fair value estimates were based primarily on future expected cash flows, market rate assumptions for contractual obligations, and appropriate discount rates.

The above allocation of the purchase price is based upon certain preliminary valuations and other analyses that have not been finalized as of the date of this filing. Any changes in the estimated fair values of the net assets recorded for this business combination upon the finalization of more detailed analyses of the facts and circumstances that existed at the date of the transaction may change the allocation of the purchase price. As such, the purchase price allocations for this transaction are preliminary estimates, which may be subject to change within the measurement period.

Goodwill is considered an indefinite-lived asset and relates primarily to intangible assets that do not qualify for separate recognition, such as the assembled workforce and synergies between the entities. Goodwill established as a result of the acquisition is not tax deductible in any taxing jurisdiction. There was no value ascribed to any separately identifiable intangible assets.

Legacy WellSpring operations generated \$1.7 million of revenue and recorded a net loss of \$0.2 million from the acquisition date through September 30, 2018.

Pro Forma Condensed Combined Financial Information (unaudited)

The following unaudited pro forma condensed combined financial information summarizes the results of operations for the periods indicated as if the WellSpring acquisition had been completed as of January 1, 2017.

Three Months Ended

Nine Months Ended

(in thousands)	September 30, 2018	September 30, 2017⁽¹⁾	September 30, 2018	September 30, 2017⁽¹⁾
Net revenues	\$ 51,384	\$ 51,676	\$ 151,091	\$ 137,884
Net income	\$ 4,456	\$ 8,683	\$ 7,812	\$ 10,108

⁽¹⁾ Net income for the three and nine months ended September 30, 2017 includes the impact to WellSpring of \$4.4 million of related party debt forgiveness.

The pro forma amounts are not necessarily indicative of the results that would have been obtained if the transaction had occurred as of January 1, 2017 or that may be obtained in the future. The unaudited pro forma condensed consolidated financial information includes pro forma adjustments primarily relating to the following non-recurring items directly attributable to the business combination:

- Elimination of amortization expense related to the acquiree's historical intangible assets;
- Elimination of transaction costs;
- Elimination of profit on sales from WellSpring to ANI in the periods; and
- Tax impacts of the adjustments to the acquirer's net income, calculated as 23% in 2018 and 37% in 2017. As the acquiree has a loss in both years, there is no tax impact to adjustments to the acquiree's net income.

The pro forma financial information does not include the effects of any expected operational efficiencies or synergies resulting from the acquisition.

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***4. INDEBTEDNESS****Convertible Senior Notes**

In December 2014, we issued \$143.8 million of our Convertible Senior Notes due 2019 (the “Notes”) in a registered public offering. The Notes pay 3.0% interest semi-annually in arrears starting on June 1, 2015 and are due December 1, 2019. The initial conversion price was \$69.48 per share. Simultaneous with the issuance of the Notes, we entered into “bond hedge” (or purchased call) and “warrant” (or written call) transactions with an affiliate of one of the offering underwriters in order to synthetically raise the initial conversion price of the Notes to \$96.21 per share and reduce the potential common stock dilution that may arise from the conversion of the Notes.

The Notes are convertible at the option of the holder under certain circumstances and upon conversion we may elect to settle such conversion in shares of our common stock, cash, or a combination thereof. As a result of our cash conversion option, we separately accounted for the value of the embedded conversion option as a debt discount (with an offset to Additional Paid in Capital (“APIC”)) of \$33.6 million. Deferred financing costs are recorded as a reduction of long-term debt in the consolidated balance sheets and are being amortized as additional non-cash interest expense on a straight-line basis over the term of the debt, since this method was not significantly different from the effective interest method.

The carrying value of the Notes is as follows as of:

(in thousands)	September 30, 2018	December 31, 2017
Principal amount	\$ 143,750	\$ 143,750
Unamortized debt discount	(8,643)	(13,924)
Deferred financing costs	(985)	(1,618)
Net carrying value	\$ 134,122	\$ 128,208

We had accrued interest of \$1.4 million and \$0.4 million related to the Notes recorded in accrued expenses, other in our consolidated balance sheets at September 30, 2018 and December 31, 2017, respectively.

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***4. INDEBTEDNESS – continued****Credit Agreement**

In December 2017, we entered into a five-year senior secured credit facility (the “Credit Agreement”) with Citizens Bank, N.A. as a lender and administrative agent. As contemplated in the initial agreement, Citizens Bank, N.A. syndicated the facility to five additional lenders on February 5, 2018. The Credit Agreement is comprised of a \$75.0 million five-year term loan (the “Term Loan”) and a \$50.0 million senior secured revolving credit facility (the “Revolving Credit Facility”), with availability subject to a borrowing base consisting of eligible accounts receivable and inventory and the satisfaction of conditions precedent specified in the agreement. We may repay borrowings under the Term Loan and Revolving Credit Facility without any premium or penalty, but must pay all borrowings thereunder by August 30, 2019 if we do not meet certain conditions relating to the repayment or refinancing of our outstanding 3.0% Senior Convertible Notes due 2019, and in no event later than December 29, 2022.

The Term Loan includes a repayment schedule, pursuant to which \$6.1 million of the loan will be paid in quarterly installments during the 12 months ended September 30, 2019. As a result, \$6.1 million of the loan is recorded in current component of long-term borrowing, net of deferred financing in the accompanying unaudited interim condensed consolidated balance sheets. We deferred \$2.9 million of total debt issuance costs related to the Credit Agreement, of which \$1.8 million was allocated to the Term Loan and \$1.1 million was allocated to the undrawn Revolving Credit Facility. In April 2018, we entered into an interest rate swap with Citizens Bank, N.A. to hedge the variable rate on our Term Loan balance with a fixed rate (Note 5).

The carrying value of the current and long-term components of the Term Loan as of September 30, 2018 and December 31, 2017 are:

(in thousands)	Current September 30, 2018	December 31, 2017
Current borrowing on secured term loan	\$6,094	\$ 3,750

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Unamortized deferred financing costs	(402)	(397)
Current component of long-term borrowing, net of unamortized deferred financing costs	\$5,692	\$ 3,353

(in thousands)	Long-Term	
	September 30, 2018	December 31, 2017
Long-term borrowing on secured term loan	\$67,031	\$ 71,250
Unamortized deferred financing costs	(1,077)	(1,304)
Long-term borrowing, net of unamortized deferred financing costs and current borrowing component	\$65,954	\$ 69,946

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***4. INDEBTEDNESS – continued**

The Term Loan was accounted for as a modification of our existing Line of Credit and consequently, the remaining balance of the deferred issuance costs related to the Line of Credit are included with the Term Loan issuance costs and amortized as interest expense over the life of the Term Loan using the effective interest method. The issuance costs allocated to the Revolving Credit Facility will be deferred and amortized as interest expense on a straight-line basis over the term of the Revolving Credit Facility.

As of September 30, 2018, we had a \$73.1 million balance on the Term Loan. As of September 30, 2018, we had not drawn on the Revolving Credit Facility. As of September 30, 2018, \$0.7 million of unamortized deferred debt issuance costs is included in other long-term assets in the accompanying unaudited interim condensed consolidated balance sheets and \$0.2 million is included in prepaid expenses and other current assets in the unaudited interim condensed consolidated balance sheets.

The following table sets forth the components of total interest expense related to the Notes and Term Loan recognized in the accompanying unaudited interim condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Contractual coupon	\$ 1,835	\$ 1,078	\$ 5,393	\$ 3,234
Amortization of debt discount	1,783	1,692	5,280	5,007
Amortization of finance fees	370	211	1,111	633
Capitalized interest	(174)	(143)	(552)	(367)
	\$ 3,814	\$ 2,838	\$ 11,232	\$ 8,507

As of September 30, 2018, the combined effective interest rate on the Notes and Term Loan was 6.8%, on an annualized basis.

5.DERIVATIVE FINANCIAL INSTRUMENT AND HEDGING ACTIVITY

We use derivative financial instruments to hedge our exposure to interest rate risks. All derivative financial instruments are recognized as either assets or liabilities at fair value on the consolidated balance sheet and are classified as current or long-term based on the scheduled maturity of the instrument.

When we enter into a hedge arrangement and intend to apply hedge accounting, we formally document the hedge relationship and designate the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge. When we determine that a derivative financial instrument qualifies as a cash flow hedge and is effective, the changes in fair value of the instrument are recorded in accumulated other comprehensive income/(loss), net of tax in our consolidated balance sheets and will be reclassified to earnings when the hedged item affects earnings.

In April 2018, we entered into an interest rate swap arrangement, which is considered a derivative financial instrument, with Citizens Bank, N.A. to manage our exposure to changes in LIBOR-based interest rates underlying our Term Loan. The interest rate swap hedges the variable cash flows associated with the borrowings under our Term Loan (Note 4), effectively providing a fixed rate of interest throughout the life of the Term Loan.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

5.DERIVATIVE FINANCIAL INSTRUMENT AND HEDGING ACTIVITY – continued

The interest rate swap arrangement with Citizens Bank, N.A became effective on April 29, 2018, with a maturity date of December 29, 2022. The notional amount of the swap agreement at inception was \$74.1 million and will decrease in line with our Term Loan. As of September 30, 2018, the notional amount of the interest rate swap was \$72.2 million. The interest rate swap has a weighted average fixed rate of 2.60% and has been designated as an effective cash flow hedge and therefore qualifies for hedge accounting. As of September 30, 2018, the fair value of the interest rate swap asset was valued at \$0.7 million and was recorded in other long-term assets in the accompanying unaudited condensed consolidated balance sheets. As of September 30, 2018, \$0.5 million, the fair value of the interest rate swap net of tax, was recorded in accumulated other comprehensive income, net of tax in the accompanying unaudited condensed consolidated balance sheets. During the three and nine months ended September 30, 2018, changes in the fair value of the interest rate swap of \$0.3 million, net of tax, and \$0.5 million, net of tax, respectively, was recorded in accumulated other comprehensive income, net of tax in the accompanying unaudited condensed consolidated statements of comprehensive income. Differences between the hedged LIBOR rate and the fixed rate recorded as interest expense in the same period that the related interest is recorded for the Term Loan based on the LIBOR rate. In three and nine months ended September 30, 2018, \$0.1 million and \$0.2 million of interest expense was recognized in relation to the interest rate swap, respectively.

6.EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period.

For periods of net income, and when the effects are not anti-dilutive, we calculate diluted earnings per share by dividing net income available to common shareholders by the weighted-average number of shares outstanding plus the impact of all potential dilutive common shares, consisting primarily of common stock options, shares to be purchased under our Employee Stock Purchase Plan (“ESPP”), unvested restricted stock awards, stock purchase warrants, and any conversion gain on our Notes (Note 4), using the treasury stock method. For periods of net loss, diluted loss per share is calculated similarly to basic loss per share.

Our unvested restricted shares contain non-forfeitable rights to dividends, and therefore are considered to be participating securities; in periods of net income, the calculation of basic and diluted earnings per share excludes from the numerator net income attributable to the unvested restricted shares, and excludes the impact of those shares from the denominator.

For purposes of determining diluted earnings per share, we have elected a policy to assume that the principal portion of the Notes (Note 4) is settled in cash. As such, the principal portion of the Notes has no effect on either the numerator or denominator when determining diluted earnings per share. Any conversion gain is assumed to be settled in shares and is incorporated in diluted earnings per share using the treasury method. The warrants issued in conjunction with the issuance of the Notes (Note 4) are considered to be dilutive when they are in-the-money relative to our average stock price during the period; the bond hedge purchased in conjunction with the issuance of the Notes is always considered to be anti-dilutive.

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***6. EARNINGS PER SHARE – continued**

Earnings per share for the three and nine months ended September 30, 2018 and 2017 are calculated for basic and diluted earnings per share as follows:

(in thousands, except per share amounts)	Basic Three Months Ended September 30, 2018		Diluted Three Months Ended September 30, 2017		Basic Nine Months Ended September 30, 2018		Diluted Nine Months Ended September 30, 2017	
	2018	2017	2018	2017	2018	2017	2018	2017
Net income	\$5,037	\$4,720	\$5,037	\$4,720	\$10,064	\$8,553	\$10,064	\$8,553
Net income allocated to restricted stock	(51)	(35)	(51)	(35)	(101)	(64)	(101)	(64)
Net income allocated to common shares	\$4,986	\$4,685	\$4,986	\$4,685	\$9,963	\$8,489	\$9,963	\$8,489
Basic Weighted-Average Shares Outstanding	11,706	11,553	11,706	11,553	11,659	11,542	11,659	11,542
Dilutive effect of stock options and ESPP			98	124			108	124
Diluted Weighted-Average Shares Outstanding			11,804	11,677			11,767	11,666
Earnings Per Share	\$0.43	\$0.41	\$0.42	\$0.40	\$0.85	\$0.74	\$0.85	\$0.73

The number of anti-dilutive shares, which have been excluded from the computation of diluted earnings per share, including the shares underlying the Notes, was 4.8 million for both the three months ended September 30, 2018 and 2017 and was 4.7 million for both the nine months ended September 30, 2018 and 2017. Anti-dilutive shares consist of out-of-the-money Class C Special stock, out-of-the-money common stock options, common stock options that are anti-dilutive when calculating the impact of the potential dilutive common shares using the treasury stock method, underlying shares related to out-of-the-money bonds issued as convertible debt, and out-of-the-money warrants exercisable for common stock.

7. INVENTORIES

Inventories consist of the following as of:

(in thousands)	September 30, 2018⁽¹⁾	December 31, 2017	
Raw materials	\$ 26,653	\$ 22,139	
Packaging materials	2,283	1,527	
Work-in-progress	1,282	510	
Finished goods	10,317	13,901	(2)
	40,535	38,077	
Reserve for excess/obsolete inventories	(529	)	(350
)))
Inventories, net	\$ 40,006	\$ 37,727	

(1) Includes inventory acquired in acquisition of WellSpring (Note 3).

(2) Includes finished goods acquired in asset purchases (Note 13).

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***7. INVENTORIES – continued****Vendor Concentration**

We source the raw materials for our products, including active pharmaceutical ingredients (“API”), from both domestic and international suppliers. Generally, only a single source of API is qualified for use in each product due to the cost and time required to validate a second source of supply. As a result, we are dependent upon our current vendors to reliably supply the API required for on-going product manufacturing. During the three months ended September 30, 2018, we purchased approximately 36% of our inventory (exclusive of inventory acquired in the acquisition of WellSpring (Note 3)) from one supplier. As of September 30, 2018, the amounts payable to this supplier was immaterial. During the nine months ended September 30, 2018, we purchased approximately 25% of our inventory (exclusive of inventory acquired in the acquisition of WellSpring (Note 3)) from two suppliers. As of September 30, 2018, the amounts payable to these suppliers was immaterial. During the three months ended September 30, 2017, we purchased approximately 40% of our inventory (exclusive of inventory acquired in asset purchases (Note 13)) from two suppliers. During the nine months ended September 30, 2017, we purchased approximately 24% of our inventory (exclusive of inventory acquired in asset purchases (Note 13)) from two suppliers.

8. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following as of:

(in thousands)	September 30, 2018⁽¹⁾	December 31, 2017
Land	\$ 4,558	\$ 160
Buildings	6,725	3,835
Machinery, furniture, and equipment	23,038	12,334
Construction in progress	10,744	10,663
	45,065	26,992
Less: accumulated depreciation	(7,647	) (6,589
Property, Plant, and Equipment, net	\$ 37,418	\$ 20,403

(1)Includes property, plant, and equipment acquired in acquisition of WellSpring (Note 3).

Depreciation expense was \$0.6 million and \$0.3 million for the three months ended September 30, 2018 and 2017, respectively. Depreciation expense was \$1.3 million and \$0.9 million for the nine months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2018 and 2017, there was \$0.2 million and \$0.1 million of interest capitalized into construction in progress, respectively. During the nine months ended September 30, 2018 and 2017, there was \$0.6 million and \$0.4 million of interest capitalized into construction in progress, respectively. Construction in progress consists of multiple projects, primarily related to new equipment to expand our manufacturing capability as our product lines continue to grow.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

**9. GOODWILL AND
INTANGIBLE ASSETS**

Goodwill

As a result of our 2013 merger with BioSante Pharmaceuticals, Inc. (“BioSante”), we recorded goodwill of \$1.8 million. As a result of our acquisition of WellSpring, we recorded additional goodwill of \$2.3 million in August 2018. We assess the recoverability of the carrying value of goodwill as of October 31st of each year, and whenever events occur or circumstances change that would, more likely than not, reduce the fair value of our reporting unit below its carrying value. There have been no events or changes in circumstances that would have reduced the fair value of our reporting unit below its carrying value during the nine months ended September 30, 2018. No impairment losses were recognized during the three or nine months ended September 30, 2018 or 2017.

Definite-lived Intangible Assets

Acquisition of Abbreviated New Drug Applications

In April 2018, we entered into an agreement with Impax Laboratories, Inc. (now Amneal Pharmaceuticals, Inc., or “Amneal”) to purchase the approved ANDAs for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for \$2.3 million in cash up front. The transaction closed in May 2018 and we made the \$2.3 million payment using cash on hand. We also capitalized \$0.1 million of costs directly related to the transaction. We accounted for this transaction as an asset purchase. The \$1.0 million acquired ANDA intangible assets are being amortized in full over their estimated useful lives of 10 years. Please see Note 13 for further details regarding the transaction.

In April 2018, we entered into an agreement with IDT Australia, Limited to purchase the ANDAs for 23 previously-marketed generic drug products and API for four of the acquired products for \$2.7 million in cash and a single-digit royalty on net profits from sales of one of the products. The transaction closed in April 2018 and we made the \$2.7 million payment using cash on hand. We also capitalized \$18 thousand of costs directly related to the transaction. We accounted for this transaction as an asset purchase. The \$2.5 million acquired ANDA intangible assets are being amortized in full over their estimated useful lives of 10 years. Please see Note 13 for further details regarding the transaction.

Acquisition of New Drug Applications and Product Rights

In December 2017, we entered into an agreement with AstraZeneca AB and AstraZeneca UK Limited to purchase the right, title, and interest in the NDAs and the U.S. rights to market Atacand, Atacand HCT, Arimidex, and Casodex, for \$46.5 million in cash. We also entered into a license agreement for use of these trademarks in the U.S. We made the \$46.5 million cash payment with funds from our Term Loan (Note 3). We also capitalized \$0.2 million of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The \$46.7 million product rights assets are being amortized in full over their estimated useful lives of 10 years. Please see Note 13 for further details regarding the transaction.

In February 2017, we entered into an agreement with Cranford Pharmaceuticals, LLC to purchase a distribution license, trademark, and certain finished goods inventory for Inderal XL for \$20.2 million in cash. We made the \$20.2 million cash payment using cash on hand. We accounted for this transaction as an asset purchase. We also capitalized \$40 thousand of costs directly related to the transaction. The \$15.1 million product rights intangible asset acquired in the asset purchase is being amortized in full over its estimated useful life of 10 years. Please see Note 13 for further details regarding the transaction.

ANI PHARMACEUTICALS, INC. and subsidiaries**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***9. GOODWILL AND INTANGIBLE ASSETS – continued**

In February 2017, we entered into an agreement with Holmdel Pharmaceuticals, LP to purchase the NDA, trademark, and certain finished goods inventory for InnoPran XL, including a license to an Orange Book listed patent, for \$30.6 million in cash. We made the \$30.6 million cash payment using \$30.0 million of funds from our former Line of Credit and \$0.6 million of cash on hand. We accounted for this transaction as an asset purchase. We also capitalized \$0.1 million of costs directly related to the transaction. The \$19.0 million product rights intangible asset acquired in the asset purchase is being amortized in full over its estimated useful life of 10 years. Please see Note 13 for further details regarding the transaction.

The components of net definite-lived intangible assets are as follows:

(in thousands)	September 30, 2018		December 31, 2017		Weighted Average Amortization Period
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Acquired ANDA intangible assets	\$46,194	\$ (15,940)	\$42,076	\$ (12,592)	10.0 years
NDAs and product rights	230,974	(55,939)	230,974	(37,091)	10.0 years
Marketing and distribution rights	10,423	(6,569)	11,042	(5,087)	4.7 years
Non-compete agreement	624	(223)	624	(156)	7.0 years
	\$288,215	\$ (78,671)	\$284,716	\$ (54,926)	

Definite-lived intangible assets are stated at cost, net of amortization, generally using the straight-line method over the expected useful lives of the intangible assets. In the case of the Inderal XL and InnoPran XL asset purchases, because we anticipate that the acquired assets will provide a greater economic benefit in the earlier years, we are amortizing 80% of the value of the intangible assets over the first five years of useful lives of the assets and amortizing the remaining 20% of the value of the intangible assets over the second five years of useful lives of the assets. Amortization expense was \$7.9 million and \$6.8 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense was \$23.7 million and \$20.0 million for the nine months ended September 30, 2018 and 2017, respectively.

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We test for impairment of definite-lived intangible assets when events or circumstances indicate that the carrying value of the assets may not be recoverable. No such triggering events were identified during the three and nine months ended September 30, 2018 and 2017 and therefore no impairment loss was recognized in the three and nine months ended September 30, 2018 or 2017.

Expected future amortization expense is as follows:

(in thousands)

2018 (remainder of the year)	\$7,940
2019	31,761
2020	31,279
2021	29,833
2022	26,428
2023 and thereafter	82,303
Total	\$209,544

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***10. STOCK-BASED COMPENSATION**

In July 2016, we commenced administration of the ANI Pharmaceuticals, Inc. 2016 Employee Stock Purchase Plan. As of September 30, 2018, we have 0.2 million shares of common stock available under the ESPP. Under the ESPP, participants can purchase shares of our stock at a 15% discount. In the three and nine months ended September 30, 2018, we recognized \$2 thousand and \$6 thousand of stock-based compensation expense related to the ESPP in cost of sales, \$5 thousand, and \$8 thousand of stock-based compensation expense related to the ESPP in research and development, and \$15 thousand and \$43 thousand of stock-based compensation expense related to the ESPP in sales, general, and administrative expense in our accompanying unaudited interim condensed consolidated statements of operations, respectively. In the three and nine months ended September 30, 2017, we recognized \$1 thousand and \$5 thousand of stock-based compensation expense related to the ESPP in cost of sales and \$11 thousand and \$50 thousand of stock-based compensation expense related to the ESPP in sales, general, and administrative expense in our accompanying unaudited interim condensed consolidated statements of operations, respectively.

All equity-based service awards are granted under the ANI Pharmaceuticals, Inc. Amended and Restated 2008 Stock Incentive Plan (the "2008 Plan"). As of September 30, 2018, 0.6 million shares of our common stock remained available for issuance under the 2008 Plan.

The following table summarizes stock-based compensation expense incurred under the 2008 Plan and included in our accompanying unaudited interim condensed consolidated statements of operations:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of sales	\$ 24	\$ 19	\$ 66	\$ 68
Research and development	184	173	564	485
Selling, general, and administrative	1,564	1,270	4,266	4,059
	\$ 1,772	\$ 1,462	\$ 4,896	\$ 4,612

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***10. STOCK-BASED COMPENSATION – continued**

A summary of stock option and restricted stock activity under the 2008 Plan during the nine months ended September 30, 2018 and 2017 is presented below:

(in thousands)	Options	RSAs
Outstanding December 31, 2016	578	63
Granted	192	50
Options Exercised/RSAs Vested	(7)	(27) ⁽¹⁾
Forfeited	(3)	-
Outstanding September 30, 2017	760	86
Outstanding December 31, 2017	767	86
Granted	156	65
Options Exercised/RSAs Vested	(140)	(33) ⁽²⁾
Forfeited	(22)	-
Outstanding September 30, 2018	761	118

⁽¹⁾ Includes five thousand shares purchased from employees to cover employee income taxes related to income earned upon vesting of restricted stock. The shares purchased are held in treasury and the \$259 thousand total purchase price for the shares is included in Treasury stock in our accompanying unaudited interim condensed consolidated balance sheets.

⁽²⁾ Includes 11 thousand shares purchased from employees to cover employee income taxes related to income earned upon vesting of restricted stock. The shares purchased are held in treasury and the \$659 thousand total purchase price for the shares is included in Treasury stock in our accompanying unaudited interim condensed consolidated balance sheets.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

11. INCOME TAXES

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

The measurement of a deferred tax asset is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The utilization of our NOL carryforwards will be limited in future years as prescribed by Section 382 of the U.S. Internal Revenue Code. As of both September 30, 2018 and December 31, 2017, we had provided a valuation allowance against certain state net operating loss (“NOL”) carryforwards of \$0.3 million.

We use a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. We have not identified any uncertain income tax positions that could have a material impact on the consolidated financial statements. We recognize interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense; we did not have any such amounts accrued as of September 30, 2018 and December 31, 2017. We are subject to taxation in various jurisdictions and all of our income tax returns remain subject to examination by tax authorities due to the availability of NOL carryforwards.

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate, calculated on a worldwide consolidated basis, expected for the entire year. If we project taxable losses in any specific taxing jurisdiction, those losses are excluded from the calculation of the worldwide estimated annual effective tax rate and a resulting tax benefit is not recognized. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in temporary and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in temporary differences, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they

occur. Our estimated annual effective tax rate changes throughout the year as our on-going estimates of pre-tax income, changes in temporary differences, and permanent differences are revised, and as discrete items occur. Global Intangible Low-Taxed Income (“GILTI”), as defined in the Tax Cuts and Jobs Act of 2017, generated from our recently acquired Canadian operations is subject to U.S. taxes, with certain defined exemptions, thresholds and credits. For financial reporting purposes we have elected to treat GILTI inclusions as a period cost.

The estimated consolidated effective tax rate for the three months ended September 30, 2018, calculated after excluding the taxable losses projected in our Canadian operations for which no tax benefit can be recognized, was 20.9% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in the third quarter. Our effective tax rate for the three months ended September 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the three months ended September 30, 2017 was 25.9% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017. Our effective tax rate for the three months ended September 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

11. INCOME TAXES – continued

The estimated consolidated effective tax rate for the nine months ended September 30, 2018, calculated after excluding the taxable losses projected in our Canadian operations for which no tax benefit can be recognized, was 20.8% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in 2018. Our effective tax rate for the nine months ended September 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the nine months ended September 30, 2017 was 28.7% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017. Our effective tax rate for the nine months ended September 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

12. COMMITMENTS AND CONTINGENCIES

Government Regulation

Our products and facilities are subject to regulation by a number of federal and state governmental agencies. The FDA, in particular, maintains oversight of the formulation, manufacture, distribution, packaging, and labeling of all of our products. The Drug Enforcement Administration (“DEA”) maintains oversight over our products that are controlled substances.

Unapproved Products

Two of our products, Esterified Estrogen with Methyltestosterone (“EEMT”) and Opium Tincture, are marketed without approved NDAs or Abbreviated New Drug Applications (“ANDAs”). During the three months ended September 30, 2018 and 2017, net revenues for these products totaled \$6.2 million and \$7.9 million, respectively. During the nine months ended September 30, 2018 and 2017, net revenues for these products totaled \$18.3 million and \$20.9 million, respectively.

The FDA's policy with respect to the continued marketing of unapproved products is stated in the FDA's September 2011 Compliance Policy Guide Sec. 440.100 titled “Marketed New Drugs without Approved NDAs or ANDAs.” Under this policy, the FDA has stated that it will follow a risk-based approach with regard to enforcement against such unapproved products. The FDA evaluates whether to initiate enforcement action on a case-by-case basis, but gives higher priority to enforcement action against products in certain categories, such as those marketed as unapproved drugs with potential safety risks or that lack evidence of effectiveness. We believe that, so long as we comply with applicable manufacturing standards, the FDA will not take action against us under the current enforcement policy. There can be no assurance, however, that the FDA will continue this policy or not take a contrary position with any individual product or group of products. If the FDA were to take a contrary position, we may be required to seek FDA approval for these products or withdraw such products from the market. If we decide to withdraw the products from the market, our net revenues for generic pharmaceutical products would decline materially, and if we decide to seek FDA approval, we would face increased expenses and might need to suspend sales of the products until such approval was obtained, and there are no assurances that we would receive such approval.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

12. COMMITMENTS AND CONTINGENCIES – continued

In addition, one group of products that we manufacture on behalf of a contract customer is marketed by that customer without an approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our contract manufacturing revenues for these unapproved products for both the three months ended September 30, 2018 and 2017 were \$0.6 million. Our contract manufacturing revenues for these unapproved products for the nine months ended September 30, 2018 and 2017 were \$1.6 million and \$1.5 million, respectively.

We receive royalties on the net sales of a group of contract-manufactured products, which are marketed by the contract customer without an approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our royalties on the net sales of these unapproved products for the three and nine months ended September 30, 2018 and 2017 were less than 1% of total revenues.

Louisiana Medicaid Lawsuit

On September 11, 2013, the Attorney General of the State of Louisiana filed a lawsuit in Louisiana state court against numerous pharmaceutical companies, including us, under various state laws, alleging that each defendant caused the state's Medicaid agency to provide reimbursement for drug products that allegedly were not approved by the FDA and therefore allegedly not reimbursable under the federal Medicaid program. The lawsuit relates to three cough and cold prescription products manufactured and sold by our former Gulfport, Mississippi operation, which was sold in September 2010. Through its lawsuit, the state seeks unspecified damages, statutory fines, penalties, attorneys' fees, and costs. While we cannot predict the outcome of the lawsuit at this time, we could be subject to material damages, penalties, and fines. We intend to vigorously defend against all claims in the lawsuit.

Civil Action

In November of 2017, we were served with a complaint filed by Arbor Pharmaceuticals, LLC, in the United States District Court, District of Minnesota. The complaint alleges false advertising and unfair competition in violation of Section 43(a) of the Lanham Act, Section 1125(a) of Title 15 of the United States Code, and Minnesota State law, and seeks injunctive relief and damages. The action is currently in the discovery phase. We intend to defend this action vigorously.

Other Commitments and Contingencies

All manufacturers of the drug Reglan and its generic equivalent metoclopramide, including ANI, have faced allegations from plaintiffs in various states, including California, New Jersey, and Pennsylvania, claiming bodily injuries as a result of ingestion of metoclopramide or its brand name, Reglan, prior to the FDA's February 2009 Black Box warning requirement. In August 2012, we were dismissed with prejudice from all New Jersey complaints. In August 2016, we settled the outstanding California short form complaints and in February 2018, we settled the remaining four complaints that were not captured in the 2016 settlement. We consider our exposure to this litigation to be limited due to several factors: (1) the only generic metoclopramide that we manufactured prior to the implementation of the FDA's warning requirement was an oral solution introduced after May 28, 2008; (2) our market share for the oral solution was a very small portion of the overall metoclopramide market; and (3) once we received a request for change of labeling from the FDA, we submitted our proposed changes within 30 days, and such changes were subsequently approved by the FDA.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. COMMITMENTS AND CONTINGENCIES – continued

At the present time, we are unable to assess the likely outcome of the cases in the remaining states. Our insurance company has assumed the defense of this matter and paid all losses in settlement of the California cases. We cannot provide assurances that the outcome of these matters will not have an adverse effect on our business, financial condition, and operating results. Furthermore, like all pharmaceutical manufacturers, we may be exposed to other product liability claims in the future, which could limit our coverage under future insurance policies or cause those policies to become more expensive, which could harm our business, financial condition, and operating results.

Our ANDA for Erythromycin Ethylsuccinate (“EES”) was originally approved by the FDA on November 27, 1978. We purchased the EES ANDA from Teva on July 10, 2015, and subsequently launched EES on September 27, 2016. In August 2016, we filed with the FDA to reintroduce this product under a Changes Being Effected in 30 Days submission (a “CBE-30 submission”). Under a CBE-30 submission, certain defined changes to an ANDA can be made if the FDA does not object in writing within 30 days. The FDA’s regulations, guidance documents, and historic actions support the filing of a CBE-30 for the types of changes that we proposed for our EES ANDA. We received no formal written letter from the FDA within 30 days of the CBE-30 submission date, and as such, launched the product in accordance with FDA regulations. On December 16, 2016, and nearly four months after our CBE-30 submission, the FDA sent us a formal written notice that a Prior Approval Supplement (“PAS”) was required for this ANDA. Under a PAS, proposed changes to an ANDA cannot be implemented without prior review and approval by the FDA. Because we did not receive this notice in the timeframe prescribed by the FDA’s regulations, we believe that our supplemental ANDA is valid, and as such continued to market the product. In addition, we filed a PAS which was approved by the FDA on November 2, 2018.

On or about September 20, 2017, the Company and certain of its employees were served with search warrants and/or grand jury subpoenas to produce documents and possibly testify relating to a federal investigation of the generic pharmaceutical industry. The Company has been cooperating and intends to continue cooperating with the investigation. However, no assurance can be given as to the timing or outcome of the investigation.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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13. FAIR VALUE DISCLOSURES

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework that prioritizes and ranks the level of observability of inputs used in measuring fair value.

The inputs used in measuring the fair value of cash and cash equivalents are considered to be level 1 in accordance with the three-tier fair value hierarchy. The fair market values are based on period-end statements supplied by the various banks and brokers that held the majority of our funds. The fair value of short-term financial instruments (primarily accounts receivable, prepaid expenses, accounts payable, accrued expenses, borrowings under line of credit, and other current liabilities) approximate their carrying values because of their short-term nature. While our Notes are recorded on our accompanying unaudited interim condensed consolidated balance sheets at their net carrying value of \$134.1 million as of September 30, 2018, the Notes are being traded on the bond market and their fair value is \$146.8 million, based on their closing price on September 30, 2018, a Level 1 input.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our contingent value rights (“CVRs”), which were granted coincident with our merger with BioSante and expire in June 2023, are considered contingent consideration and are classified as liabilities. As such, the CVRs were recorded as purchase consideration at their estimated fair value, using level 3 inputs, and are marked to market each reporting period until settlement. The fair value of CVRs is estimated using the present value of our projection of the expected payments pursuant to the terms of the CVR agreement, which is the primary unobservable input. If our projection or expected payments were to increase substantially, the value of the CVRs could increase as a result. The present value of the liability was calculated using a discount rate of 15%. We determined that the fair value of the CVRs was immaterial as of September 30, 2018 and December 31, 2017. We also determined that the changes in such fair value were immaterial in the three and nine months ended September 30, 2018 and 2017.

In April 2018, we entered into an interest rate swap (Note 5) to manage our exposure to the variable interest rate on our Term Loan (Note 4). The notional amount of our interest rate swap is set to match the balance of our Term Loan. Both the notional amount of the interest rate swap and the balance of our Term Loan were \$72.2 million as of

September 30, 2018. The fair value of our interest rate swap is estimated based on the present value of projected future cash flows using the LIBOR forward rate curve. The model used to value the interest rate swap includes inputs of readily observable market data, a Level 2 input. As described in detail in Note 5, the fair value of the interest rate swap was a \$0.7 million asset at September 30, 2018.

ANI PHARMACEUTICALS, INC. and subsidiarIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited)***13. FAIR VALUE DISCLOSURES – continued**

The following table presents our financial assets and liabilities accounted for at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, by level within the fair value hierarchy:

(in thousands)

Description	Fair Value at September 30, 2018	Level 1	Level 2	Level 3
Assets				
Interest rate swap	\$ 699	\$ -	\$ 699	\$ -
Liabilities				
CVRs	\$ -	\$ -	\$ -	\$ -

Description	Fair Value at December 31, 2017	Level 1	Level 2	Level 3
Assets				
Interest rate swap	\$ -	\$ -	\$ -	\$ -
Liabilities				
CVRs	\$ -	\$ -	\$ -	\$ -

Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

We do not have any financial assets and liabilities that are measured at fair value on a non-recurring basis.

Non-Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

We do not have any non-financial assets and liabilities that are measured at fair value on a recurring basis.

Non-Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

We measure our long-lived assets, including property, plant, and equipment, intangible assets, and goodwill, at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. No such fair value impairment was recognized in the three and nine months ended September 30, 2018 and 2017. Please see Note 3 for discussion of assets and liabilities acquired in the acquisition of WellSpring.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

13. FAIR VALUE DISCLOSURES – continued

Acquired Non-Financial Assets Measured at Fair Value

In April 2018, we entered into an agreement with Impax Laboratories, Inc. (now Amneal) to purchase the approved ANDAs for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for \$2.3 million in cash (Note 9). At the same time, we entered into a supply agreement with Amneal under which we may elect to purchase the finished goods for one of the products for up to 17 months beginning October 1, 2019, under certain conditions. If we do elect to purchase the finished goods from Amneal for this period, we may be required to pay a milestone payment of up to \$10.0 million upon launch, depending on the number of competitors selling the product at the time of launch. This milestone payment was determined to be contingent consideration and will be recognized when the contingency is resolved. When one of the approved ANDAs that have not yet been commercialized is launched, we could be required to pay a milestone of \$25.0 million to Teva Pharmaceuticals (“Teva”), depending on the number of competitors selling the product at the time of launch. In addition, depending on the number of competitors selling the product one year after the launch date, we could be required to pay a second milestone of \$15.0 million to Teva. These milestones are determined to be contingent liabilities and will be recognized if and when they are both estimable and probable. Because we believe that neither milestone is both estimable and probable, we did not record a contingent liability for the milestones. We made the \$2.3 million cash payment using cash on hand and capitalized \$0.1 million of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The \$1.0 million acquired ANDA intangible assets were recorded at their relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the acquired ANDA intangible assets, we used the present value of the estimated cash flows related to the approved ANDAs, using discount rates of 10 to 15%. The acquired ANDAs will be amortized in full over their 10-year useful lives, and will be tested for impairment when events or circumstances indicate that the carrying value of the assets may not be recoverable. The \$58 thousand of manufacturing equipment used to manufacture one of the products was recorded at its relative fair value, based on the estimated net book value of the equipment purchased. The equipment will be amortized in full over its 5-year useful life, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to September 30, 2018 and therefore no impairment loss was recognized for the nine months ended September 30, 2018. The \$1.3 million of in-process research and development related to products with significant further work required in order to commercialize the products, and for which there is no alternative future use. The in-process research and development was recorded at its relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the in-process research and development, we used the present value of the estimated cash flows related to the

products, using a discount rate of 75%, reflective of the higher risk associated with these products. As the transaction was accounted for as an asset purchase, the \$1.3 million of in-process research and development was immediately recognized as research and development expense.

In April 2018, we entered into an agreement with IDT Australia, Limited to purchase the ANDAs for 23 previously-marketed generic drug products and API for four of the acquired products for \$2.7 million in cash and a single-digit royalty on net profits from sales of one of the products (Note 9). We made the \$2.7 million cash payment using cash on hand and capitalized \$18 thousand of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The \$2.5 million acquired ANDA intangible assets were recorded at their relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible assets, we used the present value of the estimated cash flows related to the product rights, using discount rates of 10% to 15%. The acquired ANDA intangible assets will be amortized in full over their 10-year useful lives, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to September 30, 2018 and therefore no impairment loss was recognized for the nine months ended September 30, 2018. We also recorded \$0.2 million of raw materials inventory, measured at fair value. The fair value of the raw materials inventory was determined based on the estimated replacement cost.

ANI PHARMACEUTICALS, INC. and subsidiarIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

13. FAIR VALUE DISCLOSURES – continued

In December 2017, we entered into an agreement with AstraZeneca AB and AstraZeneca UK Limited to purchase the right, title, and interest in the NDAs and the U.S. right to market Atacand, Atacand HCT, Arimidex, and Casodex, for \$46.5 million in cash (Note 9). We also licensed these trademarks for use in the U.S. We made the \$46.5 million cash payment with funds from our Term Loan (Note 3) and capitalized \$0.2 million of costs directly related to the asset purchase. The agreement included a \$3.0 million contingent payment due in early 2023 if the annual net sales of the Atacand and Atacand HCT products equals or exceeds certain threshold amounts in 2020, 2021, and 2022. Because we believe that the likelihood of meeting or exceeding the threshold amounts is not probable, we did not record a contingent liability in relation to the agreement. We accounted for this transaction as an asset purchase. The \$46.7 million product rights intangible assets were recorded at their relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible assets, we used the present value of the estimated cash flows related to the product rights, using a discount rate of 10%. The product rights will be amortized in full over their 10-year useful lives, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to September 30, 2018 and therefore no impairment loss was recognized for the nine months ended September 30, 2018.

