ALLIED MOTION TECHNOLOGIES INC
Form DEF 14A
March 20, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Allied Motion Technologies Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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ý No fee required.

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ALLIED MOTION TECHNOLOGIES INC.
23 Inverness Way East, Suite 150
Englewood, Colorado 80112

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 3, 2007

To the Shareholders of
Allied Motion Technologies Inc.:

You are hereby notified that the 2007 Annual Meeting of Shareholders of Allied Motion Technologies Inc. (the "Company") will be held on Thursday, May 3, 2007 at 2:00 p.m. (Mountain Time) at the Inverness Hotel and Conference Center, 200 Inverness Drive West, Englewood, CO 80112. At this meeting, the shareholders will be asked to act on the following matters:

1. To elect six directors of the Company;

2. To consider and act upon the approval of the Company's 2007 Stock Incentive Plan;

3. To transact such other business as may properly come before the 2007 Annual Meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 8, 2007 are entitled to notice of and to vote at the 2007 Annual Meeting and any adjournment thereof.

The Board of Directors of the Company extends a cordial invitation to all shareholders to attend the 2007 Annual Meeting, as it is important that your shares be represented at the meeting. Even if you plan to attend the Annual Meeting, you are strongly encouraged to mark, date, sign and mail the enclosed proxy in the return envelope provided as promptly as possible.

You may revoke your proxy by following the procedures set forth in the accompanying proxy statement. If you are unable to attend, your written proxy will assure that your vote is counted.

By Order of the Board of Directors

Susan M. Chiarmonte
Secretary

DATED: March 20, 2007

THIS IS AN IMPORTANT MEETING. SHAREHOLDERS ARE URGED TO VOTE BY SIGNING, DATING AND RETURNING THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES.

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PROXY STATEMENT

QUESTIONS AND ANSWERS
ABOUT THE 2007 ANNUAL MEETING

Why did I receive this proxy?

The Board of Directors of Allied Motion Technologies Inc. (the "Company") is soliciting proxies to be voted at the Annual Meeting of Shareholders. The Annual Meeting will be held Thursday, May 3, 2007, at 2:00 p.m. (Mountain Time) at the Inverness Hotel and Conference Center, 200 Inverness Drive West, Englewood, CO 80112. This proxy statement summarizes the information you need to know to vote by proxy or in person at the Annual Meeting. You do not need to attend the Annual Meeting in person in order to vote.

Who is entitled to vote?

All shareholders of record as of the close of business on Thursday, March 8, 2007 (the "Record Date") are entitled to vote at the Annual Meeting.

What is the quorum for the Annual Meeting?

A quorum at the Annual Meeting will consist of a majority of the votes entitled to be cast by the holders of all shares of Common Stock outstanding. No business may be conducted at the Annual Meeting if a quorum is not present. Broker non-votes (shares held in street name for which the broker indicates that instructions have not been received from the beneficial owners or other persons entitled to vote, and the broker does not have discretionary voting authority) and abstentions will be counted as shares present in determining whether a quorum is present. As of the Record Date, 6,539,937 shares of Common Stock were issued and outstanding.

How many votes do I have?

Each share of Common Stock outstanding on the Record Date is entitled to one vote on each item submitted to you for consideration.

How do I vote?

By Mail:	Vote, sign, date your card and mail it in the postage-paid envelope
In Person:	At the Annual Meeting

How do I vote my shares that are held by my broker?

If you have shares held by a broker, you may instruct your broker to vote your shares by following the instructions that the broker provides to you.

What am I voting on?

You will be voting on the following proposals:

Proposal One:	The election of six Directors of the Company
Proposal Two:	The approval of the 2007 Stock Incentive Plan

Will there be any other items of business on the agenda?

We do not expect any other items of business because the deadline for shareholder proposals and nominations has passed. Nonetheless, in case there is an unforeseen need, your proxy gives discretionary authority to Delwin D. Hock and Richard D. Smith with respect to any other matters that might be brought before the Annual Meeting. Those persons intend to vote that proxy in accordance with their best judgment.

How many votes are required to act on the proposals?

The holder of each outstanding share of Common Stock is entitled to one vote for each share of Common Stock on each matter submitted to a vote at a meeting of shareholders.

Pursuant to our Articles of Incorporation and Bylaws, directors will be elected by the affirmative vote of the holders of two-thirds of the shares of Common Stock entitled to vote at the Annual Meeting with each share being voted for as many individuals as there are directors to be elected and for whose election the share is entitled to vote.

Approval of the 2007 Stock Incentive Plan requires the affirmative vote of a majority of the votes cast at the meeting.

How are votes counted?

Since the election of directors requires the approving vote to be measured against all shares of Common Stock entitled to vote, an abstention and withholding authority from that vote is the equivalent of a vote against the election of the nominated director.

For purposes of the vote on approval of the 2007 Stock Incentive Plan, abstentions and broker non-votes will not be counted as affirmative or negative in determining the number of shares voted.

What happens if I return my proxy card without voting on all proposals?

When the proxy is properly executed and returned, the shares it represents will be voted at the Annual Meeting in accordance with your directions. If the signed card is returned with no direction on a proposal, the proxy will be voted in favor of (FOR) Proposals One and Two.

Can I change my vote after I return my proxy card?