In February 2017, we entered into an agreement with Cranford Pharmaceuticals, LLC to purchase a distribution license, trademark, and certain finished goods inventory for Inderal XL for \$20.2 million in cash (Note 9). We made the \$20.2 million cash payment using cash on hand and capitalized \$40 thousand of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The \$15.1 million product rights intangible asset was recorded at its relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible asset, we used the present value of the estimated cash flows related to the product rights, using a discount rate of 10%. The product rights will be amortized in full over its 10-year useful life, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to September 30, 2018 and therefore no impairment loss was recognized for the nine months ended September 30, 2018. We also recorded \$5.0 million of finished goods inventory. The fair value of the finished goods inventory was determined based on the estimated selling price to be generated from the finished goods, less costs to sell, including a reasonable margin.

In February 2017, we entered into an agreement with Holmdel Pharmaceuticals, LP to purchase the NDA, trademark, and certain finished goods inventory for InnoPran XL, including a license to an Orange Book listed patent, for \$30.6

million in cash (Note 9). We made the \$30.6 million cash payment using \$30.0 million of funds from our former Line of Credit and \$0.6 million of cash on hand. We also capitalized \$0.1 million of costs directly related to the asset purchase. We accounted for this transaction as an asset purchase. The \$19.0 million product rights intangible asset was recorded at its relative fair value, determined using Level 3 unobservable inputs. In order to determine the fair value of the product rights intangible asset, we used the present value of the estimated cash flows related to the product rights, using a discount rate of 10%. The product rights will be amortized in full over its 10-year useful life, and will be tested for impairment when events or circumstances indicate that the carrying value of the asset may not be recoverable. No such triggering events were identified during the period from the date of acquisition to September 30, 2018 and therefore no impairment loss was recognized for the nine months ended September 30, 2018. We also recorded \$11.6 million of finished goods inventory. The fair value of the finished goods inventory was determined based on the estimated selling price to be generated from the finished goods, less costs to sell, including a reasonable margin.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and the accompanying notes thereto included in Part I, Item 1 of this Form 10-Q quarterly report. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

EXECUTIVE OVERVIEW

ANI Pharmaceuticals, Inc. and its consolidated subsidiaries, ANIP Acquisition Company and ANI Pharmaceuticals Canada Inc. (together, "ANI," the "Company," "we," "us," or "our") is an integrated specialty pharmaceutical company focused on delivering value to our customers by developing, manufacturing, and marketing high quality branded and generic prescription pharmaceuticals. We focus on niche and high barrier to entry opportunities including controlled substances, anti-cancer (oncolytics), hormones and steroids, and complex formulations. We have three pharmaceutical manufacturing facilities, two located in Baudette, Minnesota and one located in Oakville, Canada, which are capable of producing oral solid dose products, as well as liquids and topicals, controlled substances, and potent products that must be manufactured in a fully-contained environment.

Our strategy is to use our assets to develop, acquire, manufacture, and market branded and generic specialty prescription pharmaceuticals. By executing this strategy, we believe we will be able to continue to grow our business, expand and diversify our product portfolio, and create long-term value for our investors.

As of September 30, 2018, our products include both branded and generic pharmaceuticals, specifically:

Generic Products

Cholestyramine

Desipramine Hydrochloride

Diphenoxylate Hydrochloride and Atropine Sulfate

Erythromycin Ethylsuccinate

Esterified Estrogen with Methyltestosterone

Etodolac

Ezetimibe-Simvastatin

Felbamate

Fenofibrate

Flecainide

Fluvoxamine

Hydrocortisone Enema

Hydrocortisone Rectal Cream (1% and 2.5%)

Indapamide

Lithium Carbonate ER

Mesalamine Enema

Methazolamide

Metoclopramide Syrup

Morphine Sulfate Oral Solution

Nilutamide

Nimodipine

Branded Products

Arimidex

Casodex

Cortenema

Inderal LA

Inderal XL

InnoPran XL

Lithobid

Reglan

Vancocin

Opium Tincture

Oxycodone Capsules

Oxycodone Hydrochloride Oral Solution (5 mg/5 mL)

Oxycodone Hydrochloride Oral Solution (100 mg/5 mL)

Pindolol

Propafenone

Propranolol ER

Vancomycin

We consider a variety of criteria in determining which products to develop, all of which influence the level of competition upon product launch. These criteria include:

Formulation Complexity. Our development and manufacturing capabilities enable us to manufacture pharmaceuticals that are difficult to produce, including highly potent, extended release, combination, and low dosage products. This ability to manufacture a variety of complex products is a competitive strength that we intend to leverage in selecting products to develop or manufacture.

Patent Status. We seek to develop products whose branded bioequivalents do not have long-term patent protection or existing patent challenges.

Market Size. When determining whether to develop or acquire an individual product, we review the current and expected market size for that product at launch, as well as forecasted price erosion upon conversion from branded to generic pricing. We endeavor to manufacture products with sufficient market size to enable us to enter the market with a strong likelihood of being able to price our products both competitively and at a profit.

Profit Potential. We research the availability and cost of active pharmaceutical ingredients in determining which products to develop or acquire. In determining the potential profit of a product, we forecast our anticipated market share, pricing, including the expected price erosion caused by competition from other generic manufacturers, and the estimated cost to manufacture the products.

Manufacturing. We generally seek to develop and manufacture products at our own manufacturing plants in order to optimize the utilization of our facilities, ensure quality control in our products, and maximize profit potential.

Competition. When determining whether to develop or acquire a product, we research existing and expected competition. We seek to develop products for which we can obtain sufficient market share, and may decline to develop a product if we anticipate significant competition. Our specialized manufacturing facilities provide a means of entering niche markets, such as hormone therapies, in which fewer generic companies are able to compete.

Recent Developments

Acquisition of WellSpring Pharma Services Inc.

On August 6, 2018, our subsidiary, ANI Pharmaceuticals Canada Inc. (“ANI Canada”), acquired all the issued and outstanding equity interests of WellSpring, a Canadian company that performs contract development and manufacturing of pharmaceutical products for a purchase price of \$18.0 million, subject to certain customary adjustments. Subject to further adjustments, the estimated consideration was \$17.3 million. The consideration was paid entirely from cash on hand. In conjunction with the transaction, we acquired WellSpring’s pharmaceutical manufacturing facility, laboratory, and offices, its current book of commercial business, as well as an organized workforce. Following the consummation of the transaction, WellSpring was merged into ANI Canada with the resulting entity’s name being ANI Pharmaceuticals Canada Inc.

We acquired WellSpring to provide an additional tech transfer site in order to accelerate the re-commercialization of the previously-approved ANDAs in our pipeline, to expand our contract manufacturing revenue base, and to broaden our manufacturing capabilities to three manufacturing facilities.

Launch of Authorized Generic of Atacand HCT Tablets

In October 2018, we launched Candesartan Hydrochlorothiazide Tablets, 16mg/12.5mg, 32mg/12.5mg, and 32mg/25mg, an authorized generic of Atacand HCT, for the treatment of hypertension.

Launch of Authorized Generic of Brethine

In October 2018, we launched Terbutaline Sulfate Tablets USP, 2.5mg and 5mg, an authorized generic of Brethine. Terbutaline sulfate is indicated for the prevention and reversal of bronchospasm in patients 12 years of age and older with asthma and reversible bronchospasm associated with bronchitis and emphysema.

Cortrophin Gel Re-commercialization Update

In the third quarter of 2018, we continued commercial scale manufacturing of Corticotropin API. Thus far, commercial scale Corticotropin API appears to be consistent with the pilot scale batches previously manufactured, and moreover, consistent with legacy API batches that had been manufactured previously. We are on track to initiate API process validation, viral clearance validation and API registration batch manufacturing in the first quarter of 2019.

We have finalized development of all API and drug product analytical methods to be used to support the API characterization package. Analytical methods to be used for batch release and stability have also been developed and will be validated prior to initiation of process validation and registration batch manufacturing, specifically by the first quarter of 2019 for API and by the second quarter of 2019 for drug product.

We continued to manufacture Cortrophin Gel finished dose drug product, which has been placed on stability. Commercial scale drug product manufacturing activities are scheduled to begin in the fourth quarter of 2018, utilizing API that was also manufactured at commercial scale. We are on track to initiate media fill simulations in the first quarter of 2019 and drug product process validation and registration batch manufacturing in the second quarter of 2019.

Vancocin Oral Solution Update

We are currently advancing a commercialization effort for Vancocin oral solution. We filed a prior approval supplement (“PAS”) for the product in September 2018. This product will be manufactured at our site in Baudette, Minnesota.

GENERAL

The following table summarizes our results of operations for the periods indicated:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenues	\$ 50,703	\$ 48,164	\$ 144,454	\$ 129,556
Operating expenses				
Cost of sales (exclusive of depreciation and amortization)	15,605	21,078	52,891	58,586
Research and development	4,667	2,634	11,906	6,419
Selling, general, and administrative	11,769	8,022	30,687	22,695
Depreciation and amortization	8,548	7,099	25,056	20,906
Operating income	10,114	9,331	23,914	20,950
Interest expense, net	(3,768)	(3,052)	(11,132)	(9,009)
Other income/(expense), net	20	95	(71)	58
Income before provision for income taxes	6,366	6,374	12,711	11,999
Provision for income taxes	(1,329)	(1,654)	(2,647)	(3,446)
Net income	\$ 5,037	\$ 4,720	\$ 10,064	\$ 8,553

The following table sets forth, for all periods indicated, items in our unaudited interim condensed consolidated statements of operations as a percentage of net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,					
	2018	2017	2018	2017				
Net revenues	100.0	%	100.0	%	100.0	%	100.0	%
Operating expenses								
Cost of sales (exclusive of depreciation and amortization)	30.8	%	43.8	%	36.6	%	45.2	%
Research and development	9.2	%	5.5	%	8.2	%	5.0	%
Selling, general, and administrative	23.2	%	16.7	%	21.3	%	17.5	%
Depreciation and amortization	16.9	%	14.7	%	17.3	%	16.1	%
Operating income	19.9	%	19.3	%	16.6	%	16.2	%
Interest expense, net	(7.4	)%	(6.3	)%	(7.8	)%	(7.0)%
Other income/(expense), net	-	%	0.2	%	-	%	-	%
Income before provision for income taxes	12.5	%	13.2	%	8.8	%	9.2	%

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Provision for income taxes	(2.6)%	(3.4)%	(1.8)%	(2.7)%
Net income	9.9	%	9.8	%	7.0	%	6.5	%

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RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**Net Revenues**

(in thousands)	Three Months Ended September 30,		Change	Change	
	2018	2017		%	%
Generic pharmaceutical products	\$ 30,287	\$ 30,546	\$(259)	(0.8)	%
Branded pharmaceutical products	14,589	15,688	(1,099)	(7.0)	%
Contract manufacturing	2,826	1,829	997	54.5	%
Royalty and other income	3,001	101	2,900	NM	(1)
Total net revenues	\$ 50,703	\$ 48,164	\$2,539	5.3	%

(1)Not Meaningful

We derive substantially all of our revenues from sales of generic and branded pharmaceutical products, contract manufacturing, and royalty and other income, which includes royalties on net sales of certain products, as well as product development services and laboratory services. We adopted the Financial Accounting Standards Boards (“FASB’s”) guidance for revenue recognition for contracts on January 1, 2018, using the modified retrospective method. The adoption of this guidance did not have a material impact on our net revenues.

Net revenues for the three months ended September 30, 2018 were \$50.7 million compared to \$48.2 million for the same period in 2017, an increase of \$2.5 million, or 5.3%, primarily as a result of the following factors:

Net revenues for generic pharmaceutical products were \$30.3 million during the three months ended September 30, 2018, a decrease of 0.8% compared to \$30.5 million for the same period in 2017. The primary reason for the decrease was volume decreases for Fenofibrate, Esterified Estrogen with Methyltestosterone (“EEMT”), and Nilutamide, tempered by the second quarter 2018 launch of Ezetimibe-Simvastatin.

As described in Note 12, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we market EEMT and Opium Tincture without FDA approved NDAs. The FDA's policy with respect to the continued marketing of unapproved products appears in the FDA's September 2011 Compliance Policy Guide Sec. 440.100 titled “Marketed New Drugs without Approved NDAs or ANDAs. Under this policy, the FDA has stated that it will follow a risk-based approach with regard to enforcement against marketing of unapproved products. The FDA evaluates whether to initiate enforcement action on a case-by-case basis, but gives higher priority to enforcement action against products in certain categories, such as those with potential safety risks or that lack evidence of effectiveness. While we believe that, so long as we

comply with applicable manufacturing standards, the FDA will not take action against us under the current enforcement policy, we can offer no assurances that the FDA will continue this policy or not take a contrary position with any individual product or group of products. Our combined net revenues for these products for the three months ended September 30, 2018 and 2017 were \$6.2 million and \$7.9 million, respectively.

Net revenues for branded pharmaceutical products were \$14.6 million during the three months ended September 30, 2018, a decrease of 7.0% compared to \$15.7 million for the same period in 2017. The primary reason for this decrease was lower revenue from Inderal LA due to decreased unit sales and price decreases and lower revenue from Vancocin due decreased unit sales, tempered by sales of Casodex and Arimidex, which were launched in July 2018 and sales of Inderal XL and InnoPran XL, both of which were re-launched under our label in the first quarter of 2018.

Contract manufacturing revenues were \$2.8 million during the three months ended September 30, 2018, an increase of 54.5% compared to \$1.8 million for the same period in 2017, due primarily to contract manufacturing revenue in our ANI Canada subsidiary, partially offset by timing of orders from contract manufacturing customers in the period. We acquired WellSpring in August 2018. As described in Note 12, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we contract manufacture a group of products on behalf of a customer that are marketed by that customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our contract manufacturing revenues for the group of unapproved products for both the three months ended September 30, 2018 and 2017 were \$0.6 million.

Royalty and other income were \$3.0 million during the three months ended September 30, 2018, an increase of \$2.9 million from \$0.1 million for the same period in 2017, due primarily to royalties on sales of Atacand and Atacand HCT. We acquired the right, title, and interest in the NDAs and the U.S. right to market these products in December 2017. During the three months ended September 30, 2018, we also recognized \$0.5 million of royalties from a license for patent rights initially owned by Cell Genesys, which merged with BioSante in 2009. The royalties stem from sales and milestones related to the Yescarta® product. Royalty and other income also includes the impact of product development and laboratory services revenue from our ANI Canada subsidiary.

As described in Note 12, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we receive royalties on the net sales of a group of contract-manufactured products, which are marketed by the customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our royalties on the net sales of these unapproved products were less than 1% of total revenues for the three months ended September 30, 2018 and 2017.

Cost of Sales (Excluding Depreciation and Amortization)

(in thousands)	Three Months Ended September 30,			
	2018	2017	Change	% Change
Cost of sales (excl. depreciation and amortization)	\$ 15,605	\$ 21,078	\$(5,473)	(26.0)%

Cost of sales consists of direct labor, including manufacturing and packaging, active and inactive pharmaceutical ingredients, freight costs, packaging components, and royalties related to profit-sharing arrangements. Cost of sales does not include depreciation and amortization expense, which is reported as a separate component of operating expenses on our unaudited interim condensed consolidated statements of operations.

For the three months ended September 30, 2018, cost of sales decreased to \$15.6 million from \$21.1 million for the same period in 2017, a decrease of \$5.5 million or 26.0%, primarily due to lower sales of products subject to profit-sharing arrangements, as well as the lack of \$2.8 million of costs of sales related to the excess of fair value over cost on Inderal XL and InnoPran XL inventory, which impacted 2017. Cost of sales as a percentage of net revenues decreased to 30.8% during the three months ended September 30, 2018, from 43.8% during same period in 2017, primarily as a result of increased royalty income and lower sales of products subject to profit-sharing arrangements. Cost of sales in the three months ended September 30, 2017 also included \$2.8 million net impact on costs of sales (5.7% as a percent of net revenues) of the excess of fair value over cost for Inderal XL and InnoPran XL inventory sold during the period.

We source the raw materials for our products, including APIs from both domestic and international suppliers. Generally, only a single source of API is qualified for use in each product due to the cost and time required to validate a second source of supply. Changes in API suppliers usually must be approved by the FDA, which can take 18 months or longer. As a result, we are dependent upon our current vendors to reliably supply the API required for on-going product manufacturing. In addition, certain of our API for our drug products, including those that are marketed without approved NDAs or ANDAs, are sourced from international suppliers. From time to time, we have experienced temporary disruptions in the supply of certain of such imported APIs due to FDA inspections.

During the three months ended September 30, 2018, we purchased 36% of our inventory (exclusive of inventory acquired in the acquisition of WellSpring as described in Note 3, *Business Combinations*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report) from one supplier. As of September 30, 2018, the amounts payable to this supplier was immaterial. In the three months ended September 30, 2017, we purchased approximately 40% of our inventory (exclusive of inventory acquired in asset purchases as described in Note 13, *Fair Value Disclosures*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report) from two suppliers.

In order to manufacture Opium Tincture, Oxycodone capsules, and Oxycodone oral solution, we must receive approval from the Drug Enforcement Agency (“DEA”) for a quota to purchase the amount of opium and oxycodone needed to manufacture the respective products. Without approved quotas from the DEA, we would not be able to purchase these ingredients from our suppliers. As a result, we are dependent upon the DEA to annually approve a sufficient quota of API to support our continued manufacture of Opium Tincture, Oxycodone capsules, and Oxycodone oral solution.

Other Operating Expenses

(in thousands)	Three Months Ended September 30,				
	2018	2017	Change	% Change	
Research and development	\$ 4,667	\$ 2,634	\$ 2,033	77.2	%
Selling, general, and administrative	11,769	8,022	3,747	46.7	%
Depreciation and amortization	8,548	7,099	1,449	20.4	%
Total other operating expenses	\$ 24,984	\$ 17,755	\$ 7,229	40.7	%

Other operating expenses consist of research and development costs, selling, general, and administrative expenses, and depreciation and amortization.

For the three months ended September 30, 2018, other operating expenses increased to \$25.0 million from \$17.8 million for the same period in 2017, an increase of \$7.2 million, or 40.7%, primarily as a result of the following factors:

Research and development expenses increased from \$2.6 million to \$4.7 million, an increase of 77.2%, due to timing of work on development projects, primarily the Cortrophin gel re-commercialization project and work on the ANDAs acquired in the asset purchase agreement with Impax Laboratories, Inc. (now Amneal). We anticipate that research and development costs will continue to be greater in 2018 than in 2017, in support of our strategy to expand our product portfolio and as we continue to focus on the development of our Cortrophin product.

Selling, general, and administrative expenses increased from \$8.0 million to \$11.8 million, an increase of 46.7%, primarily due to increases in personnel and related costs and costs associated with the WellSpring acquisition. We anticipate that selling, general, and administrative expenses will continue to be greater in 2018 than in 2017 as we support anticipated additional revenue growth.

Depreciation and amortization increased from \$7.1 million to \$8.5 million, an increase of 20.4%, primarily due to the amortization of the rights, title, and interest in the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, which were acquired in December 2017. We anticipate that depreciation and amortization expense will continue to be greater in 2018 than in 2017 as a result of our amortization of the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, which were acquired in late December 2017 and the amortization of the ANDAs acquired in April and May 2018.

Other Expense, net

(in thousands)	Three Months Ended September 30,					
	2018		2017		Change	% Change
Interest expense, net	\$ (3,768	)	\$ (3,052	)	\$ (716)	23.5 %
Other (expense)/income, net	20		95		(75)	(78.9)%
Total other expense, net	\$ (3,748	)	\$ (2,957	)	\$ (791)	26.8 %

For the three months ended September 30, 2018, we recognized other expense of \$3.7 million versus other expense of \$3.0 million for the same period in 2017, an increase of \$0.8 million. Interest expense, net for 2018 consists primarily of interest expense on our convertible debt and interest expense on borrowings under our term loan. Interest expense, net for 2017 consisted primarily of interest expense on our convertible debt and interest expense on borrowings under our former line of credit. For the three months ended September 30, 2018 and 2017, there was \$0.2 million and \$0.1 million of interest capitalized into construction in progress, respectively.

Provision for Income Taxes

(in thousands)	Three Months Ended September 30,					
	2018		2017		Change	% Change
Provision for income taxes	\$ (1,329	)	\$ (1,654	)	\$ 325	(19.6)%

Our provision for income taxes consists of current and deferred components, which include changes in our deferred tax assets, our deferred tax liabilities, and our valuation allowance.

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate expected for the entire year plus the effects of certain discrete items occurring in the quarter. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in temporary and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in temporary differences, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they occur. Our estimated annual effective tax rate changes throughout the year as our on-going estimates of pre-tax income, changes in temporary differences, and permanent differences are revised, and as discrete items occur.

For the three months ended September 30, 2018, we recognized income tax expense of \$1.3 million, versus \$1.7 million for the same period in 2017, a decrease of \$0.3 million. The estimated consolidated effective tax rate for the three months ended September 30, 2018, calculated after excluding the taxable losses projected in our Canadian operations for which no tax benefit can be recognized, was 20.9% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in the third quarter. Our effective tax rate for the three months ended September 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the three months ended September 30, 2017 was 25.9% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017. Our effective tax rate for the three months ended September 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**Net Revenues**

(in thousands)	Nine Months Ended September 30,				
	2018	2017	Change	% Change	
Generic pharmaceutical products	\$ 83,716	\$ 88,608	\$(4,892)	(5.5)%
Branded pharmaceutical products	41,714	35,398	6,316	17.8	%
Contract manufacturing	5,450	5,151	299	5.8	%
Royalty and other income	13,574	399	13,175	NM	(1)
Total net revenues	\$ 144,454	\$ 129,556	\$14,898	11.5	%

(1)Not Meaningful

Net revenues for the nine months ended September 30, 2018 were \$144.5 million compared to \$129.6 million for the same period in 2017, an increase of \$14.9 million, or 11.5%, primarily as a result of the following factors:

Net revenues for generic pharmaceutical products were \$83.7 million during the nine months ended September 30, 2018, a decrease of 5.5% compared to \$88.6 million for the same period in 2017. The primary reason for the decrease was volume decreases for Fenofibrate, EEMT, and Nilutamide, as well as sales decreases for Propranolol ER driven by price, tempered by the impact of the second quarter 2017 launch of Diphenoxylate Hydrochloride and Atropine Sulfate and the second quarter 2018 launch of Ezetimibe-Simvastatin.

As described in Note 12, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we market EEMT and Opium Tincture without FDA approved NDAs. The FDA's policy with respect to the continued marketing of unapproved products appears in the FDA's September 2011 Compliance Policy Guide Sec. 440.100 titled "Marketed New Drugs without Approved NDAs or Abbreviated New Drug Applications ANDAs." Under this policy, the FDA has stated that it will follow a risk-based approach with regard to enforcement against marketing of unapproved products. The FDA evaluates whether to initiate enforcement action on a case-by-case basis, but gives higher priority to enforcement action against products in certain categories, such as those with potential safety risks or that lack evidence of effectiveness. While we believe that, so long as we comply with applicable manufacturing standards, the FDA will not take action against us under the current enforcement policy, we can offer no assurances that the FDA will continue this policy or not take a contrary position with any individual product or group of products. Our combined net revenues for these products for the nine months ended September 30, 2018 and 2017 were \$18.3 million and \$20.9 million, respectively.

Net revenues for branded pharmaceutical products were \$41.7 million during the nine months ended September 30, 2018, an increase of 17.8% compared to \$35.4 million for the same period in 2017. The primary reason for the increase was sales of Inderal XL and InnoPran XL, both of which were acquired in the first quarter of 2017, and which were re-launched under our label in the first quarter of 2018, as well as sales of Arimidex and Casodex, which were launched in July 2018. These increases were tempered by lower unit sales of Inderal LA and Vancocin.

Contract manufacturing revenues were \$5.5 million during the nine months ended September 30, 2018, an increase of 5.8% compared to \$5.2 million for the same period in 2017, due primarily to contract manufacturing revenue in our ANI Canada subsidiary, partially offset by timing of orders from contract manufacturing customers in the period. We acquired WellSpring in August 2018. As described in Note 12, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we contract manufacture a group of products on behalf of a customer that are marketed by that customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our contract manufacturing revenues for the group of unapproved products for the nine months ended September 30, 2018 and 2017 were \$1.6 million and \$1.5 million, respectively.

Royalty and other income were \$13.6 million during the nine months ended September 30, 2018, an increase of \$13.2 million from \$0.4 million for the same period in 2017, due primarily to royalties on sales of Atacand, Atacand HCT, Casodex, and Arimidex. We acquired the right, title, and interest in the NDAs and the U.S. right to market these products in December 2017. During the nine months ended September 30, 2018, we also recognized \$1.4 million of royalties from a license for patent rights initially owned by Cell Genesys, Inc., which merged with BioSante in 2009. The royalties stem from sales and milestones related to the Yescarta® product. Royalty and other income also includes the impact of product development and laboratory services revenue from our ANI Canada subsidiary.

As described in Note 12, *Commitments and Contingencies*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report, we receive royalties on the net sales of a group of contract-manufactured products, which are marketed by the customer without an FDA-approved NDA. If the FDA took enforcement action against such customer, the customer may be required to seek FDA approval for the group of products or withdraw them from the market. Our royalties on the net sales of these unapproved products were less than 1% of total revenues for the nine months ended September 30, 2018 and 2017.

Cost of Sales (Excluding Depreciation and Amortization)

(in thousands)	Nine Months Ended September 30,			
	2018	2017	Change	% Change
Cost of sales (excl. depreciation and amortization)	\$ 52,891	\$ 58,586	\$(5,695)	(9.7)%

For the nine months ended September 30, 2018, cost of sales decreased to \$52.9 million from \$58.6 million for the same period in 2017, a decrease of \$5.7 million or 9.7%, primarily due to lower sales of products subject to profit-sharing arrangements, as well as the lack of \$7.5 million of costs of sales related to the excess of fair value over cost on Inderal XL and InnoPran XL inventory, which impacted 2017. This decrease was tempered by \$5.6 million of cost of sales related to the excess of fair value over costs on Inderal XL and InnoPran XL inventory and the write-off of remaining inventory acquired as part of the acquisition when we re-launched the products under our own label during the first quarter of 2018. Cost of sales as a percentage of net revenues decreased to 36.6% during the nine

months ended September 30, 2018, from 45.2% during same period in 2017, primarily as a change in product mix towards higher-margin brand products and lower sales of products subject to profit-sharing arrangements. Cost of sales in the nine months ended September 30, 2017 also included \$7.5 million net impact on cost of sales (5.8% as a percent of net revenues) of the excess of fair value over the cost for Inderal XL and InnoPran XL inventory sold during the period.

During the nine months ended September 30, 2018, we purchased 25% of our inventory (exclusive of inventory acquired in the acquisition of WellSpring as described in Note 3, *Business Combinations*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report) from two suppliers. As of September 30, 2018, the amounts payable to these suppliers was immaterial. During the nine months ended September 30, 2017, we purchased 24% of our inventory (exclusive of inventory acquired in asset purchases as described in Note 13, *Fair Value Disclosures*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report) from two suppliers.

Other Operating Expenses

(in thousands)	Nine Months Ended September 30,				
	2018	2017	Change	% Change	
Research and development	\$ 11,906	\$ 6,419	\$5,487	85.5	%
Selling, general, and administrative	30,687	22,695	7,992	35.2	%
Depreciation and amortization	25,056	20,906	4,150	19.9	%
Total other operating expenses	\$ 67,649	\$ 50,020	\$17,629	35.2	%

For the nine months ended September 30, 2018, other operating expenses increased to \$67.6 million from \$50.0 million for the same period in 2017, an increase of \$17.6 million, or 35.2%, primarily as a result of the following factors:

Research and development expenses increased from \$6.4 million to \$11.9 million, an increase of 85.5%, due to timing of work on development projects, primarily the Cortrophin gel re-commercialization project and work on the ANDAs acquired in the asset purchase agreement with Impax Laboratories, Inc. (now Amneal), as well as \$1.3 million of expense related to in-process research and development acquired from Amneal in an asset purchase in May. We anticipate that research and development costs will continue to be greater in 2018 than in 2017, in support of our strategy to expand our product portfolio and as we continue to focus on the development of our Cortrophin product.

Selling, general, and administrative expenses increased from \$22.7 million to \$30.7 million, an increase of 35.2%, primarily due to increases in personnel and related costs and costs associated with the WellSpring acquisition. We anticipate that selling, general, and administrative expenses will continue to be greater in 2018 than in 2017 as we support anticipated additional revenue growth.

Depreciation and amortization increased from \$20.9 million to \$25.1 million, an increase of 19.9%, primarily due to the amortization of the rights, title, and interest in the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, which were acquired in December 2017. We anticipate that depreciation and amortization expense will continue to be greater in 2018 than in 2017 as a result of our amortization of the NDAs for Atacand, Atacand HCT, Arimidex, and Casodex, which were acquired in late December 2017 and the amortization of the ANDAs acquired in April and May 2018.

Other Expense, net

(in thousands)	Nine Months Ended September 30,			
	2018	2017	Change	% Change

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Interest expense, net	\$ (11,132)	\$ (9,009)	\$(2,123)	23.6	%
Other (expense)/income, net	(71)	58		(129)	(222.4)%
Total other expense, net	\$ (11,203	)	\$ (8,951	)	\$(2,252)	25.2	%

For the nine months ended September 30, 2018, we recognized other expense of \$11.2 million versus other expense of \$9.0 million for the same period in 2017, an increase of \$2.3 million. Interest expense, net for 2018 consists primarily of interest expense on our convertible debt and interest expense on borrowings under our term loan. Interest expense, net for 2017 consisted primarily of interest expense on our convertible debt and interest expense on borrowings under our former line of credit. For the nine months ended September 30, 2018 and 2017, there was \$0.6 million and \$0.4 million of interest capitalized into construction in progress, respectively.

Provision for Income Taxes

(in thousands)	Nine Months Ended September 30,			
	2018	2017	Change	% Change
Provision for income taxes	\$ (2,647)	\$ (3,446)	\$ 799	(23.2)%

For interim periods, we recognize an income tax provision/(benefit) based on our estimated annual effective tax rate expected for the entire year plus the effects of certain discrete items occurring in the quarter. The interim annual estimated effective tax rate is based on the statutory tax rates then in effect, as adjusted for estimated changes in temporary and estimated permanent differences, and excludes certain discrete items whose tax effect, when material, is recognized in the interim period in which they occur. These changes in temporary differences, permanent differences, and discrete items result in variances to the effective tax rate from period to period. We also have elected to exclude the impacts from significant pre-tax non-recognized subsequent events from our interim estimated annual effective rate until the period in which they occur. Our estimated annual effective tax rate changes throughout the year as our on-going estimates of pre-tax income, changes in temporary differences, and permanent differences are revised, and as discrete items occur.

For the nine months ended September 30, 2018, we recognized income tax expense of \$2.6 million, versus \$3.4 million for the same period in 2017, a decrease of \$0.8 million. The estimated consolidated effective tax rate for the nine months ended September 30, 2018, calculated after excluding the taxable losses projected in our Canadian operations for which no tax benefit can be recognized, was 20.8% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2018 plus the effects of certain discrete items occurring in 2018. Our effective tax rate for the nine months ended September 30, 2018 was impacted primarily by the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017 and lowered the U.S. corporate tax rate from 35% to 21%, beginning in 2018. Our effective tax rate was also impacted by the discrete impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

The effective tax rate for the nine months ended September 30, 2017 was 28.7% of pre-tax income reported in the period, calculated based on the estimated annual effective rate anticipated for the year ending December 31, 2017. Our effective tax rate for the nine months ended September 30, 2017 was impacted primarily by the Domestic Production Activities Deduction, as well as the impact of current period awards of stock-based compensation, stock option exercises, and disqualifying dispositions of incentive stock options, all of which impact the consolidated effective rate in the period in which they occur.

LIQUIDITY AND CAPITAL RESOURCES

The following table highlights selected liquidity and working capital information from our balance sheets:

(in thousands)	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 44,136	\$ 31,144
Accounts receivable, net	67,647	58,788
Inventories, net	40,006	37,727
Prepaid income taxes	-	1,162
Prepaid expenses and other current assets	5,004	2,784
Total current assets	\$ 156,793	\$ 131,605
Current component of long-term borrowing, net of deferred financing costs	\$ 5,692	\$ 3,353
Accounts payable	7,257	3,630
Accrued expenses and other	2,818	1,571
Accrued royalties	7,455	12,164
Accrued compensation and related expenses	2,773	2,306
Current income taxes payable	318	-
Accrued government rebates	9,014	7,930
Returned goods reserve	10,840	8,274
Deferred revenue	735	-
Total current liabilities	\$ 46,902	\$ 39,228

At September 30, 2018, we had \$44.1 million in unrestricted cash and cash equivalents. At December 31, 2017, we had \$31.1 million in unrestricted cash and cash equivalents. We generated \$39.8 million of cash from operations in the nine months ended September 30, 2018. In December 2017, we entered into a Credit Agreement with Citizens Bank, N.A. that includes a \$75.0 million five-year Term Loan, as well as a \$50.0 million Revolving Credit Facility, which remains undrawn at September 30, 2018. In April 2018, we entered into an interest rate swap to manage our exposure to the variable interest rate on our Term Loan. The interest rate swap hedges the variable cash flows associated with the Term Loan borrowings under the Term Loan, effectively providing a fixed rate of interest throughout the life of the Term Loan. In April 2018, we purchased from IDT Australia, Limited the ANDAs for 23 previously-marketed generic drug products and API for four of the acquired products for \$2.7 million in cash and a single-digit royalty on net profits from sales of one of the products. We made the \$2.7 million payment using cash on hand. In May 2018, we purchased from Impax Laboratories, Inc. (now Amneal) the approved ANDAs for three previously-commercialized generic drug products, the approved ANDAs for two generic drug products that have not yet been commercialized, the development package for one generic drug product, a license, supply, and distribution agreement for a generic drug product with an ANDA that is pending approval, and certain manufacturing equipment required to manufacture one of the products, for \$2.3 million in cash. We made the \$2.3 million payment using cash on hand. In August 2018, we acquired WellSpring Pharma Services Inc. (“WellSpring”), a Canadian company that performs contract development and manufacturing of pharmaceutical products for a purchase price of \$18.0 million, subject to certain customary adjustments. Subject to further adjustments, the estimated consideration was \$17.3 million. The consideration was

paid entirely from cash on hand. As a result of the transaction, we acquired WellSpring's pharmaceutical manufacturing facility, laboratory, and offices, current book of commercial business, as well as an organized workforce.

The Tax Cuts and Jobs Act, which was enacted on December 22, 2017, includes a number of changes to existing U.S. tax laws, most notably the reduction of the U.S. corporate income tax rate from 35% to 21%, beginning in 2018. We anticipate that our cash tax payments will decrease in 2018 as a result of this reduction in income tax rate.

We believe that our financial resources, consisting of current working capital, anticipated future operating revenue, and our revolving line of credit facility, will be sufficient to enable us to meet our working capital requirements for at least the next 12 months.

The following table summarizes the net cash and cash equivalents provided by/(used in) operating activities, investing activities, and financing activities for the periods indicated:

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Operating Activities	\$ 39,842	\$ 23,614
Investing Activities	\$ (26,972)	\$ (57,878)
Financing Activities	\$ 130	\$ 24,932

Net Cash Provided by Operations

Net cash provided by operating activities was \$39.8 million for the nine months ended September 30, 2018, compared to \$23.6 million during the same period in 2017, an increase of \$16.2 million. This increase was principally due to changes in working capital, as well as increased sales volume and corresponding gross profit dollars.

Net Cash Used in Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2018 was \$27.0 million, principally due to the preliminary payment of \$17.1 million of consideration, net of cash acquired, to acquire WellSpring, the April and May 2018 asset acquisitions of ANDAs for \$5.2 million, and \$4.7 million of capital expenditures during the period. Net cash used in investing activities for the nine months ended September 30, 2017 was \$57.9 million, principally due to the February 2017 \$20.3 million asset acquisition of the product rights for Inderal XL, the February 2017 \$30.7 million asset acquisition of the product rights for InnoPran XL, and \$6.9 million of capital expenditures during the period, primarily related to new equipment to expand our manufacturing capability as our product lines continue to grow.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$0.1 million for the nine months ended September 30, 2018, principally due to \$2.8 million of proceeds from stock option exercises, partially offset by \$1.9 million of payments on the Term Loan, \$0.7 million treasury stock purchased in relation to restricted stock vestings, and \$0.2 million of debt issuance fees paid in relation to the Term Loan. Net cash provided by financing activities was \$24.9 million for the nine months ended September 30, 2017, principally due to the \$25.0 million net draw-down on the line of credit.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In our unaudited interim condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, accruals for chargebacks, administrative fees and rebates, returns and other allowances, allowance for inventory obsolescence, valuation of financial instruments and intangible assets, accruals for contingent liabilities and litigation, fair value of long-lived assets, income tax provision, deferred taxes and valuation allowance, purchase price allocations, and the depreciable and amortizable lives of long-lived assets.

A summary of our significant accounting policies is included in Item 8. Consolidated Financial Statements, Note 1, *Description of Business and Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 31, 2017. Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often requiring the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2017.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A discussion of the recently issued accounting pronouncements is described in Note 1, *Business, Presentation, and Recent Accounting Pronouncements*, in the unaudited interim condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q quarterly report and is incorporate herein by reference.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2018 and December 31, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risks include interest rate risk, equity risk, foreign currency exchange rate risk, commodity price risk, and other relevant market rate or price risks. Of these risks, interest rate risk, equity risk, and foreign currency exchange rate risk could have a significant impact on our results of operations.

As of September 30, 2018, our largest debt obligation was related to our Notes. In order to reduce the potential equity dilution that would result upon conversion of the Senior Convertible Notes issued in December 2014, we entered into note hedge transactions with a financial institution affiliated with one of the underwriters of the Senior Convertible Note offering. The note hedge transactions are expected generally, but not guaranteed, to reduce the potential dilution to our common stock and/or offset the cash payments we are required to make in excess of the principal amount upon any conversion of Senior Convertible Notes, in the event that the market price per share of our common stock, as measured under the terms of the Convertible Note Hedge Transactions, is greater than the conversion price of the Senior Convertible Notes, which is initially approximately \$69.48. In addition, in order to partially offset the cost of the note hedge transactions, we issued warrants to the hedge counterparty to purchase approximately 2.1 million shares of our common stock at a strike price of \$96.21. The warrants would separately have a dilutive effect to the extent that the market value per share of our common stock exceeds the strike price of the warrants. In addition, non-performance by the counterparties under the hedge transactions would potentially expose us to dilution of our common stock to the extent our stock price exceeds the conversion price.

Interest on the Notes accrues at a fixed rate of 3.0% on the outstanding principal amount of the Notes and is paid semi-annually every December 1st and June 1st until the Notes mature on December 1, 2019. Since the interest rate is fixed, we have no interest-rate market risk related to the Notes. However, if our stock price increases, the fair value of our Notes, and their likelihood of being converted, will change accordingly. As a result, we face equity risk in relation to our Notes.

On December 29, 2017, we entered into our five-year Credit Agreement with Citizens Bank, N.A. The Credit Agreement is comprised of a \$75.0 million five-year Term Loan and a \$50.0 million Revolving Credit Facility. Amounts drawn bear an interest rate equal to, at our option, either a LIBOR rate plus 1.50% to 2.25% per annum, depending on our total leverage ratio or an alternative base rate plus an applicable base rate margin, which varies within a range of 0.50% to 1.25%, depending on our total leverage ratio. We will incur a commitment fee at a rate per annum that varies within a range of 0.25% to 0.35%, depending on our leverage ratio. In April 2018, we entered into an interest rate swap to manage our exposure to the variable interest rate on our Term Loan. The interest rate swap hedges the variable cash flows associated with the Term Loan borrowings under the Term Loan, effectively providing a fixed rate of interest throughout the life of the Term Loan. As a result of the interest rate swap, our exposure to interest rate volatility is minimized.

We are exposed to risks associated with changes in interest rates. The returns from certain of our cash and cash equivalents will vary as short-term interest rates change. A 100 basis-point adverse movement (decrease) in short-term interest rates would decrease the interest income earned on our cash balance in the three and nine months ended September 30, 2018 by approximately \$5 thousand and \$10 thousand, respectively.

We are exposed to risks associated with foreign currency exchange rate risks as we translate certain Canadian dollar-denominated transactions from our ANI Pharmaceuticals Canada Inc. subsidiary from the Canadian dollar to the U.S. dollar. Changes in exchange rates can positively or negatively impact our revenue, income, assets, liabilities, and equity. As of, and for period ended September 30, 2018, currency exchange rates did not have a material impact on our revenue, income, assets, liabilities, or equity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Securities

and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management has carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of September 30, 2018. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as noted below.

On August 6, 2018, our subsidiary, ANI Pharmaceuticals Canada Inc. (“ANI Canada”), acquired all the issued and outstanding equity interests of WellSpring Pharma Services Inc. (“WellSpring”) in an all cash transaction. Following the consummation of the transaction, WellSpring was merged into ANI Canada with the resulting entity’s name being ANI Pharmaceuticals Canada Inc. In conjunction with the transaction, we are currently in the process of integrating ANI Canada’s policies, processes, people, technology, and operations into the consolidated company, and integrating ANI Canada’s operations into our system of internal control over financial reporting. As permitted by the Securities and Exchange Commission, we expect to exclude ANI Canada from the assessment of internal control over financial reporting the year ending December 31, 2018.

Table of Contents**EXECUTIVE COMPENSATION**

The Company held engagements with investors and received feedback on changes to both the STIP and LTIP. The 2017 STIP continues a focus on important financial measures (75% of STIP) and individual performance (25% of STIP), the total payout will be 0% to 200% of target based on actual performance against pre-established goals. The Compensation Committee will determine individual performance using a rigorous assessment process measuring performance against pre-established operational and other measures. There will no longer be an additional individual performance modifier for the 2017 STIP.

The key change to the 2017 LTIP is to replace time-based RSUs with stock options as a way to further align our most senior leaders with our shareholders' interest in stock price appreciation. Additionally, the Company changed PSU performance measures from ROIC-Adjusted with a global market share modifier to Relative ROIC-Adjusted (50% of total LTIP) and Relative TSR (25% of total LTIP) against OEMs in the Dow Jones Automobiles and Parts Titans 30 Index, listed below.

Dow Jones Automobiles & Parts Titans 30 Index OEM Peer Group

	Volkswagen AG	Suzuki Motor Corp.
Toyota Motor Company		
	Bayerische Motoren Werke AG	Fiat Chrysler Automobiles NV
Daimler AG		
	Nissan Motor Co. Ltd	Tesla, Inc.
Ford Motor Company		
	Renault SA	Mazda Motor Corp.
Honda Motor Co. Ltd.		

Hyundai Motor Co.

Kia Motors Corp.

General Motors Co.⁽¹⁾

(1) General Motors performance will be determined on a continuous ranking for performance relative to OEM Peers following the completion of the performance period.

The percentile rank required for each performance level relative to OEM peers and associated payouts for PSUs are displayed below.

Focusing performance on key financial measures and individual operational performance measures in the short-term, combined with performance in both Relative ROIC-Adjusted and Relative TSR compared to our other OEM peers in the long-term, will provide direct alignment of our executive compensation with the interests of our shareholders and continue to focus our senior leaders on making the investments that will provide for profitable long-term growth.

u Peer Group for Compensation Comparisons

The Compensation Committee annually reviews the peer group for compensation comparisons and makes updates as needed to align with both the established criteria and Company strategy. We do not limit our peer group to our industry alone, because we believe compensation practices for NEOs at other large U.S.-based multinationals affect our ability to attract and retain diverse talent around the globe.

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EXECUTIVE COMPENSATION

In 2016, we maintained the same compensation peer group from 2015. Based on the guidelines established by the Compensation Committee for our peer group selection, companies must satisfy each of the following criteria to be considered for the peer group:

Revenue greater than \$25 billion

Significant international revenue

Capital intensive operations

Additionally, the Compensation Committee considers the following factors when selecting our peer group:

Companies with comparable R&D expenditures as a percent of revenue

Durable goods manufacturer

Business/production complexity

Consumers are the end-user

Strong brand reputation

Company	Industry	Revenue > \$25B	Significant International Revenue	Capital Intensive Operations
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3M Company	Industrial Conglomerates	X	X	X
The Boeing Company	Aerospace and Defense	X	X	X
	Construction Machinery and			
	Heavy Trucks	X	X	X
Caterpillar Inc.				
	Agricultural and Farm Machinery	X	X	X
Deere & Company				
	Diversified Chemicals	X	X	X
The Dow Chemical Company				
	Diversified Chemicals	X	X	X
Du Pont				
	Automobile Manufacturers	X	X	X
Ford Motor Company				
	Industrial Conglomerates	X	X	X
General Electric Company				
	Technology Hardware, Storage, and Peripherals	X	X	X
HP, Inc.				
	Aerospace and Defense	X	X	X
Honeywell International Inc.				
	IT Consulting and Other Services	X	X	X
IBM Corporation				
	Semiconductors	X	X	X
Intel Corporation				
	Pharmaceuticals	X	X	X

Johnson & Johnson	Auto Parts and Equipment	X	X	X
Johnson Controls Inc.	Soft Drinks and Food	X	X	X
PepsiCo, Inc.	Pharmaceuticals	X	X	X
Pfizer Inc.				
The Procter & Gamble Company	Household Products	X	X	X
	Aerospace and Defense	X	X	X
United Technologies Corp.				

u How We Use Comparator Data to Assess Compensation

We use executive compensation surveys comprised of a broad array of industrial companies to benchmark relevant market data for executive positions. In addition, we benchmark proxy statement disclosures of our peer group and adjust this data to reflect GM's size and market expected compensation trends. Further, we review the competitive market position of each of our executives compared with the market data.

We review each element of compensation compared to the market and generally target our total direct compensation (Base Salary, STIP, and LTIP) for the executive group on average to be at or near the market median. However, an individual element or an individual's total direct compensation may be positioned above or below the market median because of his or her specific responsibilities, experience, and performance.

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EXECUTIVE COMPENSATION

u How We Plan Compensation

u Performance-Based Compensation Structure

Our NEOs are focused on optimizing long-term financial returns for our shareholders through increasing profitability, increasing margins, putting the customer at the center of everything we do, growing the business, and driving innovation.

The performance-based structure for 2016 incorporates both short-term and long-term incentives established from financial and operational metrics for fiscal year 2016 and beyond. In addition to base salary and an annual STIP award, this structure, shown graphically below, includes a LTIP award made up of both PSUs and RSUs to focus our executives on long-term Company performance. The Compensation Committee believes a majority of compensation should be in the form of equity to align the interests of executives with those of shareholders.

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EXECUTIVE COMPENSATION

Compensation Principles

The compensation provided to our senior leaders is guided by the following principles:

Aligned with Shareholders Compensation paid should align directly with the long-term interests of our shareholders, and our executives should share with them in the performance and value of common stock;

Performance-Based Compensation paid should be based on a balance of financial and operational goals reflecting strong financial performance relative to our OEM competitors. The goals should be aggressive but achievable, within our executives' control and should reward commitments met;

Recognize Individual Performance Compensation paid should motivate executives to perform at their best, reflecting their clear line of sight and contributions as well as their behaviors and demonstration of GM's core values. Individual performance must be aligned with Company performance and desired behaviors;

Simple Design Our compensation plan should be easy to understand and communicate and minimize unintended consequences;

Avoidance of Incentive to Take Excessive Risk Compensation structure should avoid incentives to take unnecessary and excessive risk. Compensation should be paid over a period of time that takes into account the potential risk over the same time period;

Appropriate Allocation of Compensation Components The structure should appropriately allocate total compensation to fixed and variable pay elements resulting in an appropriate mix of short-term and long-term pay elements; and

Comparable Target Compensation Overall target compensation should be competitive (market median) with that paid to individuals at peer group companies so that it attracts, motivates, and retains talent.

Compensation Elements

u 2016 Compensation Structure

Each NEO's 2016 compensation structure included the following pay elements:

Base Salary NEOs are paid a market-competitive base salary that reflects each NEO's contribution, background, performance as well as the knowledge and skills he or she brings to the role;

STIP The STIP is an annual cash incentive plan. The STIP rewards each NEO based on the achievement of annual Company financial and operational performance goals and individual performance. The potential Company payout ranges from 0% to 200% of target, based on actual Company performance;

PSUs PSUs are equity awards designed to align each NEO's interests with the long-term interests of the Company and its shareholders. PSUs can be earned at a level from 0% to 200% of target, based on the actual Company performance against ROIC-Adjusted and Global Market Share targets over the three-year performance period beginning January 1, 2016; and

RSUs RSUs are time-based equity awards vesting ratably over a three-year period. RSUs align the interests of NEOs with shareholders and help to retain top talent.

u Perquisites, Benefits, and Other Compensation

We provide perquisites, benefits, and other compensation to our NEOs consistent with market practices. The following perquisites, benefits, and other compensation were provided to NEOs in 2016:

Personal Air Travel Ms. Barra is prohibited by Company policy from commercial air travel due to security reasons identified by an independent third-party security consultant. As a result, the Company pays the costs associated with the use of private aircraft for both business and personal use. Ms. Barra is permitted to be accompanied by guests for personal travel and incurs imputed income for all passengers, including herself, at the U.S. Internal Revenue Service (the IRS) Standard Industry Fair Level rates. Other NEOs may travel on private aircraft in certain circumstances with prior approval from the CEO or the Senior Vice President Global Human Resources, and also incur imputed income for any personal travel.

Company Vehicle Programs NEOs are eligible to participate in the Executive Company Vehicle Program and are allowed to use evaluation vehicles for the purpose of providing feedback on Company products. Additionally, NEOs are eligible to use driver services provided by the Company and in accordance with Company policies.

Security NEOs may receive security services, including home security systems and monitoring, for specific security-related reasons identified by independent third-party security consultants.

Financial Counseling NEOs are eligible to receive financial counseling, estate planning, and tax preparation services through approved providers.

Executive Physicals NEOs are eligible to receive executive physicals with approved providers.

Table of Contents**EXECUTIVE COMPENSATION****u 2016 Target Compensation**

Our target total direct compensation for each NEO in 2016 was as follows:

Name	Annual Base	Target Total Cash		LTIP		Target Total Direct
	Salary	STIP	Compensation	PSUs	RSUs	Compensation
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Mary T. Barra	2,000,000	4,000,000	6,000,000	9,750,000	3,250,000	19,000,000
Charles K. Stevens, III	1,100,000	1,375,000	2,475,000	2,587,500	862,500	5,925,000
Daniel Ammann	1,450,000	1,812,500	3,262,500	3,525,000	1,175,000	7,962,500
Mark L. Reuss	1,200,000	1,500,000	2,700,000	2,925,000	975,000	6,600,000
	950,000	1,187,500	2,137,500	2,025,000	675,000	4,837,500
Alan Batey						

Performance Measures

u How We Set Performance Targets

Annually, the Compensation Committee approves the performance measures for the STIP and LTIP. The Compensation Committee reviews recommendations from management, receives input from the Compensation Committee consultant, evaluates the annual budget and mid-term business plan, and reviews prior-year performance to approve value-creating goals tied to long-term shareholder value.

u 2016 STIP Performance Measures for NEOs

The STIP aligns with our plans to create the world's most valued automotive company and to increase shareholder value. The STIP rewards NEOs for performance linked to the Company's achievement of annual financial goals, operational performance goals, and individual performance. The STIP is an annual cash incentive award intended to be deductible as performance-based compensation under U.S. Internal Revenue Code (IRC) Section 162(m) and is funded for each covered NEO once the Company achieves the threshold of positive EBIT-Adjusted.

The Compensation Committee annually reviews and approves STIP goals to assess the difficulty in level of achievement and overall linkage to shareholders through the achievement of the business plan and strategic objectives. For the 2016 STIP, all targets were set at or above final 2015 performance. The Committee elected to adjust the weights to increase EBIT-Adjusted to 40% and decreased Global Market Share to 10% to continue to focus leaders on profitability over market share. Setting challenging but achievable targets motivates our leadership team to deliver results that will benefit shareholders for the long-term.

Actual STIP awards, if any, are determined following the completion of the plan year to reflect the achievement against the performance measures displayed below. Awards can be further adjusted following a final assessment of individual performance. The table below describes each STIP performance measure, its weighting, its target, and the behaviors each measure drives:

STIP Measure	Weight	Target	Leadership Behaviors
EBIT-Adjusted	40% \$	11.3	Focus on operating profit and driving strong profitability
Adjusted AFCF ⁽¹⁾	25% \$	6.0	Focus on driving strong cash flow in the business
Global Market Share	10%	11.3%	Focus on continuing to grow in the global marketplace

25% Various Metrics⁽²⁾

Global Quality

Focus on designing, engineering, and building the highest-quality products

(1) Adjusted ACFE for incentive purposes excludes payments related to certain recall-related expenses attributable to events occurring in 2014.

(2) Global Quality is based on performance against the following measures: Loyalty (10% Weight), 12 Months-In-Service Warranty Frequency (15% Weight).

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The potential payouts for each performance measure range from 0% to 200% of target, based on actual Company performance with the threshold performance level being 50% of each STIP measure. The STIP calculation and the STIP targets for the 2016 performance period for each NEO are as follows:

Name	Base Salary	Target as % of	
		Salary	Target STIP
Mary T. Barra	\$2,000,000	200%	\$4,000,000
Charles K. Stevens, III	\$1,100,000	125%	\$1,375,000
Daniel Ammann	\$1,450,000	125%	\$1,812,500
Mark L. Reuss	\$1,200,000	125%	\$1,500,000
Alan Batey	\$ 950,000	125%	\$1,187,500

u 2016-2018 LTIP Performance Measures for NEOs

Grants under the LTIP are intended to link the financial interests of NEOs with the long-term interests of shareholders. The structure for NEOs included 75% PSUs and 25% RSUs. PSUs cliff-vest following the three-year performance period, and RSUs vest ratably over three years.

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The 2016-2018 PSUs are awarded based on performance against the following Company measures: ROIC-Adjusted and Global Market Share over the three-year performance period. Our 20% ROIC-Adjusted target is an enduring one, based on our commitments to our shareholders and appropriate for the cyclical nature of our industry. The PSU performance measures were chosen to promote both efficient use of capital and long-term growth to create value for the shareholders. The following table shows the PSU performance measures and the leadership behaviors that each drives to make GM the world's most valued automotive company:

LTIP Measure	Weight	Target	Leadership Behaviors
ROIC-Adjusted ⁽¹⁾	100%	20%	Focus on making sound investments that follow the disciplined capital approach of driving 20% or higher returns in world-class vehicles and leading technology
Global Market Share ⁽²⁾	Modifier	(3)	Focus on continuing to grow in the global marketplace

(1) The three-year average ROIC-Adjusted target is 20% and performance shall be calculated using the GM average annual ROIC-Adjusted for calendar years 2016, 2017, and 2018, where ROIC-Adjusted is calculated as Total Company EBIT-Adjusted divided by Average Total Company Net Assets. EBIT-Adjusted is defined as earnings excluding interest income, interest expense, and income taxes as well as certain additional adjustments. A discussion of EBIT-Adjusted, supplemental detail of all adjustments, and a reconciliation of EBIT-Adjusted (on a consolidated basis) to net income attributable to shareholders is disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K. In addition, a reconciliation of GM's automotive segments' EBIT-Adjusted and GM Financial's EBIT-Adjusted, in each case, to total net sales and revenue is disclosed in Note 23 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Net Assets is determined based on the four-quarter average for the year, adding back average automotive debt and interest liabilities (except capital leases) and automotive net Pension and OPEB liabilities and excluding average automotive net income tax assets.

(2) The three-year average Global Market Share target range performance shall be calculated using the GM average annual global market share for calendar years 2016, 2017, and 2018 as reported by GM Global Sales Reporting

and reflected in the Annual Reports on Form 10-K.

(3) The Performance Target for Global Market Share will be disclosed at the end of the three-year performance period, as future Global Market Share measures are not disclosed.

PSUs, if any, vest and are awarded and delivered following the completion of the three-year performance period, January 1, 2016 – December 31, 2018, and may be earned at a level between 0% and 200% of target based on actual Company results. Final PSU awards are calculated as follows:

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When determining grant amounts, the Compensation Committee considers individual responsibilities, experience, and performance. Additionally, the Compensation Committee will factor in relevant market compensation comparison data and seek the input from their independent compensation consultant. The NEOs received the following equity grants as part of their 2016 structure:

Name	Total Units Granted	Closing Price GM Stock on Grant Date (\$/share)	PSUs ⁽¹⁾		RSUs ⁽²⁾	
			Units Granted	% of Total Units	Units Granted	% of Total Units
Mary T. Barra	469,146	27.71	351,859	75%	117,287	25%
Charles K. Stevens, III	124,504	27.71	93,378	75%	31,126	25%
Daniel Ammann	169,615	27.71	127,211	75%	42,404	25%
Mark L. Reuss	140,744	27.71	105,558	75%	35,186	25%
Alan Batey	97,439	27.71	73,079	75%	24,360	25%

(1) PSUs cliff-vest based on performance following the three-year performance period January 1, 2016 December 31, 2018.

(2) RSUs vest ratably over a three-year period.

u Summary of Outstanding Performance Awards Granted in Prior Years

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Performance Results and Compensation Decisions

u 2016 Short-Term Incentive Plan

The Company portion of the 2016 STIP award was calculated based on the Company's achievement of the following performance measures: EBIT Adjusted, Adjusted AFCF, Global Market Share, and Global Quality. Actual 2016 Company performance in the combined measures produced an overall payout of 169% based on the achievement of the following levels for each measure, as approved by the Compensation Committee. Both the results for EBIT-Adjusted and Adjusted AFCF were all-time record results for GM:

STIP Measure	Weight	Threshold	Target	Maximum	Performance Performance	
					Results	Payout
EBIT Adjusted (\$B)	40%	\$ 6.5	\$11.3	\$12.6	\$12.5	77%
Adjusted AFCF (\$B) ⁽¹⁾	25%	\$ 0.0	\$ 6.0	\$ 7.0	\$ 7.6	50%
Global Market Share	10%	10.8%	11.3%	11.5%	10.8%	5%
Global Quality	25%		Various Metrics		(2)	37%
						169%

Result

(1) Adjusted ACF for incentive purposes excludes payments related to certain recall-related expenses attributable to events occurring in 2014.

(2) Global Quality Measures for 2016 included: Loyalty (10% Weight Payout 19%) and 12 Months-in-Service Warranty Frequency (15% Weight Payout 18%).

Individual performance may also influence final STIP awards. The compensation decision made for each individual executive is discussed beginning on the next page.

u 2014-2016 Long-Term Incentive Plan

The 2014-2016 PSU awards vested on February 11, 2017 based on Company performance for the period January 1, 2014 – December 31, 2016 against pre-established performance targets for both ROIC-Adjusted and Global Market Share. The 2014-2016 PSU was the first performance award granted to NEOs under the performance based compensation program that was first introduced in 2014 following the Company exiting TARP in 2013. Actual performance produced an overall vesting of 195% of shares and the following performance was approved by the Compensation Committee:

LTIP Measure	Weight	Threshold	Target	Maximum	Performance Results	Performance Payout
ROIC-Adjusted	100%	16.0%	20.0%	24.0%	23.8%	195%
Global Market Share	Modifier		11.3% - 11.7%		11.3% ⁽¹⁾	N/A
Result						195%

(1) Excludes the impact of the Company's decision to exit unprofitable markets during 2015.

Focusing our leaders on ROIC-Adjusted has resulted in significant performance improvements since calendar year 2012 when ROIC-Adjusted was 16.0%. We ended calendar year 2016 with a ROIC-Adjusted of 28.9%, representing more than an 80% increase in our performance.

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EXECUTIVE COMPENSATION

u Compensation Decisions for Mary T. Barra
Mary T. Barra, Chairman & Chief Executive Officer

Ms. Barra's performance for 2016 was directly aligned with the Company's 2016 strategic objectives:

Earn Customers for Life

- u** Twelve models launched achieved Consumer Reports Recommended status in 2016
- u** Buick was the first domestic brand ever included in the top 3 Consumer Reports 2016 Annual Auto Reliability Survey

Grow Our Brands

- u** Significantly improved brand momentum for Buick, Chevrolet, and GMC since 2014
- u** Increased sales to 10 million units globally

Lead in Technology and Innovation

- u** Launched the 2017 Chevrolet Bolt EV which received multiple car of the year awards including, 2016 Motor Trend Car of the Year, 2016 Green Car of the Year, and Car and Driver 10 Best
- u** Completed the acquisition of Cruise Automation and began real world testing of autonomous Bolt Electric Vehicles
- u** 12 million OnStar-connected vehicles on the road at year-end 2016

Drive Core Efficiencies

- u** Announced an increase of cost efficiency targets from \$5.5 billion to \$6.5 billion in material, logistics, manufacturing, information technology, and SGA costs by 2018 with \$4 billion realized through 2016
- u** Achieved ROIC-Adjusted results of 28.9% for 2016

Culture to Win

- u Returned \$4.8 billion to shareholders in 2016 through share buybacks of \$2.5 billion and dividends of \$2.3 billion; since 2012, GM has returned more than \$18 billion to shareholders
- u Exceeded all budget commitments and continued to drive a culture with the mindset that Everything can be made better

Effective January 1, 2016, the Compensation Committee increased Ms. Barra's base salary from \$1,750,000 to \$2,000,000 based on her performance, tenure, leadership, and the competitive market analysis provided by the Compensation Committee's independent compensation consultant. At the same time, the Compensation Committee increased the STIP target to two times base salary based on the competitive market analysis provided by the Committee's independent compensation consultant. For 2016, the Compensation Committee awarded Ms. Barra an annual equity grant of \$13 million consisting of 75% PSUs and 25% RSUs. These changes placed Ms. Barra in line with the compensation peer group as her targeted total direct compensation remained competitive at the market median.

The total compensation for Ms. Barra in 2016, including salary, STIP and LTIP awards, is displayed below.

Pay Element	Majority of Pay Is At-Risk	Awarded Value
Base Salary	Only Fixed Pay Element	\$ 2,000,000
STIP	Performance to Metrics	\$ 6,760,000
PSUs ⁽¹⁾	Performance to Metrics and Stock Price	\$ 9,750,013
RSUs ⁽²⁾	Performance to Stock Price	\$ 3,250,023
TOTAL		\$21,760,036

(1) PSUs are subject to performance vesting, value reflects grant date fair value at target.

(2) RSUs are subject to time-based vesting.

Awarded value reflects the amount included in the Summary Compensation Table, excluding change in pension value and all other compensation. Realized compensation includes base salary, earned STIP, and all options exercised and stock vested during the year.

Table of Contents**EXECUTIVE COMPENSATION**

u Compensation Decisions for Charles K. Stevens, III
Charles K. Stevens, III, Executive Vice President & Chief Financial Officer

Mr. Stevens met objectives for 2016 performance against his goals. Performance highlights include:

- u Returned \$4.8 billion to shareholders in 2016 through share buybacks of \$2.5 billion and dividends of \$2.3 billion; since 2012, GM has returned more than \$18 billion to shareholders
- u Achieved ROIC-Adjusted result of 28.9% for 2016
- u Continued focus on investor relations management and strengthened investor perceptions towards GM
- u Delivered on 2016 cost objectives and announced an increase of cost efficiency targets from \$5.5 billion to \$6.5 billion in material, logistics, manufacturing, information technology, and SGA costs by 2018 with \$4 billion realized through 2016
- u Generated all-time records in Net Revenue, EBIT-Adjusted, EBIT-Adjusted Margins, Adjusted AFCF, and EPS-Diluted-Adjusted

Effective January 1, 2016, the Compensation Committee increased Mr. Stevens' base salary from \$1,000,000 to \$1,100,000 based on his individual performance and the competitive market analysis provided by the Compensation Committee's independent compensation consultant. For 2016, the Compensation Committee awarded Mr. Stevens an annual equity grant of \$3.45 million, consisting of 75% PSUs and 25% RSUs.

The Compensation Committee elected to provide an individual STIP adjustment for the 2016 performance year in the amount of \$350,000 as a result of his performance, which is included in the STIP awarded value. The total compensation for Mr. Stevens in 2016, including salary, STIP and LTIP awards, is displayed below.

Pay Element	Majority of Pay Is At-Risk	Awarded Value
Base Salary	Only Fixed Pay Element	\$1,100,000

STIP	Performance to Metrics	\$2,673,800
PSUs ⁽¹⁾	Performance to Metrics and Stock Price	\$2,587,505
RSUs ⁽²⁾	Performance to Stock Price	\$ 862,502
TOTAL		\$7,223,807

(1) PSUs are subject to performance vesting, values reflect grant date fair value at target.

(2) RSUs are subject to time-based vesting.

Awarded value reflects the amount included in the Summary Compensation Table, excluding change in pension value and all other compensation. Realized compensation includes base salary, earned STIP, and all options exercised and stock vested during the year.

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u Compensation Decisions for Daniel Ammann
Daniel Ammann, President

Mr. Ammann met objectives for 2016 performance against his goals. Performance highlights include:

- u Continued to support mobility efforts and strengthened the partnership with Lyft
- u Recorded global sales of more than 10 million vehicles
- u Completed the acquisition of Cruise Automation to further position GM as a leader for autonomous vehicles
- u Drove a focus on profitability over market share in all regions

Effective January 1, 2016, the Compensation Committee increased Mr. Ammann's base salary from \$1,200,000 to \$1,450,000 based on his individual performance and the competitive market analysis provided by the Compensation Committee's independent compensation consultant. For 2016, the Compensation Committee awarded Mr. Ammann an annual equity grant of \$4.7 million, consisting of 75% PSUs and 25% RSUs.

The Compensation Committee elected to provide an individual STIP adjustment for the 2016 performance year in the amount of \$450,000 as a result of his performance, which is included in the STIP awarded value. The total compensation for Mr. Ammann in 2016, including salary, STIP and LTIP awards, is displayed below.

Pay Element	Majority of Pay Is At-Risk	Awarded Value
Base Salary	Only Fixed Pay Element	\$1,450,000
STIP	Performance to Metrics	\$3,513,100

PSUs ⁽¹⁾	Performance to Metrics and Stock Price	\$3,525,017
RSUs ⁽²⁾	Performance to Stock Price	\$1,175,015
TOTAL		\$9,663,132

(1) PSUs are subject to performance vesting, value reflects grant date fair value at target.

(2) RSUs are subject to time-based vesting.

Awarded value reflects the amount included in the Summary Compensation Table, excluding change in pension value and all other compensation. Realized compensation includes base salary, earned STIP, and all options exercised and stock vested during the year.

Table of Contents**EXECUTIVE COMPENSATION****u Compensation Decisions for Mark L. Reuss****Mark L. Reuss, Executive Vice President, Global Product Development, Purchasing and Supply Chain**

Mr. Reuss met objectives for 2016 performance against his goals. Performance highlights include:

- u Launched the 2017 Chevrolet Bolt EV which received multiple car of the year awards including, 2016 Motor Trend Car of the Year, 2016 Green Car of the Year, and Car and Driver 10 Best**
- u Received the IHS Automotive Loyalty Award for the second straight year**
- u Launched 42 vehicles globally**
- u Began real-world testing of Autonomous Vehicles in Arizona, California, and Michigan**

Effective January 1, 2016, the Compensation Committee increased Mr. Reuss' base salary from \$1,100,000 to \$1,200,000 based on his individual performance and the competitive market analysis provided by the Compensation Committee's independent compensation consultant. For 2016, the Compensation Committee awarded Mr. Reuss an annual equity grant of \$3.9 million, consisting of 75% PSUs and 25% RSUs.

The Compensation Committee elected to provide an individual STIP adjustment for the 2016 performance year in the amount of \$370,000 as a result of his performance, which is included in the STIP awarded value. The total compensation for Mr. Reuss in 2016, including salary, STIP and LTIP awards, is displayed below.

Pay Element	Majority of Pay Is At-Risk	Awarded Value
Base Salary	Only Fixed Pay Element	\$1,200,000
STIP	Performance to Metrics	\$2,905,000

PSUs ⁽¹⁾	Performance to Metrics and Stock Price	\$2,925,013
RSUs ⁽²⁾	Performance to Stock Price	\$ 975,005
TOTAL		\$8,005,018

(1) PSUs are subject to performance vesting, value reflects grant date fair value at target.

(2) RSUs are subject to time-based vesting.

Awarded value reflects the amount included in the Summary Compensation Table, excluding change in pension value and all other compensation. Realized compensation includes base salary, earned STIP, and all options exercised and stock vested during the year.

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u Compensation Decisions for Alan Batey
Alan Batey, Executive Vice President & President, North America

Mr. Batey met objectives for 2016 performance against his goals. Performance highlights include:

- u Achieved record earnings in North America
- u Posted the best retail sales in the U.S. for Chevrolet in 10 years; best for Buick in 11 years; and best for GMC in 12 years
- u Grew year-over-year retail share faster than any other full-line automaker
- u Delivered the best retail sales since 2009 in Canada
- u Delivered the best retail sales year on record in Mexico

Effective January 1, 2016, Mr. Batey's base salary was \$950,000 supported by the competitive market analysis provided by the Compensation Committee's independent compensation consultant. For 2016, the Compensation Committee awarded Mr. Batey an annual equity grant of \$2.7 million, consisting of 75% PSUs and 25% RSUs.

The Compensation Committee elected to provide an individual STIP adjustment for the 2016 performance year in the amount of \$400,000 as a result of his performance, which is included in the STIP awarded value. The total compensation for Mr. Batey in 2016, including salary, STIP and LTIP awards, is displayed below.

Pay Element	Majority of Pay Is At-Risk	Awarded Value
Base Salary	Only Fixed Pay Element	\$ 950,000
STIP	Performance to Metrics	\$2,406,900

PSUs ⁽¹⁾	Performance to Metrics and Stock Price	\$2,025,019
RSUs ⁽²⁾	Performance to Stock Price	\$ 675,016
TOTAL		\$6,056,935

(1) PSUs are subject to performance vesting, value reflects grant date fair value at target.

(2) RSUs are subject to time-based vesting.

Awarded value reflects the amount included in the Summary Compensation Table, excluding change in pension value and all other compensation. Realized compensation includes base salary, earned STIP, and all options exercised and stock vested during the year.

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EXECUTIVE COMPENSATION

Compensation Policies and Governance Practices

u Stock Ownership Requirements

In June 2014, the Compensation Committee implemented stock ownership requirements to more closely align the interests of executives with those of our shareholders. The requirements:

cover all senior leaders (approximately 300);

set five years as the time frame to meet ownership requirements;

establish a multiple of each executive's base salary on the date they are first covered;

make it possible to meet ownership requirements by owning either a multiple of base salary or a required number of shares; and

call for senior leaders to hold shares in order to meet the ongoing ownership requirements.

The table below shows the stock ownership requirement by level in the Company as well as ownership requirements for each of our NEOs.

Position	Ownership Requirement as a Multiple of Salary
CEO	6x

President	
Executive Vice President	4x
Senior Vice President	3x
Senior Executive	1x

As of December 31, 2016, all NEOs have met or are on track to meet stock ownership requirements by their respective dates.

u Policy on Recoupment of Incentive Compensation

We have a corporate policy to recover incentive compensation paid to executive officers in cases where financial statements are restated because of employee fraud, negligence, or intentional misconduct. Under this clawback policy, which was last updated in late 2016 and is posted on our website, gm.com/investors, under Corporate Governance, if our Board or an appropriate Board Committee determines any bonus, retention award, or short or long-term incentive compensation has been paid to any executive officer based on materially inaccurate misstatement of earnings, revenues, gains, or other criteria, including reputational harm, the Board or Compensation Committee will take the action it deems necessary to recover the compensation paid, remedy the misconduct, and prevent its recurrence. For this purpose, a financial statement or performance metric will be treated as materially inaccurate when an employee knowingly engaged in providing inaccurate information or knowingly failed to timely correct information relating to those financial statements or performance metrics. We will continue to review our policy to ensure it is consistent with all legal requirements and in the best interests of the Company and its shareholders.

u Securities Trading Policy

Our securities trading policy prohibits our employees from buying or selling GM securities when in possession of material nonpublic information. Any sale or purchase of common stock by directors, executive officers, and all other senior leaders must be made during pre-established periods after receiving preclearance by a member of the GM Legal Staff or according to pre-approved Rule 10b5-1 plan.

Trading in GM derivatives (*i.e.*, puts or calls), engaging in short sales, and pledging of GM securities is also prohibited. All GM executive officers are in compliance with the policy of not pledging any shares of common stock. This policy is posted on our website, gm.com/investors, under Corporate Governance.

u Tax Considerations

IRC Section 162(m) generally disallows federal tax deductions for compensation in excess of \$1 million paid to the CEO and the next three of our highest-paid officers (other than the CFO) whose compensation is required to be reported in the Summary Compensation Table in this Proxy Statement (Covered Executives). Certain performance-based compensation is not subject to this deduction limitation. Generally, we strive to maximize the tax deductibility of compensation arrangements. The Compensation Committee, however, may award compensation that is not fully tax deductible if it deems it appropriate as compensation designed to attract and retain talented executives in the highly competitive market for talent.

STIP awards are paid based on the achievement of performance measures approved by shareholders in 2014 as part of the 2014 STIP. Because the STIP awards are intended to be deductible as performance-based compensation under 162(m), the

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EXECUTIVE COMPENSATION

Compensation Committee set the maximum award for each Covered Executive at \$7.5 million. Incentive amounts equal to the maximum will be funded for each Covered Executive once a threshold level of positive EBIT-Adjusted has been achieved. The Compensation Committee then exercises negative discretion, as needed, to determine actual incentive awards based on other business and individual performance, as described in the Short-Term Incentive Plan section of the CD&A.

u Compensation Committee and Consultant Independence

Our Compensation Committee is composed entirely of independent directors as determined by the Board under NYSE standards and as defined for various regulatory purposes. Farient Advisors assisted the Compensation Committee in 2016. Farient Advisors is an independent compensation consulting firm that takes direction from and is solely responsible to the Compensation Committee. The Compensation Committee is also aided in its deliberations by in-house legal counsel.

Under its charter, the Compensation Committee has the authority to hire outside consultants and advisors at the Company's expense. The Compensation Committee retains the services of Farient Advisors for advice on issues related to the compensation of NEOs and other executive compensation-related matters. A representative of Farient Advisors attended all Compensation Committee meetings, either in person or via telephone, consulted with and advised the Compensation Committee members on executive compensation, including the structure and amounts of various pay elements, and developed executive benchmarking data for the Compensation Committee. Farient Advisors provided no services to the Company's management.

The Compensation Committee annually reviews the performance of the compensation consultant and considers the following factors when assessing consultant independence in accordance with NYSE standards:

Services provided to GM management outside of the services provided to the Compensation Committee;

Fees paid as a percentage of Farient Advisors' total revenue;

Policies and procedures of Farient Advisors designed to prevent conflicts of interest;

Any business or personal relationships between members of the Compensation Committee and Farient Advisors;

Stock ownership by employees of Farient Advisors; and

Any business or personal relationships between GM and Farient Advisors.

The Compensation Committee reviewed the performance and independence of Farient Advisors and determined that Farient Advisors was independent based on the standards above.

u Compensation Risk Assessment

During 2016, the Compensation Committee reviewed and discussed the impact of executive compensation programs on organizational risk. The Compensation Committee discussed plans and reviewed risk mitigation features in each of the plans to evaluate, with the assistance of our audit, legal and risk management organizations, the overall impact compensation programs have on organizational risk. The Compensation Committee determined compensation programs have sufficient risk mitigation features and do not encourage or reward employees for taking excessive or unnecessary risk. The mix of our short-term and long-term compensation programs appropriately reward employees while balancing risk through the delayed payment of long-term awards. As a result of the compensation risk review completed on September 12, 2016, the Compensation Committee determined the overall risk of compensation programs exposing the organization to unnecessary or excessive risks is low.

u Employment and Termination Agreements

The Company has no employment or termination agreements with any of our 2016 NEOs. All NEOs participate in the same Executive Severance Program available to other executive employees.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the CD&A and, based on that review and discussion, has recommended to the Board of Directors that the CD&A be included in this Proxy Statement and incorporated by reference in the GM 2016 Annual Report on Form 10-K.

Compensation Committee

Carol M. Stephenson (Chair)

Joseph Jimenez

James J. Mulva

Patricia F. Russo

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EXECUTIVE COMPENSATION

Executive Compensation Tables

u Summary Compensation Table

Name and Principal Position ⁽¹⁾⁽²⁾	Year	Salary ⁽⁴⁾ (\$)	Bonus ⁽⁴⁾ (\$)	Stock Awards ⁽³⁾ (\$)	Option Awards ⁽⁴⁾ (\$)	Nonequity Incentive Plan Compensation ⁽⁵⁾ (\$)	Change in Pension Value and NQ Deferred Compensation ⁽⁶⁾ (\$)	All Other Compensation ⁽⁷⁾ (\$)	Total (\$)
Gary T. Barra									
Chairman & Chief Executive Officer	2016	2,000,000		13,000,036		6,760,000	181,777	640,246	22,582,059
	2015	1,750,000		12,000,004	11,167,029	3,062,500	12,012	597,118	28,588,663
	2014	1,567,803		11,760,567		2,072,000	349,926	412,532	16,162,828
Charles K. Stevens, III		1,100,000		3,450,007		2,673,800	135,146	244,132	7,603,085

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Executive Vice	2016							
President & Chief								
Financial Officer	2015	1,000,000	2,875,049	2,675,437	1,375,000		176,738	8,102,224
		691,667	3,177,354		647,500	265,201	113,110	4,894,832
	2014							
Daniel Ammann								
President	2016	1,450,000	4,700,032		3,513,100		560,852	10,223,984
	2015	1,200,000	4,500,021	4,187,636	1,650,000		262,420	11,800,077
	2014	990,530	6,310,564		925,000		263,252	8,489,346
Mark L. Reuss								
Executive Vice	2016	1,200,000	3,900,018		2,905,000	134,777	272,866	8,412,661
President, Global								
Product Development, Purchasing and	2015	1,100,000	3,825,012	3,559,495	1,515,000		199,629	10,199,136
Supply Chain	2014	846,212	7,458,881		786,300	275,588	110,796	9,477,777
Alan Batey								
Executive Vice	2016	950,000	2,700,035		2,406,900	133,151	225,078	6,415,164
President & President								
North America								

(1) Titles in the table reflect the NEOs position as of December 31, 2016.

(2) Mr. Batey first became a NEO in 2016.

(3) Stock Awards displays the grant date fair value computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 and include RSUs and PSUs at target. The maximum award for PSUs for the 2016-2018 performance periods is 200% of grant, the value at the time of grant was \$27.71 per share for the 2016-2018 PSU. The table below shows the maximum PSU grant value based on maximum performance.

Grant Date Fair Value of PSU Awards at Maximum Performance

	2016
	(\$)
Mary T. Barra	19,500,026
Charles K. Stevens, III	5,175,009
Daniel Ammann	7,050,034
Mark L. Reuss	5,850,024
Alan Batey	4,050,038

(4) No Option Awards were granted in 2016.