You can revoke your proxy and change your vote at any time prior to the voting thereof at the Annual Meeting. You can do this by:

- filing with the Secretary of the Company a written revocation or signing and submitting another proxy with a later date, or

- attending the Annual Meeting, withdrawing the proxy and voting in person

If your shares are held by a nominee and you seek to vote shares in person at the Annual Meeting, you must bring to the Annual Meeting a written statement from the nominee confirming the shareholder's beneficial ownership of a stated number of shares and that such shares have not been voted by the nominee. Your attendance at the Annual Meeting will not in itself revoke your proxy.

Will anyone contact me regarding this vote?

Solicitation of proxies for use at the Annual Meeting may be made in person or by mail, telephone or telegram, by directors, officers and regular employees of the Company. Such persons will receive no special compensation for any solicitation activities. In addition, we have retained the services of D.F. King & Co., Inc. to aid in the solicitation of proxies in person, by mail or telephone. The costs are not expected to exceed $6,500 plus expenses. We will request banking institutions, brokerage firms, custodians, trustees, nominees and fiduciaries to forward solicitation materials to the beneficial owners of Common Stock held of record by such entities, and we will, upon the request of such record holders, reimburse reasonable forwarding expenses.

Who has paid for this proxy solicitation?

We have paid the entire expense of this proxy statement and any additional materials furnished to shareholders.

May shareholders ask questions at the Annual Meeting?

Yes. There will be time allotted at the end of the meeting when Company representatives will answer questions from the floor.

How can I obtain a copy of this year's Annual Report on Form 10-K?

A copy of the Company's 2006 Annual Report to Shareholders, including financial statements for the fiscal year ended December 31, 2006, accompanies this Proxy Statement. The Annual Report, however, is not part of the proxy solicitation material. A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") may be obtained free of charge by writing to Allied Motion Technologies Inc., 23 Inverness Way East, Suite 150, Englewood, Colorado 80112, Attention: Secretary or by accessing the "SEC Filings" section of the Company's website at www.alliedmotion.com.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts at the transfer agent or with stockbrokers. Please complete and return all proxy cards to ensure that all your shares are voted.

When was this proxy statement mailed?

This proxy statement, the enclosed proxy card and the Annual Report were mailed to shareholders beginning on or about March 22, 2007.

Can I find additional information on the Company's website?

Yes. Our website is located at www.alliedmotion.com. Although the information contained on our website is not part of this proxy statement, you can view additional information on the website, such as our code of ethics, corporate governance principles, charters of board committees and reports that we file with the SEC. A copy of our code of ethics, corporate governance principles and each of the charters of our board committees may be obtained free of charge by writing to Allied Motion Technologies Inc., 23 Inverness Way East, Suite 150, Englewood, Colorado 80112, Attention: Secretary.

PROPOSAL ONE: ELECTION OF DIRECTORS

Our Articles of Incorporation and Bylaws provide for a Board consisting of not less than three and not more than nine persons, as such number is determined by the Board of Directors, all of whom will be elected annually to serve until the next annual meeting of shareholders and until their successors are elected and qualified, or until the Director resigns or is otherwise removed.

Our Board of Directors currently consists of Delwin D. Hock, Graydon D. Hubbard, George J. Pilmanis, Eugene E. Prince, Michel M. Robert, Richard D. Smith and Richard S. Warzala. Based on the recommendation of our Governance and Nominating Committee, all incumbent directors have been nominated to succeed themselves as directors, with the exception of Eugene E. Prince who will retire immediately prior to the 2007 Annual Meeting. The affirmative vote of the holders of two-thirds of the shares of Common Stock entitled to vote at the Annual Meeting is required for the election of directors. If the number of votes required for the election of directors is not received, directors will continue in office until the next annual meeting or until resignation or removal. Unless authority is withheld, it is intended that the shares represented by proxy at the Annual Meeting will be voted in favor of the six nominees named below. All nominees have agreed to serve if elected.

If, at the time of the Annual Meeting, any nominee is unable or declines to serve, the discretionary authority provided in the proxy may be exercised to vote for a substitute or substitutes. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES.

Nominees for Election as Directors

The following provides certain information regarding the nominees for election to our Board of Directors. Each individual's name, position with the Company and principal occupation and business experience for the past five years is provided and, unless otherwise stated, each nominee has held the position indicated for at least the past five years.

Delwin D. Hock, age 71 Mr. Hock has served as a director of the Company since February 1997 and as Chairman of the Board of Directors since May 2005. He retired from his position as Chief Executive Officer of Public Service Company of Colorado, a gas and electric utility, in January 1996 and as Chairman of the Board of Directors of that company in July 1997. From September 1962 to January 1996, Mr. Hock held various management positions at Public Service Company. He serves as a director on six separate entities overseeing the operation of funds in the American Century Investors fund complex.

Graydon D. Hubbard, age 73 Mr. Hubbard has served as a director of the Company since 1991. He is a retired certified public accountant and was a partner of Arthur Andersen LLP, the Company's former independent public accountants, in its Denver office for more than five years prior to his retirement in November 1989. Since September 2003, he has served as a director of Whiting Petroleum Corporation, an independent oil and gas company engaged in acquisition, exploitation, exploration and development.

George J. Pilmanis, age 69 Mr. Pilmanis has served as a director of the Company since 1993. For more than five years prior to his retirement in April 2003 he was chairman and president of Balriga International Corp., a privately held company concerned with business development in the Far East and Eastern Europe. In 2001 and 2002 he also served as Executive Director of the Foreign Investors Council in Latvia.