(5) Each NEO was eligible for a payment under the STIP for 2016 performance based on the Company's achievement of annual financial goals, operational and performance goals, and individual performance. The amounts displayed

represent the Company performance portion of the annual STIP at 169% with adjustments for individual performance as follows: Mr. Stevens received an additional \$350,000, Mr. Ammann received an additional \$450,000, Mr. Reuss received an additional \$370,000, and Mr. Batey received an additional \$400,000. Individual performance adjustments are based on performance against individual goals for each NEO determined by the Compensation Committee at the beginning of each year and results are discussed beginning on page 55.

(6) These amounts represent the actuarial change in the present value of the executive's accrued benefit for 2016 attributed to year-over-year variances in applicable discount rates, lump sum interest rates, mortality rates, and employer contributions to tax-qualified and non-tax qualified plans as described in the section titled "Pension Benefits" on page 66. The Company does not credit interest at above-market rates to any deferred accounts, and no interest amounts are included in these totals. Mr. Ammann is not eligible for defined benefit pension plans.

(7) Totals for amounts included as "All Other Compensation" are described in the table below.

Table of Contents**EXECUTIVE COMPENSATION**

All Other Compensation

	M.T. Barra	C.K. Stevens	D. Ammann	M.L. Reuss	A. Batey
	(\$)	(\$)	(\$)	(\$)	(\$)
Perquisites and Other					
Personal Benefits ⁽¹⁾	241,829	44,473	376,113	54,857	47,849
Employer Contributions					
to Savings Plans ⁽²⁾	387,446	193,067	182,000	212,333	172,700
Life and Other					
Insurance Benefits ⁽³⁾	10,971	6,592	2,739	5,676	4,529
TOTAL	640,246	244,132	560,852	272,866	225,078

(1) See Perquisites and Other Personal Benefits table below for additional information.

(2) Includes employer contributions to tax-qualified and non-tax qualified savings and retirement plans during 2016.

(3) Includes premiums paid by the Company for Group Variable Universal Life insurance for executives. Executives are responsible for any ordinary income taxes resulting from the cost of the GM-paid premiums. For Ms. Barra, amounts also include the Company's cost of premiums for providing personal accident insurance for members of the Board.

Perquisites and Other Personal Benefits

	M.T. Barra	C.K. Stevens	D. Ammann	M.L. Reuss	A. Batey
	(\$)	(\$)	(\$)	(\$)	(\$)
Personal Travel ⁽¹⁾	96,618				
Security ⁽²⁾	81,868		326,555		
Company Vehicle Programs ⁽³⁾	47,983	29,113	38,829	38,021	32,489
Executive Physical ⁽⁴⁾	5,000	5,000		5,000	5,000
Financial Counseling ⁽⁵⁾	10,360	10,360	10,360	10,360	10,360
Other ⁽⁶⁾			369	1,476	
	241,829	44,473	376,113	54,857	47,849

TOTAL

- (1) *Personal travel pursuant to Company policy as discussed on page 49 Includes both the full cost of chartered aircraft and the incremental cost when using Company-owned aircraft. Incremental costs include fuel, flight crew expenses, landing fees, ground transportation fees, and other miscellaneous variable expenses.*
- (2) *Amounts include the actual costs of residential security system monitoring for Ms. Barra as recommended by independent security consultants. Amounts for Mr. Ammann include the additional costs of security upgrades completed during 2016, as recommended by independent security consultants, due to Mr. Ammann's home purchase in 2015 following his permanent relocation to Detroit in 2014.*
- (3) *Company vehicle programs includes the cost of providing cars and drivers and the estimated annual lease value of the Company vehicles, inclusive of fuel and insurance, driven by NEOs. We include the annual lease value because it is more reflective of the value of the company vehicle perquisite than the Company's incremental costs, which are generally significantly lower because the Company manufactures and ordinarily disposes of Company vehicles for a profit, resulting in minimal incremental costs, if any. Taxes related to imputed income are the responsibility of each participant.*
- (4) *Costs associated with executive physicals for each executive with approved providers.*
- (5) *Costs associated with financial counseling and estate planning services with approved providers.*
- (6) *Occasionally unused tickets from sponsorship agreements are made available for personal use. The value represents the incremental costs associated with the personal use of tickets to GM-sponsored events.*

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EXECUTIVE COMPENSATION

u Grants of Plan Based Awards

STIP awards for the 2016 performance year were made under the terms of the 2014 STIP, and all equity grants were made to each NEO under the terms of the 2014 LTIP. Each grant consisted of PSUs and RSUs for each NEO. PSUs, which vest and deliver at the end of the performance period, will be earned at a level between 0% and 200% of target. PSUs are

based on the achievement of performance conditions relating to ROIC-Adjusted and Global Market Share over a three-year performance period from January 1, 2016 to December 31, 2018. The RSUs will vest ratably over the three-year period.

Award Type	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Underlying Securities	All Other Exercise or Base Awards: Number of Options
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
TIP	1/1/2016	1/13/2016	200,000	4,000,000	8,000,000					
RSU	2/10/2016	1/13/2016						117,287		

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SU	2/10/2016	1/13/2016				87,965	351,859	703,718	
TIP	1/1/2016	1/13/2016	68,750	1,375,000	2,750,000				
SU	2/10/2016	1/13/2016							31,126
SU	2/10/2016	1/13/2016				23,345	93,378	186,756	
TIP	1/1/2016	1/13/2016	90,625	1,812,500	3,625,000				
SU	2/10/2016	1/13/2016							42,404
SU	2/10/2016	1/13/2016				31,803	127,211	254,422	
TIP	1/1/2016	1/13/2016	75,000	1,500,000	3,000,000				
SU	2/10/2016	1/13/2016							35,186
SU	2/10/2016	1/13/2016				26,390	105,558	211,116	
	1/1/2016	1/13/2016	59,375	1,187,500	2,375,000				

TIP

SU	2/10/2016	1/13/2016					24,360
	2/10/2016	1/13/2016		18,270	73,079	146,158	
SU							

(1) This column shows the aggregate grant date fair value of PSUs and RSUs granted to the NEOs in 2016. The aggregate grant date fair value is the amount that the Company expects to expense in its financial statements over the award's vesting schedule. All grant date fair values have been computed in accordance with FASB ASC Topic 718.

For RSUs, grant date fair value is calculated based on the closing price of the common stock on the grant date.

For PSUs, grant date fair value is calculated based on the closing price of the common stock on the grant date and the target number of PSUs.

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EXECUTIVE COMPENSATION

u Outstanding Equity Awards at Fiscal Year-End

Option Awards			Stock Awards ⁽¹⁾				
Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards:	Number of Shares of Units or	Stock That Have Not Vested (#)	Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards:	
		Number of Securities Underlying Unexercised Unearned Options (#)				Number of Shares, Units, or Other Rights That Have Not Vested (#)	
Date (#)	(#)	Options (#)	Option Exercise Price (\$)	Option Expiration Date		Options (#)	
2/10/2016					117,287 ⁽⁴⁾	4,086,279	351,859 ^(5,8)
7/28/2015	1,041,215 ⁽²⁾	1,561,822 ⁽³⁾	31.32	7/28/2025			
2/11/2015					53,092 ⁽⁴⁾	1,849,725	238,917 ^(5,8)
					427,973 ^(4,5)	14,910,579	

6/11/2014

2/13/2014

12,503⁽⁶⁾

evens, III

2/10/2016

31,126⁽⁴⁾

1,084,430

93,378^(5,8)

7/28/2015

249,458⁽²⁾

374,187⁽³⁾

31.32

7/28/2025

2/11/2015

12,720⁽⁴⁾

443,165

57,241^(5,8)

6/11/2014

103,784^(4,5)

3,615,835

2/13/2014

5,716⁽⁴⁾

199,145

nn

2/10/2016

42,404⁽⁴⁾

1,477,355

127,211^(5,8)

7/28/2015

390,456⁽²⁾

585,683⁽³⁾

31.32

7/28/2025

2/11/2015

19,910⁽⁴⁾

693,664

89,594^(5,8)

194,729^(4,5)

6,784,358

6/11/2014

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2/13/2014								12,503 ⁽⁶⁾
2/10/2016						35,186 ⁽⁴⁾	1,225,880	105,558 ^(5,8)
7/28/2015	331,888 ⁽²⁾	497,831 ⁽³⁾	31.32	7/28/2025				
2/11/2015						16,923 ⁽⁴⁾	589,597	76,155 ^(5,8)
6/11/2014						166,375 ^(4,5)	5,796,505	
2/13/2014						57,160 ⁽⁷⁾	1,991,454	11,074 ⁽⁶⁾
2/10/2016						24,360 ⁽⁴⁾	848,702	73,079 ^(5,8)
7/28/2015	234,274 ⁽²⁾	351,410 ⁽³⁾	31.32	7/28/2025				
2/11/2015						11,946 ⁽⁴⁾	416,199	53,757 ^(5,8)
6/11/2014						115,554 ^(4,5)	4,025,901	

2/13/2014

6,335⁽⁴⁾

220,711

- (1) *The awards are valued based on the closing price of common stock on the NYSE on December 30, 2016, which was \$34.84.*
- (2) *Option awards granted under the DSV Option Grant on July 28, 2015 to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey. This portion represents the 40% of the award that features time-based vesting and vests on February 15, 2017.*
- (3) *Option awards granted under the DSV Option Grant on July 28, 2015 to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey. This portion represents the 60% of the award that features performance-based vesting and vests ratably each February 15 of 2018, 2019, and 2020.*
- (4) *RSU awards were granted to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey on February 10, 2016 and vest ratably each February 10 of 2017, 2018 and 2019. RSU awards were granted to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey on February 11, 2015 and vest ratably each February 11 of 2016, 2017, and 2018. RSU awards were granted to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey on June 11, 2014, and vest ratably each February 13 of 2015, 2016, and 2017. RSUs granted to Mr. Stevens and Mr. Batey on February 13, 2014 vest ratably over three years on each anniversary of the grant date.*
- (5) *2016 PSU awards were granted to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey on February 10, 2016 and cliff-vest on February 10, 2019, upon completion of results for the performance period January 1, 2016 December 31, 2018. 2015 PSU awards were granted to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey on February 11, 2015 and cliff-vest on February 11, 2018, upon completion of results for the performance period January 1, 2015 December 31, 2017. 2014 PSU awards were granted to Ms. Barra and Messrs. Stevens, Ammann, Reuss, and Batey on June 11, 2014 and cliff-vest on February 13, 2017, upon completion of results for the performance period January 1, 2014 December 31, 2016. The final performance for the 2014-2016 PSU was 195% and is discussed on page 54.*
- (6) *Troubled Asset Relief Program (the TARP) RSU awards were granted to Ms. Barra and Messrs. Ammann and Reuss on February 13, 2014. TARP RSUs vest two-thirds on the second anniversary of the grant date and one-third on the third anniversary of the grant date.*
- (7) *RSUs granted to Mr. Reuss for retention purposes on February 13, 2014 cliff-vested on February 13, 2017.*
- (8) *Assumes target-level payout of PSU awards. Assuming maximum-level payout of PSU awards, the number of shares (and market value of such shares) with respect to unvested 2015-2017 PSUs and 2016-2018 PSUs, respectively, outstanding as of December 31, 2016 was for Ms. Barra: 477,834 shares (\$16,647,736) and 703,859 shares (\$24,517,536); for Mr. Stevens: 114,482 shares (\$3,988,552) and 186,756 shares (\$6,506,580); for Mr.*

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Ammann: 179,188 shares (\$6,242,910) and 254,422 shares (\$8,864,062); for Mr. Reuss: 152,310 shares (\$5,306,480) and 211,116 shares (\$7,355,282); and for Mr. Batey: 107,514 shares (\$3,745,788) and 146,158 shares (\$5,092,144).

Table of Contents**EXECUTIVE COMPENSATION****u Option Exercises and Stock Vested**

Name	Option Awards⁽¹⁾		Stock Awards⁽²⁾	
	Number of Shares		Value Realized on Vesting	
	Acquired	Number of Shares	Value Realized on Vesting	Value Realized on Vesting
	Exercise	Acquired on Vesting	(\$)	(\$)
	(#)	(#)		
Mary T. Barra		89,376		2,489,029
Charles K. Stevens, III		30,762		864,223
Daniel Ammann		60,670		1,708,085
Mark L. Reuss		52,486		1,477,214
Alan Batey		30,284		846,775

(1) No stock options were exercised in 2016.

(2) We computed the aggregate dollar value realized on vesting by multiplying the number of shares of stock vested by the closing price of common stock on the NYSE on the vesting date.

u Pension Benefits**GM Salaried Retirement Plan**

Eligibility and Vesting: The GM Salaried Retirement Plan (SRP) is a funded, tax-qualified retirement program that covers eligible employees hired prior to January 1, 2007. Employees who commenced service on or after January 1, 2007 are eligible to participate only in defined contribution plans. Employees are vested in the SRP after five years of qualifying service. The plan permitted employee contributions, which vested immediately, until December 31, 2006. All Defined Benefit accruals were frozen on September 30, 2012, with service continuing toward eligibility to retire.

Benefit Formula:

Service prior to January 1, 2001 The plan provided benefits on both a contributory and noncontributory formula. The contributory formula factors the contributions of the executive and earnings for each fiscal year. The formulas were frozen effective December 31, 2006, and effective January 1, 2007, employees continued to participate in the SRP under a new formula that provided a pension accrual equal to 1.25% of the employee s eligible earnings up to the IRS-prescribed limits for tax-qualified plans. The 1.25% accruals were frozen September 30, 2012.

Service from January 1, 2001 to December 31, 2006 The plan provided benefits under a cash balance formula with pay credits based on age through December 31, 2006, when the formula was frozen, with balances continuing to earn interest credits thereafter.

Time and Form of Payment: The accumulated benefit an employee earns over his or her career with the Company is payable starting after retirement. Normal retirement age is defined as age 65. Employees who commenced service prior to 1988 may elect early retirement after 30 years of credited service or 85 points, based on combined age and service, or age 60 and 10 or more years of service, with certain age-reduction factors applied. The plan also provides Social Security supplements for those hired prior to 1988. For employees hired on and after January 1, 1988, and prior to December 31, 2000, Social Security supplements are not payable, and age-reduction factors are greater for retirements prior to age 60. The plan provides both a spousal joint and survivor annuity and contingent annuitant optional form of payment. The employee may elect either a monthly annuity for life or a 100% lump sum of all benefits payable.

Tax Code Limitations on Benefits: Section 415 of the IRC limits the benefits payable under the GM SRP. For 2016, the maximum single life annuity a NEO could have received under these limits was \$210,000 per year. This ceiling is actuarially adjusted in accordance with IRS rules to reflect employee contributions, actual forms of distribution, and actual retirement dates.

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EXECUTIVE COMPENSATION

GM Executive Retirement Plan

Eligibility and Vesting: The GM Executive Retirement Plan (DB ERP) is an unfunded and non-tax-qualified retirement program that covers eligible executives, including named executives, to provide retirement benefits above amounts available under our other pension programs.

Benefit Formula:

Service Prior to January 1, 2007 The supplemental pension will equal the greater of (a) 2% of the average monthly base salary multiplied by all years of contributory service less the sum of all benefits payable under the GM Salaried Retirement plus the maximum Social Security Benefit as of January 2007 multiplied by all years of noncontributory service or (b) 1.5% of the average monthly base salary plus annual incentive plan compensation multiplied by all years of contributory service, up to a maximum of 35 years less the sum of all benefits payable under the GM SRP plus 100% of the maximum Social Security benefit as of January 2007. In both cases, the base salary and annual incentive plan payments are determined using the highest 60 months out of the last 120 months prior to retirement.

Service from January 1, 2007 to December 31, 2007 The supplemental pension will equal 1.25% multiplied by their annual base salary and is applicable to amounts in excess of the IRS-prescribed limit applicable to tax-qualified plans.

Service from January 1, 2008 to September 30, 2012 The supplemental pension will equal 1.25% multiplied by their annual base salary plus short-term incentive payments and is applicable to amounts in excess of the IRS-prescribed limit applicable to tax-qualified plans.

Time and form of payment: Normal retirement age under the plan is age 65; however, employees who commenced service prior to January 1, 2007, including NEOs, may retire at age 60 with 10 or more years of service without any reduction in benefits. Employees may also retire at age 55 with 10 or more years of service with benefits reduced using the same factors as are utilized for early retirement under the GM SRP. The GM DB ERP is payable as a five-year certain annuity, with payments starting upon the retirement of the executive and continuing for 60 months.

VML Pension Plan

Eligibility and Vesting: The Vauxhall Motors (VML) Pension Plan is a funded defined benefit plan open to all GM United Kingdom employees prior to October 2012 when it closed to new entrants.

Benefit Formula:

Service Prior to May 31, 2009 The VML Pension Plan gave an annual pension equal to 1/55th times pensionable service times Final Pensionable Pay. Pensionable Pay is defined as basic pay less the lower earnings limit.

Service from June 1, 2009 An annual pension equal to 1/60th times pensionable service times Final Pensionable Pay. Increases in pensionable pay is limited to the rate of RPI inflation annually other than for one off increases due to

promotions.

Time and form of payment: Normal retirement age under the plan is age 65. Deferred members can take their pension from age 55 subject to a reduction, using the plans early retirement factors.

Table of Contents**EXECUTIVE COMPENSATION**

Name	Plan Name	Number of Years	Present Value	Payments During
		of Eligible Credited Service as of December 31, 2016 ⁽¹⁾	of Accumulated Benefits ⁽²⁾ (\$)	Last Fiscal Year (\$)
Mary T. Barra	SRP	34.3	1,020,828	
	DB ERP	34.3	985,894	
Charles K. Stevens, III	SRP	37.5	1,113,519	
	DB ERP	37.5	448,105	
Daniel Ammann ⁽³⁾				
Mark L. Reuss	SRP	29.8	819,766	
	DB ERP	29.8	613,257	
Alan Batey ⁽⁴⁾	SRP	37.3	49,224	
	VML Pension Plan	31.8	2,454,169	

- (1) *Eligible service recognizes credited service under the frozen qualified SRP in addition to future service to determine retirement eligibility.*
- (2) *The present value of the SRP benefit amount shown takes into consideration the ability to elect a joint and survivor annuity form of payment. For SRP and DB ERP benefits, the present value represents the value of the benefit payable at age 60 (or immediately if over age 60). Benefits and present values reflect the provisions of the SRP and DB ERP as of December 31, 2016. Present values shown here are based on the mortality and discount rate assumptions used in the December 31, 2016, FASB ASC Section 718, Compensation-Retirement Benefits except where needed to meet proxy statement requirements. The discount rates used for calculations as of December 31, 2016 for the SRP are 4.2%; for the ERP are 3.63%; and for the VML Pension Plan are 2.75%.*
- (3) *Mr. Ammann is eligible to participate only in defined contribution plans offered by the Company.*
- (4) *Mr. Batey is a participant in the VML Pension Plan from his service in the United Kingdom.*

u Nonqualified Deferred Compensation Plans

We maintain certain deferred compensation programs and arrangements for executives, including the NEOs.

DC ERP Allows for the equalization of benefits for highly compensated salaried employees under the RSP when such employees' contribution and benefit levels exceed the maximum limitations on contributions and benefits imposed by Section 2004 of ERISA, as amended, and Section 401(a)(17) and 415 of the IRC, as amended. The DC ERP is maintained as an unfunded plan, and we bear all expenses for administration of the plan and payment of amounts to participants.

Aggregate account balances disclosed below include both vested and unvested contributions by GM. Contributions made prior to 2007 were vested immediately. Contributions made between January 1, 2007, and September 30, 2012, vest when the participant attains age 55 with 10 years of service. Contributions made on October 1, 2012, and later vest when the participant attains three years of service, regardless of age.

Salary Stock Units (SSUs) NEOs received a portion of their total annual compensation in the form of SSUs, which were granted each quarter while the Company was under TARP. SSUs were nonforfeitable and became deliverable quarterly in three equal installments at each of the first, second, and third anniversaries of the grant date. No SSUs have been granted since the Company exited TARP in 2013 and all final grants of SSUs were paid on December 31, 2016 reflecting a zero balance in the table below.

Table of Contents**EXECUTIVE COMPENSATION**

The table below reflects December 31, 2016 balances for the various nonqualified deferred compensation plans based on the closing price of common stock on December 30, 2016 (\$34.84), and any contributions, earnings, and withdrawals during the year.

Name	Plan	Executive	Registrant	Aggregate	Aggregate	Aggregate
		Contributions	Contributions	Earnings	Withdrawals	Balance at 2016
		in the	in the Last	in the Last	and	Fiscal
		Last	Fiscal	Fiscal	Distributions ⁽³⁾	Year End ⁽⁴⁾
		Fiscal	Year ⁽¹⁾	Year ⁽²⁾		Fiscal
		Year	(\$)	(\$)	(\$)	Year End ⁽⁴⁾
						(\$)
Mary T. Barra	SSU DC ERP		372,417	(69,543) 72,647	(876,615)	918,106
Charles K. Stevens, III	SSU DC ERP		183,333	(1,165) 30,991	(14,752)	426,247
Daniel Ammann	SSU DC ERP		165,250	(69,327) 11,069	(873,702)	359,884
Mark L. Reuss	SSU DC ERP		189,900	(59,050) 30,749	(744,300)	419,446

Alan Batey	SSU		(19,595)	(248,030)	
	DC ERP	150,466	28,684		355,962

(1) No SSUs were granted in 2016, as the Company exited TARP in 2013. The full amount shown under Registrant Contributions is included in the All Other Compensation column of the Summary Compensation Table.

(2) Earnings that may be included in the Aggregate Earnings in the Last Fiscal Year column are not reported in the Change in Pension Value and Non-qualified Deferred Compensation totals in the Summary Compensation Table, because we do not pay above-market earnings on deferred compensation.

(3) Payments of SSUs granted on various dates and at various share prices were made to each of the NEOs pursuant to TARP restrictions. All SSUs were paid out as of December 31, 2016.

(4) The following amounts have been included in the Summary Compensation Table in prior years: \$424,807 (Ms. Barra), \$203,585 (Mr. Stevens), \$172,309 (Mr. Ammann), and \$192,566 (Mr. Reuss).

u Potential Payments Upon Termination

The Company does not maintain individual employment agreements with any NEO that provide guaranteed payments in the event of a termination of employment or change in control. In the event that an NEO's position with the Company is eliminated, including the elimination of the NEO's position as a result of a change in control, the NEO would be eligible for severance pay under the GM Executive Severance Program.

The table below shows the potential payments to each NEO assuming a termination of employment on December 31, 2016, due to each of the following: voluntary separation or termination for cause; qualifying termination under the Executive Severance Program (as amended on February 1, 2016); full career status retirement; disability; death; and change in control with termination of employment. Each of the separation events is described in more detail below. These provisions are generally applicable to participants in each of the applicable plans, and they are not reserved only for NEOs. The payments below are in addition to the present value of the accumulated benefits from each NEOs qualified and nonqualified pension plans shown in the Pension Benefits table on page 68, and the aggregate balance due to each NEO that is shown in the Nonqualified Deferred Compensation table above.

For purposes of the following table, the Company describes these terminations and potential payments:

Voluntary Separation or Termination for Cause A voluntary separation occurs when an executive voluntarily terminates employment with the Company. A termination for cause occurs when an executive is dismissed from employment by the Company for cause, which is considered to include, but is not limited to, the executive's gross negligence, willful misconduct, or violation of state or federal securities laws. Under each of these

scenarios, executives generally forfeit all outstanding equity awards and are not eligible for any award or payment under the STIP. Full career status retirements receive different treatment, as discussed below.

Executive Severance Program A separation occurs when an executive's position is eliminated or the Company and an executive agree to mutually end the employment relationship. An executive will be eligible to receive severance pay from the Company calculated based on their position and reflected as a multiple of base salary, COBRA, as well as a STIP award at target. An executive will receive cash payments of the value of the equity awards that are scheduled to vest within the next year after separation at the time of vesting if the executive enters into a mutual separation agreement. All unvested stock options are usually forfeited. An executive is also eligible for outplacement assistance based on position.

Full Career Status Retirement A full career status retirement occurs when an executive reaches the age of 55 with 10 or more years of continuous service or age 62 or older and the executive voluntarily separates from the

Table of Contents**EXECUTIVE COMPENSATION**

Company. If an executive enters into a separation or severance agreement, they cannot also elect full career status retirement. In the event of full career status retirement, the executive is generally eligible for a prorated STIP award based on months of active service in the performance year as of their termination date and once final performance has been determined. RSUs granted within one year prior to the date of retirement are prorated based on months of active service prior to the date of retirement. RSUs granted more than one year prior to the date of retirement continue to vest in accordance with their vesting schedule. PSUs granted within one year prior to the date of retirement are prorated based on months of active service prior to the date of retirement and will be adjusted for final corporate performance against the performance measures contained in the awards; such awards will be payable following approval of such performance. PSUs granted more than one year prior to the date of retirement will remain outstanding until the end of the performance period, at which time they will be adjusted for final corporate performance and be settled following approval of such performance. Stock options granted within one year prior to the date of retirement are prorated based on months of active service prior to the date of retirement. Stock options granted more than one year prior to the date of retirement will continue to vest in accordance with their vesting schedule. As of December 31, 2016, only Ms. Barra and Mr. Stevens were eligible for full career status retirement.

Disability Disability occurs when an executive terminates employment by reason of their inability to engage in any gainful activity due to a medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. Executives are eligible for a full-year STIP award related to the year in which termination occurs once final performance has been determined. Unvested RSUs and TARP RSUs continue to vest according to their vesting schedule. Unvested PSUs vest immediately upon such termination and will remain outstanding until the end of the performance period, at which time they will be adjusted for final corporate performance and be settled following approval of such performance. Stock options will continue to vest in accordance with their vesting schedule.

Death Following the death of an executive, the beneficiary of the executive will be eligible to receive the target STIP award subject to adjustment for final corporate and individual performance following determination of the final award. RSUs immediately vest in full and are settled within 90 days of death. PSUs vest immediately upon death and will remain outstanding until the end of the performance period, at which time they will be adjusted for final corporate performance and be settled following approval of such performance. Stock options immediately vest upon death. TARP RSUs are prorated for months of active service and settled as soon as possible.

Change in Control (Double-Trigger) In the event of a termination of employment resulting from a change in control, an executive will be eligible for severance under the GM Executive Severance Program that provides a severance payment based on position and multiple of base salary and COBRA. Executives also receive a STIP award at target and the STIP award for the prior year, if such award has been determined, but not paid. If the STIP award for the prior year has not been determined, the award shall be determined at target and paid. All RSU awards will generally vest and become payable immediately prior to the change in control. For PSUs, the performance

period will end immediately prior to the change in control and awards will be determined based on actual performance and converted to a time-based award. Stock options immediately vest and are exercisable upon termination as a result of a change in control. TARP RSU awards are not subject to change in control provisions, and unvested awards are, therefore forfeited upon a termination of employment following a change in control.

Table of Contents**EXECUTIVE COMPENSATION**

Amounts shown in the following table are calculated by assuming that the relevant employment termination event occurred on December 31, 2016.

Name	Compensation for Element ⁽¹⁾⁽²⁾⁽³⁾	Voluntary Separation or Termination Cause				Change in Control with Termination
		Executive Severance Program	Retirement ⁽⁴⁾	Disability	Death	
Mary T. Barra	Cash	4,061,875				4,046,875
	STIP	4,000,000	6,760,000	6,760,000	6,760,000	4,000,000
	LTIP	20,862,620	39,241,179	51,027,511	51,015,411	50,591,906
	TOTAL	28,924,495	46,001,179	57,787,511	57,775,411	58,638,781
Charles K. Stevens, III	Cash	1,700,156				1,685,156
	STIP	1,375,000	2,323,750	2,323,750	2,323,750	1,375,000
	LTIP	5,276,132	9,773,043	12,785,348	12,785,348	12,785,348
	TOTAL	8,351,288	12,096,793	15,109,098	15,109,098	15,845,504
	Cash	2,206,187				2,191,187

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Daniel Ammann	STIP	1,812,500	3,063,125	3,063,125	1,812,500
	LTIP	8,998,029	20,380,447	20,368,347	19,944,842
	TOTAL	13,016,716	23,443,572	23,431,472	23,948,529
Mark L. Reuss	Cash	1,850,156			1,835,156
	STIP	1,500,000	2,535,000	2,535,000	1,500,000
	LTIP	7,668,203	19,240,744	19,230,027	18,854,926
	TOTAL	11,018,360	21,775,744	21,765,027	22,190,082
Alan Batey	Cash	1,475,156			1,460,156
	STIP	1,187,500	2,006,875	2,006,875	1,187,500
	LTIP	5,562,250	11,992,080	11,992,080	11,992,080
	TOTAL	8,224,907	13,998,955	13,998,955	14,639,736

(1) Cash amounts shown for Executive Severance Program and Change in Control with Termination are based on the Executive Severance Program filed with the SEC on Form 8-K on February 3, 2016. Payments are 2X Base for the CEO and 1.5X Base for all other NEOs. Under the Executive Severance Program, the CEO is eligible for a cash payment equal to 24 months of COBRA premiums, and the other NEOs, 18 months of COBRA premiums. There are no cash payments due upon Full Career Status Retirement, Disability, or Death.

(2) STIP values shown for Full Career Status Retirement, Disability, and Death are based on the actual full-year performance at the overall corporate achievement. STIP amounts shown for Executive Severance Program and Change in Control with Termination reflect target-level performance. Executives forfeit STIP awards for Voluntary Separation or Termination for Cause.

(3)

LTIP amounts reflect the value of unvested RSU awards, PSU awards, and stock options that may vest upon termination. The value of the awards is based on GM's closing stock price on December 30, 2016, of \$34.84. For the Executive Severance Program, RSU awards and PSU awards are delivered in cash once vested; the value displayed reflects the value of awards that would be subject to payment based on awards outstanding as of December 31, 2016.

(4) Only Ms. Barra and Mr. Stevens were eligible for retirement as of December 31, 2016.

Table of Contents**EXECUTIVE COMPENSATION****Equity Compensation Plan Information**

The following table provides information as of December 31, 2016, about the Company's common stock that may be issued upon the exercise of options, warrants, and rights under all of the Company's existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of
			Securities Remaining Available for Future Issuance Under Equity Compensation Plan (excluding securities reflected in column (A))
	(A)	(B)	(C)
Equity compensation plans approved by security holders	44,968,420 ⁽¹⁾	\$31.31 ⁽²⁾	12,905,263
Equity compensation plans not approved by security holders ⁽³⁾	10,150,089 ⁽⁴⁾		128,985
	55,118,509	\$31.31	13,034,248
Total			

(1) The number includes the following:

- a. 25,492,982 shares represent options granted as part of the DSV grant.*
- b. 13,092,611 shares represent PSU awards assuming performance is achieved at target. For performance above target, awards may be settled in common stock or cash.*
- c. 6,382,827 shares represent RSUs.*

(2) This is the weighted-average exercise price of the 25,492,982 options outstanding granted as part of the DSV grant. No other options have been granted.

(3) 2016 Equity Incentive Plan, refer to Note 21 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

(4) Represents RSUs, restricted stock, and PSUs. PSUs may be issued upon achievement of performance conditions.

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ITEM NO. 2 APPROVAL OF, ON AN ADVISORY BASIS, NAMED EXECUTIVE OFFICER COMPENSATION

Executive compensation is an important matter for our shareholders. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires that we provide you with the opportunity to vote to approve, on a nonbinding advisory basis, the compensation of our named executive officers, as disclosed in this Proxy Statement in accordance with the compensation disclosure rules of the SEC (sometimes referred to as "Say-on-Pay").

The Compensation Committee has approved the compensation arrangements for our named executive officers described in our CD&A section beginning on page 41 and accompanying compensation tables beginning on page 62 in this Proxy Statement. We urge you to read the CD&A for a more complete understanding of our executive compensation plans, including our compensation philosophy and objectives and the 2016 compensation of named executive officers.

We are asking shareholders to vote in favor of the following resolution:

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

As an advisory vote, this proposal is nonbinding. Although the vote is nonbinding, the Board of Directors and the Compensation Committee value the opinions of our shareholders and will consider the outcome of the vote when making future compensation decisions for named executive officers.

The next Say-on-Pay vote will occur at our 2018 Annual Meeting and the next Say-on-Frequency vote will occur at our 2020 Annual Meeting.

Vote Required

The affirmative vote of a majority of the shares of our common stock present or represented by proxy and entitled to vote at the Annual Meeting is required for approval of this proposal. If you own shares through a broker, bank, or other nominee, you must instruct your broker, bank, or other nominee on how to vote your shares to ensure that your shares will be represented and voted on this proposal.

The Board of Directors recommends a vote FOR the advisory proposal to approve named executive officer compensation.

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ITEM NO. 3 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 SHORT-TERM INCENTIVE PLAN

The Board of Directors recommends shareholders vote FOR the approval of the 2017 Short-Term Incentive Plan (the 2017 STIP), including the material terms that may be used for awards thereunder. The 2017 STIP is a cash-based plan, and upon approval, will replace the Company's 2014 Short-Term Incentive Plan (the 2014 STIP). The awards approved in January 2017 for performance during 2017 described in the CD&A were awarded under the 2014 STIP, and the Company intends to make awards under the 2017 STIP, if approved, starting in 2018. The terms of the 2017 STIP are similar to the terms of the 2014 STIP, which was approved by 95.6% of our shareholders.

The Company's executive compensation program is designed so that a meaningful portion of each executive's total compensation opportunity is placed at-risk through awards made under short-term and long-term incentive plans. The 2017 STIP will provide the Company with the ability to align the global executive team toward the achievement of Company performance objectives by basing annual cash incentive awards on the achievement of performance measures established by the Compensation Committee, which is comprised of independent directors. The final value of all performance awards will be based upon the achievement of specified financial, operational, and individual goals.

The 2017 STIP has been designed to permit the Compensation Committee to grant awards that are intended to meet the requirements of Section 162(m) of the IRC for qualified performance-based compensation so that the Compensation Committee has the ability to issue awards to our senior executives and preserve tax deductibility for the Company with respect to those awards. Section 162(m) requires shareholder approval of the material terms pursuant to which qualified performance-based compensation may be paid. Such material terms include:

Eligible Participants: The class of individuals eligible to participate as described below in the section entitled Eligible Participants, ;

Individual Limits: The annual per-individual limit described below in the section entitled Limitations of Individual Awards for Preserving Maximum Tax Deductibility Under 162(m) ; and

Performance Measures: The specific performance measures listed below under the section entitled 162(m) Performance Measures.

The following summary is qualified in its entirety by reference to the complete text of the 2017 STIP, which is attached as Appendix A to this Proxy Statement.

[Summary of the General Motors Company 2017 Short-Term Incentive Plan](#)

Key Provisions

Description

Eligible Participants

Employees of the Company and its subsidiaries who are designated by the Compensation Committee to participate in the 2017 STIP, including employees who are subject to the limitations of Section 162(m) of the IRC, which generally include our CEO and the three other most-highly compensated executive officers (other than our CFO), referred to as Covered Employees.

Plan Administration

The 2017 STIP is administered by the Compensation Committee, which has the authority to: designate the eligible individuals who will receive awards; determine the target amounts and terms and conditions of awards; determine amounts payable that may be deferred; interpret and administer the 2017 STIP; establish, amend, suspend, or waive any rules and regulations under the 2017 STIP; and make any other determinations or take any other actions to administer the 2017 STIP. Subject to any limits established by the Compensation Committee, the Compensation Committee may delegate to one or more members of the Compensation Committee or officers of the Company (including the CEO) the authority to establish awards and take other actions under the 2017 STIP, provided that officers of the Company may not be delegated authority with respect to awards for Covered Employees whose awards are intended to constitute qualified performance-based compensation for purposes of Section 162(m) of the IRC.

Target Awards

The Compensation Committee will establish the terms of awards under the 2017 STIP, including the applicable performance period, the participating employees, the target awards (including any minimum or maximum amounts), the applicable performance objectives and targeted achievement levels, and any other applicable terms and conditions.

Table of Contents**ITEM NO. 3 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 SHORT-TERM INCENTIVE PLAN****Key Provisions****Description**

In any given calendar year, no award to a Covered Employee that is intended to constitute qualified performance-based compensation for purposes of preserving maximum tax deductibility under Section 162(m) of the IRC may pay out at more than \$15 million under the 2017 STIP.

Limitations of Individual Awards for Preserving Maximum Tax Deductibility Under 162(m)

For any award to a Covered Employee, during the beginning of the performance period, the Compensation Committee will establish and approve in writing one or more of the performance measures from the list described below, the targeted achievement levels for such performance measures, and an objective formula or methodology to determine the maximum amount payable under the award. After the end of the performance period, the Compensation Committee will certify in writing the extent to which the applicable performance measures have been satisfied and the amount payable with respect to the award. The Compensation Committee may then adjust such maximum amount downward as it deems appropriate, including to reflect any additional performance factors.

162(m)**Performance****Measures**

The performance measures from which the Compensation Committee may choose for awards to Covered Employees intended to be qualified for purposes of Section 162(m) of the IRC, means any one or more of the following performance measures expressed on an absolute or adjusted basis, applied to either the Company as a whole or to a business unit, subsidiary, or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, in each case, as specified by the Compensation Committee:

Asset turnover, cash flow, contribution margin, cost objectives, cost reduction, earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, economic value added, free cash flow, increase in customer base, inventory turnover, liquidity, market share, net income, net income

margin, operating cash flow, operating profit, operating profit margin, pre-tax income, productivity, profit margin, quality (internal or external measures), return on assets, return on net assets, return on capital, return on invested capital, return on equity, revenue, revenue growth, stockholder value, stock price, total shareholder return, and/or warranty experience.

Final Awards

After the end of the performance period, the Compensation Committee will determine the final awards by applying the performance objectives and making any adjustments to such objectives (upward or downward) that the Compensation Committee deems appropriate, subject to the limitations applicable to Covered Employees to the extent such awards are intended to constitute qualified performance-based compensation under Section 162(m) of the IRC.

Adjustments

With respect to the applicable performance period, the Compensation Committee may generally make adjustments to the performance measures, target achievement levels (including any minimum or maximum achievement levels) and other applicable terms and conditions as the Compensation Committee deems appropriate and equitable. If the Compensation Committee determines that a change in the business, operations, corporate structure, or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the applicable performance measures unsuitable, the Compensation Committee may in its discretion modify such performance objectives or the related minimum acceptable level of achievement, in whole or part; provided, however, that in the case of an award intended to qualify under Section 162(m) of the IRC, such modifications shall be made only to the extent that they would not disqualify such award under Section 162(m) of the IRC.

Payment of Awards

Final awards will be paid in cash after the end of the performance period; however, the Company may permit or require the deferral of awards pursuant to a deferred compensation plan or arrangement.

Effect of Termination of Service

Except as the Compensation Committee may determine in any individual case, awards will be treated as set forth below upon a participant's termination of service prior to payment of the final award.

Death or Disability: In the event of a participant's termination of employment due to death or disability, the final award will be determined and paid based on actual performance (without proration) after the end of the applicable performance period.

Full Career Status Termination: In the event of a participant's voluntary termination of employment (i) at the age of 55 or older with 10 or more years of continuous service or (ii) at the age of 62 or older, the final award will be determined and paid based on actual performance on a prorated basis after the end of the applicable performance period.

Termination Pursuant to Approved Separation Agreement or Program: In the event of a participant's termination of employment pursuant to an approved separation agreement or program, the participant will have no right to any portion of an award.

Other Terminations: Any unpaid portion of any award will be forfeited.