Michel M. Robert, age 65 Mr. Robert has served as a director of the Company since July 2004. He founded Decision Processes International, Inc. (DPI) in 1980 to provide consulting services in the field of strategy development and deployment. He is currently Chief Executive Officer and President of DPI. Mr. Robert has been published in a wide array of business magazines and journals and has authored several books.

Richard D. Smith, age 59 Mr. Smith has served as a director of the Company since August 1996. He has served as Chief Executive Officer since August 13, 1998. He served as President from August 13, 1998 until May 1, 2002. He was Executive Vice President from August 1993 until August 1998. Mr. Smith served as Vice-President of Finance from June 1983 to August 1993. He has served as Chief Financial Officer since June 1983. Pursuant to Mr. Smith's employment agreement, as long as he is the Chief Executive Officer of the Company and is willing to serve, the Board of Directors will nominate him for election to the Board.

Richard S. Warzala, age 53 Mr. Warzala has served as director of the Company since August 2006. He was appointed President and Chief Operating Officer of the Company in May 2002 and has been employed by the Company since October 2001. From March 2000 through March 2001, Mr. Warzala served as President of the Motion Components Group for Danaher Corporation. In 1993, he was named President of API Motion, a subsidiary of American Precision Industries Inc., and continued as President until 2000, when it was acquired by Danaher. From 1976 to 1993, he held various management positions at American Precision Industries, Inc.

Independent Directors

Under the corporate governance standards of the Nasdaq Capital Market, at least a majority of our Directors, and, except in limited circumstances, all of the members of our Audit Committee, Compensation Committee and Governance and Nominating Committee, must meet the test of "independence" as defined by Nasdaq. The Nasdaq standards provide that to qualify as an "independent" director, in addition to satisfying certain bright-line criteria, the Board of Directors must affirmatively determine that a director has no material relationship with the Company. The Board of Directors has determined that each current director, other than Mr. Smith, the Company's Chief Executive Officer and Chief Financial Officer and Mr. Warzala, the Company's President and Chief Operating Officer, satisfies the bright line criteria and that none has a relationship with the Company that would interfere with such person's ability to exercise independent judgment as a member of our Board.

BOARD COMMITTEES AND MEETINGS

The Board of Directors has a standing Audit Committee, Compensation Committee and Governance and Nominating Committees. Each member of each of these committees is "independent" as that term is defined in the Nasdaq listing standards. The Board has adopted a written charter for each of these committees, which is available on our web site at www.alliedmotion.com.

Audit Committee

The Audit Committee of our Board of Directors consists of Messrs. Hubbard (Chairman), Hock and Pilmanis. The Audit Committee oversees the Company's financial reporting on behalf of the Board and is responsible for the appointment, replacement, compensation and oversight of the work of the Company's independent auditors. The Audit Committee also reviews the Company's annual and quarterly reports filed with the SEC. The Audit Committee held five meetings during 2006. Each member of the Audit Committee meets the current independence and experience requirements of Nasdaq and the SEC. Mr. Hubbard has been designated as the Company's "Audit Committee financial expert" in accordance with the SEC rules and regulations and qualifies as a financially sophisticated audit committee member under the Nasdaq listing standards. See "Report of the Audit Committee" below.

Compensation Committee

The Compensation Committee of our Board of Directors currently consists of Messrs. Pilmanis (Chairman), Hock and Hubbard. The Compensation Committee has the principal responsibility to make recommendations to the Board of Directors concerning the compensation of the Company's management employees including its executive officers. The Compensation Committee also reviews, approves and recommends to the Board for their approval all awards granted under the Company's stock incentive plan and performs other functions regarding compensation as the Board may delegate.

See "Report of the Compensation Committee" below. The Compensation Committee met three times during the Company's 2006 fiscal year.

Governance and Nominating Committee

The Governance and Nominating Committee of our Board of Directors currently consists of Messrs. Hock (Chairman), Hubbard and Prince. The Governance and Nominating Committee met three times during the Company's 2006 fiscal year. The Governance and Nominating Committee (i) monitors and oversees matters of corporate governance, including the evaluation of Board performance and processes and the "independence" of directors, and (ii) selects, evaluates and recommends to the Board qualified candidates for election or appointment to the Board and each Committee of the Board.

The Board of Directors will consider nominees recommended by shareholders. Any such person will be evaluated in the same manner as any other potential nominee for director. Any suggestion for a nominee for director by a shareholder should be sent to the Company's Secretary at 23 Inverness Way East, Suite 150, Englewood, Colorado 80112, within the time periods set forth under "Shareholder Proposals for the 2008 Annual Meeting."

The Board has not adopted specific minimum criteria for director nominees. The Governance and Nominating Committee identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in services are considered for re-nomination. If any member of the Board does not wish to continue in service, or if the Governance and Nominating Committee decides not to nominate a member for re-election, the Governance and Nominating Committee first considers the appropriateness of the size of the board. If the Governance and Nominating Committee determines the board seat should be retained and a vacancy exists, the Governance and Nominating Committee considers factors that it deems are in the best interests of the Company and its shareholders in identifying and evaluating a new nominee.