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ITEM NO. 3 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 SHORT-TERM INCENTIVE PLAN

Key Provisions

Description

In the event of a Change in Control (as such term is defined in the 2017 STIP), the minimum award payable to each participant in the 2017 STIP in respect of the fiscal year in which the Change in Control occurs shall be the greatest of:

The award or other annual bonus paid or payable to the participant in respect of the fiscal year prior to the year in which the Change in Control occurs;

Change in Control

The amount that would be payable to the participant if the Company achieved the target award for such fiscal year; or

The award amount that would be payable to the participant based on the Company's actual performance and achievement of applicable performance measures for such fiscal year through the date of the Change in Control.

**Clawback /
Recoupment**

Any awards issued under the 2017 STIP (including any amounts payable with respect to such awards) will be subject to the Company's clawback or recoupment policies. The Company currently maintains the General Motors Policy on Recoupment of Incentive Compensation available on our website, gm.com/investors, under Corporate Governance.

Plan Amendments

The 2017 STIP may be amended by the Board of Directors, generally subject to stockholder approval to the extent required by applicable law.

Plan Term

The 2017 STIP is effective as of [], 2017 subject to shareholder approval, and no new awards will be issued under the 2017 STIP after [], 2022.

u New Plan Benefits

All employees (approximately 225,000) are eligible to receive awards under the 2017 STIP; however, we expect that awards will be made to approximately 1,700 employees annually, including approximately 14 executive officers of the Company. Non-employee directors are not eligible to receive awards under the 2017 STIP. As of the date of this Proxy Statement, no awards have been granted under the 2017 STIP. Awards under the 2017 STIP, if approved, would be granted at the discretion of the Compensation Committee as described above under Plan Administration . Therefore, benefits or amounts that will be received by or allocated to each named executive officer, all

current executive officers as a group, and all employees who are not executive officers as a group, as well as the benefits or amounts that would have been so received or allocated had the 2017 STIP been in effect in 2016, are not presently determinable. The 2017 STIP is being presented for shareholder approval in order to permit the Compensation Committee to make awards under the 2017 STIP that are intended to constitute qualified performance-based compensation under Section 162(m) of the IRC. If the 2017 STIP is not approved by shareholders, it will not be adopted.

Vote Required

The affirmative vote of a majority of the shares of our common stock present or represented by proxy and entitled to vote at the Annual Meeting is required for approval of this proposal. If you own shares through a broker, bank, or other nominee, you must instruct your broker, bank, or other nominee on how to vote your shares so that your shares will be represented and voted on this proposal.

The Board of Directors recommends a vote FOR the approval of the General Motors Company 2017 Short-Term Incentive Plan.

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ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN

The Board of Directors recommends shareholders vote FOR the approval of the 2017 Long-Term Incentive Plan (the 2017 LTIP), which will allow for equity awards to support our overall performance-based compensation programs. Long-term, equity-based compensation is a critical component of our executive compensation structure that allows the Company to continue to attract, motivate, and retain the critical talent necessary to deliver long-term results to shareholders as our industry continues to evolve. The terms of the 2017 LTIP are similar to the terms of the 2014 LTIP, which was approved by 95.1% of our shareholders.

For the 2017 LTIP we are seeking approval of 42,000,000 shares of common stock, par value \$0.01 per share, to provide equity-based compensation as approved by the Compensation Committee, which is comprised of independent directors. In determining the number of shares requested, the Company took several factors under consideration, such as market trends, feedback from investors, the 2017 compensation

program described in the CD&A, the compensation levels we anticipate in the future, the types of awards that may be granted under the 2017 LTIP, and the potential dilution. As of February 28, 2017, the closing price of a share traded on the NYSE was \$36.84 per share.

Upon approval, the 2017 LTIP will apply to new awards granted after our Annual Meeting. The remaining shares available under the 2014 LTIP and 2016 Equity Incentive Plan will only be used to settle outstanding awards granted respectively under each plan prior to our 2017 Annual Meeting. No new awards will be granted under our existing plans upon approval of the 2017 LTIP. Overall, we expect the requested shares under the 2017 LTIP to be sufficient for a period of two years, with an anticipated annual burn rate of approximately 1.2%, and we plan to seek shareholder approval of equity plans on a more regular basis in the future to confirm shareholders continue to support the terms of our equity compensation programs.

u 2017 LTIP Key Facts and Features

The 2017 LTIP will allow the Compensation Committee to continue to approve equity awards to support our overall performance-based compensation programs and align the long-term interests of our executives and shareholders. We are seeking shareholder approval to authorize 42,000,000 shares for issuance under the 2017 LTIP representing 2.8% of the outstanding shares of common stock as of February 28, 2017, which may be granted in the form of stock options, SARs, RSUs, restricted stock, performance awards, or other share-based awards. Under the 2017 LTIP, our annual burn rate is anticipated to be 1.2%. We intend to grant equity to approximately 1,700 employees representing less than 1% of our global workforce. The average concentration of equity awards to our NEOs from 2014-2016 has been approximately 10.6% which demonstrates that our equity granting practices are broad-based, and we expect this to continue under the 2017 LTIP.

The 2017 LTIP retains key features that protect shareholders' interests and aligns to our compensation principles and practices discussed in the CD&A:

Majority of Grants are Performance-Based Equity awards will continue to be primarily performance-based with a balanced mix of PSUs, stock options and/or RSUs.

- ii Minimum Vesting Periods** Generally, no stock options or SARs will vest prior to the first anniversary of the vesting commencement date, and restricted stock, RSUs or performance awards will vest over a period of not less than three years from the vesting commencement date.
- ii Double-Trigger Change in Control** Awards that are continued or converted into similar awards of the successor company will not accelerate vesting based solely on a change in control, and gross-ups are not provided to cover personal income taxes or excise taxes.
- ii No Dividend Equivalent Payments on Unearned Awards** Restricted stock, RSUs, performance awards, and other stock-based awards will only receive dividend equivalent payments once awards are earned and settled. Stock options and SARs are generally not eligible for dividend equivalents.
- ii No Evergreen Provisions** The plan does not allow for automatic increases in the number of shares available under the plan.
- ii No Repricing of Stock Options or SARs** The repricing of stock options or SARs, or any other action that has the effect of reducing the exercise price of stock options or SARs, including voluntary surrender and re-grant, or the exchange of underwater stock options or SARs for cash or any other security, is prohibited without shareholder approval (other than adjustments in connection with a corporate transaction or restructuring).
- ii No Discounted Stock Options or SARs** The plan prohibits granting stock options or SARs with an exercise price less than the fair market value of GM common stock on the date of grant.

Table of Contents**ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN**

- ii No Recycling of Shares** Shares surrendered or withheld in payment for any grant, purchase, exercise price of an award or taxes related to an award and shares repurchased in the open market using stock option proceeds will not again become available for grant.
- ii Clawback/Recoupment** Any awards granted under the 2017 LTIP are subject to the Company's clawback or recoupment policies.

u 2017 LTIP - Potential Equity Dilution and Historical Annual Share Usage

While equity-based awards are an important part of our performance-based compensation programs, we are mindful of our responsibility to our shareholders to exercise judgment in granting these awards. The table below provides a summary of the outstanding awards and shares available under all of the Company's existing equity incentive plans as of December 31, 2016 and February 28, 2017.

	As of December 31, 2016	As of February 28, 2017
Stock Options Outstanding under the Plans	25,500,000	24,900,000
<i>Vested and Unexercised</i>	<i>100,000</i>	<i>9,600,000</i>
<i>Unvested</i>	<i>25,400,000</i>	<i>15,300,000</i>
Weighted Average Exercise Price of Stock Options Outstanding	\$ 31.31	\$ 31.31
Weighted Average Remaining Term of Stock Options Outstanding	8.58	8.42
Full Value Awards Outstanding under the Plans	29,600,000	29,300,000
<i>Outstanding PSUs (at target)</i>	<i>20,800,000</i>	<i>23,100,000</i>
<i>Outstanding RSUs</i>	<i>6,500,000</i>	<i>4,300,000</i>
<i>Outstanding RSAs</i>	<i>2,300,000</i>	<i>1,900,000</i>
Total Awards Outstanding under the Plans	55,100,000	54,200,000
Shares Available under the Plans	13,034,248	6,361,524 ⁽¹⁾

(1) No new awards will be granted under our existing plans upon approval of the 2017 LTIP.

Shares Requested under the 2017 LTIP:	42,000,000
GM Common Stock Outstanding (as of February 28, 2017):	1,506,727,754

Overhang: As of February 28, 2017, there were approximately 6.4 million shares authorized and available for issuance under the 2014 LTIP and the 2016 Equity Incentive Plan and 54.2 million shares subject to awards outstanding under such equity incentive plans, representing 4.0% of the outstanding common stock as of February 28, 2017 on a fully diluted basis (the Overhang Percentage). The 42,000,000 shares requested under the 2017 LTIP would increase the Overhang Percentage to approximately 6.8%. We believe this represents a reasonable amount of potential equity dilution that will allow us to continue granting equity awards, which is an important component of our executive compensation structure.

Share Usage: The annual share usage under the Company's equity incentive plans for the last three fiscal years is presented below. The features of these plans are discussed further in Note 21 to the Consolidated Financial Statements, Stock Incentive Plans in our 2016 Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

		3-Year			
	2016	2015	2014	Average	
A	Full Value Awards Granted During Fiscal Year	21,200,000	6,900,000	12,100,000	
	<i>PSUs Granted (at target)</i>	<i>14,100,000</i>	<i>4,100,000</i>	<i>3,900,000</i>	
	<i>RSUs Granted</i>	<i>3,700,000</i>	<i>2,800,000</i>	<i>8,200,000</i>	
	<i>RSAs Granted</i>	<i>3,400,000</i>			
B	Stock Options Granted During Fiscal Year		26,400,000		
	<i>Time-Based Stock Options Granted</i>		<i>10,600,000</i>		
	<i>Performance Stock Options Granted</i>		<i>15,800,000</i>		
C	Total Awards Granted During Fiscal Year [A + B]	21,200,000	33,300,000	12,100,000	
D	Basic Weighted-Average GM Common Stock Outstanding	1,540,000,000	1,586,000,000	1,605,000,000	
	Burn Rate Including Performance Awards Granted [C / D]	1.4%	2.1%	0.8%	1.4%
	Burn Rate Including Performance Awards Vested/Earned [C ⁽²⁾ / D]	0.5%	0.8%	0.5%	0.6%
E	GM Common Stock Repurchased ⁽¹⁾	77,000,000	102,000,000	5,000,000	
F	% of Equity-Based Awards Granted to NEOs	4.7%	18.6% ⁽³⁾	8.4%	10.6%

(1) The total number of shares repurchased during the three-year period was 184 million shares; this data is provided for information only as repurchased shares are not available for issuance under the equity incentive plans.

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(2) Awards with performance conditions include PSUs and performance stock options. The following table details the amounts granted and vested or earned in the last three fiscal years to all eligible participants:

	Number of PSUs	Number of Performance Stock Options
Unvested at December 31, 2013		
Granted	3,900,000	
Vested or Earned		
Forfeited	100,000	
Unvested at December 31, 2014	3,800,000	
Granted	4,100,000	15,800,000
Vested or Earned		
Forfeited	300,000	100,000
Unvested at December 31, 2015	7,600,000	15,700,000
Granted	14,100,000	
Vested or Earned		
Forfeited	900,000	400,000
Unvested at December 31, 2016	20,800,000	15,300,000

(3) Includes one-time DSV stock options granted to all senior leaders in exchange for non-compete and non-solicitation terms.

Stock Repurchase Program: Our stock repurchase program has more than offset the dilution of our equity incentive programs. We have repurchased 184 million shares totaling \$6.2 billion since 2014 with a remaining \$8 billion in common stock the Board has authorized to be repurchased.

u 2017 LTIP Section 162(m) of the IRC

The 2017 LTIP has been designed to permit the Compensation Committee to grant awards that are intended to meet the requirements of Section 162(m) of the IRC for qualified performance-based compensation so that the Compensation Committee has the ability to issues awards to our senior executives and preserve tax deductibility for the Company with respect to those awards. Section 162(m) requires shareholder approval of the material terms pursuant to which qualified performance-based compensation may be paid. Such material terms include:

Eligible Participants: The class of individuals eligible to participate, as described below in the section entitled Eligible Participants, ;

Individual Limits: The annual per-individual limits described below in the section entitled Limitations of Individual Awards for Preserving Maximum Tax Deductibility Under 162(m) ; and

Performance Measures: The specific performance measures listed below under the section entitled 162(m) Performance Measures.

The following summary is qualified in its entirety by reference to the complete text of the 2017 LTIP, which is attached as Appendix B to this Proxy Statement.

[Summary of the General Motors Company 2017 Long-Term Incentive Plan](#)

Key Provisions	Description
Eligible Participants	Officers, employees, consultants, advisors, and non-employee directors who are designated by the Compensation Committee to participate in the 2017 LTIP.
Shares Subject to Plan	The 2017 LTIP authorizes a pool of 42,000,000 shares of common stock from which stock options, SARs, RSUs, restricted stock, performance awards, and other stock-based awards may be granted. No more than 42,000,000 shares may be issued in respect of incentive stock options.
Plan Administration	The 2017 LTIP is administered by the Compensation Committee, which has the authority to: designate the eligible individuals who will receive awards; determine the amounts and terms and conditions of awards (including vesting terms); determine amounts payable that may be deferred; interpret and administer the 2017 LTIP; prescribe the form of award documentation under the 2017 LTIP; establish, amend, suspend, or waive any rules and regulations under the 2017 LTIP; and make any other determinations or take any other actions to administer the 2017 LTIP. Subject to the limits established by the Compensation Committee, the Compensation Committee may delegate to one or more members of the Compensation Committee or officers of the Company (including the CEO) the authority to grant awards and take other actions under the 2017 LTIP, provided that officers of the Company may not be delegated authority with respect to awards for Covered Employees whose awards are intended to constitute qualified performance based compensation for purposes of Section 162(m) of the IRC.

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ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN

Key Provisions	Description
Award Types	Stock options, SARs, RSUs, restricted stock, performance awards, other stock-based awards and cash incentive awards.
Stock Options and SARs	The Compensation Committee is authorized to grant stock options to purchase shares of common stock (including incentive stock options) and SARs (which provide the right to receive a payment or a number of shares equal to the increase in value above the exercise price). The exercise price of stock options and SARs may not be lower than the fair market value of the underlying shares on the date of grant. The term of any stock option will not be more than ten years and two days (or for SARs or incentive stock options, ten years) from the date of grant.
Restricted Stock and RSUs	The Compensation Committee is authorized to grant restricted stock and RSUs (which provide the right to receive the value of the underlying shares, either in cash, shares, or a combination thereof).
Performance Awards	The Compensation Committee is authorized to grant performance awards, which may be denominated in cash, shares or units, or a combination thereof, to be earned upon the achievement of performance conditions specified by the Compensation Committee.
Limitations of Individual Awards for Preserving Maximum Tax Deductibility Under 162(m)	<p>In any given calendar year, for awards intended to qualify as performance-based compensation for purposes of preserving maximum tax deductibility under Section 162(m) of the IRC, the following limitations apply:</p> <p style="padding-left: 40px;">The number of shares underlying stock options and SARs issued to any individual may not exceed 5,000,000.</p> <p style="padding-left: 40px;">The maximum number of shares under awards of restricted shares, RSUs, and performance-based awards issued to any individual may not exceed 2,500,000.</p>

The maximum payout under any performance awards designated in cash issued to any individual may not exceed \$40 million.

If the Compensation Committee intends for a performance award to constitute qualified performance-based compensation for purposes of Section 162(m) of the IRC, the award will be subject to a formula established in advance based on the achievement during the performance period of one or more of the following performance criteria, expressed on an absolute or an adjusted basis, and which may be based on an absolute or relative measure (e.g., relative to the performance of other companies or an index):

162(m)

Performance Measures

Asset turnover, cash flow, contribution margin, cost objectives, cost reduction, earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, economic value added, free cash flow, increase in customer base, inventory turnover, liquidity, market share, net income, net income margin, operating cash flow, operating profit, operating profit margin, pre-tax income, productivity, profit margin, quality (internal or external measures), return on assets, return on net assets, return on capital, return on invested capital, return on equity, revenue, revenue growth, stockholder value, stock price, total shareholder return, and/or warranty experience.

For performance awards not intended to constitute qualified performance-based compensation for purposes of Section 162(m) of the IRC, the Compensation Committee may select additional performance criteria.

Adjustments

With respect to the applicable performance period, if the Compensation Committee determines that a change in the business, operations, corporate structure, or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the applicable performance measures unsuitable, the Compensation Committee may in its discretion modify such performance objectives or the related minimum acceptable level of achievement, in whole or part, as the Compensation Committee deems appropriate and equitable; provided, however, that in the case of a performance award intended to qualify under Section 162(m) of the IRC, such modifications shall be made only to the extent that they would not disqualify such performance award under Section 162(m) of the IRC.

Dividend Equivalent Rights

Restricted stock, RSUs, performance awards, and other stock-based awards will generally provide dividend equivalent rights, which will accrue and be paid upon vesting or settlement of awards, provided that no dividend payments will be made with respect to shares that are not ultimately earned and settled. Stock options and SARs will not be eligible for dividend equivalent rights, unless otherwise determined by the Compensation Committee.

Minimum Vesting Period

Stock options and SARs: In general, no portion of an award is intended to vest prior to the first anniversary of the vesting commencement date; however, the Compensation Committee may provide for shorter vesting if appropriate under the circumstances.

Restricted Stock, RSUs and Performance Awards: Awards will generally vest in whole or in part over a period of not less than three years from the vesting commencement date; however, the Compensation Committee may provide for shorter vesting, if appropriate under the circumstances.

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ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN

Key Provisions

Description

Effect of Termination of Service

Except as otherwise provided for in an award agreement, or as the Compensation Committee may determine in any individual case, a participant's outstanding awards will be treated as set forth below upon his or her termination of service:

Death:

Stock options and SARs immediately vest and remain exercisable until the earlier of three years after death or the original expiration date.

Restricted stock and RSUs vest and are settled within 90 days after death.

Performance awards will have any service-based vesting waived, will be earned based upon the achievement of the applicable performance conditions, and will be paid or settled on the scheduled settlement date.

Disability:

Stock options and SARs continue to vest and become exercisable in accordance with the vesting schedule and remain exercisable until the original expiration date.

Restricted stock and RSUs continue to vest and settle on the scheduled settlement dates.

Performance awards will have any service-based vesting waived, will be earned based upon the achievement of the applicable performance conditions, and will be paid or settled on the scheduled settlement date.

Full Career Status Termination (age 55 or older with ten or more years of continuous service or age 62 or older):

Stock options and SARs continue to vest and become exercisable in accordance with the vesting schedule and remain exercisable until the original expiration date; provided that the amount of the award will be prorated if termination occurs prior to the one-year anniversary of grant (or if earlier, the vesting commencement date as set forth in the award document).

Restricted stock and RSUs continue to vest and settle on the original settlement dates; provided that the amount of the award will be prorated if termination occurs prior to the one-year anniversary of grant (or if earlier, the vesting commencement date as set forth in the award document).

Performance awards will have any service-based vesting waived, will be earned based upon the achievement of the applicable performance conditions, and will be paid or settled on the original settlement date or dates; provided that the award will be prorated if termination occurs within the first year of the performance period.

Other Terminations, including Termination Pursuant to an Approved Separation Agreement or Program:

The participant will not be entitled to retain any portion of an award; provided that any vested stock options or SARs shall remain exercisable until the earlier of 90 days after termination or the original expiration date.

Change in Control

The 2017 LTIP generally provides for double-trigger change in control protection such that if awards are continued or converted into similar awards of the successor company, the awards will be subject to accelerated vesting in the event of a participant's termination of service by the Company without cause or by the participant for good reason within 24 months after the change in control. If awards are not continued or converted into similar awards of the successor company, then the awards will have accelerated vesting upon the change in control.

With respect to any outstanding performance awards, in the event of a change in control the performance period will end immediately prior to such change in control, achievement of the applicable performance criteria will be determined at such time, and the number of shares deemed earned will be converted into a time vesting award that will be paid or settled on the original settlement date or dates, provided that such awards will be subject to accelerated vesting in the event of the participant's termination of service by the Company without cause or by the participant for good reason within 24 months after the change in control.

Clawback /

Recoupment

Any awards granted under the 2017 LTIP (including any amounts or benefits payable under such awards) will be subject to the Company's clawback or recoupment policies. The Company currently maintains the General Motors Policy on Recoupment of Incentive Compensation available on our website, gm.com/investors, under Corporate Governance.

Plan Amendments

The 2017 LTIP may be amended by the Board of Directors or the Compensation Committee, generally subject to stockholder approval to the extent required by applicable law or applicable stock exchange rules and the consent of the affected participant if the amendment would materially adversely affect the rights of such participant under any outstanding award, and subject to certain other limitations included in the 2017 LTIP.

Plan Term

The 2017 LTIP is effective as of [], 2017, subject to the approval of shareholders, and no awards will be granted under the 2017 LTIP after [], 2027 or such earlier time as the maximum number of shares available for issuance under the 2017 LTIP have been issued or the Board terminates the 2017 LTIP.

Table of Contents**ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN****u New Plan Benefits and Awards Subject to Approval of the 2017 LTIP**

Under the Company's compensation policies, a significant portion of the total compensation of the Company's executive team will be linked to the achievement of objective performance criteria approved by the Compensation Committee and individual service to the Company. The dollar value and number of awards to be granted in the future to eligible participants under the 2017 LTIP are generally not currently determinable because the value and number of such awards are subject to the discretion of the Compensation Committee.

While future benefits under the 2017 LTIP are generally not determinable, in early 2017 the Compensation Committee approved the long-term incentive awards presented below. These awards are earned over the period from 2017-2019 (the 2017-2019 LTIP Awards) and consist of PSUs, RSUs, and stock options. The PSUs and RSUs were granted on February 14, 2017 under the 2014 Long-Term Incentive Plan (the 2014 LTIP), and the stock options are expected to be granted under the 2017 LTIP if shareholder approval of the 2017 LTIP is obtained. The stock option dollar values presented below will be converted to a number of stock options on their grant date which, if the 2017 LTIP is approved by shareholders, will be [], 2017.

Each 2017-2019 LTI Award consists of PSUs and stock options or PSUs and RSUs, depending on employee level. The stock options and RSUs will vest ratably on an annual basis over the period from 2017-2019, based on continued service (subject to the termination of service provisions of the 2017 LTIP or 2014 LTIP, as applicable). The PSUs will be earned at a level between 0 to 200% of target, based on the achievement of performance conditions relating to Relative ROIC-Adjusted and Relative TSR, with the maximum payout being 200% of target. PSUs that are earned will then vest based on continued service through the settlement date (subject to the termination of service provisions of the 2014 LTIP). Seventy-five percent (75%) of each participant's 2017-2019 LTI Award is allocated to PSUs. Each unit has a value equal to one share of common stock. The earned PSUs, if any, will be settled in 2020 in shares of common stock.

NEW PLAN BENEFITS**2017-2019 LTI Awards⁽¹⁾**

Name and Position		Dollar Value (\$)	Number of Units or Options (#)
Mary T. Barra, Chairman & Chief Executive Officer	Stock Options:	3,250,000	(2)
	Target PSUs:	9,750,000	261,816
	Stock Options:	931,250	(2)

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Charles K. Stevens, III, Executive Vice President & Chief Financial Officer	Target PSUs:	2,793,750	75,021
Daniel Ammann, President	Stock Options:	1,234,375	(2)
	Target PSUs:	3,703,125	99,440
Mark L. Reuss, Executive Vice President, Global Product Development, Purchasing and Supply Chain	Stock Options:	1,012,500	(2)
	Target PSUs:	3,037,500	81,566
Alan Batey, Executive Vice President & President, North America	Stock Options:	673,425	(2)
	Target PSUs:	2,020,275	54,251
Executive Group (all current executive officers, including the named executive officers listed above)	Stock Options:	10,044,325	(2)
	Target PSUs:	30,132,975	809,165
Non-Executive Director Group (non-employee directors)	Stock Options:	0	0
	Target PSUs:	0	0
Non-Executive Officer Employee Group (excluding any executive officers and the named executive officers listed above)	Stock Options:	21,966,457	(2)
	Target PSUs:	156,787,313	4,211,141
	RSUs:	30,295,981	814,226

(1) The dollar value shown for PSUs, RSUs and stock options is based on the target LTIP amount. The number of units shown for PSUs and RSUs is calculated based on the allocated target amount divided by the closing share price on the date of grant. PSUs and RSUs were granted on February 14, 2017 under the 2014 LTIP. The number of stock options subject to each award will be calculated based on the allocated target amount divided by the Black-Scholes option valuation using the closing share price on the date of grant. The grant date fair value of awards will be computed in accordance with FASB ASC Topic 718 and, for awards granted to named executive officers, displayed in the Summary Compensation Table of the 2018 Annual Proxy Statement.

(2) The number of stock options will be determined on the date of grant following shareholder approval of the 2017 LTIP.

The 2017 LTIP will become effective upon shareholder approval of the 2017 LTIP. All employees (approximately 225,000) and 10 non-employee directors are eligible to receive awards under the 2017 LTIP, as well as certain of the Company's consultants and advisors (who have not yet been identified); however, we expect that awards will be made to approximately 1,700 employees. The terms of the 2017 LTIP permit the grant of awards to non-employee directors,

however, such awards are not currently contemplated under the current terms of the non-employee director compensation program; we do have the flexibility to update the program as deemed appropriate.

We intend to file with the SEC a registration statement on Form S-8 covering the shares issuable under the 2017 LTIP.

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ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN

u Federal Income Tax Consequences for Awards

Applicable disclosure rules require us to include a brief summary of the federal income tax consequences applicable to awards that may be granted under the 2017 LTIP:

Non-Qualified Stock Options: When an optionee exercises a stock option, the amount by which the fair market value of the stock underlying the stock option on the date of exercise exceeds the exercise price of the stock option is taxed as ordinary income to the optionee in the year of exercise and generally will be allowed as a deduction for federal income tax purposes to the Company in the same year. When an optionee disposes of shares acquired by the exercise of the stock option, any amount received in excess of the fair market value of the shares on the date of exercise will be treated as a long- or short-term capital gain to the optionee, depending upon the holding period of the shares. If the amount received is less than the market value of the shares on the date of exercise, the loss will be treated as a long- or short-term capital loss, depending upon the holding period of the shares.

Incentive Stock Options: When an optionee exercises an incentive stock option while employed by the Company or a subsidiary or within the three-month (one year for disability) period after termination of service, no ordinary income (other than alternative minimum tax) will be recognized by the optionee at that time. If the shares acquired upon exercise are not disposed of until more than two years after the stock option was granted and one year after the date of exercise, the excess of the sale proceeds over the aggregate option price of such shares will be treated as long-term capital gain to the optionee, and the Company will not be entitled to a tax deduction under such circumstances. However, if the shares are disposed of prior to such date (a disqualifying disposition), any portion of the proceeds representing the excess of the fair market value of such shares at the time of exercise over the aggregate option price (but generally not more than the amount of gain realized on the disposition) will generally be ordinary income to the optionee at the time of such disqualifying disposition and the Company generally will be entitled to a federal tax deduction equal to the amount of ordinary income so recognized by the optionee. If an incentive stock option is exercised more than three months (one year for disability) after termination of service, the tax consequences are the same as described above for non-qualified stock options.

Restricted Stock: A participant generally will not be taxed upon the grant of restricted stock, but rather will recognize ordinary income in an amount equal to the fair market value of the stock at the time the stock vests. The Company will be entitled to a deduction at the time when, and in the amount that, the participant recognizes ordinary income on account of such vesting. Any cash dividends paid on the restricted stock before vesting will be taxable to the participant as additional compensation (and not as dividend income). Under Section 83(b) of the IRC, a participant may elect to recognize ordinary income at the time the restricted stock is awarded in an amount equal to the fair market value of the restricted stock at that time, notwithstanding the fact that such restricted stock is unvested. If such an election is made, no additional taxable income will be recognized by such participant at the time the restricted stock vests. The Company generally will be entitled to a tax deduction at the time when, and to the extent that, ordinary income is recognized by the participant.

RSUs: In general, the grant of RSUs (including PSUs) will not result in income for the participant or in a tax deduction for the Company. Upon the settlement of such an award in cash or shares, the participant will recognize ordinary income equal to the aggregate value of the payment received, and the Company generally will be entitled to a

tax deduction at the same time and in the same amount.

Other Awards: With respect to other awards granted under the 2017 LTIP, including other share-based award and cash incentive awards, generally when the participant receives payment with respect to an award, the amount of cash and/or the fair market value of any shares or other property received will be ordinary income to the participant, and the Company generally will be entitled to a tax deduction at the same time and in the same amount.

Table of Contents**ITEM NO. 4 APPROVAL OF THE GENERAL MOTORS COMPANY 2017 LONG-TERM INCENTIVE PLAN****u Equity Compensation Plan Information**

The following table provides information as of December 31, 2016, about the Company's common stock that may be issued upon the exercise of options, warrants, and rights under all of the Company's existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities
			Remaining Available for Future Issuance Under Equity Compensation Plan (excluding securities reflected in column (A))
	(A)	(B)	(C)
Equity compensation plans approved by security holders	44,968,420 ⁽¹⁾	\$31.31 ⁽²⁾	12,905,263
Equity compensation plans not approved by security holders ⁽³⁾	10,150,089 ⁽⁴⁾		128,985
Total	55,118,509	\$31.31	13,034,248

(1) The number includes the following:

- a. 25,492,982 shares represent options granted as part of the DSV grant.

b. 13,092,611 shares represent PSU awards assuming performance is achieved at target. For performance above target, awards may be settled in common stock or cash.

c. 6,382,827 shares represent RSUs.

(2) This is the weighted-average exercise price of the 25,492,982 options outstanding granted as part of the DSV grant. No other options have been granted.

(3) 2016 Equity Incentive Plan, refer to Note 21 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

(4) Represents RSUs, restricted stock, and PSUs. PSUs may be issued upon achievement of performance conditions.

Vote Required

The affirmative vote of a majority of the shares of our common stock present or represented by proxy and entitled to vote at the Annual Meeting is required for approval of this proposal. If you own shares through a broker, bank, or other nominee, you must instruct your broker, bank, or other nominee on how to vote your shares so that your shares will be represented and voted on this proposal.

The Board of Directors recommends a vote FOR the approval of the General Motors Company 2017 Long-Term Incentive Plan.

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ITEM NO. 5 RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017

The Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of the independent registered public accounting firm retained to audit the Company's financial statements. To oversee continuing audit independence and objectivity, the Audit Committee periodically considers whether there should be a rotation of the independent registered public accounting firm. In accordance with the mandated rotation of the accounting firm's lead engagement partner, the Audit Committee is also involved in the selection of the accounting firm's lead engagement partner working with Deloitte & Touche LLP (Deloitte), with input from management.

The Audit Committee annually evaluates the performance of the independent auditor and reviewed the following performance factors in deciding whether to retain the independent auditor:

The quality and candor of Deloitte's communications with the Audit Committee and management;

The effectiveness and efficiency of Deloitte's audit services and the results from periodic management and Audit Committee performance assessments;

Deloitte's independence;

Deloitte's global capabilities, technical expertise, and knowledge of the Company's global operations and industry;

Available external data about quality and performance, including recent Public Company Accounting Oversight Board reports on Deloitte and its peer firms;

The appropriateness of Deloitte's fees; and

Deloitte's tenure as our independent auditor.

Following this evaluation, the Audit Committee has selected Deloitte as GM's independent registered public accounting firm for 2017. The Audit Committee believes that the retention of Deloitte to serve as the Company's independent registered public accounting firm for 2017 is in

the best interest of the Company and its shareholders. Deloitte and its predecessor companies have been GM's or General Motors Corporation's auditors since 1918. The Audit Committee considers Deloitte well qualified, with offices or affiliates in or near most locations in the U.S. and other countries where General Motors operates.

The Board of Directors has concurred in an advisory capacity with the Audit Committee's selection of Deloitte, and the appointment of Deloitte will be submitted to the shareholders at the Annual Meeting for ratification. If the

shareholders do not ratify the selection of Deloitte as the independent registered public accounting firm for the Company for 2017, the Audit Committee will reconsider whether to engage Deloitte, but may ultimately determine to engage that firm or another audit firm without resubmitting the matter to shareholders. Among the factors the Audit Committee may consider in making this determination are the difficulty and the expense of changing independent registered public accounting firms in the middle of a fiscal year. Even if the shareholders ratify the selection of Deloitte, the Audit Committee may in its sole discretion terminate the engagement of Deloitte and direct the appointment of another independent registered public accounting firm at any time during the year, although it has no current intention to do so. Representatives of Deloitte will attend the Annual Meeting and will have the opportunity to make any statement they wish. They will also be available to respond to appropriate questions.

The Board of Directors recommends a vote FOR the proposal to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm for GM and its subsidiaries for 2017.

The following Audit Committee Report shall not be deemed incorporated by reference by any general statement incorporating by reference in this Proxy Statement or any portion hereof into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed thereunder.

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**ITEM NO. 5 RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS
THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017**

Audit Committee Report

The Audit Committee (the Committee) of the General Motors Board of Directors is a standing committee composed of four directors who meet the independence, financial expertise, and other qualification requirements of the NYSE and applicable securities laws. It operates under a written charter adopted by the Committee and approved by the Board of Directors, which is posted on our website at *gm.com/investors*, under Corporate Governance. The members of the Committee are Thomas M. Schoewe (Chair), Linda R. Gooden, Jane L. Mendillo, and Michael G. Mullen. The Board has determined that Mr. Schoewe, Ms. Gooden, and Ms. Mendillo qualify as audit committee financial experts as defined by the SEC s regulations. The Committee annually selects the Company s independent registered public accounting firm (auditor).

Management is responsible for the Company s internal controls and the financial reporting process and has delivered its opinion on the effectiveness of the Company s controls. The auditor is responsible for performing an independent audit of the Company s consolidated financial statements and opining on the effectiveness of those controls in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB) and issuing its reports thereon. As provided in its charter, the Committee s responsibilities include monitoring and overseeing these processes.

Consistent with its charter responsibilities, the Committee has met and held discussions with management and Deloitte & Touche LLP (Deloitte), the Company s auditor for 2016, regarding the Company s audited financial statements and internal controls for the year ended December 31, 2016. In this context, management represented to the Committee that the Company s consolidated financial statements were prepared in accordance with accounting principles generally accepted in

the United States. The Committee reviewed and discussed the consolidated financial statements with management and the auditor and further discussed with the auditor the matters required to be discussed by the standards of the PCAOB.

The Company s auditor has also provided to the Committee the written disclosures and the letter required by the applicable requirements of the PCAOB concerning independence, and the Committee has discussed with the auditor the auditor s independence. The Committee has also considered and determined that the provision of non-audit services provided to GM is compatible with maintaining the auditor s independence. The Committee concluded that Deloitte is independent from the Company and its management.

Based upon the Committee s discussions with management and the auditor as described in this report and the Committee s review of the representation of management and the reports of the auditors to the Committee, the Committee recommended to the Board of Directors and the Board of Directors approved the inclusion of the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the U.S. Securities and Exchange Commission on February 7, 2017.

Audit Committee

Thomas M. Schoewe (Chair)

Linda R. Gooden

Jane L. Mendillo

Michael G. Mullen

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**ITEM NO. 5 RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS
THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017**

Fees Paid to Independent Registered Public Accounting Firm

The Committee retained Deloitte to audit the Company's consolidated financial statements and the effectiveness of internal controls, as of and for the year ended December 31, 2016. The Company and its subsidiaries also retained Deloitte and certain of its affiliates, as well as other accounting and consulting firms, to provide various other services in 2016. Deloitte initially presents the proposed annual audit services and their related fees to the Committee for approval on an audit-year basis.

The services performed by Deloitte in 2016 were preapproved in accordance with the preapproval policy and procedures established by the Audit Committee. This policy requires that prior to the provision of services by the auditor, the Committee will be presented, for consideration, a description of the types of Audit-Related, Tax, and All Other Services expected to be performed by the auditor during the fiscal year, with amounts budgeted for each category (Audit-Related, Tax, and All Other Services). Any requests for such services for \$1 million or more not contemplated and approved by the Committee initially must thereafter be submitted to the Committee (or the Chair of the Committee in an urgent case) for specific preapproval. Requests for services less than \$1 million individually can be approved by management based on the amounts approved for each category. Management must report actual spending for each category to the full Committee periodically during the year.

These services are actively monitored (both spending level and work content) by the Committee to maintain the appropriate objectivity and independence in Deloitte's core work, which is the audit of the Company's consolidated financial statements and internal control. The Committee determined that all services provided by Deloitte in 2016 were compatible with maintaining the independence of Deloitte.

The following table summarizes Deloitte fees billed or expected to be billed in connection with 2016 services. For comparison purposes, actual billings for 2015 services are also displayed.

Type of Fees	2016 (\$ in millions)	2015 (\$ in millions)
Audit	33	32

Audit-Related	6	5
Tax	5	5
Subtotal	44	42
All Other Services	6	3
TOTAL	50	45

Audit Fees Includes fees for the integrated audit of the Company's annual consolidated financial statements and attestation of the effectiveness of the Company's internal controls over financial reporting, including reviews of the interim financial statements contained in the Company's Quarterly Reports on Form 10-Q and audits of statutory financial statements.

Audit-Related Fees Includes fees for assurance and related services that are traditionally performed by the independent registered public accounting firm. More specifically, these services include employee benefit plan audits, comfort letters in connection with funding transactions, other attestation services, and consultation concerning financial accounting and reporting standards.

Tax Fees Includes fees for tax compliance, tax planning, and tax advice. Tax compliance involves preparation of original and amended tax returns and claims for refund. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions and employee benefit plans, and requests for rulings or technical advice from taxing authorities.

All Other Fees Includes fees for other advisory services related to risk management, contract compliance activities, and product-related data enhancement.

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ITEM NO. 6 SHAREHOLDER PROPOSAL REGARDING INDEPENDENT BOARD CHAIRMAN

James McRitchie, 9295 Yorkship Court, Elk Grove, CA 95758, owner of approximately 50 shares of Common Stock, and James Dollinger, 6193 Stonegate Parkway, Flint, MI 48532, owner of approximately 50 shares of Common Stock, have given notice that they intend to present for action at the annual meeting the following shareholder proposal:

Shareholders request our Board of Directors to adopt as policy, and amend our governing documents as necessary, to require the Chair of the Board of Directors, whenever possible, to be an independent member of the Board. The Board would have the discretion to phase in this policy for the next CEO transition, implemented so it did not violate any existing agreement. If the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair. This proposal requests that all the necessary steps be taken to accomplish the above.

Caterpillar reversed itself by naming an independent board chairman in October 2016. Caterpillar had opposed a shareholder proposal for an independent board chairman as recent as its June 2016 annual meeting. Wells Fargo also reversed itself and named an independent board chairman in October 2016.

According to Institutional Shareholder Services 53% of the Standard & Poors 1,500 firms separate these 2 positions 2015 Board Practices, April 12, 2015. This proposal topic won 50%-plus support at 5 major U.S. companies in 2013 including 73%-support at Netflix.

It is the responsibility of the Board of Directors to protect shareholders' long-term interests by providing independent oversight of management. By setting agendas, priorities and procedures, the Chairman is critical in shaping the work of the Board.

Having a board chairman who is independent of management is a practice that will promote greater management accountability to shareholders and lead to a more objective evaluation of management.

A number of institutional investors said that a strong, objective board leader can best provide the necessary oversight of management. Thus, the California Public Employees' Retirement System's Global Principles of Accountable Corporate Governance recommends that a company's board should be chaired by an independent director, as does the Council of Institutional Investors. An independent director serving as chairman can help ensure the functioning of an effective board.

Please vote to enhance shareholder value: Independent Board Chairman Proposal 6.