In identifying suitable candidates for nomination as a director, the Governance and Nominating Committee will consider the needs of the Board and the range of skills and characteristics required for effective functioning of the Board. In evaluating such skills and characteristics, the Governance and Nominating Committee may take into consideration such factors as it deems appropriate, including those included in the Corporate Governance Principles, which were adopted, as amended, on November 2, 2006, and are available at www.alliedmotion.com.

Board Attendance at Meetings

The Board of Directors held four meetings during the Company's 2006 fiscal year. Each director attended 100% of the total number of meetings of the Board of Directors and meetings held by all committees of the Board of Directors on which he served. Our Corporate Governance Principles provide that all directors are expected to regularly attend all meetings of the Board and the Board committees on which he serves. In addition, each director is expected to attend the Annual Meeting of Shareholders. In 2006, the Annual Meeting of Shareholders was attended by all of the directors.

Shareholder Communication With the Board

We provide an informal process for shareholders to send communications to the Board of Directors. Shareholders who wish to contact the Board of Directors or any of its members may do so in writing to Allied Motion Technologies Inc., 23 Inverness Way East, Suite 150, Englewood, Colorado 80112. Correspondence directed to an individual board member will be referred to that member. Correspondence not directed to a particular board member will be referred to the Chairman of the Board.

Audit Committee Report

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent the Company specifically incorporates this Report by reference therein.

Management is responsible for the Company's financial statements and reporting process. The Company's independent registered public accounting firm, Ehrhardt, Keefe, Steiner & Hottman PC is responsible for performing an independent audit of the Company's annual financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP") and for issuing a report on those statements.

As members of the Audit Committee, our work is guided by our Audit Committee Charter which is reviewed annually by the Board of Directors. We have completed all Charter tasks scheduled to be performed in 2006 prior to year-end and all Charter tasks scheduled to be performed in 2007 prior to the filing of this proxy statement. Our work included, among other procedures:

(1) We pre-approved audit and permitted non-audit services of the Company's independent auditors.

(2) We met with management and the independent auditors on a quarterly basis to discuss financial statements and related reports and to review significant accounting and reporting matters.

(3) We discussed with the independent auditors their independence and the matters required to be discussed by Statement on Auditing Standards 61, "Communications with Audit Committees," as amended. We received the written disclosures from the independent auditors required by the Independence Standards Board Standard No. 1 "Independence Discussions with Audit Committees."

(4) Prior to their publication, we reviewed and discussed with management and the independent auditors the Company's December 31, 2006, audited financial statements, the related audit report, and the applicable management's discussion and analysis.

Based on the work referred to above, we recommended to the Board of Directors that the Board approve the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, for filing with the SEC.

Submitted by:

THE AUDIT COMMITTEE

Graydon D. Hubbard, Chairman
Delwin D. Hock
George J. Pilmanis

EXECUTIVE COMPENSATION

Executive Officers

The following provides certain information regarding our executive officers. Each individual's name and position with the Company is indicated. In addition, the principal occupation and business experience for the past five years is provided for each officer. There are no family relationships between any of our directors or executive officers.

Richard D. Smith, age 59 Mr. Smith has served as a director of the Company since August 1996. He has served as Chief Executive Officer since August 13, 1998. He served as President from August 13, 1998 until May 1, 2002. He was Executive Vice President from August 1993 until August 1998. Mr. Smith served as Vice-President of Finance from June 1983 to August 1993. He has served as Chief Financial Officer since June 1983.

Richard S. Warzala, age 53 Mr. Warzala was appointed President and Chief Operating Officer of the Company in May 2002 and has been employed by the Company since October 2001. From March 2000 through March 2001, Mr. Warzala served as President of the Motion Components Group for Danaher Corporation. In 1993, he was named President of API Motion, a subsidiary of American Precision Industries Inc., and continued as President until 2000, when it was acquired by Danaher. From 1976 to 1993, he held various management positions at American Precision Industries, Inc.

Kenneth R. Wyman, age 64 Mr. Wyman was named Vice President of Marketing of the Company in February 2003. He was designated as an executive officer in February 2005. From 2000 to 2002, he was Vice President of Marketing for the Motion Components Group of Danaher Corporation. In 1995, Mr. Wyman joined API Motion as Director of Marketing, and later was named Vice President of Marketing.

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee of the Board, which is comprised of independent directors, establishes the Company's compensation philosophy. The Committee operates under a written charter adopted by the Board, a copy of which is available on the Company's website at www.alliedmotion.com. The Committee ensures that the total compensation of the Company's executive officers and other key management is fair, reasonable and competitive. The Committee annually evaluates the performance of the Company's executive officers and other key management based upon a mix of the achievement of corporate goals and individual performance and makes recommendations to the Board concerning compensation and benefits for these individuals. All compensation for these individuals is approved by the Board.

The Committee meets with the Company's Chief Executive Officer and Chief Financial Officer, Mr. Smith and its Chief Operating Officer and President, Mr. Warzala, to obtain their recommendations with respect to key management compensation programs and practices, base salaries, incentive plan targets and equity awards. The Committee considers, but is not bound to accept management's recommendations. The Committee discusses Mr. Smith and Mr. Warzala's compensation with them, but makes decisions and Board recommendations without them present.

The Committee has authorized Messrs. Smith and Warzala to make salary adjustments for all employees other than executive officers and other key management.

The Committee makes recommendations to the Board for equity based awards and these awards are approved by the Board. However, the Committee has delegated to Messrs. Smith and Warzala, together, the authority to make restricted stock awards to employees other than executive officers or key management, not to exceed 10,000 shares in the aggregate. Such awards made by Messrs. Smith and Warzala are generally intended to be used for recruiting and employee promotion purposes.

The Committee has the authority to engage its own independent advisors to assist in carrying out its responsibilities. During 2006, the Company did not engage any outside advisors.

Compensation Philosophy

The primary goals of the Company's compensation policies for the executive officers and other key management are as follows:

- To provide total compensation opportunities for executive officers and other key management which are sufficient to attract and retain individuals whose talents and abilities allow the Company to accomplish its strategies.

- To align the interests of management with shareholders through the use of incentive compensation directly related to corporate performance and through the use of stock-based incentives that result in increased Common Stock ownership by management.

Elements of Compensation

The key elements of executive compensation are

- Base Salary
- Annual Incentive Bonus
- Long-term Incentive Compensation
- Executive Deferred Compensation Plan benefits
- Executive Perquisites
- Generally available benefit programs including retirement benefits provided under a 401(k) plan

Base Salary. Base salaries are set at levels sufficient to attract and retain executives. In determining salary levels, the Committee relies primarily on the evaluation and recommendations by Mr. Smith and Mr. Warzala of each key manager's performance during the prior year and responsibilities for the current year. During the review of base salaries, the Committee considers the executive's or manager's qualifications and experience, scope of responsibilities and future potential, the goals and objective established for the individual, his or her past performance and competitive salary practices both internally and externally.

Annual Incentive Bonus. The Incentive Bonus Plan is generally available to all employees of the Company, is payable based upon the Company's performance, and aligns the interests of executives and employees with those of the Company's shareholders. The Plan links performance incentives for all employees, including executive officers, to increases in shareholder value and promotes a culture of high performance and ownership by employees in which employees are rewarded for achieving operating efficiencies, reducing costs and improving profitability.

At the beginning of each year, the Board, upon the recommendation of the Compensation Committee, establishes threshold and target levels of achievement for the Incentive Bonus Plan after reviewing past operating results as well as forecasts and plans for the ensuing year. Annual incentive bonuses are paid based on achieving the performance criteria set for each subsidiary and for the Company overall and the financial performance and improvements made in financial results.

The Company's 2006 incentive bonus awards for executive officers of the Company are based on achieving certain performance targets that the Company defines as Economic Value Added (EVA).

Most other employees are awarded bonuses based on the achievement of certain performance targets by the subsidiary in which they work. The incentive bonus awards for the general managers of each subsidiary are based on both the performance of the subsidiary that the general manager is responsible for managing and the overall performance of the total Company. The annual incentive bonus performance goals are set annually.

The amount of the annual incentive bonus that an executive officer may receive is based upon two components (a) an individual target bonus, and (b) the Company's performance as measured by EVA. EVA is defined as the net operating profit after taxes less a cost of capital charge. Net operating profit excludes net of tax amounts of interest expense and amortization of intangibles recorded in acquisitions. The threshold for earning a bonus award is normally 50% of the target EVA or an amount determined by the Board that better achieves the objectives of the Plan. If the actual EVA achieved falls below the threshold, no bonus is awarded. If the target EVA is achieved, then the target bonus is paid. If the actual EVA achieved falls between the threshold and the target EVA, the bonus awarded is equal to the target bonus multiplied times the prorata percent of the EVA target achieved (0% to 100% of the target bonus amount). If the actual EVA achieved is greater than the target EVA, then the bonus awarded will be greater than 100% of the target bonus amount with the bonus being a certain prorata percent of the incremental EVA achieved above the target EVA.

There is no cap on the amount of bonus that can be earned. For 2006, the target bonus was established at 60% of the base salary for Messrs. Smith and Warzala and at 30% for Mr.Wyman. For 2006, the Company exceeded performance targets specified at the beginning of 2006 for EVA. Applying the pre-established bonus formula to the financial performance resulted in bonuses for executive officers of 114.7% of target bonus levels.

For 2007, the Committee set the performance levels that will be used to determine bonuses for 2007. Whether any bonuses will be paid depends on actual performance during 2007 versus the predetermined levels. For Messrs. Smith, Warzala and Wyman, the target EVA set for 2007 was established so that the achievement of the target EVA would require an increase in net income of approximately 25%.

Long-Term Incentive Compensation. Long-Term incentive compensation presently is based on restricted stock awarded pursuant to the Company's Stock Incentive Plan. The awards generally vest over three years. Restricted stock awards encourage executives to remain employed with the Company and align interests of the recipients with those of the Company's shareholders by creating an incentive to maximize shareholder value.

Restricted stock awards to executives are granted at regularly scheduled meetings of the Board. Grants become effective and are priced as of the date of approval or a predetermined future date. The Committee has not granted, nor does it intend in the future to grant, equity awards in anticipation of the release of material nonpublic information. Similarly, the Committee has not timed, nor does it intend in the future to time, the release of material nonpublic information based on equity award grant dates. Also, because the restricted stock awards typically vest over a three year period, the value to recipients of any immediate increase in the price of stock following a grant will not be immediately realized and may further increase or decrease over the vesting period.

Prior to 2005, long-term incentive compensation was based on stock options granted with a per share exercise price equal to the fair market value of the Company's common stock on the date of grant. In 2005, the Committee began granting restricted shares because they have a more understandable accounting treatment, have a more ascertainable value to employees, are an efficient tool in retaining and motivating executives, and are also an incentive to increase the value of the Company's stock.