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ITEM NO. 6 SHAREHOLDER PROPOSAL REGARDING INDEPENDENT BOARD CHAIRMAN

The Board of Directors recommends a vote AGAINST this proposal for the following reasons:

Your Board believes it is in the best interests of the Company and its shareholders for the Board to have flexibility in determining the leadership structure of the Board.

The policy advocated by this proposal would take away the Board's discretion to evaluate and change its leadership structure. Your Board believes that the Company and its shareholders are best served when the Board has the flexibility to choose the most appropriate Board leadership structure at the relevant time and the most qualified individual to serve as Chairman. The Board retains the authority to separate the positions of Chairman and CEO and to elect an independent Chairman if it deems such action appropriate. While the Board has in the past and may again in the future determine that the interests of the Company would be best served by separating the roles of Chairman and CEO, the Board believes that, a combined role best serves the Company at this time, coupled with an independent director who serves as the Board's Lead Director, with broad authority and responsibility over Board governance and operations. The Board made this decision following an annual assessment of the Company's corporate governance structure. The Board believes that having a combined Chairman and CEO along with a strong Independent Lead Director provides an efficient and effective leadership structure.

Your Board believes that Mary Barra's service as Chairman & CEO provides a clear and unified strategic vision for GM during a time of unprecedented industry change.

As further described under "Board Leadership Structure" beginning on page 28 in this Proxy Statement, the Board determined that its current leadership structure facilitates the Board's oversight role by providing a clear and unified strategic vision for GM during a time of unprecedented industry change. As the individual with primary responsibility for managing the Company, Ms. Barra's in-depth knowledge of GM's businesses and understanding of day-to-day operations brings focused leadership to your Board. The structure also reinforces accountability for the Company's performance and provides continuity for employees, shareholders and external stakeholders.

Ms. Barra's Board leadership is complimented by a strong Independent Lead Director.

Our Bylaws and Corporate Governance Guidelines provide that the independent directors will annually elect a Lead Director from among the independent directors serving on the Board whenever the Chairman is not an independent

director. The Board recognizes the importance of strong independent leadership on the Board and believes that as the Independent Lead Director, Mr. Solso provides leadership and oversight for shareholders, including focus on strategic oversight, compliance, governance and CEO succession planning. The specific duties of the Independent Lead Director are discussed on page 29 in this Proxy Statement.

GM's Strong Corporate Governance Practices reinforce management accountability.

In addition to the Independent Lead Director role, the Board has in place other mechanisms to reinforce management accountability with meaningful independent oversight, including: executive sessions at most Board meetings without management present, key Board committees composed exclusively of independent directors, and directors' unrestricted access to management and independent advisors.

The Board regularly seeks and considers feedback from shareholders on the Company's leadership structure.

The Board recognizes the importance of the Company's leadership structure to our shareholders and regularly receives feedback on this topic through direct engagement. A significant majority of GM's institutional shareholders with whom the Board has engaged have expressed confidence in the current Board leadership structure, reflecting the opinion that there is no one size fits all solution, and that boards should maintain discretion as to its leadership structure based on a company's circumstances at any point in time.

The Board's belief in the importance of retaining the flexibility to determine the best leadership structure is consistent with the policies and practices at other large companies.

According to Shearman & Sterling's 2016 Corporate Governance & Executive Compensation Survey of the 100 largest U.S. public companies, only 12 companies have a policy that requires separate individuals to serve as chairman and CEO, while the overwhelming majority of corporate policies provide boards flexibility to separate or combine the positions. These statistics support your Board's strongly held view that it should retain the flexibility to determine the Board leadership structure that will best serve the interests of the Company and its shareholders at the relevant time.

Therefore, your Board of Directors recommends a vote **AGAINST this shareholder proposal.**

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ITEM NO. 7 GREENLIGHT PROPOSAL REGARDING CREATION OF DUAL-CLASS COMMON STOCK

Greenlight Capital, c/o Greenlight Capital, Inc., 140 East 45th St., 24th Floor, New York, NY 10017, record holder of 1,000 shares of common stock, has given notice that it intends to present the following proposal at the Annual Meeting:

WHEREAS, Greenlight Capital, Inc. (Greenlight Capital) is a long-term shareholder of the Company and believes that the Company s existing common stock trades at a discount to its intrinsic value because the equity market is not appropriately assessing the Company s dividend;

WHEREAS, Greenlight Capital has a proposal that would unlock substantial long-term shareholder value for all of the Company s shareholders without changing the Company s business strategy or capital allocation priorities, and without affecting other stakeholders;

WHEREAS, Greenlight Capital s proposal involves the creation of a second class of common stock (the Dividend Shares) and a distribution of the Dividend Shares to the

Company s existing shareholders at no cost. The Dividend Shares would trade separately from the existing common stock (the Capital Appreciation Shares). The Company would continue to pay quarterly dividends at the current annual rate of \$1.52 per share to holders of the Dividend Shares. The Capital Appreciation Shares would continue to participate in all of the Company s residual earnings, share buybacks and future growth;

RESOLVED, that the shareholders of the Company request that the Board of Directors take the steps necessary (other than steps that must be taken by shareholders) to create and distribute a second class of common stock directly to the Company s shareholders at no cost, which second class of common stock would trade separately from the existing common stock and continue to pay quarterly dividends at an annual rate of \$1.52, in order to unlock significant shareholder value.

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ITEM NO. 7 GREENLIGHT PROPOSAL REGARDING CREATION OF DUAL-CLASS COMMON STOCK

The Board of Directors recommends a vote **AGAINST** this proposal for the following reasons:

Your Board of Directors and management have evaluated Greenlight's proposal thoroughly, including consultations with credit rating agencies and the independent analyses of three top-tier investment banks and other advisers. The proposal contemplates that the current dividend on the Company's existing common stock should cease and a new, additional class of common stock so called Dividend Shares should be distributed. The Dividend Shares would be exclusively entitled to a fixed dividend at the current amount in perpetuity, but would not share in future earnings upside and would have limited downside protection against negative risk. Dividends or share repurchases on our common shares could not occur before all dividends on the Dividend Shares, both past and current, had been paid, making the dividend payable on the Dividend Shares cumulative and significantly limiting our financial flexibility. We believe this speculative and unproven change in capital structure would create significant additional risks for GM's shareholders and its business. Accordingly, the Board believes that the proposal to create a dual-class share structure is not in the interests of GM and its shareholders.

Solid financial performance and thoughtful capital allocation rather than untested financial engineering are the keys to creating and unlocking value for all of GM's shareholders. We believe GM has a compelling track record of strong financial performance and prudent capital allocation, resulting in three years of record results and significant return of capital to shareholders. For the 2016 calendar year, GM's total shareholder return was 7.5%, leading all major global automotive manufacturers. GM has delivered on its financial commitments and returned significant capital to investors. GM expects to repurchase approximately \$5 billion of shares in 2017 alone and from 2012 through the end of 2017, GM will have returned approximately \$25 billion in cash to our shareholders, representing more than 90% of its adjusted automotive free cash flow over the same period.

Management and your Board regularly review the Company's capital allocation framework and have conducted an extensive review of various alternative capital allocation strategies, including thorough consideration of the changes proposed by Greenlight, changes in the pacing and/or nature of return of capital to shareholders and the issuance or distribution of preferred or other securities. We believe the Company's existing capital allocation framework is the right one to deliver sustainable value for GM shareholders. The proposed dual-class common stock structure would have no positive effect on GM's underlying business or cash flows, and therefore would not create additional intrinsic value.

We believe eliminating the dividend on GM's existing common stock and the implementation of the Dividend Shares would lead to selling by many of the Company's current owners.

Under Greenlight's proposal, the dividend on GM's existing common stock would be eliminated and GM would have to be current on the fixed dividend payment to the new Dividend Shares before paying a dividend on or repurchasing shares of the existing common stock. Additionally, Greenlight's prior proposals to the Company indicate that the

holders of Dividend Shares would have the right to veto change of control transactions. We believe that these terms would make the existing common stock less attractive to buyers and significantly weaken demand, leading to selling by many of the Company's institutional owners and causing concern and confusion among retail holders, resulting in downward pressure on our share price and total shareholder return.

We believe distributing a large volume of an unprecedented security such as the Dividend Shares, which have no established market depth or liquidity, would likely also lead to selling pressure on the Dividend Shares.

In its presentations to the Company, Greenlight has acknowledged that there is no perfect precedent for the Dividend Shares. In fact, we believe there is no precedent at all and, therefore, the Dividend Shares would not have a natural investor base. We also believe that retail investor demand is unlikely to offset the lack of equity income fund demand due to the unprecedented size of the proposed distribution. Therefore, we believe the pricing and market for the Dividend Shares would be highly uncertain, resulting in likely depressed pricing for the new security.

We believe implementing a dual-class share structure would lead to a loss of GM's investment grade credit rating, impacting GM's overall cost of capital and enterprise risk profile, including GM's ability to execute its captive finance strategy, access capital markets efficiently, and execute revolver renewals.

In our view, maintaining a strong investment grade balance sheet is critical to GM's success. We believe that the creation and distribution of Dividend Shares would result in adverse credit ratings actions, including a likely downgrade to non-investment grade. A non-investment grade credit rating would have an approximately \$1 billion EBT impact on GM Financial, put \$1 billion of profit at risk for the automotive company and necessitate approximately an additional \$5-10 billion of cash on the GM balance sheet. Such a downgrade would also significantly impact GM's overall cost of capital and enterprise risk profile. Among other things, this would have a material impact on GM's successful captive finance strategy, including GM Financial's ability to originate loans during times of market stress, and GM's ability to access the capital markets quickly and efficiently. A downgrade could also undermine GM's ability to execute revolver renewals.

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ITEM NO. 7 GREENLIGHT PROPOSAL REGARDING CREATION OF DUAL-CLASS COMMON STOCK

We believe the proposed dual-class structure creates governance challenges, requiring the Board to consider and respond to divergent expectations and interests of owners of two distinct classes of stock in its strategic and capital allocation decision-making.

In its presentations to the Company, Greenlight has stated that the Board would owe fiduciary duties to both classes of shareholders. Thus, in making decisions regarding strategy

and capital allocation, the Board would be required to explicitly consider the divergent interests of investors focused solely on yield and the interests of investors seeking earnings growth and share repurchases. It is likely that the interests of these two different shareholder groups would sometimes conflict, thus placing the Board in the difficult position of acting in the interests of different constituencies with opposing interests.

We do not believe the proposed dual-class structure would create additional intrinsic value since the structure has no positive effect on GM's underlying business or cash flows.

Dividend Shares are an unproven concept and would be solely an exercise in financial engineering. In its presentations to the Company, Greenlight has acknowledged that the dual-class structure would do nothing to change GM's intrinsic value (*i.e.*, would not improve underlying operating performance). We do not

believe there is any evidence that the distribution of Dividend Shares would create any value for the Company or our shareholders and, because of the risks outlined above, we believe the distribution could destroy value.

By Greenlight's own admission in its materials, there is no established precedent for its proposal and any resulting value creation is opinion and is not provable. Your Board does not believe that GM's shareholders should be the experiment for such an unprecedented and untested capital structure as Greenlight proposes.

Therefore, your Board of Directors recommends a vote AGAINST this shareholder proposal.

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1. How does the Board of Directors recommend that I vote on matters to be considered at the Annual Meeting and what is the vote required to approve each proposal?

The following table sets forth how the Board of Directors recommends that you vote, the vote required for approval and the effect of abstentions and broker non-votes for each of the following Agenda Items for the Annual Meeting.

Agenda Item	Description	Board Recommendation	Vote Required for Approval	Effect of Abstentions and Broker Non-Votes
1	Election of directors	FOR ALL	This year's election will be considered contested, so plurality voting will apply. The 11 nominees receiving the greatest number of votes cast for their election will be elected as directors.	Abstentions and broker non-votes (if any) will have no effect on the outcome of the vote.
2	Approval of, on an advisory basis, NEO compensation	FOR	The majority of votes cast of shares present in person or by proxy and entitled to vote.	Abstentions have the same effect as a vote against. Broker non-votes have no effect on the outcome of the vote.
3	Approval of the General Motors Company 2017 Short-Term	FOR	The majority of votes cast of shares present in person or by proxy and entitled to vote.	Abstentions have the same effect as a vote against.

Incentive Plan

Broker non-votes have no effect on the outcome of the vote.

Abstentions have the same effect as a vote against.

4 Approval of the General Motors Company 2017 Long-Term Incentive Plan

FOR

The majority of votes cast of shares present in person or by proxy and entitled to vote.

Broker non-votes have no effect on the outcome of the vote.

Abstentions have the same effect as a vote against.

5 Ratification of the selection of Deloitte & Touche LLP as the Company's Independent registered public accounting firm for 2017

FOR

The majority of votes cast of shares present in person or by proxy and entitled to vote.

NYSE rules permit brokers to vote uninstructed shares at their discretion on this proposal to the extent that Greenlight does not mail beneficial owners opposition proxy material.

Abstentions have the same effect as a vote against.

6 Shareholder proposal regarding Independent Board Chairman

AGAINST

The majority of votes cast of shares present in person or by proxy and entitled to vote.

Broker non-votes have no effect on the outcome of the vote.

7 Greenlight proposal regarding creation of dual-class common stock

AGAINST

The majority of votes cast of shares present in person or by proxy and entitled to vote.

Abstentions have the same effect as a vote against.

Broker non-votes have no effect on the outcome of the vote.

2. How can I attend the Annual Meeting?

Only shareholders and authorized guests of the Company may attend the meeting and all attendees will be required to show a valid form of ID (such as a government-issued form of photo identification). If you hold your shares in Street-name (*i.e.*, through a bank or broker), you must also provide proof of share ownership, such as a letter from your bank or broker or a recent brokerage statement.

Large bags, backpacks and packages, suitcases, briefcases, personal communication devices (*e.g.*, cell phones, smartphones, and tablets), cameras, recording equipment, and other electronic devices will not be permitted in the meeting, and attendees will be subject to security inspections.

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3. What constitutes a quorum at the Annual Meeting?

The presence of the holders of a majority of the outstanding shares of our common stock, in person or by proxy, will constitute a quorum for transacting business at the Annual Meeting. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum at the meeting.

4. Are there any other matters to be voted upon at the Annual Meeting?

Greenlight also intends to nominate a slate of four director nominees for election to the Board, in opposition to the nominees recommended by your Board. This Proxy Statement and the additional communications that may follow detail your Board's views on Greenlight's proposal and director nominees.

5. Who is entitled to vote?

Holders of record of our common stock as of the close of business on April 7, 2017, are entitled to vote at the Annual Meeting. On that date, the Company had [] shares of common stock outstanding and entitled to vote. Each share of our common stock entitles the holder to one vote.

1 : 1

1 SHARE = 1 VOTE

6. What should I do if I receive a proxy card from Greenlight?

Greenlight has notified GM of its intent to nominate a slate of four nominees for election to the Board at the Annual Meeting and to present the Greenlight Proposal. The Company is not responsible for the accuracy of any information contained in any proxy solicitation materials used by Greenlight or any other statements that it may otherwise make. **The Board unanimously recommends that you disregard any proxy card or solicitation materials that may be sent by Greenlight. Voting to Withhold on Greenlight's proxy card with respect to any Greenlight Nominee is not the same as voting FOR your Board's nominees on the WHITE proxy card or voting instruction form, because a vote to Withhold with respect to a Greenlight Nominee on its proxy card will revoke any proxy you previously submitted. If you have already voted using Greenlight's proxy card, you may change your vote by**

executing and returning the enclosed WHITE proxy card or voting instruction form, or by voting by telephone or by Internet by following the instructions provided on the enclosed WHITE proxy card or voting instruction form. Only the latest dated proxy you submit will be counted. If you have any questions or need assistance voting, please call the Company's proxy solicitor, Innisfree M&A Incorporated (Innisfree) toll free at: (for shareholders within the U.S. or Canada) +1 (877) 825-8964 and (for shareholders outside of the U.S. and Canada) +1 (412) 232-3651.

7. How do I vote without attending the Annual Meeting?

When you timely submit your proxy or voting instructions in the proper form, your shares will be voted according to your instructions. You may give instructions to vote for or withhold voting for the election of all the Board of Directors' nominees or any individual nominee and to vote for or against or to abstain from voting on, each of the other matters submitted for voting. If you sign, date, and return the **WHITE** proxy card or voting instruction form without specifying how you wish to cast your vote, your shares will be voted according to the recommendations of the Board of Directors, as indicated in this Proxy Statement.

8. How can I vote in person at the Annual Meeting?

If you are a shareholder of record or a beneficial shareholder, you may vote your shares at the Annual Meeting by completing a ballot at the meeting. If you are a beneficial shareholder and want to vote your shares in person at the Annual Meeting, you must bring a signed legal proxy form from your broker, bank, or other nominee giving you the right to vote the shares, which must be submitted with your ballot at the meeting. You will not be able to vote your shares at the meeting without a legal proxy. Accordingly, we encourage you to vote your shares in advance, even if you plan to attend the meeting. Your vote at the meeting will supersede any prior vote by you.

Even if you plan to participate in the Annual Meeting, we encourage you to vote your shares on a **WHITE** proxy card in advance by telephone, internet, or by completing and mailing the enclosed proxy card or voting instruction form, so that your vote will be counted if you later decide not to participate in the Annual Meeting.

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QUESTIONS AND ANSWERS

9. How can I change or revoke my proxy or voting instruction?

After you have submitted your proxy or voting instructions by internet, telephone, or mail, you may revoke your proxy at any time until it is voted at the Annual Meeting. If you are a shareholder of record, you may do this by voting subsequently by internet or telephone, submitting a new proxy card with a later date, sending a written notice of revocation to the Corporate Secretary at the address provided in *How can I obtain the Company's corporate governance information?* on page 98, or by voting in person during the Annual Meeting.

If you are a beneficial shareholder, you may subsequently vote by internet or telephone, or you may revoke your vote through your broker, bank, or other nominee in accordance with their instructions.

10. Who will count the vote?

An independent inspector of election will tabulate the vote at the Annual Meeting.

11. When will the Annual Meeting voting results be announced?

We will provide voting results on our website and in a Form 8-K filed with the SEC.

12. How can I review a list of shareholders entitled to vote at the Annual Meeting?

A list of shareholders of record entitled to vote at the Annual Meeting will be available for examination for a purpose that is germane to the meeting at General Motors Global Headquarters, 300 Renaissance Center, Detroit, Michigan, 48265, for 10 business days before the Annual Meeting between 9:00 a.m. and 5:00 p.m. Eastern Time, and also during the Annual Meeting.

13. What is the difference between a shareholder of record and a beneficial shareholder of shares held in street name?

SHAREHOLDER OF RECORD If your shares are owned directly in your name in an account with GM's stock transfer agent, Computershare Trust Company, N.A. (Computershare), you are considered the shareholder of record of those shares in your account.

BENEFICIAL SHAREHOLDER If your shares are held in an account with a broker, bank, or other nominee as custodian on your behalf, you are considered a beneficial shareholder of those shares, which are held in street name. The broker, bank, or other nominee is considered the shareholder of record for those shares. As the beneficial owner, you have the right to instruct the broker, bank, or other nominee on how to vote the shares in your account.

14. I am a beneficial shareholder. What happens if I do not provide voting instructions to my broker?

As a beneficial shareholder, you **must** provide voting instructions to your broker, bank, or other nominee by the deadline provided in the proxy materials you receive from your broker, bank, or other nominee in order for your shares to be voted the way you would like. A broker non-vote occurs when a beneficial holder does not provide instructions to a broker, bank or other nominee and such broker, bank or other nominee lacks discretionary voting power to vote shares with respect to a particular proposal. In uncontested situations, under NYSE rules, brokers are permitted to exercise discretionary voting authority on routine matters, but beneficial shareholders must provide voting instructions with respect to non-routine matters. However, the rules of the NYSE governing brokers discretionary authority do not permit brokers to exercise discretionary authority regarding any of the proposals to be voted on at the Annual Meeting, whether routine or not, in contested elections where brokers receive competing proxy materials. Therefore, and subject to brokers receiving such competing materials, we currently expect that your broker may not vote on any item considered at the Annual Meeting without your instruction.

In the event that the election of directors becomes uncontested, brokers may be permitted to exercise voting authority on routine matters.

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15. What is householding and how does it affect me?

The SEC rules permits companies to send a single Proxy Statement and Annual Report or Notice to two or more shareholders that share the same address, subject to certain conditions. Each shareholder will continue to receive a separate proxy card, voting instruction form, or Notice, and it will include the unique 16-digit control number, which is needed to vote those shares and to access and vote during the Annual Meeting. This householding rule will benefit both the shareholders and GM by reducing the volume of duplicate information shareholders receive and reducing GM's printing and mailing costs.

If you are a registered shareholder with an account at Computershare and one set of these documents was sent to your household for the use of all GM shareholders in your household and one or more of you would prefer to receive additional sets, or if multiple copies of these documents were sent to your household and you want to receive one set, please contact Computershare by calling 1-888-8945 or 1-781-575-3334 (from outside the United States, Canada and Puerto Rico), or by writing to Computershare, P.O. Box 43078, Providence, RI 02940-3078.

If a broker, bank, or other nominee holds your shares, please contact your broker, bank, or other nominee directly if you have questions about delivery of materials, require additional copies of the Proxy Statement or Annual Report, or wish to receive multiple copies of proxy materials by stating that you do not consent to householding.

16. How can nominees obtain proxy materials for beneficial owners?

Brokers, banks, and other nominees who want a supply of the Company's proxy materials to send to beneficial owners should contact Innisfree M&A Incorporated toll free at: (for shareholders within the U.S. and Canada) +1 (877) 825-8906 or (for shareholders outside the U.S. and Canada), call: +1 (412) 232-2651.

u Shareholder Proposals and Company Information

17. What proposals for business may be submitted for consideration at the 2018 Annual Meeting?

Rule 14a-8 Proposals for Inclusion in Next Year's Proxy Statement

SEC rules and our Bylaws permit shareholders to submit proposals for inclusion in our Proxy Statement if the shareholder and the proposal meet the requirements specified in SEC Rule 14a-8.

When to send these proposals. Any shareholder proposals submitted in accordance with SEC Rule 14a-8 must be received at our principal executive offices no later than 11:59 p.m. Eastern Time on [], 2017.

Where to send these proposals. Proposals should be sent by mail to Jill E. Sutton, Corporate Secretary and Deputy General Counsel, General Motors Company, Mail Code 482-C25-D24, 300 Renaissance Center, Detroit, Michigan 48265, or by e-mail to *shareholder.relations@gm.com*.

What to include. Proposals must conform to and include the information required by SEC Rule 14a-8.

Director Nominees for Inclusion in Next Year's Proxy Statement (Proxy Access)

Our Bylaws permit a shareholder or group of shareholders (up to 20) who have owned a significant amount of common stock (at least 3%) for a significant amount of time (at least three years) to submit director nominees (up to 20% of the Board or two directors, whichever is greater) for inclusion in our Proxy Statement if the shareholder(s) and the nominee(s) satisfy the requirements specified in our Bylaws.

When to send these proposals. Notice of director nominees submitted under these Bylaw provisions must be received no earlier than [], 2017, and no later than 11:59 p.m. Eastern Time on [], 2018.

Where to send these proposals. Notice should be sent by mail to Jill E. Sutton, Corporate Secretary and Deputy General Counsel, General Motors Company, Mail Code 482-C25-D24, 300 Renaissance Center, Detroit, Michigan 48265, or by e-mail to *shareholder.relations@gm.com*.

What to include. Notice must include the information required by our Bylaws, which are available on our website at *gm.com/investors*, under Corporate Governance .

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QUESTIONS AND ANSWERS

Other Proposals or Nominees for Presentation at Next Year's Annual Meeting

Our Bylaws require that any shareholder proposal, including a director nomination, that is not submitted for inclusion in next year's Proxy Statement (either under SEC Rule 14a-8 or our proxy access bylaw), but is instead sought to be presented directly at the 2018 Annual Meeting, must be received at our principal executive offices no earlier than 180 days and no later than 120 days before the first anniversary of the 2017 Annual Meeting.

When to send these proposals. Shareholder proposals, including director nominations, submitted under these Bylaw provisions must be received no earlier than [], 2017, and no later than 11:59 p.m. Eastern Time on [], 2018.

Where to send these proposals. Proposals should be sent by mail to Jill E. Sutton, Corporate Secretary and Deputy General Counsel, General Motors Company, Mail Code 482-C25-D24, 300 Renaissance Center, Detroit, Michigan 48265, or by e-mail to *shareholder.relations@gm.com*.

What to include. Notice must include the information required by our Bylaws, which are available on our website at *gm.com/investors*, under Corporate Governance .

18. How can I obtain the Company's corporate governance information?

You may download a copy of GM's corporate governance documents by visiting our website at *gm.com/investors*, under Corporate Governance. To request a printed copy of any of these documents, write to Jill E. Sutton, Corporate Secretary and Deputy General Counsel, General Motors Company, Mail Code 482-C25-D24, 300 Renaissance Center, Detroit, Michigan 48265, or send an e-mail to *shareholder.relations@gm.com*.

19. How can I obtain a copy of the Company's 2016 Annual Report on Form 10-K?

You may download a copy of our 2016 Annual Report on Form 10-K by visiting our website at *gm.com/investors*, under Investor Contacts. Alternatively, you may request a printed copy by writing to Shareholder Relations at General Motors Company, Mail Code 482-C23-D24, 300 Renaissance Center, Detroit, Michigan 48265 or to *shareholder.relations@gm.com*.

20. Who pays for this proxy solicitation and how much did it cost?

We will pay our cost for soliciting proxies for the 2017 Annual Meeting. General Motors does not expect to pay Greenlight's costs for soliciting proxies for the Annual Meeting. The Company will distribute proxy materials and follow-up reminders, if any, by mail and electronic means. We have engaged Innisfree, a professional proxy solicitation firm, located at 501 Madison Avenue, New York, NY 10022, to assist with the solicitation of proxies and to provide related advice and informational support, for a service fee, plus customary disbursements. We expect to pay Innisfree an aggregate fee, including reasonable out-of-pocket expenses, of up to \$[], depending on the level of services actually provided. Our aggregate expenses, including those of Innisfree, related to the solicitation in excess of those normally spent for an annual meeting as a result of the potential proxy contest and excluding salaries and wages of our officers and regular employees, are expected to be approximately \$[], of which approximately \$[] has been spent to date. General Motors has also agreed to indemnify Innisfree against certain liabilities relating to or arising out of its engagement and to reimburse the expenses incurred by Innisfree in connection with the solicitation. Innisfree expects that approximately 100 of its employees will assist in the solicitation.

GM directors, officers, and employees may also solicit proxies by mail, telephone, or personal visits. They will not receive any additional compensation for their services. Appendix C sets forth information relating to certain of our directors, officers and employees who are considered participants in this proxy solicitation under the rules of the SEC by reason of their position or because they may be soliciting proxies on our behalf.

General Motors will provide copies of these proxy materials to banks, brokerage houses, fiduciaries, and custodians holding in their names shares of our common stock beneficially owned by others so that they may forward these proxy materials to the beneficial owners. As usual, we will reimburse brokers, banks, and other nominees for their reasonable expenses in forwarding proxy materials to beneficial owners.

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APPENDIX A

GENERAL MOTORS COMPANY

2017 SHORT-TERM INCENTIVE PLAN

Section 1. Purpose. The purpose of the General Motors Company 2017 Short-Term Incentive Plan (as amended from time to time, the **Plan**) is to provide to certain employees of General Motors Company (the **Company**) and its Subsidiaries incentive compensation based upon the achievement of financial, business and other performance goals. This Plan is also intended to permit the payment of bonuses that may qualify as performance-based compensation under Section 162(m) of the Code to officers and other employees of the Company.

Section 2. Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

(a) **Award** means a cash incentive award opportunity granted to a Participant under the Plan with respect to a Performance Period in accordance with Section 5.

(b) **Beneficiary** means a person designated by a Participant to receive payments that are available under the Plan in the event of the Participant's death.

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

(d) **Change in Control** means the occurrence of any one or more of the following events:

(i) any Person other than an Excluded Person, directly or indirectly, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company constituting more than 40 percent of the total combined voting power of the Company's Voting Securities outstanding; *provided* that if such Person becomes the beneficial owner of 40 percent of the total combined voting power of the Company's outstanding Voting Securities as a result of a sale of such securities to such Person by the Company or a repurchase of securities by the Company, such sale or purchase by the Company shall not result in a Change in Control; *provided further*, that if such Person subsequently acquires beneficial ownership of additional Voting Securities of the Company (other than from the Company), such subsequent acquisition shall result in a Change in Control if such Person's beneficial ownership of the Company's Voting Securities immediately following such acquisition exceeds 40 percent of the total combined voting power of the Company's outstanding Voting Securities;

(ii) at any time during a period of 24 consecutive months, individuals who at the beginning of such period constituted the Board and any new member of the Board whose election or nomination for election was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was so approved (the Incumbent Board), cease for any reason to constitute a majority of members of the Board;

(iii) the consummation of a reorganization, merger or consolidation of the Company or any of its Subsidiaries with any other corporation or entity, in each case, unless, immediately following such reorganization, merger or consolidation, more than 60 percent of the combined voting power and total fair market value of then outstanding Voting Securities of the resulting corporation from such reorganization, merger or consolidation is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Voting Securities of the Company immediately prior to such reorganization, merger or consolidation in substantially the same proportion as their beneficial ownership of the Voting Securities of the

Company immediately prior to such reorganization, merger or consolidation; or

(iv) the consummation of any sale, lease, exchange or other transfer to any Person (other than a Subsidiary or affiliate of the Company) of assets of the Company and/or any of its Subsidiaries, in one transaction or a series of related transactions within a 12-month period, having an aggregate fair market value of more than 50 percent of the fair market value of the Company and its Subsidiaries immediately prior to such transaction(s).

Notwithstanding the foregoing, in no event shall a Change in Control be deemed to have occurred (A) as a result of the formation of a Holding Company, (B) with respect to any Participant, if the Participant is part of a group within the meaning of Section 13(d)(3) of the Exchange Act as in effect on the date hereof, which consummates the Change in Control transaction, or (C) if the transaction does not constitute a change in ownership, change in effective control, or change in the ownership of a substantial portion of the assets of the Company for purposes of Section 409A of the Code.

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(e) **Code** means the Internal Revenue Code of 1986, as amended from time to time, and the rules, regulations and guidance thereunder. Any reference to a provision in the Code shall include any successor provision thereto.

(f) **Committee** means the Executive Compensation Committee of the Board or such other independent committee as may be designated by the Board to perform the functions of the Executive Compensation Committee with respect to this Plan.

(g) **Covered Employee** means an individual who is a covered employee or expected by the Committee to be a covered employee, in each case within the meaning of Section 162(m) of the Code, for whom the Committee intends an Award to be qualified performance-based compensation under Section 162(m) of the Code.

(h) **Disability** means, with respect to any Participant, such Participant's inability upon a Termination of Service to engage in any gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

(i) **Effective Date** means [], 2017.

(j) **Excluded Person** means (i) the Company, (ii) any of the Company's Subsidiaries, (iii) any Holding Company, (iv) any employee benefit plan of the Company, any of its Subsidiaries or a Holding Company, or (v) any Person organized, appointed or established by the Company, any of its Subsidiaries or a Holding Company for or pursuant to the terms of any employee benefit plan described in clause (iv).

(k) **Final Award** means, with respect to a Performance Period, the amount of an Award that will become payable to a Participant, subject to any additional terms and conditions applicable to the Award, as determined by the Committee under Section 7.

(l) Achievement of **Full Career Status** means a Participant's voluntary Termination of Service (i) at the age of 55 or older with ten or more years of continuous service or (ii) at the age of 62 or older. The chief human resources officer of the Company (or such individual holding comparable roles in the event of a restructuring of positions or re-designation of titles) shall have the binding authority to determine how many years of continuous service a Participant has at any given time.

(m) **Holding Company** means an entity that becomes a holding company for the Company or its businesses as part of any reorganization, merger, consolidation or other transaction, provided that the outstanding shares of common stock of such entity and the combined voting power of the then outstanding Voting Securities of such entity are, immediately after such reorganization, merger, consolidation or other transaction, beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Voting Securities of the Company outstanding immediately prior to such reorganization, merger, consolidation or other transaction in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or other transaction, of such outstanding Voting Securities of the Company.

(n) **Incumbent Board** has the meaning assigned to it in Section 2(d).

(o) **Participant** means any employee selected by the Committee to participate in the Plan for a Performance Period.

(p) **Performance Measures** means any one or more of the following performance measures expressed on an absolute or adjusted basis, applied to either the Company as a whole or to a business unit, Subsidiary or business segment and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a

designated comparison group, in each case as specified by the Committee: asset turnover, cash flow, contribution margin, cost objectives, cost reduction, earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, economic value added, free cash flow, increase in customer base, inventory turnover, liquidity, market share, net income, net income margin, operating cash flow, operating profit, operating profit margin, pre-tax income, productivity, profit margin, quality (internal or external measures), return on assets, return on net assets, return on capital, return on invested capital, return on equity, revenue, revenue growth, stockholder value, stock price, total shareholder return, and/or warranty experience. The Committee may grant Awards subject to performance measures that are intended to constitute qualified performance-based compensation under Section 162(m) of the Code.

(q) **Performance Period** means the Company's fiscal year, or any other period as determined by the Committee.

(r) **Person** means any individual or entity, including any two or more Persons deemed to be one person as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

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(s) **Subsidiary** means an entity of which the Company directly or indirectly holds all or a majority of the value of the outstanding equity interests of such entity or a majority of the voting power with respect to the Voting Securities of such entity. Whether employment by or service with a Subsidiary is included within the scope of this Plan shall be determined by the Committee.

(t) **Target Award** means the amount that a Participant may earn under an Award if targeted performance levels are achieved (including corporate and individual performance). Target Awards may be denominated as a percentage of base salary or a dollar amount, or a combination thereof.

(u) **Termination of Service** means, subject to Section 15, the cessation of a Participant's employment relationship with the Company or a Subsidiary such that the Participant is determined by the Company to no longer be an employee of the Company or such Subsidiary, as applicable; *provided, however*, that, unless the Company determines otherwise, such cessation of the Participant's employment with the Company or a Subsidiary, where the Participant's employment for the Company continues at another Subsidiary, shall not be deemed a cessation of employment or service that would constitute a Termination of Service; *provided, further*, that a Termination of Service shall be deemed to occur for a Participant employed by a Subsidiary when the Subsidiary ceases to be a Subsidiary unless such Participant's employment continues with the Company or another Subsidiary. The chief human resources officer of the Company (or such individual holding comparable roles in the event of a restructuring of positions or re-designation of titles) shall have the binding authority to determine whether a Participant has had a cessation of his or her employment with the Company or a Subsidiary.

(v) **Voting Securities** means securities of a Person entitling the holder thereof to vote in the election of the members of the board of directors of such Person or such governing body of such Person performing a similar principal governing function with respect to such Person.

Section 3. Eligibility. Any person who is employed by the Company or any Subsidiary may be designated by the Committee as a Participant from time to time.

Section 4. Administration.

(a) The Plan shall be administered by the Committee. All decisions of the Committee shall be final, conclusive and binding upon all parties, including the Company, its stockholders and Participants and any Beneficiaries thereof. To the extent permitted by applicable law, the Committee may delegate to one or more members of the Committee or officers of the Company the authority to administer the Plan, such as authority to establish the terms of Awards, determine Final Awards or take any other actions permitted under the Plan, within any limits established by the Committee, except that such delegation to an officer of the Company shall not be applicable with respect to any Award for any Participant who is a Covered Employee. Subject to the immediately preceding sentence, the Committee may directly or through its delegate issue rules and regulations for administration of the Plan.

(b) To the extent necessary or desirable to comply with applicable regulatory regimes, any action by the Committee shall require the approval of Committee members who are (i) independent, within the meaning of and to the extent required by applicable rulings and interpretations of the applicable stock market or exchange on which any equity securities issued by the Company are quoted or traded and (ii) independent outside directors pursuant to Section 162(m) of the Code.

(c) Subject to applicable law, the terms of the Plan, including but not limited to Section 4(a), and such orders or resolutions not inconsistent with the terms of the Plan as may from time to time be adopted by the Board, the Committee or its delegate shall have full power, discretion and authority to: (i) subject to Section 3, designate eligible

individuals who will be Participants; (ii) determine the terms and conditions of any Award; (iii) determine whether, to what extent and under what circumstances amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the Participant or of the Committee; (iv) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (v) establish, amend, suspend or waive such rules and regulations as it shall deem appropriate for the proper administration of the Plan and due compliance with applicable law or accounting or tax rules and regulations; (vi) make any other determination and take any other action that the Committee in its sole discretion deems necessary or desirable for the administration of the Plan and due compliance with applicable law or accounting or tax rules and regulations and (vii) to construe, interpret and apply the provisions of this Plan.

(d) Notwithstanding any other provision in the Plan to the contrary, in any instance where a determination is to be made under the Plan at the discretion of the Company's Chief Executive Officer or chief human resources officer (or such individuals holding a comparable role in the event of a restructuring of positions or re-designation of titles), the Company's Chief Executive Officer shall make such determination in respect of the Company's chief human resources officer, and the Committee shall make such determination in respect of the Company's Chief Executive Officer (or, in each case, such individuals holding the comparable roles in the event of a restructuring of positions or re-designation of titles).

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Section 5. *Establishment of Award Terms.* Subject to the limitations described in Section 4 and Section 8, the Committee shall establish the terms of each Award, including the Performance Period; the positions or names of the employees who will be Participants for the Performance Period; the Target Award for each Participant or group of Participants (including any minimum or maximum amount); the applicable Performance Measures and any other additional goals, formulas or performance-based measures relating to the Company, any business unit, Subsidiary or business segment of the Company, or to an individual Participant; targeted achievement levels (including any minimum or maximum achievement levels) relating to such Performance Measures or other goals; the formula or methodology that will be applied to determine the extent to which Awards have been earned and any other terms that will be applicable to the Awards, including the payment date, payment conditions and any vesting schedule applicable to any Final Award.

Section 6. *Adjustments to Performance Measures, Goals and Formulas.* The Committee may adjust, in whole or in part, any Performance Measures or any other applicable goals, formulas or performance-based measures, the targeted achievement levels (including any minimum or maximum achievement levels) relating to such Performance Measures, goals, formulas or performance-based measures, and the formula or methodology to be applied against the Performance Measures goals, formulas or performance-based measures, as the Committee may deem appropriate and equitable during the applicable Performance Period. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the applicable performance measures unsuitable, the Committee may in its discretion modify such performance objectives or the related minimum acceptable level of achievement, in whole or in part; *provided, however*, that in the case of an Award intended to qualify under Section 162(m) of the Code, such modifications shall be made only to the extent that they would not disqualify such Award under Section 162(m) of the Code.

Section 7. *Determination of Final Awards.*

(a) As soon as practicable after the end of each Performance Period, the Committee shall determine the extent to which the targeted achievement levels of the applicable Performance Measures and any other goals, formulas or performance-based measures applicable to each Award have been satisfied.

(b) The Committee may, in its sole discretion, adjust (upward or downward) the Award of any Participant or group of Participants; *provided, that* the Committee shall not adjust the Award of any Covered Employee above the maximum payout determined in accordance with Section 8(b).

(c) The Committee shall determine the Final Award for each Participant or group of Participants after applying any adjustments described in Section 7(b) and subject to the limitations described in Section 8.

(d) Notwithstanding any provisions of the Plan to the contrary, upon the occurrence of a Change in Control of the Company, the following provisions shall apply:

- (i) Subject to the terms of the Plan as otherwise in effect, the minimum Award payable to each Participant as determined under this Section 7 of the Plan in respect of the fiscal year in which the Change in Control occurs shall be the greatest of:

- a.

The Award or other annual bonus paid or payable to the Participant in respect of the fiscal year prior to the year in which the Change in Control occurs;

- b. The amount that would be payable to the Participant if the Company achieved the Target Award for such fiscal year; or
- c. The Award amount that would be payable to the Participant based on the Company's actual performance and achievement of applicable Performance Measures for such fiscal year through the date of the Change in Control.