The number of restricted shares the Committee recommends granting to each executive is based on a variety of factors, including, among other things, the officer's responsibilities and efforts and the operating performance of the Company in relation to the business plan and forecast. The Committee also considers development of the Company's business and products, performance of the Company's products in the marketplace, impact of the Company's products and product development on future prospects for the Company, market performance of the Company's common stock, the relationship between the benefits of stock awards and improving shareholder value, the current level of stock options and stock held, and the shares available for award. The Committee also considers customary business practices and long-term incentive plan benefits granted in comparison to such benefits provided to other executives in similar positions.

The Company is asking shareholders to approve a new Stock Incentive Plan to ensure adequate shares are available for grants in the future. See the section entitled Proposal 2: Approval of the Company's 2007 Stock Incentive Plan. Shareholder approval of the new Plan is important to allow the Company to continue to attract and retain key talent and to motivate executive and other key employees to achieve the Company's goals.

Deferred Compensation Plan. During 2006, the Company adopted a Deferred Compensation Plan. The purposes of the Plan are (1) to provide eligible key employees with the opportunity to defer the receipt of certain compensation otherwise payable to them, and (2) to permit such eligible key employees to participate in the success of the Company by providing them with the opportunity to earn additional, performance based compensation. The Plan also allows the Compensation Committee to recommend and the Board to approve discretionary contributions. The deferral portion of the Plan allows participants to defer more compensation than they would otherwise be permitted to defer under a tax-qualified retirement plan. Further, the Company offers the Plan as a competitive practice to enable it to attract and retain top talent. During 2006, the Plan was offered to Messrs. Smith and Warzala. Starting in 2007, the Plan is also offered to other key management employees for deferral and discretionary contributions. Currently, performance contributions for Messrs. Smith and Warzala are based on the Company achieving an 8% return on beginning shareholders' equity. If an 8% return is not achieved, no performance contribution would be awarded. If a return in excess of 8% is achieved, an amount equal to 25% of such excess is contributed equally to Messrs. Smith and Warzala. No performance contributions were earned for 2006.

The Company has established an account for each participant on the Company's books to which deferrals and contributions under the Plan are credited. The Board has designated various Investment Funds in which stated portions of such participant's account shall hypothetically be invested. At the present time, the Company is also investing in the chosen Investment Funds in the amounts directed by the participants. Each month, the Company adjusts the balance credited to each participant's account to reflect the investment performance of the designated Investment Funds.

Executive Perquisites and Generally Available Benefit Programs Including Retirement Benefits provided under the 401(k) Plan. The Company provides executive officers with perquisites and other benefits that the Company and the Committee believe are reasonable and consistent with its overall compensation program. The Committee periodically reviews the levels of perquisites and other benefits provided to executive officers. Messrs. Smith and Warzala are provided with exclusive use of a company automobile, reimbursement for personal financial planning up to $5,000 annually and with $500,000 of life insurance plus a $10,000 annual payment to be used to purchase additional life insurance for which the executive may designate the beneficiaries.

The Company generally provides employees with medical, life and disability insurance benefits. All employees in the United States are eligible to participate in the Company's 401(k) Plan to which employees are able to contribute the lesser of up to 60% of their annual salary or the limit prescribed by the Internal Revenue Service. The Company matches 50% of the first 4% of pay that is contributed to the Plan. All employee deferral contributions are full vested upon contribution. Company matching contributions are fully vested after completion of one year of service with the Company. All employees in the United States are also participants in the Employee Stock Ownership Plan. Contributions to the Plan made by the Company are invested in Company common stock.

Deductibility of Compensation

Section 162(m) of the Internal Revenue Code limits the deductibility of compensation in excess of $1 million paid to certain Named Executive Officers, unless the compensation is performance based and satisfies other conditions. The Company's policy is to maximize the deductibility of compensation but does not preclude awards or payments that are not fully deductible if, in our judgment, such awards and payments are necessary to achieve our compensation objectives and to protect shareholder interests.

Compensation Committee Report

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent the Company specifically incorporates this Report by reference therein.

As members of the Compensation Committee, we have reviewed and discussed the Compensation Discussion and Analysis with the Company's management. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K and the Company's proxy statement.

THE COMPENSATION COMMITTEE

George J. Pilmanis, Chairman
Delwin D. Hock
Graydon D. Hubbard

Compensation of Executive Officers

The following table presents information relating to total compensation of the Executive Officers of the Company (the "Named Officers") for the fiscal year ended December 31, 2006.

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation	Total
Richard D. Smith Chief Executive Officer and Chief Financial Officer	2006	$ 250,000	$ 12,500	$ 30,935	$ 172,117	$ 40,867(4)	$ 506,419
Richard S. Warzala President and Chief Operating Officer	2006	$ 240,000	$ 12,000	$ 30,935	$ 165,233	$ 33,156(5)	$ 481,324
Kenneth R. Wyman Vice President of Marketing	2006	$ 134,167	$	$ 949	$ 46,185	$ 10,710(6)	$ 192,011

(1) Represents discretionary cash contributions to the Named Officer's participant account under the Deferred Compensation Plan.

(2) Represents the proportionate amount of the total grant date fair value of stock awards recognized by the Company as an expense in 2006 for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair values of these awards and the amounts expensed in 2006 were based on the average closing bid and ask price of the Company's common stock as reported on the Nasdaq Capital Market on the date of grant amortized over the vesting period. The awards for which expense is shown in this table include the awards described in the Grants of Plan-Based Awards table included in this Proxy Statement, as well as awards granted in prior years for which the Company continued to recognize expense in 2006.

(3) Represents amounts paid pursuant to the Annual Incentive Bonus Plan.

(4) All Other Compensation for Mr. Smith for 2006 includes (a) fair value of personal use of Company provided automobile of $12,653, as determined with reference to IRS regulations, (b) the Company's contribution of $7,369 to tax-qualified defined contribution plans, and (c) the Company paid life insurance premiums of $20,845.

(5) All Other Compensation for Mr. Warzala for 2006 includes (a) fair value of personal use of Company provided automobile of $3,712, as determined with reference to IRS regulations, (b) the Company's contribution of $7,369 to tax-qualified defined contribution plans, and (c) the Company paid life insurance premiums of $22,075.

(6) All Other Compensation for Mr. Wyman for 2006 includes (a) auto allowance paid of $6,000, (b) fair value of personal use portion of reimbursed automobile operating expenses of $299, as determined with reference to IRS regulations, and (c) the Company's contribution of $4,411 to tax-qualified defined contribution plans.

Employment Agreements With Certain Named Executive Officers

The Company has employment agreements with Richard D. Smith, Chief Executive Officer and Chief Financial Officer, and Richard S. Warzala, President and Chief Operating Officer. The Agreements have an initial term of five years, through 2008, and continue subsequently on a year-to-year basis unless the Company or the officer gives termination notice at least 60 days prior to expiration of the initial or subsequent terms. The Agreements contain the provisions outlined below.

Base Salary. The Agreements provide an annual base salary of not less than $240,000 for Mr. Smith and $230,000 for Mr. Warzala, and may be reviewed annually for increase on a merit basis. Mr. Smith's salary was increased to $270,000 and Mr. Warzala's salary was increased to $260,000 effective March 1, 2007.

Annual Incentive Bonus. Annual incentive bonuses are paid based on achieving performance criteria recommended annually by the Compensation Committee and approved by the Board of Directors. The performance criteria will recognize the overall financial performance of the Company and the improvements made in financial results. See discussion under "Compensation Discussion and Analysis."

Long-Term Incentive Compensation. The Company utilizes stock based awards for long-term incentives based on criteria described in the "Compensation Discussion and Analysis."

Other Provisions. Messrs. Smith and Warzala participate in other benefits and perquisites as are generally provided by the Company to its employees. In addition, the Company provides each executive officer with an automobile, personal financial planning and with life insurance for which the executive may designate the beneficiaries.

In the event of termination prior to a change in control, the Agreements provide for continuation of salary, insurance benefits and other bonus prorations or settlements as outlined below.

Retirement. Payments upon retirement would be pursuant to a retirement arrangement established with the Named Officer's consent, which may provide for the settlement for the Annual Incentive Bonus for the current year.

Termination for Cause. Salary continuation through the date of termination and benefit continuation until the end of the termination month.

Death. Salary continues to the end of the month containing the date of death and for three months following. Any proration of the Annual Incentive Bonus is at the Board of Directors' discretion.

Disability. Salary continuation until the end of the term of the employment agreement, as adjusted for any compensation payable under any Company paid disability plan, or until long term disability insurance becomes effective. Benefit continuation as generally provided by the Company to its employees in accordance with the Company's disability plan. Any proration of the Annual Incentive Bonus is at the Board of Directors' discretion.

Involuntary Termination for other than Cause, Retirement, Death or Disability. Salary continues through the end of the termination month and for twelve months following termination along with payment equal to 20% of the monthly base salary paid in order for the executive to directly acquire benefits. An amount equal to 90% of the base salary at time of termination is to be paid in lieu of the annual bonus.

Change in Control Agreements

The Company has entered into separate agreements with Messrs. Smith, Warzala and Wyman, for termination resulting within 90 days prior to or 24 months following a change in control of the Company. The agreements expire on December 31 of each year, however, they are extended automatically on January 1 of each year for a term of two years, unless notice of non-renewal is given by the Company not later than the September 30 immediately preceding renewal. Under the terms of the agreements, upon termination by the Company (other than for cause as defined in the agreement) or by the executive for good reason (as defined in the agreement), they are entitled to receive a severance payment equal to 2.5 times (one times for Mr. Wyman) the sum of current annual base salary plus the amount paid under the Annual Incentive Bonus Plan for the preceding fiscal year, an allocation for incentive compensation for the current year up to the date of termination and a monthly payment for a two year period equal to 20% of the base salary for the individual to acquire insurance benefits. Any payments due under the Long-Term Incentive Payment Plan shall be paid in accordance with the plan provisions. The Company has similar agreements (providing one times severance payments) with certain other key executives. The change in control agreements are applicable to a change in control of the Company or of the subsidiary or division for which the executive is employed and require the key executives to remain in the employ of the Company for a specified period in the event of a potential change in control of the Company and provide employment security to them in the face of pressures to sell the Company or in the event of take-over threats, so that they can devote full time and attention to the Company's efforts free of concern about discharge in the event of a change in control of the Company. The Board of Directors has considered termination of these agreements and determined that the reasons for executing the agreements are valid and concluded that notices of non-renewal would not be in the best interests of the shareholders.