- (ii) If a Change in Control occurs following the completion of a fiscal year, but before Awards are paid under the Plan for that fiscal year, the Participant will be eligible to receive the Award for that fiscal year based on actual performance as determined by the Company, subject to the terms of the Plan as otherwise in effect.

Section 8. Awards for Covered Employees. Notwithstanding any other provision of the Plan, the following procedures and limitations shall apply with respect to any Award to a Covered Employee.

- (a) On or before the earlier of (i) the date that is 90 days after commencement of the Performance Period or (ii) the expiration of 25 percent of the Performance Period, the Committee shall establish and approve in writing one or more Performance Measures applicable to the Covered Employee's Award, the targeted achievement levels (including any minimum or

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maximum achievement levels) relating to such Performance Measures, and an objective formula or methodology that will be applied against the Performance Measures to determine the maximum amount payable under the Award.

(b) After the end of each Performance Period, the Committee shall determine and shall certify in writing the extent to which the targeted achievement levels with respect to the applicable Performance Measures have been satisfied and shall apply the pre-established objective formula or methodology to determine the maximum amount payable under the Covered Employee's Award.

(c) For the avoidance of doubt, subject to the limitations set forth in this Section 8, the Committee may adjust the maximum payout level downward by applying any other applicable Performance Measures or other goals, formulas or performance-based measures pursuant to Section 7(a) and by making any other adjustments pursuant to Section 7(c).

(d) The Final Award for a Covered Employee shall in no instance exceed \$15,000,000 for any fiscal year of the Company.

Section 9. *Payment of Awards.*

(a) Payment of the Final Awards for a Performance Period shall be made in cash after the Committee's determination of the Final Awards (or if later, any vesting date or dates applicable to the Final Award), but no later than December 31 of the year following the end of the applicable Performance Period (or the applicable vesting date or dates); *provided* that at the time of grant, subject to Section 15, the Committee may determine that an Award will be paid at a later date.

(b) Notwithstanding Section 9(a), the Company may, in its sole discretion, permit or require the deferral of payment of any Final Award in accordance with the terms of any deferred compensation plan or arrangement established or maintained by the Company or its Subsidiaries from time to time.

Section 10. *Conditions Precedent to Final Awards.* As a condition precedent to the payment of all or any portion of the Final Award, each Participant shall: (a) refrain from engaging in any activity which will cause damage to the Company or is in any manner inimical or in any way contrary to the best interests of the Company, as determined in the sole discretion of the Company's Chief Executive Officer or chief human resources officer (or such individuals holding a comparable role in the event of a restructuring of positions or re-designation of titles), (b) not for a period of 12 months following any voluntary termination of employment, directly or indirectly, knowingly induce any employee of the Company or any Subsidiary to leave his or her employment for participation, directly or indirectly, with any existing or future employer or business venture associated with such Participant, and (c) furnish to the Company such information with respect to the satisfaction of the foregoing conditions precedent as the Committee may reasonably request. In addition, the Committee may require a Participant to enter into such agreements as the Committee considers appropriate. The failure by any Participant to satisfy any of the foregoing conditions precedent shall result in the immediate cancellation of any unpaid portion of his or her Award, and such Participant will not be entitled to receive any consideration with respect to such cancellation.

Section 11. *Effect of Termination of Service on Awards.* Subject to Section 9(b) and Section 10, and unless otherwise provided by the Committee at the time of the grant of the Award, or as the Committee may determine in any individual case, the following shall apply with respect to a Participant's outstanding Awards upon such Participant's Termination of Service.

(a) Except as set forth below, in the event of the Participant's Termination of Service for any reason, any unpaid portion of any Award shall be forfeited.

(b) In the event of a Participant's Termination of Service due to death or Disability, in either instance before or after the end of a Performance Period but before payment of his or her Final Award, the Participant's Final Award will be determined (if not already determined) after the end of the Performance Period in accordance with Section 7, and the Final Award shall be paid to the Participant's Beneficiary or Participant no later than December 31 of the year following the end of the applicable Performance Period. Any service-based vesting conditions applicable to such Final Award shall be waived.

(c) In the event of a Participant's voluntary Termination of Service after achieving Full Career Status before or after the end of a Performance Period but before payment of his or her Final Award, the Participant's Final Award will be determined (if not already determined) after the end of the Performance Period in accordance with Section 7; *provided* that the Final Award will be prorated based on the number of months during the applicable Performance Period prior to the Participant's Termination of Service. The Final Award shall be paid to the Participant after the determination of the Final Award, but no later than December 31 of the year following the end of the applicable Performance Period. Any service-based vesting conditions applicable to such Final Award shall be waived.

(d) Notwithstanding the above provisions, in the event of a Participant's Termination of Service pursuant to an approved separation agreement or program, such Participant will not be entitled to retain any portion of an Award.

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Section 12. *General Provisions Applicable to Awards.*

- (a) Except pursuant to Section 12(b) or the laws of descent, no Award and no right under any Award may be voluntarily or involuntarily assigned, alienated, sold or transferred, including as between spouses or pursuant to a domestic relations order in connection with dissolution of marriage, or by operation of law.
- (b) A Participant may designate a Beneficiary or change a previous Beneficiary designation at such times prescribed by the Committee by using forms and following procedures approved or accepted by the Committee for that purpose.
- (c) The entire expense of offering and administering the Plan shall be borne by the Company and its Subsidiaries.
- (d) Any Awards granted under the Plan (including any amounts or benefits arising from such Awards) shall be subject to any clawback or recoupment policies the Company has in place from time to time.
- (e) Notwithstanding any other provision of the Plan (including Section 9, Section 11 and Section 15), the Committee may determine at any time and in its sole discretion, to accelerate or to delay any amounts payable with respect to any Award, or grant Awards subject to accelerated or delayed payment terms.
- (f) Subject to Section 15, if the Company or any Subsidiary has any unpaid claim against a Participant arising out of or in connection with the Participant's employment with the Company or any Subsidiary, prior to payment of a Final Award, such claim may be offset against any Award under this Plan (up to \$5,000 per year) and at the time of payment of any Award, such claim may be offset in total. Such claims may include, but are not limited to, unpaid taxes or corporate business credit card charges.
- (g) No employee, Participant or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of employees, Participants or Beneficiaries under the Plan. The terms and conditions of Awards need not be the same with respect to each recipient. Any Award granted under the Plan shall be a one-time Award that does not constitute a promise of future grants.
- (h) The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of, or to continue to provide services to, the Company or any Subsidiary. Further, the Company or the applicable Subsidiary may at any time dismiss a Participant free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any other agreement binding the parties.
- (i) Nothing contained in the Plan shall prevent the Committee or the Company from adopting other non-stockholder approved plans, policies and arrangements for granting incentives and other compensation to employees of the Company and its Subsidiaries or adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.
- (j) The Company (or any Subsidiary) shall be authorized to withhold from any payment due with respect to any Final Award the amount of applicable withholding taxes due in respect of an Award as may be necessary in the opinion of the Company (or the Subsidiary) to satisfy all obligations for the payment of such taxes.
- (k) If any provision of the Plan is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or as to any person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the sole determination of the Committee, materially altering the intent of the Plan, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan shall

remain in full force and effect.

(1) This Plan is unfunded and unsecured; nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right to payment of an Award other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

Section 13. *Effective Date of the Plan.* The Plan shall be effective as of the Effective Date, subject to stockholder approval.

Section 14. *Amendment, Modification, Suspension and Termination of the Plan; Rescissions and Corrections.*

Except to the extent prohibited by applicable law, the Board may amend, alter, suspend, discontinue or terminate the Plan or any portion thereof at any time; *provided, however*, that no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval if such approval is required by applicable law, including Section 162(m) of the Code except (a) to the extent any such amendment, alteration, suspension, discontinuance or termination is made to cause the Plan to comply with applicable law or accounting or tax rules and regulations, (b) to impose any clawback or recoupment provisions with respect to

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any Awards (including any amounts or benefits arising from such Awards) in accordance with Section 12(d) of the Plan or (c) as the Board determines in good faith to be in the best interests of the Participants affected thereby. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

Section 15. *Section 409A of the Code.* With respect to any Award subject to Section 409A of the Code, the Plan is intended to comply with the requirements of Section 409A of the Code, and the provisions of the Plan shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and the Plan shall be operated accordingly. If any provision of the Plan or any term or condition of any Award would otherwise frustrate or conflict with this intent, the provision, term or condition will be interpreted and, to the extent necessary, deemed amended so as to avoid this conflict. If an amount payable under an Award as a result of the Participant's Termination of Service (other than due to death) occurring while the Participant is a specified employee under Section 409A of the Code constitutes a deferral of compensation subject to Section 409A of the Code, then payment of such amount shall not occur until six months and one day after the date of the Participant's Termination of Service, except as permitted under Section 409A of the Code. To the extent any amount that is nonqualified deferred compensation for purposes of Section 409A of the Code becomes payable upon a Termination of Service, such Termination of Service shall not be deemed to have occurred any earlier than a separation from service would occur under Section 409A of the Code, and related regulations and guidance thereunder. Notwithstanding any of the foregoing, the Company makes no representations or warranty and shall have no liability to the Participant or any other person if any provisions or payments, compensation or other benefits under the Plan are determined to constitute nonqualified deferred compensation subject to Section 409A of the Code but do not satisfy the provisions thereof.

Section 16. *Data Protection.* By participating in the Plan, the Participant consents to the holding and processing of personal information provided by the Participant to the Company or any Subsidiary, trustee or third party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

- (a) administering and maintaining Participant records;
- (b) providing information to the Company, Subsidiaries, trustees of any employee benefit trust, registrars, brokers or third party administrators of the Plan;
- (c) providing information to future purchasers or merger partners of the Company or any Subsidiary, or the business in which the Participant works; and
- (d) transferring information about the Participant to any country or territory that may not provide the same protection for the information as the Participant's home country.

Section 17. *Governing Law.* The Plan shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof.

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APPENDIX B

GENERAL MOTORS COMPANY

2017 LONG-TERM INCENTIVE PLAN

Section 1. Purpose. The purpose of the General Motors Company 2017 Long-Term Incentive Plan (as amended from time to time, the **Plan**) is to incentivize selected employees, consultants, advisors and non-employee directors of General Motors Company (the **Company**) and its Subsidiaries and to align their interests with those of the Company's stockholders. However, nothing in this Plan or any Award granted pursuant to this Plan shall be interpreted to create or establish an employment relationship between the Company and any Participant.

Section 2. Definitions. As used in the Plan, and unless otherwise specified in an applicable Award Document, the following terms shall have the meanings set forth below:

- (a) **Award** means any Option, SAR, Restricted Stock, RSU, Performance Award, Other Stock-Based Award or cash incentive award granted under the Plan.
- (b) **Award Document** means any appropriately authorized agreement, contract or other instrument or document evidencing any Award granted under the Plan, whether in electronic form or otherwise, which must be duly executed or acknowledged by a Participant (unless otherwise specifically provided by the Company).
- (c) **Beneficiary** means a person designated by a Participant to receive payments or other benefits or exercise rights that are available under the Plan in the event of the Participant's death.
- (d) **Board** means the Board of Directors of the Company.
- (e) **Cause** means, with respect to any Participant, any of the following unless explicitly excluded by such Participant's applicable Award Document, and any additional grounds as may be set forth in such Award Document:
 - (i) the Participant's commission of, or plea of guilty or no contest to, a felony or comparable local charge in non-U.S. jurisdictions;
 - (ii) the Participant's gross negligence or willful misconduct that is materially injurious to the Company or any of its Subsidiaries; or
 - (iii) the Participant's material violation of state or federal securities laws.
- (f) **Change in Control** means the occurrence of any one or more of the following events:
 - (i) any Person other than an Excluded Person, directly or indirectly, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company constituting more than 40 percent of the total combined voting power of the Company's Voting Securities outstanding; *provided* that if such Person becomes the beneficial owner of 40 percent of the total combined voting power of the Company's outstanding Voting Securities as a result of a sale of such securities to such Person by the Company or a repurchase of securities by the Company, such sale or purchase by the Company shall not result in a Change in Control; *provided further*, that if such Person subsequently acquires beneficial ownership of additional Voting Securities of the Company (other than from the Company), such subsequent acquisition shall result in a Change in Control if such Person's beneficial ownership of the

Company Voting Securities immediately following such acquisition exceeds 40 percent of the total combined voting power of the Company's outstanding Voting Securities;

(ii) at any time during a period of 24 consecutive months, individuals who at the beginning of such period constituted the Board and any new member of the Board whose election or nomination for election was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was so approved (the Incumbent Board), cease for any reason to constitute a majority of members of the Board;

(iii) the consummation of a reorganization, merger or consolidation of the Company or any of its Subsidiaries with any other corporation or entity, in each case, unless, immediately following such reorganization, merger or consolidation, more than 60 percent of the combined voting power and total fair market value of the then outstanding Voting Securities of the resulting corporation from such reorganization, merger or consolidation is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Voting Securities of the Company immediately prior to such reorganization, merger or consolidation in substantially the same proportion as their beneficial ownership of the Voting Securities of the Company immediately prior to such reorganization, merger or consolidation; or

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(iv) the consummation of any sale, lease, exchange or other transfer to any Person (other than a Subsidiary or affiliate of the Company) of assets of the Company and/or any of its Subsidiaries, in one transaction or a series of related transactions within a 12-month period, having an aggregate fair market value of more than 50 percent of the fair market value of the Company and its Subsidiaries immediately prior to such transaction(s).

Notwithstanding the foregoing, in no event shall a **Change in Control** be deemed to have occurred (A) as a result of the formation of a Holding Company, (B) with respect to any Participant, if the Participant is part of a group within the meaning of Section 13(d)(3) of the Exchange Act as in effect on the date hereof, which consummates the Change in Control transaction or (C) if the transaction does not constitute a change in ownership, change in effective control, or change in the ownership of a substantial portion of the assets of the Company for purposes of Section 409A of the Code.

(g) **Code** means the Internal Revenue Code of 1986, as amended from time to time, and the rules, regulations and guidance thereunder. Any reference to a provision in the Code shall include any successor provision thereto.

(h) **Committee** means the Executive Compensation Committee of the Board or such other independent committee as may be designated by the Board to perform any functions of the Executive Compensation Committee with respect to this Plan.

(i) **Covered Employee** means an individual who is a covered employee or expected by the Committee to be a covered employee, in each case within the meaning of Section 162(m) of the Code.

(j) **Disability** means, with respect to any Participant, such Participant's inability upon a Termination of Service to engage in any gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

(k) **Effective Date** means [], 2017.

(l) **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, and the rules, regulations and guidance thereunder. Any reference to a provision in the Exchange Act shall include any successor provision thereto.

(m) **Excluded Person** means (i) the Company, (ii) any of the Company's Subsidiaries, (iii) any Holding Company, (iv) any employee benefit plan of the Company, any of its Subsidiaries or a Holding Company, or (v) any Person organized, appointed or established by the Company, any of its Subsidiaries or a Holding Company for or pursuant to the terms of any employee benefit plan described in clause (iv).

(n) **Fair Market Value** means with respect to Shares, the closing price of a Share on the date in question (or, if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) on the principal stock market or exchange on which the Shares are quoted or traded, or if Shares are not so quoted or traded, fair market value as determined by the Committee, and with respect to any property other than Shares, the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

(o) Achievement of **Full Career Status** means a Participant's voluntary Termination of Service (i) at the age of 55 or older with ten or more years of continuous service or (ii) at the age of 62 or older. The chief human resources officer of the Company (or such individual holding a comparable role in the event of a restructuring of positions or re-designation of titles) shall have the binding authority to determine how many years of continuous service a Participant has at any given time.

(p) **Good Reason** means, with respect to any Participant, the occurrence of any of the following acts by the Company, or failure by the Company to act, following or in connection with the occurrence of a Change in Control, unless explicitly excluded in such Participant's applicable Award Document and any additional grounds, as may be set forth in such Award Document:

(i) a material reduction of such Participant's base salary or target incentive compensation;

(ii) an involuntary relocation of the geographic location of such Participant's principal place of employment (or for consultants or advisors, service) by more than 50 miles; or

(iii) only for Participants who are executive officers of the Company covered by Section 16 of the Exchange Act, a material diminution of the Participant's authority, duties, or responsibilities.

In each case, if such Participant desires to terminate his or her employment or service with the Company or such Subsidiary for Good Reason, he or she must first give written notice within 90 days of the initial existence of the facts and circumstances providing the basis for Good Reason to the Company or such Subsidiary, and allow the Company or such Subsidiary 60 days

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from the date of such notice to rectify the situation giving rise to Good Reason, and in the absence of any such rectification, such Participant must terminate his or her employment or service for such Good Reason within 120 days after delivery of such written notice.

(q) **Holding Company** means an entity that becomes a holding company for the Company or its businesses as part of any reorganization, merger, consolidation or other transaction, provided that the outstanding shares of common stock of such entity and the combined voting power of the then outstanding Voting Securities of such entity are, immediately after such reorganization, merger, consolidation or other transaction, beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Voting Securities of the Company outstanding immediately prior to such reorganization, merger, consolidation or other transaction in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or other transaction, of such outstanding Voting Securities of the Company.

(r) **Incentive Stock Option** means an option representing the right to purchase Shares from the Company, granted pursuant to Section 6, that meets the requirements of Section 422 of the Code.

(s) **Incumbent Board** has the meaning assigned to it in Section 2(f).

(t) **Non-Qualified Stock Option** means an option representing the right to purchase Shares from the Company, granted pursuant to Section 6, that is not an Incentive Stock Option.

(u) **Option** means an Incentive Stock Option or a Non-Qualified Stock Option granted pursuant to Section 6.

(v) **Other Stock-Based Award** means an Award granted pursuant to Section 10.

(w) **Participant** means the recipient of an Award granted under the Plan.

(x) **Performance Award** means an Award granted pursuant to Section 9.

(y) **Performance Period** means any period of not less than one year established by the Committee during which any performance goals specified by the Committee with respect to a Performance Award are measured.

(z) **Person** means any individual or entity, including any two or more Persons deemed to be one person as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act.

(aa) **Restricted Stock** means any Share granted pursuant to Section 8.

(bb) **Restricted Stock Unit or RSU** means a contractual right granted pursuant to Section 8 that is denominated in Shares. Each RSU represents a right to receive the value of one Share (or a percentage of such value) in cash, Shares or a combination thereof.

(cc) **Section 162(m) Compensation** means qualified performance-based compensation under Section 162(m) of the Code.

(dd) **Shares** means shares of the Company's common stock, \$0.01 par value.

(ee) **Stock Appreciation Right or SAR** means a right granted pursuant to Section 7, denominated in Shares, that entitles the Participant within the exercise period to receive a payment (or a number of Shares with a value) equal to

the increase in value between the exercise price and the Fair Market Value of the underlying Shares at the date of exercise.

(ff) **Subsidiary** means an entity of which the Company directly or indirectly holds all or a majority of the value of the outstanding equity interests of such entity or a majority of the voting power with respect to the Voting Securities of such entity. Whether employment by or service with a Subsidiary is included within the scope of this Plan shall be determined by the Committee.

(gg) **Termination of Service** means, subject to Section 19, the cessation of a Participant's employment or service relationship with the Company or a Subsidiary such that the Participant is determined by the Company to no longer be an employee, consultant or non-employee director of the Company or such Subsidiary, as applicable; *provided, however,* that, unless the Company determines otherwise, such cessation of the Participant's employment or service relationship with the Company or a Subsidiary, where the Participant's employment or services for the Company continues at another Subsidiary, or as a member

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of the Board, shall not be deemed a cessation of employment or service that would constitute a Termination of Service; *provided, further*, that a Termination of Service shall be deemed to occur for a Participant employed by or providing services to a Subsidiary when the Subsidiary ceases to be a Subsidiary unless such Participant's employment or service continues with the Company or another Subsidiary. The chief human resources officer of the Company (or such individual holding comparable roles in the event of a restructuring of positions or re-designation of titles) shall have the binding authority to determine whether a Participant has had a cessation of his or her employment or service relationship with the Company or a Subsidiary.

(hh) **Voting Securities** means securities of a Person entitling the holder thereof to vote in the election of the members of the board of directors of such Person or such governing body of such Person performing a similar principal governing function with respect to such Person.

Section 3. Eligibility. The following individuals may be designated by the Committee as a Participant from time to time: (a) a person who serves or is employed as an officer or other employee of the Company or any Subsidiary; (b) a consultant or advisor who provides services to the Company or a Subsidiary; and (c) a non-employee director of the Company. Only officers or other key employees determined by the Company can receive Code Section 162(m) Awards under the Plan. To participate in the Plan, consultants and advisors must meet the definition of employee under Form S-8.

Section 4. Administration.

(a) The Plan shall be administered by the Committee. All decisions of the Committee shall be final, conclusive and binding upon all parties, including the Company, its stockholders and Participants and any Beneficiaries thereof. To the extent permitted by applicable law, the Committee may delegate to one or more members of the Committee or officers of the Company authority to administer the Plan, such as the authority to grant Awards or take any other actions permitted under the Plan, within any limits established by the Committee, except that such delegation to an officer of the Company shall not be applicable with respect to any Award for any Participant who is a Covered Employee. Subject to the immediately preceding sentence, the Committee may directly or through its delegate issue rules and regulations for administration of the Plan.

(b) To the extent necessary or desirable to comply with applicable regulatory regimes, any action by the Committee shall require the approval of Committee members who are (i) independent, within the meaning of and to the extent required by applicable rulings and interpretations of the applicable stock market or exchange on which the Shares are quoted or traded; (ii) non-employee directors within the meaning of Rule 16b-3 under the Exchange Act; and (iii) independent outside directors pursuant to Section 162(m) of the Code.

(c) Subject to applicable law, the terms of the Plan, including but not limited to Section 4(a), and such orders or resolutions not inconsistent with the terms of the Plan as may from time to time be adopted by the Board, the Committee or its delegate shall have full power, discretion and authority to: (i) subject to Section 3, designate eligible individuals who will be Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or with respect to which payments, rights or other matters are to be calculated in connection with) Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent and under what circumstances Awards may be settled or exercised in cash, Shares, other Awards, other property, net settlement, or any combination thereof, or cancelled, forfeited or suspended, and the method or methods by which Awards may be settled, exercised, cancelled, forfeited or suspended; (vi) determine whether, to what extent and under what circumstances cash, Shares, other Awards, other property and other amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement

relating to, or Award made under, the Plan; (viii) prescribe the form of each Award Document, which need not be identical for each Participant; (ix) establish, amend, suspend or waive such rules and regulations and appoint such agents, trustees, brokers, depositories and advisors and determine such terms of their engagement as it shall deem appropriate for the proper administration of the Plan and due compliance with applicable law, stock market or exchange rules and regulations or accounting or tax rules and regulations; (x) make any other determination and take any other action that the Committee in its sole discretion deems necessary or desirable for the administration of the Plan and due compliance with applicable law, stock market or exchange rules and regulations or accounting or tax rules and regulations; and (xi) to construe, interpret and apply the provisions of this Plan.

(d) In addition to the conditions imposed by Section 11, the Committee or its delegate may impose restrictions on any Award at the time of grant in the applicable Award Document or by other action with respect to non-competition, confidentiality and other restrictive covenants as it deems necessary or appropriate.

(e) Notwithstanding any other provision in the Plan to the contrary, in any instance where a determination is to be made under the Plan at the discretion of the Company's Chief Executive Officer or chief human resources officer (or such individuals

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holding a comparable role in the event of a restructuring of positions or re-designation of titles), the Company's Chief Executive Officer shall make such determination in respect of the Company's chief human resources officer, and the Committee shall make such determination in respect of the Company's Chief Executive Officer (or, in each case, such individuals holding the comparable roles in the event of a restructuring of positions or re-designation of titles).

Section 5. Shares Available for Awards.

(a) Subject to adjustment as provided in Section 5(c), (i) the maximum number of Shares available for issuance under the Plan shall not exceed 42,000,000 Shares, with each Share subject to (or deliverable with respect to) an Option, SAR, RSU or any other Award reducing the number of Shares available for issuance under the Plan by one Share, and (ii) no Participant may receive under the Plan in any calendar year (A) Options and SARs that relate to more than 5,000,000 Shares or (B) Awards other than Options or SARs which could result in delivery to the Participant of more than 2,500,000 Shares under the operation of the applicable performance goal formula, if and to the extent that any such Awards are intended to constitute Section 162(m) Compensation and denominated in Shares. The maximum number of Shares available for issuance under Incentive Stock Options shall be 42,000,000.

(b) Any Shares subject to an Award that expires, is cancelled, forfeited or otherwise terminates without the delivery of such Shares, including any Shares subject to an Award to the extent that Award is settled without the issuance of Shares, shall again be, or shall become, available for issuance under the Plan; *provided, however*, that (i) any Shares surrendered or withheld in payment of any grant, purchase, exercise price of an Award or taxes related to an Award, (ii) any Shares covered by a SAR that is exercised and settled in Shares and (iii) any Shares repurchased in the open market using stock option proceeds, shall not again be available for issuance under the Plan.

(c) In the event that the Committee determines that, as a result of any dividend or other distribution (whether in the form of cash, Shares or other securities), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, issuance of Shares pursuant to the anti-dilution provisions of securities of the Company, or other similar corporate transaction or event affecting the Shares, or of changes in applicable laws, regulations or accounting principles, an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall adjust equitably any or all of:

(i) the number and type of Shares (or other securities) which thereafter may be made the subject of Awards, including the aggregate and individual limits specified in Section 5(a);

(ii) the number and type of Shares (or other securities) subject to outstanding Awards; and

(iii) the grant, purchase or exercise price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; *provided, however*, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

(d) Any Shares delivered pursuant to an Award may consist, in whole or in part, of authorized and newly issued Shares or Shares acquired by the Company.

Section 6. Options. The Committee is authorized to grant Options to Participants with the following terms and conditions and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine.

- (a) The exercise price per Share under an Option shall be determined by the Committee; *provided, however*, that such exercise price shall not be less than the Fair Market Value of a Share on the date of grant of such Option.
- (b) The term of each Option shall be fixed by the Committee but shall not exceed 10 years from the date of grant of such Option in the form of an Incentive Stock Option and 10 years plus two days from the date of grant of such Option in the form of a Non-Qualified Stock Option.
- (c) The Committee shall determine the time or times at which an Option may be exercised in whole or in part.
- (d) The Committee shall determine the method or methods by which, and the form or forms, including cash, Shares, other Awards, other property, net settlement, broker assisted cashless exercise or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price, in which payment of the exercise price with respect thereto may be made or deemed to have been made.

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(e) Any Option intended to be treated as an Incentive Stock Option shall be designated as such under the terms of the applicable Award Document. The terms of any such Incentive Stock Option shall comply in all respects with the provisions of Section 422 of the Code.

(f) Subject to Section 12 and Section 13, in general, no portion of an Award of Options is intended to vest prior to the first anniversary of the vesting commencement date set forth in the Award Document; however, the Committee may provide for shorter vesting if appropriate under the circumstances as determined by the Committee. Unless otherwise determined by the Committee, no dividends or dividend equivalents will be earned or paid on the Shares underlying any Options granted and outstanding under the Plan.

Section 7. *Stock Appreciation Rights.* The Committee is authorized to grant SARs to Participants with the following terms and conditions and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine.

(a) SARs may be granted under the Plan to Participants either alone (freestanding) or in addition to other Awards granted under the Plan (tandem) and may, but need not, relate to a specific Option granted under Section 6.

(b) The exercise price per Share under a SAR shall be determined by the Committee; *provided, however*, that such exercise price shall not be less than the Fair Market Value of a Share on the date of grant of such SAR.

(c) The term of each SAR shall be fixed by the Committee but shall not exceed 10 years from the date of grant of such SAR.

(d) The Committee shall determine the time or times at which a SAR may be exercised or settled in whole or in part.

(e) Subject to Section 12 and Section 13, in general, no portion of an Award of SARs is intended to vest prior to the first anniversary of the vesting commencement date set forth in the Award Document; however, the Committee may provide for shorter vesting if appropriate under the circumstances as determined by the Committee. Unless otherwise determined by the Committee, no dividends or dividend equivalents will be earned or paid on the Shares underlying any SARs granted and outstanding under the Plan.

Section 8. *Restricted Stock and RSUs.* The Committee is authorized to grant Awards of Restricted Stock and RSUs to Participants with the following terms and conditions and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine.

(a) Shares of Restricted Stock and RSUs shall be subject to such restrictions as the Committee may impose (including any limitation on the right to receive any dividend, dividend equivalent or other right), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate; *provided* that, subject to Section 12 and Section 13, in general, each Award of Restricted Stock and RSUs (other than Performance Awards) is intended to vest in whole or in part (including in installments) over a period of not less than three years from the vesting commencement date set forth in the Award Document; however, the Committee may provide for shorter vesting if appropriate under the circumstances as determined by the Committee.

(b) With respect to Shares of Restricted Stock, a Participant generally shall have the rights and privileges of a stockholder with respect thereto, including the right to vote such Shares of Restricted Stock and the right to receive dividends or dividend equivalents. Without limiting the generality of the foregoing, if the Award relates to Shares on which dividends are declared during the period that the Award is outstanding, such dividends or dividend equivalents shall be paid in cash on the vesting date of the Restricted Stock Award, subject to satisfaction of the vesting and other

conditions of the underlying Award of Restricted Stock, unless otherwise determined by the Committee. Any share of Restricted Stock may be evidenced in such manner as the Committee may deem appropriate, including book-entry registration. For the avoidance of doubt, unless otherwise determined by the Committee, no dividends or dividend equivalent rights shall be provided with respect to any Shares of Restricted Stock that do not vest pursuant to their terms.

(c) With respect to an RSU Award, each RSU covered by such Award shall represent a right to receive the value of one Share in cash, Shares or a combination thereof. An RSU shall not convey to the Participant the rights and privileges of a stockholder with respect to the Share subject to the RSU, such as the right to vote or the right to receive dividends, unless and until a Share is issued to the Participant to settle the RSU. Notwithstanding the foregoing, unless otherwise determined by the Committee in its sole discretion, RSU Awards shall convey the right to receive dividend equivalents on the Shares underlying the RSU Award with respect to any dividends declared during the period that the RSU Award is outstanding. Such dividend equivalent rights shall accumulate and shall be paid in cash on the settlement date of the underlying RSU Award, subject to the

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satisfaction of the vesting and other conditions of the underlying RSU Award, unless otherwise determined by the Committee. Shares delivered upon the vesting and settlement of an RSU Award may be evidenced in such manner as the Committee may deem appropriate, including book-entry registration. For the avoidance of doubt, unless otherwise determined by the Committee, no dividend equivalent rights shall be provided with respect to any Shares subject to RSUs that do not vest or settle pursuant to their terms.

(d) If the Committee intends that an Award granted under this Section 8 shall constitute or provide for Section 162(m) Compensation, such Award shall be structured in accordance with the requirements of Section 9, including the performance criteria and the Award limitation set forth therein, and any such Award shall be considered a Performance Award for purposes of the Plan.

Section 9. Performance Awards. The Committee is authorized to grant Performance Awards with the following terms and conditions and with such additional terms and conditions, in either case not inconsistent with the provisions of the Plan, as the Committee shall determine:

(a) Performance Awards may be denominated as a cash amount, number of Shares or units or a combination thereof and are Awards which may be earned upon achievement or satisfaction of performance conditions specified by the Committee. In addition, the Committee may specify that any other Award shall constitute a Performance Award by conditioning the grant or the right to exercise the Award or have it settled, and the timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions. Subject to the terms of the Plan, the performance goals to be achieved during any Performance Period, the length of any Performance Period, the amount of any Performance Award granted and the amount of any payment or transfer to be made pursuant to any Performance Award shall be determined by the Committee; *provided* that, subject to Section 12 and Section 13, in general, each Performance Award is intended to vest in whole or in part (including in installments) over a period of not less than three years from the vesting commencement date set forth in the Award Document; however, the Committee may provide for shorter vesting if appropriate under the circumstances as determined by the Committee.

(b) If the Committee intends that a Performance Award should constitute Section 162(m) Compensation, such Performance Award shall be subject to a pre-established formula, such that payment, retention or vesting of the Award is subject to the achievement during a Performance Period or Performance Periods, as determined by the Committee, of a level or levels of, or increases in, in each case as determined by the Committee, one or more of the following performance measures expressed on an absolute or adjusted basis with respect to the Company: asset turnover, cash flow, contribution margin, cost objectives, cost reduction, earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, economic value added, free cash flow, increase in customer base, inventory turnover, liquidity, market share, net income, net income margin, operating cash flow, operating profit, operating profit margin, pre-tax income, productivity, profit margin, quality (internal or external measures), return on assets, return on net assets, return on capital, return on invested capital, return on equity, revenue, revenue growth, stockholder value, stock price, total shareholder return, and/or warranty experience. The Committee shall have the power to impose such other restrictions on Awards subject to this Section 9(b) as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for Section 162(m) Compensation. In order to ensure that any Performance Award that is intended to qualify as Section 162(m) Compensation so qualifies, no Participant may be granted in any calendar year Performance Awards denominated in cash that, taken collectively in the aggregate, could result in a future payout at maximum performance in excess of \$40,000,000.

(c) Each performance criterion may be measured on an absolute (*e.g.*, plan or budget) or relative basis. Relative performance may be measured against a group of peer companies, a financial market index or other acceptable

objective and quantifiable indices which the Committee selects. With respect to the applicable Performance Period, if the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the applicable performance measures unsuitable, the Committee may in its discretion modify such performance objectives or the related minimum acceptable level of achievement, in whole or part, as the Committee deems appropriate and equitable; *provided, however*, that in the case of a Performance Award intended to qualify as Section 162(m) Compensation, such modifications shall be made only to the extent that they would not disqualify such Performance Award as Section 162(m) Compensation. Performance measures may vary from Performance Award to Performance Award, respectively, and from Participant to Participant, and may be established on a stand-alone basis, in tandem or in the alternative.

(d) Settlement of Performance Awards shall be in cash, Shares, other Awards, or any combination thereof, in the sole discretion of the Committee. The Committee may increase or reduce the amount of a settlement otherwise to be made in connection with a Performance Award but may not exercise discretion to increase any amount payable to a Covered Employee in respect of a Performance Award intended to qualify as Section 162(m) Compensation in a manner that would prevent the

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Performance Award from qualifying as Section 162(m) Compensation. Any settlement that changes the form of payment from that originally specified shall be implemented in a manner such that the Performance Award and other related Awards do not, solely for that reason, fail to qualify as Section 162(m) Compensation, if such Performance Award is intended by the Committee to so qualify.

(e) A Performance Award shall not convey to the Participant the rights and privileges of a stockholder with respect to the Shares subject to the Performance Award, such as the right to vote (except as relates to Restricted Stock) or the right to receive dividends, unless and until Shares are earned pursuant to the Performance Award and are issued to the Participant. Notwithstanding the foregoing, unless otherwise determined by the Committee in its sole discretion, each Performance Award shall convey the right to receive dividend equivalents with respect to any dividends declared during the period that the Performance Award is outstanding, but solely with respect to those Shares underlying the Performance Awards that are earned. Such dividend equivalents rights shall accumulate and shall be paid in cash on the settlement date of the underlying Performance Award, subject to the satisfaction of the performance, vesting and other conditions of the underlying Performance Award, unless otherwise determined by the Committee. For the avoidance of doubt, unless otherwise determined by the Committee, no dividend equivalent rights shall be provided with respect to any Shares subject to a Performance Award that are not earned or do not vest pursuant to the terms of the Performance Award.

Section 10. *Other Stock-Based Awards.* The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares or factors that may influence the value of Shares, including convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, purchase rights for Shares, Awards with value and payment contingent upon performance of the Company or business units thereof or any other factors designated by the Committee. For the avoidance of doubt, unless otherwise determined by the Committee, no dividend equivalent rights shall be provided with respect to any Shares subject to an Award that are not earned or do not vest pursuant to the terms of the Award.

Section 11. *Conditions Precedent to Awards.* As a condition precedent to the vesting, exercise, payment or settlement of any portion of any Award at any time prior to a Change in Control, each Participant shall: (a) refrain from engaging in any activity which will cause damage to the Company or is in any manner inimical or in any way contrary to the best interests of the Company, as determined in the sole discretion of the Company's Chief Executive Officer or chief human resources officer (or such individuals holding a comparable role in the event of a restructuring of positions or re-designation of titles), (b) not for a period of 12 months following any voluntary termination of employment or service, directly or indirectly, knowingly induce any employee of the Company or any Subsidiary to leave his or her employment for participation, directly or indirectly, with any existing or future employer or business venture associated with such Participant, and (c) furnish to the Company such information with respect to the satisfaction of the foregoing conditions precedent as the Committee may reasonably request. In addition, the Committee may require a Participant to enter into such agreements as the Committee considers appropriate. The failure by any Participant to satisfy any of the foregoing conditions precedent shall result in the immediate cancellation of the unvested portion of any Award and any portion of any vested Award that has not yet been exercised, paid or settled and such Participant will not be entitled to receive any consideration with respect to such cancellation.

Section 12. *Effect of Termination of Service on Awards.* Subject to Sections 11 and 13, and unless otherwise provided by the Committee in any Award Document, or as the Committee may determine in any individual case, the following shall apply with respect to a Participant's outstanding Awards upon such Participant's Termination of Service.

(a) *Death.* In the event of a Participant's Termination of Service due to death:

(i) Each Option and SAR held by the Participant shall immediately vest (to the extent not vested) and become exercisable and shall remain exercisable until the third anniversary of the date of death or, if earlier, the expiration date of such Option or SAR.

(ii) Each Restricted Stock and RSU Award held by the Participant shall immediately vest. Any RSU that vests pursuant to the preceding sentence shall be settled within 90 days following the Participant's death.

(iii) Each outstanding Performance Award held by the Participant (A) shall have any service-based vesting requirements waived, (B) shall be earned based upon the achievement of the performance conditions applicable to such Award, and (C) shall be paid or settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(b) *Disability*. In the event of a Participant's Termination of Service due to Disability:

(i) Each Option and SAR held by the Participant shall continue to vest and become exercisable in accordance with its existing vesting schedule and shall remain exercisable until the expiration date of such Option or SAR.

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(ii) Each Restricted Stock and RSU Award held by the Participant shall continue to vest in accordance with its existing vesting schedule. Each RSU that vests pursuant to the preceding sentence shall be settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(iii) Each outstanding Performance Award held by the Participant (A) shall have any service-based vesting requirements waived, (B) shall be earned based upon the achievement of the performance conditions applicable to such Award and (C) shall be paid or settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(c) *Full Career Status Termination.* In the event of a Participant's Termination of Service after achieving Full Career Status:

(i) With respect to each outstanding Option and SAR held by the Participant:

(A) If such Termination of Service occurs on or prior to the one-year anniversary of the grant date of the Award (or if earlier, the one-year anniversary of the vesting commencement date as set forth in the Award Document), such Award shall be prorated (as set forth in the Award Document) and the pro-rata portion of the Award that is retained shall continue to vest in accordance with its existing vesting schedule, with the remaining portion of the Award being forfeited. Options and SARs that vest pursuant to this Section 12(c)(i)(A) shall become exercisable and remain exercisable until the expiration date of such Option or SAR as provided under the terms of the applicable Award Document.

(B) If such Termination of Service occurs after the one-year anniversary of the grant date of such Award (or if earlier, the one-year anniversary of the vesting commencement date as set forth in the Award Document), such Award shall continue to vest in accordance with its existing vesting schedule. Options and SARs that vest pursuant to this Section 12(c)(i)(B) shall become exercisable and remain exercisable until the expiration date of such Option or SAR as provided under the terms of the applicable Award Document.