Potential Payments Upon Termination or Change in Control

The table below reflects the amount of compensation to each Named Officers in the event of termination of such executive's employment for the reasons described in the table. The amounts shown assume that such termination was effective as of December 29, 2006 and within the terms of the employment and change in control agreements.

Name and Type of Termination	Cash Severance Payment	Incentive Compensation	Medical Insurance Benefits	Acceleration of Equity Awards	Excise Tax Gross-up	Total
Richard D. Smith						
Disability, with or without a Change in Control	$	$ 172,117(1)	$	$	$	$ 172,117
Death	$ 62,500	$ 172,117(1)	$	$	$	$ 234,617
Involuntary Termination for other than Cause, Retirement, Death or Disability without a Change in Control	$ 250,000	$ 225,000	$ 50,000(3)	$	$	$ 525,000
Termination by the Employee for Good Reason or Involuntary Termination for other than Cause, Retirement or Disability following a Change in Control	$ 625,000	$ 172,117(2)	$ 100,000(3)	$ 151,140(4)	$ 270,476	$ 1,318,733
Richard S. Warzala						
Disability, with or without a Change in Control	$	$ 165,233(1)	$	$	$	$ 165,233
Death	$ 60,000	$ 165,233(1)	$	$	$	$ 225,233
Involuntary Termination for other than Cause, Retirement, Death or Disability	$ 240,000	$ 216,000	$ 48,000(3)	$	$	$ 504,000
Termination by the Employee for Good Reason or Involuntary Termination for other than Cause, Retirement or Disability following a Change in Control	$ 600,000	$ 165,233(2)	$ 96,000(3)	$ 151,140(4)	$ 241,941	$ 1,254,314
Kenneth R. Wyman						
Disability following a Change in Control	$	$ 46,185(1)	$	$	$	$ 46,185
Termination by the Employee for Good Reason or Involuntary Termination for other than Cause, Retirement or Disability following a Change in Control	$ 135,000	$ 46,185(2)	$ 54,000(3)	$ 6,870(4)	$	$ 242,055

(1) Upon death or disability, the Company will make a separate determination of the Named Officer's Annual Incentive Bonus and Long-Term Incentive Compensation based on the overall financial performance of the Company and the improvements made in financial results for the fiscal year in which death or Disability occurs. For purposes of this table, assumes that the Board of Directors grant the full Annual Incentive Bonus for 2006.

(2) The Named Officer will receive an allocation under any annual or long-term incentive plan applicable for the current fiscal year with all tests for income adjusted pro rata according to the number of calendar months, including the month in which the date of termination occurs, that have elapsed in the fiscal year of termination. For purposes of this table, assumes a grant of the full Annual Incentive Bonus for 2006.

(3) For termination without a change in control, the Company shall continue providing medical, dental, long-term disability and life insurance equal to the coverages existing at the time the notice of termination is given for one full year. In the event of termination following a change in control, the Company shall pay the Named Officer an amount equal to 20% of monthly base salary for 24 months to directly acquire medical related insurance benefits.

(4)

Value is based on the closing price of the Company's common stock of $6.87on December 29, 2006, as reported on the Nasdaq Capital Market.

Grants of Plan-Based Awards in 2006

The following table shows all plan-based awards granted to the Named Executive Officers during the fiscal year ended December 31, 2006.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	Grant Date Fair Value of Stock Awards ($)(2)
		Threshold ($)	Target ($)	Maximum ($)		
Richard D. Smith	03/31/2006				12,000	$ 45,540
	02/16/2006(3)		$ 150,000			
	02/16/2006(4)					
Richard S. Warzala	03/31/2006				12,000	$ 45,540
	02/16/2006(3)		$ 144,000			
	02/16/2006(4)					
Kenneth R. Wyman	03/31/2006				1,000	$ 3,795
	02/16/2006(3)		$ 40,250			

(1) Reflects the number of shares of restricted stock granted to each Named Officer pursuant to the Long-Term Incentive Plan. Assuming continued employment with the Company, one-third of the shares will vest on each of March 31, 2008, 2009 and 2010.

(2) Represents the grant date fair value of the award based on the average closing bid and ask price of the Company's common stock as reported on the Nasdaq Capital Market on the date of grant.

(3) Represents the possible payouts under the Company's Annual Incentive Bonus program. The amount of actual payout is computed with reference to a threshold and target level of performance achievement, but the plan has no threshold or maximum payout. The plan is discussed in further detail under the section entitled "Compensation Discussion and Analysis Annual Incentive Bonus." The actual amount of annual incentive bonus earned by each Named Officer in 2006 is reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

(4) During 2006, Messrs. Smith and Warzala participated in the performance based compensation portion of the Company's Deferred Compensation Plan which is discussed in further detail under the section entitled "Compensation Discussion and Analysis." No performance contributions were earned for 2006.

Outstanding Equity Awards at 2006 Fiscal Year End

The following table shows all outstanding equity awards held by the Named Executive Officers as of December 31, 2006.

	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options (#)(1)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)
Richard D. Smith	69,300	$ 4.8300	10/26/2010	22,000(3)	$ 151,140
	20,700	$ 4.8300	10/26/2007		
	58,750	$ 3.2000	8/16/2011		
	31,250	$ 3.2000	8/16/2008		
	40,000	$ 1.7700	2/13/2010		
	60,000	$ 4.2700	4/21/2011		