(ii) With respect to each outstanding Restricted Stock or RSU Award held by the Participant:

(A) If such Termination of Service occurs on or prior to the one-year anniversary of the grant date of the Award (or if earlier, the one-year anniversary of the vesting commencement date as set forth in the Award Document), such Award shall be prorated (as set forth in the Award Document) and the pro-rata portion of the Award that is retained shall continue to vest in accordance with its existing vesting schedule, with the remaining portion of the Award being forfeited. RSUs that vest pursuant to this Section 12(c)(ii)(A) shall be settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(B) If such Termination of Service occurs after the one-year anniversary of the grant date of such Award (or if earlier, the one-year anniversary of the vesting commencement date as set forth in the Award Document), such Award shall continue to vest in accordance with its existing vesting schedule. RSUs that vest pursuant to this Section 12(c)(ii)(B) shall be settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(iii) With respect to each outstanding Performance Award held by the Participant:

(A) If such Termination of Service occurs within the first year of the Performance Period, (x) the Performance Award shall be prorated (as set forth in the Award Document) and the pro-rata portion of the Performance Award that is retained shall have any service-based vesting requirements waived, (y) the pro-rata portion of the Performance Award

that is retained shall be earned based upon the achievement of the performance conditions applicable to such Award, and (z) the Performance Award shall be paid or settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(B) If such Termination of Service occurs after the first year of the Performance Period, the Performance Award (x) shall have any service-based vesting requirements waived, (y) shall be earned based upon the achievement of the performance conditions applicable to such Award, and (z) shall be paid or settled on the scheduled settlement date or dates as provided under the terms of the applicable Award Document.

(d) *Other Terminations*. In the event of a Participant's Termination of Service for any reason not specified in this Section 12, the Participant shall not be entitled to retain any portion of an Award; *provided* that any Option or SAR that is vested on the date of the Termination of Service shall remain outstanding and exercisable until the earlier of (i) the applicable expiration date of such Option or SAR or (ii) 90 days after the Termination of Service.

(e) *Termination Pursuant to Approved Separation Agreement or Program*. Notwithstanding the above provisions, in the event of a Participant's Termination of Service pursuant to an approved separation agreement or program, such Participant will not be entitled to retain any portion of an Award; *provided* that any Option or SAR that is vested on the date of the Termination of Service shall remain outstanding and exercisable until the earlier of (i) the applicable expiration date of such Option or SAR or (ii) 90 days after the Termination of Service.

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(f) *Alternative Treatment.* Notwithstanding the foregoing, the Committee may provide for any alternative treatment of outstanding Awards, and the circumstances in which, and the extent to which, any such Awards may be exercised, settled, vested, paid or forfeited in the event of a Participant's Termination of Service prior to the end of a Performance Period or the exercise, vesting or settlement of such Award, either in an Award Document or, subject to Section 15, by Committee action after the grant of an Award. Unless otherwise provided in an Award Document or otherwise determined by the Committee, a qualifying leave of absence shall not constitute a Termination of Service. A Participant's absence or leave shall be deemed to be a qualifying leave of absence if so provided under the Company's employee policies or if approved by the Company's chief human resources officer (or such individual holding a comparable role in the event of a restructuring of positions or redesignation of titles).

Section 13. *Effect of a Change in Control on Awards.*

(a) In the event of a Change in Control, unless otherwise provided in an Award Document, outstanding Options and SARs shall be treated as described in subsection (i) below, outstanding Restricted Stock and RSUs shall be treated as described in subsection (ii) below and outstanding Performance Awards shall be treated as described in subsection (iii) below.

(i) (A) If in connection with the Change in Control, any outstanding Option or SAR is continued in effect or converted into an option to purchase or right with respect to stock of the successor or surviving corporation (or a parent or subsidiary thereof) which conversion shall comply with Sections 424 (to the extent applicable) and 409A of the Code, then upon the occurrence of a Termination of Service of a Participant by the Company without Cause or a Termination of Service by such Participant for Good Reason within 24 months following the Change in Control, such Option(s) or SAR(s) held by such Participant shall vest and become exercisable and shall remain exercisable until the earlier of the expiration of its full specified term or the first anniversary of such Termination of Service.

(B) If outstanding Options or SARs are not continued or converted as described in subsection (i)(A) above, such Options or SARs shall vest and become fully exercisable effective immediately prior to the Change in Control (in a manner facilitating full exercise, including cashless exercise by Participants subject to the Change in Control) and any Options or SARs not exercised prior to the Change in Control shall be cancelled without consideration effective as of the Change in Control.

(ii) (A) If in connection with the Change in Control, any outstanding Restricted Stock or RSU is continued in effect or converted into a restricted stock or unit representing an interest in stock of the successor or surviving corporation (or a parent or subsidiary thereof) on a basis substantially equivalent to the consideration received by stockholders of the Company in connection with the Change in Control, then upon the occurrence of an involuntary Termination of Service of a Participant by the Company without Cause or a Termination of Service by such Participant for Good Reason within 24 months following the Change in Control, such restricted stock or unit(s) held by such Participant shall vest and, in the case of units, be immediately due and payable.

(B) If outstanding Restricted Stock or RSUs are not continued or converted as described in subsection (ii)(A) above, such Restricted Stock or RSUs shall vest and, in the case of RSUs, be due and payable effective immediately prior to the Change in Control.

(iii) With respect to each outstanding Performance Award, (A) the Performance Period shall end as of the date immediately prior to such Change in Control and the Committee shall determine the extent to which the performance criteria applicable to such Performance Award have been satisfied at such time, (B) the portion of such Performance Award that is deemed to have been earned pursuant to clause (A) above shall be converted into a time-vesting Award of equivalent value to which any service vesting requirements applicable to the predecessor Performance Award shall

continue to apply and (C) the converted time-vesting Award shall be paid or settled on the settlement date or dates as provided under the terms of the predecessor Performance Award that would have applied had a Change in Control not occurred; *provided* that upon the occurrence of a Termination of Service of a Participant by the Company without Cause or a Termination of Service by such Participant for Good Reason within 24 months following the Change in Control, any service vesting requirements applicable to any such converted Award shall be deemed to have been met and such converted Award shall be immediately paid or settled upon such Termination of Service.

For purposes of subsections (i) and (ii) above, no Option, SAR, Restricted Stock or RSU (including Performance Awards denominated in any of the foregoing forms) shall be treated as continued or converted on a basis consistent with the requirements of subsection (i)(A) or (ii)(A), as applicable, unless the stock underlying such award after such continuation or conversion consists of securities of a class that is widely held and publicly traded on a U.S. national securities exchange.

(b) In addition, in the event of a Change in Control and to the extent not less favorable to a Participant than the provisions of Section 13(a) above or the applicable Award Document, the Committee, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such Change in Control, may take any one or more of the following actions whenever the Committee determines that such action is appropriate or desirable

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in order to prevent the dilution or enlargement of the benefits intended to be made available under the Plan or to facilitate the Change in Control transaction:

(i) to terminate or cancel any outstanding Award in exchange for a cash payment (and, for the avoidance of doubt, if as of the date of the Change in Control, the Committee determines that no amount would have been realized upon the exercise of the Award or other realization of the Participant's rights, then the Award may be cancelled by the Company without payment of consideration);

(ii) to provide for the assumption, substitution, replacement or continuation of any Award by the successor or surviving corporation (or a parent or subsidiary thereof) with cash, securities, rights or other property to be paid or issued, as the case may be, by the successor or surviving corporation (or a parent or subsidiary thereof), and to provide for appropriate adjustments with respect to the number and type of securities (or other consideration) of the successor or surviving corporation (or a parent or subsidiary thereof), subject to any replacement awards, the terms and conditions of the replacement awards (including, without limitation, any applicable performance targets or criteria with respect thereto) and the grant, exercise or purchase price per share for the replacement awards;

(iii) to make any other adjustments in the number and type of securities (or other consideration) subject to outstanding Awards and in the terms and conditions of outstanding Awards (including the grant or exercise price and performance criteria with respect thereto) and Awards that may be granted in the future; and

(iv) to provide that any Award shall be accelerated and become exercisable, payable and/or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Document.

Section 14. *General Provisions Applicable to Awards.*

(a) Awards shall be granted for no cash consideration or for such minimal cash consideration as may be required by applicable law.

(b) Awards may, in the discretion of the Committee, be granted either alone or in addition to or in tandem with any other Award or any award granted under any other plan of the Company. Awards granted in addition to or in tandem with other Awards, or in addition to or in tandem with awards granted under any other plan of the Company, may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(c) Subject to the terms of the Plan, payments or transfers to be made by the Company upon the grant, exercise or settlement of an Award may be made in the form of cash, Shares, other Awards, other property, net settlement, or any combination thereof, as determined by the Committee in its discretion, and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of dividend equivalents in respect of installment or deferred payments.

(d) Except pursuant to Section 14(e) or the laws of descent, no Award and no right under any Award may be voluntarily or involuntarily assigned, alienated, sold or transferred, including as between spouses or pursuant to a domestic relations order in connection with dissolution of marriage, or by operation of law. An Award, and any rights under an Award, shall be exercisable only by the Participant during the Participant's lifetime unless a court of competent jurisdiction determines that the Participant lacks the capacity to handle his or her own affairs, in which case an Award or any rights under an Award may be exercised by the person to whom such court has expressly granted authority to exercise such Award or the rights under such Award on the Participant's behalf. After the Participant's

lifetime, an Award and any rights under an Award shall be exercisable only by the designated Beneficiary, by the person who obtains an interest pursuant to laws of descent or by the Participant's estate. In the event a person who so obtains an interest in an Award is determined by a court of competent jurisdiction to lack the capacity to handle his or her own affairs, an Award or any rights under an Award may be exercised by the person to whom such court has expressly granted authority to exercise such Award or the rights under such Award on the person's behalf. The Plan shall not recognize any grant of authority to exercise an Award or any rights under an Award except as set forth in this Section 14(d). The provisions of this Section 14(d) shall not apply to any Award that has been fully exercised or settled, as the case may be, and shall not preclude forfeiture of an Award in accordance with the terms thereof or of the Plan.

(e) Notwithstanding any other provision of the Plan, the Committee may determine at any time and in its sole discretion to delay any amounts payable with respect to any Award, provided that such Award is payable no later than December 31 of the year following the end of the applicable Performance Period.

(f) A Participant may designate a Beneficiary or change a previous Beneficiary designation at such times prescribed by the Committee by using forms and following procedures approved or accepted by the Committee for that purpose.

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(g) Any Awards granted under the Plan (including any amounts or benefits arising from such Awards) shall be subject to any clawback or recoupment policies the Company has in place from time to time.

(h) Subject to the requirements of Section 409A of the Code, if the Company or any Subsidiary has any unpaid claim against a Participant arising out of or in connection with the Participant's employment or service with the Company or any Subsidiary, prior to settlement of an Award, such claim may be offset against Awards under this Plan (up to \$5,000 per year) and at the time of vesting or settlement of any Award, such claim may be offset in total. Such claims may include, but are not limited to, unpaid taxes or corporate business credit card charges.

Section 15. Amendments and Termination.

(a) Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award Document or in the Plan, the Board may amend, alter, suspend, discontinue or terminate the Plan or any portion thereof at any time; *provided, however*, that no such amendment, alteration, suspension, discontinuation or termination shall be made without (i) stockholder approval if such approval is required by applicable law or the rules of the stock market or exchange, if any, on which the Shares are principally quoted or traded, or (ii) the consent of the affected Participant, if such action would materially adversely affect the rights of such Participant under any outstanding Award, except (A) to the extent any such amendment, alteration, suspension, discontinuance or termination is made to cause the Plan to comply with applicable law, stock market or exchange rules and regulations or accounting or tax rules and regulations, (B) to impose any clawback or recoupment provisions with respect to any Awards (including any amounts or benefits arising from such Awards) adopted by the Company from time to time, or (C) as the Board determines in good faith to be in the best interests of the Participants affected thereby; *provided further*, that the Committee's authority under this Section 15(a) is limited in the case of Awards subject to Section 9(b), as provided in Section 9(b). Notwithstanding anything to the contrary in the Plan, the Committee may amend the Plan, or create sub-plans, in such manner as may be necessary to enable the Plan to achieve its stated purposes in any jurisdiction in a tax-efficient manner and in compliance with local rules and regulations to the extent that such action would not require shareholder approval. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

(b) The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue or terminate any provision of the Plan or any Award theretofore granted, prospectively or retroactively, without the consent of any relevant Participant or holder or Beneficiary of an Award; *provided, however*, that no such action shall materially adversely affect the rights of any affected Participant or holder or Beneficiary under any Award theretofore granted under the Plan, except (i) to the extent any such action is made to cause the Plan to comply with applicable law, stock market or exchange rules and regulations or accounting or tax rules and regulations, (ii) to impose any clawback or recoupment provisions with respect to any Awards (including any amounts or benefits arising from such Awards) adopted by the Company from time to time, or (iii) as the Committee determines in good faith to be in the best interests of the Participants affected thereby; and *provided further*, that the Committee's authority under this Section 15(b) is limited in the case of Awards subject to Section 9(b), as provided in Section 9(b).

(c) The Committee may specify in an Award Document that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to the conditions set forth in Section 11 and any otherwise applicable vesting or performance conditions of an Award. Such events may include (without limitation) a Termination of Service with or without Cause (and, in the case of any Cause that is resulting from an indictment or other non-final determination, the Committee may provide for such Award to be held in escrow or abeyance until a final resolution of the matters related to such event occurs, at which time the Award shall either be reduced, cancelled or forfeited (as provided in such Award Document) or remain in effect, depending on the outcome), violation of material policies, breach of

noncompetition, confidentiality or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is determined in the sole discretion of the Committee to be detrimental to the business or reputation of the Company and/or its Subsidiaries.

(d) Notwithstanding the foregoing, except as provided in Section 5(c), without approval of the Company's stockholders, (i) no action shall directly or indirectly, through cancellation and regrant, through voluntary surrender and regrant, or any other method, reduce, or have the effect of reducing, the exercise price of any Option or SAR established at the time of grant thereof, and (ii) no Option or SAR may be cancelled in exchange for cash or other securities at any time when the exercise price for such Option or SAR is greater than the Fair Market Value of the Shares underlying such Option or SAR.

Section 16. *Miscellaneous.*

(a) No employee, consultant, advisor, Participant or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of employees, consultants, advisors, Participants or holders or

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Beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to each recipient. Any Award granted under the Plan shall be a one-time Award that does not constitute a promise of future grants. The Committee maintains the right to make available future grants under the Plan.

(b) The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of, or to continue to provide services to, the Company or any Subsidiary. Further, the Company or the applicable Subsidiary may at any time dismiss a Participant free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Document or in any other agreement binding the parties. The receipt of any Award under the Plan is not intended to confer any rights on the receiving Participant except as set forth in the applicable Award Document.

(c) Nothing contained in the Plan shall prevent the Committee or the Company from adopting or continuing in effect other or additional compensation arrangements (including Share-based arrangements), and such arrangements may be either generally applicable or applicable only in specific cases.

(d) The Company (or any Subsidiary) shall be authorized to withhold from any Award granted or any payment due or transfer made under any Award or under the Plan or from any compensation or other amount owing to a Participant the amount (in cash, Shares, other Awards, other property, net settlement, or any combination thereof) of applicable withholding taxes due in respect of an Award, its exercise or settlement or any payment or transfer under such Award or under the Plan and to take such other action (including providing for elective payment of such amounts in cash or Shares by the Participant) as may be necessary in the opinion of the Company (or the Subsidiary) to satisfy all obligations for the payment of such taxes.

(e) If any provision of the Plan or any Award Document is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or as to any person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the sole determination of the Committee, materially altering the intent of the Plan or the Award Document, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award Document shall remain in full force and effect.

(f) Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

(g) No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash or other securities shall be paid or transferred in lieu of any fractional Shares, or whether such fractional Shares or any rights thereto shall be cancelled, terminated or otherwise eliminated.

(h) Awards may be granted to Participants who are non-United States nationals or employed or providing services outside the United States, or both, on such terms and conditions different from those applicable to Awards to Participants who are employed or providing services in the United States as may, in the judgment of the Committee, be necessary or desirable to recognize differences in local law, tax policy or custom. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Participants on assignments outside their home country.

(i) Neither the establishment of the Plan, nor any Award under the Plan, nor an individual's participation in the Plan, is intended to form part of a Participant's remuneration for the purposes of determining payments in lieu of notice of termination of employment, severance payments, leave entitlements, or any other compensation payable to a Participant, and no Award, payment, or other right or benefit, under the Plan will be taken into account in determining any benefits under any pension, retirement, savings, profit-sharing, group insurance, welfare or benefit plan of the Company or any Subsidiary.

Section 17. *Effective Date of the Plan.* The Plan shall be effective as of the Effective Date, subject to stockholder approval.

Section 18. *Term of the Plan.* No Award shall be granted under the Plan after the earliest to occur of (a) the tenth anniversary of the Effective Date, (b) the maximum number of Shares available for issuance under the Plan have been issued, or (c) the Board terminates the Plan in accordance with Section 15(a). However, unless otherwise expressly provided in the Plan or in an applicable Award Document, any Award theretofore granted may extend beyond such date, and the authority of the Committee to amend, alter, adjust, suspend, discontinue or terminate any such Award, or to waive any conditions or rights under any such Award, and the authority of the Board to amend the Plan, shall extend beyond such date.

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Section 19. *Section 409A of the Code.* With respect to Awards subject to Section 409A of the Code, the Plan is intended to comply with the requirements of Section 409A of the Code, and the provisions of the Plan and any Award Document shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and the Plan shall be operated accordingly. If any provision of the Plan or any term or condition of any Award would otherwise frustrate or conflict with this intent, the provision, term or condition will be interpreted and, to the extent necessary, deemed amended so as to avoid this conflict. If an amount payable under an Award as a result of the Participant's Termination of Service (other than due to death) occurring while the Participant is a specified employee under Section 409A of the Code constitutes a deferral of compensation subject to Section 409A of the Code, then payment of such amount shall not occur until six months and one day after the date of the Participant's Termination of Service, except as permitted under Section 409A of the Code. To the extent any amount that is nonqualified deferred compensation for purposes of Section 409A of the Code becomes payable upon a Termination of Service, such Termination of Service shall not be deemed to have occurred any earlier than a separation from service would occur under Section 409A of the Code, and related regulations and guidance thereunder. Notwithstanding any of the foregoing, the Company makes no representations or warranty and shall have no liability to the Participant or any other person if any provisions or payments, compensation or other benefits under the Plan are determined to constitute nonqualified deferred compensation subject to Section 409A of the Code but do not satisfy the provisions thereof.

Section 20. *Data Protection.* By participating in the Plan, the Participant consents to the holding and processing of personal information provided by the Participant to the Company or any Subsidiary, trustee or third party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

- (a) administering and maintaining Participant records;
- (b) providing information to the Company, Subsidiaries, trustees of any employee benefit trust, registrars, brokers or third party administrators of the Plan;
- (c) providing information to future purchasers or merger partners of the Company or any Subsidiary, or the business in which the Participant works; and
- (d) transferring information about the Participant to any country or territory that may not provide the same protection for the information as the Participant's home country.

Section 21. *Governing Law.* The Plan and each Award Document shall be governed by the laws of the State of Delaware, without application of the conflicts of law principles thereof.

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APPENDIX C

SUPPLEMENTAL INFORMATION REGARDING PARTICIPANTS

The following tables (Directors and Nominees and Officers and Employees) set forth the name and business address of our directors and nominees, and the name, present principal occupation and business address of our officers and employees who, under the rules of the Securities and Exchange Commission, are considered to be participants in our solicitation of proxies from our shareholders in connection with our 2017 Annual Meeting (collectively, the Participants¹).

Directors and Nominees

The principal occupations of our directors and nominees are set forth under Item 1 in this Proxy Statement, under the section titled Information About Nominees for Director. The names of our directors and nominees are set forth below and the business addresses for all our directors and nominees is c/o General Motors Company, 300 Renaissance Center, Detroit, Michigan 48265.

Name

Joseph J. Ashton

James J. Mulva

Mary T. Barra

Patricia F. Russo

Linda R. Gooden

Thomas M. Schoewe

Joseph Jimenez

Theodore M. Solso

Jane L. Mendillo

Carol M. Stephenson

Michael G. Mullen

Officers and Employees

The principal occupations of our executive officers and employees who are considered Participants are set forth below. The principal occupation refers to such person's position with the Company, and the business address for each person is c/o General Motors Company, 300 Renaissance Center, Detroit, Michigan 48265.

Name	Title
Mary T. Barra	Chairman & Chief Executive Officer
Dan Ammann	President
Craig B. Glidden	Executive Vice President & General Counsel
Charles K. Stevens, III	Executive Vice President & Chief Financial Officer
Randy C. Arickx	Vice President, Corporate Communications and Investor Relations
Dhivya Suryadevara	Vice President, Finance and Treasurer CEO and Chief Investment Officer, GM Asset Management

Jill E. Sutton

Corporate Secretary and Deputy General Counsel,
Corporate, Finance & Strategic Transactions

Rick E. Hansen

Assistant Corporate Secretary and Lead Counsel,
Securities and Corporate Governance

Michael Heifler

Director, Investor Relations

¹ *Participant* is defined to include (i) any director and any nominee for whose election proxies are solicited; (ii) any committee or group which solicits proxies, any of their respective members, and any person whether or not named as a member who, acting alone or with one or more other persons, directly or indirectly takes the initiative, or engages, in organizing, directing, or arranging for the financing of any such committee or group; (iii) any person who finances or joins with another to finance the solicitation of proxies, except persons who contribute not more than \$500 and who are not otherwise participants; (iv) any person who lends money or furnishes credit or enters into any other arrangements, pursuant to any contract or understanding with a participant, for the purpose of financing or otherwise inducing the purchase, sale, holding or voting of the Company's securities by any participant or other persons, in support of or in opposition to a participant; except that such terms do not include a bank, broker or dealer who, in the ordinary course of business, lends money or executes orders for the purchase or sale of securities and who is not otherwise a participant; and (v) any person who solicits proxies.

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The amount of the Company's securities beneficially owned by each Participant as of March 15, 2017, including the number of securities for which beneficial ownership can be acquired within 60 days of such date, is listed below. Except as otherwise noted in the footnotes below, each person or entity identified in the table below, to our knowledge, has sole voting and investment power with respect to the securities they hold, other than property rights of spouses.

Name	Components of Beneficial Ownership (Number of Shares)		
	Common Stock		Total Number of Shares
	Beneficially Owned	Right to Acquire ⁽¹⁾	
Daniel Ammann	275,953	390,456	666,409
Randy C. Arickx	14,388	30,977	45,365
Joseph J. Ashton	500		500
Mary T. Barra	389,885	1,041,215	1,431,100

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Craig B. Glidden	28,889	201,732	230,621
Linda R. Gooden	1,000		1,000
Rick E. Hansen		2,877	2,877
Michael Heifler			
Joseph Jimenez	32,330		32,330
Jane L. Mendillo	1,600		1,600
Michael G. Mullen	750		750
James J. Mulva	28,343		28,343
Patricia F. Russo	2,300		2,300
Thomas M. Schoewe	7,645		7,645
Theodore M. Solso	5,000		5,000
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Carol M. Stephenson	800		800
Charles K. Stevens, III	118,052	249,458	367,510
Dhivya Suryadevara	18,541	45,554	64,095
Jill E. Sutton	2,060	23,948	26,008

(1) For executive officers and executives, includes shares which the named individual has the right to acquire through the exercise of vested stock options, and shares which the named individual has the right to acquire through the vesting of restricted stock units and stock options within 60 days of March 15, 2017. For non-employee directors, excludes Deferred Share Units (DSUs) awarded under the Director Compensation Plan, which are shown on page 23.

Information Regarding Transactions in the Company's Securities by Participants

The following table sets forth information regarding purchases and sales of the Company's securities by each Participant during the past two years. Unless otherwise indicated, no part of the purchase price or market value of these securities is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities.

Shares of Company Securities Purchased or Sold (March 15, 2015 to March 15, 2017)

Name	Transaction Date	# of Shares	Transaction Description
Daniel Ammann	March 15, 2015	13,343	6

March 15, 2015	6,245	5
March 31, 2015	9,048	6
March 31, 2015	4,236	5
March 31, 2015	8,338	6
March 31, 2015	3,903	5
June 30, 2015	11,043	6
June 30, 2015	5,169	5
June 30, 2015	7,078	6
June 30, 2015	3,313	5
July 28, 2015	976,139	3
September 30, 2015	6,545	7

September 30, 2015

3,654

5

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Name	Transaction Date	# of Shares	Transaction Description
	September 30, 2015	9,457	7
	September 30, 2015	5,279	5
	December 2, 2015	25,000	2
	December 31, 2015	5,769	7
	December 31, 2015	2,378	5
	December 31, 2015	7,667	7
	December 31, 2015	3,323	5
	February 10, 2016	42,404	4
	February 11, 2016	9,955	6

February 11, 2016	4,104	5
February 13, 2016	25,008	6
February 13, 2016	13,223	5
February 13, 2016	10,497	6
February 13, 2016	5,860	5
March 1, 2016	15,210	6
March 1, 2016	7,210	5
March 31, 2016	8,337	7
March 31, 2016	3,952	5
June 30, 2016	7,078	7

June 30, 2016	3,355	5
September 30, 2016	6,545	7
September 30, 2016	3,103	5
December 1, 2016	10,000	2
December 9, 2016	10,000	2
December 31, 2016	5,768	7
December 31, 2016	2,135	5
February 10, 2017	14,135	6
February 10, 2017	4,806	5
February 11, 2017	9,955	6

	February 11, 2017	3,696	5
	February 13, 2017	12,503	6
	February 13, 2017	6,077	5
	February 13, 2017	10,498	6
	February 13, 2017	5,103	5
	February 13, 2017	184,231	6
	February 13, 2017	89,537	5
Randy C. Arickx	March 15, 2015	3,576	6
	March 15, 2015	1,089	5
	July 28, 2015	77,441	3
	February 10, 2016	3,704	4
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February 11, 2016	948	6
February 11, 2016	362	5
February 13, 2016	5,512	6
February 13, 2016	1,679	5
February 13, 2016	667	6
February 13, 2016	204	5
March 1, 2016	3,523	6
March 1, 2016	1,073	5
February 10, 2017	1,235	6
February 10, 2017	471	5

February 11, 2017	948	6
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February 11, 2017	289	5
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Name	Transaction Date	# of Shares	Transaction Description
	February 13, 2017	668	6
	February 13, 2017	204	5
	February 13, 2017	6,008	6
	February 13, 2017	2,011	5
Joseph J. Ashton	June 3, 2015	500	1
	December 31, 2015	5,464	8
	December 31, 2015	256	9
	December 31, 2016	5,985	8
	December 31, 2016	580	9

Mary T. Barra	March 15, 2015	13,343	6
	March 15, 2015	6,325	5
	March 15, 2015	8,623	7
	March 15, 2015	4,090	5
	March 15, 2015	8,327	7
	March 15, 2015	3,952	5
	June 30, 2015	10,618	7
	June 30, 2015	5,033	5
	June 30, 2015	7,116	7
	June 30, 2015	3,373	5

July 28, 2015	2,603,037	3
September 30, 2015	6,580	7
September 30, 2015	3,104	5
September 30, 2015	9,093	7
September 30, 2015	4,289	5
December 31, 2015	5,799	7
December 31, 2015	1,889	5
December 31, 2015	7,372	7
December 31, 2015	2,563	5
February 10, 2016	117,287	4

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February 11, 2016	26,547	6
February 11, 2016	9,932	5
February 13, 2016	25,008	6
February 13, 2016	11,794	5
February 13, 2016	23,072	6
February 13, 2016	10,881	5
March 1, 2016	14,749	6
March 1, 2016	6,956	5
March 31, 2016	8,327	7
March 31, 2016	3,928	5
June 30, 2016	7,115	7

June 30, 2016	3,356	5
September 30, 2016	6,579	7
September 30, 2016	3,095	5
December 31, 2016	5,799	7
December 31, 2016	2,055	5
February 10, 2017	39,096	6
February 10, 2017	15,188	5
February 11, 2017	26,546	6
February 11, 2017	11,864	5
February 13, 2017	12,503	6

February 13, 2017

5,882

5

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Name	Transaction Date	# of Shares	Transaction Description
	February 13, 2017	23,071	6
	February 13, 2017	10,311	5
	February 13, 2017	404,902	6
	February 13, 2017	190,466	5
Craig B. Glidden	April 1, 2015	69,407	4
	April 1, 2015	13,099	4
	July 28, 2015	417,571	3
	February 10, 2016	21,201	4
		4,366	6
	February 11, 2016		

	February 11, 2016	1,444	5
	April 1, 2016	34,704	6
	April 1, 2016	16,409	5
	February 10, 2017	7,068	6
	February 10, 2017	2,335	5
	February 11, 2017	4,367	6
	February 11, 2017	1,428	5

Linda R. Gooden	April 30, 2015	1,000	1
	December 31, 2015	3,338	8
	December 31, 2015	88	9

December 31, 2016 3,990 8

December 31, 2016 285 9

Rick E. Hansen April 1, 2016 8,632 4

February 14, 2017 1,253 4

Michael Heifler January 3, 2017 2,845 4

February 14, 2017 1,095 4

Joseph Jimenez July 31, 2015 32,000 1

December 31, 2015 4,424 8

December 31, 2015 86 9

December 31, 2016 7,980 8

454 9

December 31, 2016

Jane L. Mendillo	August 2, 2016	1,600	1
	December 31, 2016	4,559	8
	December 31, 2016	89	9

Michael G. Mullen	June 5, 2015	750	1
	December 31, 2015	3,643	8
	December 31, 2015	338	9
	December 31, 2016	4,469	8
	December 31, 2016	603	9

James J. Mulva	May 5, 2015	28,343	1
		7,722	8
	December 31, 2015		

December 31, 2015 928 9

December 31, 2016 8,459 8

December 31, 2016 1,508 9

Patricia F. Russo

April 29, 2015 1,500 1

December 31, 2015 3,643 8

December 31, 2015 683 9

December 31, 2016 4,469 8

December 31, 2016 1,025 9

Thomas M. Schoewe

December 31, 2015 3,643 8

December 31, 2015 566 9

December 31, 2016	3,990	8
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December 31, 2016	869	9
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Name	Transaction Date	# of Shares	Transaction Description
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Theodore M. Solso	December 31, 2015	16,026	8
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	December 31, 2015	2,031	9
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	December 31, 2016	12,236	8
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	December 31, 2016	1,152	9
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Carol M. Stephenson			
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	December 31, 2015	5,464	8
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	December 31, 2015	1,316	9
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	December 31, 2016	6,304	8
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	December 31, 2016	1,882	9
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Charles K. Stevens, III			
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	March 15, 2015	5,718	6
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March 15, 2015	2,525	5
March 31, 2015	212	7
March 31, 2015	100	5
March 31, 2015	125	7
March 31, 2015	60	5
June 30, 2015	212	7
June 30, 2015	100	5
June 30, 2015	125	7
June 30, 2015	59	5
July 28, 2015	623,645	3
	116	7

September 30, 2015

September 30, 2015 55 5

September 30, 2015 182 7

September 30, 2015 86 5

December 31, 2015 102 7

December 31, 2015 39 5

December 31, 2015 147 7

December 31, 2015 56 5

February 10, 2016 31,126 4

February 11, 2016 6,361 6

2,056 5

February 11, 2016

February 13, 2016	11,432	6
February 13, 2016	3,723	5
February 13, 2016	5,595	6
February 13, 2016	1,691	5
March 1, 2016	7,374	6
March 1, 2016	3,478	5
March 31, 2016	125	7
March 31, 2016	59	5
June 30, 2016	125	7
June 30, 2016	59	5

September 30, 2016	116	7
September 30, 2016	55	5
December 31, 2016	102	7
December 31, 2016	39	5
February 10, 2017	10,376	6
February 10, 2017	3,364	5
February 11, 2017	6,360	6
February 11, 2017	1,922	5
February 13, 2017	5,716	6
February 13, 2017	1,862	5
	5,595	6

February 13, 2017

February 13, 2017

1,691

5

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Name	Transaction Date	# of Shares	Transaction Description
	February 13, 2017	98,189	6
	February 13, 2017	46,287	5
Dhivya Suryadevara	March 15, 2015	1,271	6
	March 15, 2015	470	5
	July 28, 2015	113,883	3
	February 10, 2016	6,632	4
	February 11, 2016	664	6
	February 11, 2016	281	5
	February 13, 2016	5,736	6
		2,147	5

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February 13, 2016

February 13, 2016 693 6

February 13, 2016 257 5

March 1, 2016 1,843 6

March 1, 2016 682 5

February 10, 2017 2,211 6

February 10, 2017 919 5

February 11, 2017 664 6

February 11, 2017 240 5

February 13, 2017 692 6

250 5

February 13, 2017

February 13, 2017 6,230 6

February 13, 2017 2,300 5

Jill E. Sutton

July 28, 2015 59,870 3

October 1, 2015 5,869 4

February 10, 2016 3,611 4

October 1, 2016 1,957 6

October 1, 2016 642 5

February 10, 2017 1,204 6

February 10, 2017 459 5

Transaction Description

1. Open Market Acquisition

2. Open Market Sales
3. Grant of Employee Stock Options
4. Grant of Restricted Stock Units (RSUs)
5. Shares (or Salary Stock Units (SSUs) equivalents) withheld for taxes/costs
6. Shares issued upon the settlement of derivative securities (i.e., RSUs and Performance Share Units)
7. Cash settlement of SSUs
8. DSUs acquired through deferral of director fees
9. Dividends on DSUs credited in additional DSUs

Miscellaneous Information Regarding Participants

Except as described in this Appendix C or otherwise disclosed in the Proxy Statement, to the Company's knowledge:

No Participant owns any securities of the Company of record that such Participant does not own beneficially.

No Participant is, or was within the past year, a party to any contract, arrangements or understandings with any person with respect to any securities of the Company, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies.

No associate of any Participant owns beneficially, directly or indirectly, any securities of the Company. No Participant owns beneficially, directly or indirectly, any securities of any parent or subsidiary of the Company.

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No Participant nor any associate of any Participant is a party to any transaction, since the beginning of the Company's last fiscal year, or any currently proposed transaction, in which (i) the Company was or is to be a participant, (ii) the amount involved exceeds \$120,000 and (iii) any Participant or any related person thereof had or will have a direct or indirect material interest.

No Participant, nor any associate of a Participant, has any arrangement or understanding with any person (i) with respect to any future employment by the Company or its affiliates or (ii) with respect to any future transactions to which the Company or any of its affiliate will or may be a party.

No Participant has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the 2017 Annual Meeting.

Other Information

There are no material proceedings to which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or any of their associates is a party adverse to, or has a material interest adverse to, the Company or any of its subsidiaries.

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OUR CORE VALUES...

CUSTOMERS

We put the **customer** at the center of **everything** we do. We **listen** intently to our customers' needs. Each interaction matters. **Safety** and **quality** are foundational **commitments**, never compromised.

RELATIONSHIPS

Our **success** depends on our **relationships** inside and outside the Company. We encourage **diverse** thinking and **collaboration** from the world to create **great** customer experiences.

EXCELLENCE

We act with **integrity**. We are **driven** by **ingenuity** and **innovation**. We have the courage to do and say what's difficult. Each of us takes **accountability** for results and has the **tenacity** to **win**.

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PRELIMINARY COPY - SUBJECT TO COMPLETION

GENERAL MOTORS COMPANY

YOUR VOTE IS IMPORTANT!

Please take a moment now to vote your shares of General Motors Company
common stock for the upcoming Annual Meeting of Shareholders.

YOU CAN VOTE TODAY USING ANY OF THE FOLLOWING METHODS:

Vote by Internet

Please access <https://www.proxyvotenow.com/gm> (please note you must type an s after http). Then, simply follow the easy instructions on the voting site. You will be required to provide the unique Control Number printed below.

Vote by Telephone

Please call toll-free in the U.S. or Canada at 1-888-216-1322, on a touch-tone telephone. (If outside the U.S. or Canada, call 1-646-880-9090.) Then, simply follow the easy voice prompts. You will be required to provide the unique Control Number printed below.

You may also use your mobile device to access the voting site by scanning the QR code to the left. Then, simply follow the easy instructions on the voting site. You will be required to provide the unique Control Number printed below.

CONTROL NUMBER:

You may vote by telephone or Internet 24 hours a day, 7 days a week.

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner
as if you had marked, signed, dated and returned a proxy card.

Vote by Mail

Please complete, sign, date and return the proxy card in the envelope provided to: General Motors Company,
c/o Innisfree M&A Incorporated, FDR Station, P.O. Box 5155, New York, NY 10150-5155.

q TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE AND SIGN, DATE AND RETURN IN THE
POSTAGE-PAID ENVELOPE PROVIDED q

Please mark your

vote as in this

example

The Board of Directors recommends a vote **FOR ALL** nominees listed in Item 1.

1. Election of Directors

Nominees: 01. Joseph J. Ashton 02. Mary T. Barra 03. Linda R. Gooden 04. Joseph Jimenez
05. Jane L. Mendillo 06. Michael G. Mullen 07. James J. Mulva 08. Patricia F. Russo 09. Thomas M.
Schoewe 10. Theodore M. Solso 11. Carol M. Stephenson

**FOR
ALL**

**WITHHOLD
ALL**

**FOR ALL
EXECPT**

(INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark the **For All Except** box above and write the number(s) or name(s) of the nominee(s) for which you would like to withhold authority in the space provided below)

The Board of Directors recommends a vote **FOR** Board Items 2 through 5.

FOR AGAINST ABSTAIN

2.

Approve, on an advisory basis, Named Executive Officer compensation

3. Approve the General Motors Company 2017 Short-Term Incentive Plan
4. Approve the General Motors Company 2017 Long-Term Incentive Plan
5. Ratification of the selection of Deloitte & Touche LLP as GM's independent registered public accounting firm for 2017

The Board of Directors recommends a vote AGAINST shareholder Items 6 and 7.

FOR AGAINST ABSTAIN

6. Shareholder Proposal regarding Independent Board Chairman
7. Greenlight Proposal regarding creation of dual-class common stock

The section below must be completed for your vote to be counted.

Please sign and date this WHITE proxy card below.

Date: _____, 2017

Signature

Signature(s)

Title

NOTE: Please sign exactly as your name appears hereon. If shares are held by multiple owners, each owner should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

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PRELIMINARY COPY - SUBJECT TO COMPLETION

PLEASE VOTE TODAY!

SEE REVERSE SIDE FOR THREE EASY WAYS TO VOTE.

q TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE AND SIGN, DATE AND RETURN IN THE POSTAGE-PAID ENVELOPE PROVIDED q

GENERAL MOTORS COMPANY

2017 Annual Meeting of Shareholders

THIS PROXY IS SOLICITED ON BEHALF OF

THE GENERAL MOTORS COMPANY BOARD OF DIRECTORS

The undersigned Shareholder of General Motors Company hereby appoints Mary T. Barra, Daniel Ammann, and Charles K. Stevens, III, and each of them as proxies with full power of substitution, to vote the common stock of the undersigned in the manner specified on this proxy card and in their discretion upon all other matters that may come before the 2017 Annual Meeting of Shareholders of General Motors Company to be held at [] on [], 2017, or any adjournment or postponement thereof. The undersigned hereby revokes all proxies previously given.

On matters for which you do not specify a choice, the shares will be voted in accordance with the recommendation of the Board of Directors; therefore, if no direction is made, this proxy will be voted FOR all of General Motors Company s director nominees in Item 1; FOR Items 2, 3, 4 and 5 and AGAINST Items 6 and 7.

Please see the reverse side for Internet and telephone voting instructions.

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YOUR VOTE IS VERY IMPORTANT - PLEASE VOTE TODAY

(Continued and to be marked, signed, and dated on the reverse side)