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DYNAMIC MATERIALS CORP
Form DEF 14A
August 18, 2006

SCHEDULE 14A INFORMATION

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

Filed by Registrant x
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))

x Definitive Proxy Statement
 O Definitive Additional Materials
 O Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

DYNAMIC MATERIALS CORPORATION
(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.
 O Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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| (1) | Title of each class of securities to which transaction applies: |
| (2) | Aggregate number of securities to which transaction applies: |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): |
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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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| (1) | Amount Previously Paid: |
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| (3) | Filing Party: |

(4)

Date Filed:

DYNAMIC MATERIALS CORPORATION
5405 Spine Road
Boulder, Colorado 80301

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 21, 2006

To the Stockholders of
DYNAMIC MATERIALS CORPORATION:

August 18, 2006

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of DYNAMIC MATERIALS CORPORATION, a Delaware corporation (the Company), will be held on September 21, 2006 at 9:00 a.m. local time at the Omni Interlocken Resort in Broomfield, Colorado 80021 for the following purposes:

1. To elect directors to hold office until the 2007 Annual Meeting of Stockholders.
2. To approve the Company's 2006 Stock Incentive Plan.
3. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006.
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

The Board of Directors has fixed the close of business on August 11, 2006, as the record date for the determination of stockholders entitled to notice of, and to vote at, this Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors,

/s/ RICHARD A. SANTA
RICHARD A. SANTA
Vice President, Chief Financial Officer and Secretary

Boulder, Colorado

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE IS ENCLOSED FOR THAT PURPOSE, WITH POSTAGE PREPAID IF MAILED IN THE UNITED STATES. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

DYNAMIC MATERIALS CORPORATION
5405 Spine Road
Boulder, Colorado 80301

PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON SEPTEMBER 21, 2006

Information Concerning Solicitation and Voting

General

The enclosed proxy is solicited on behalf of the Board of Directors of Dynamic Materials Corporation, a Delaware corporation (the Company), for use at the Annual Meeting of Stockholders to be held on September 21, 2006 at 9:00 a.m., local time, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at the Omni Interlocken Resort, which is located at 500 Interlocken Boulevard in Broomfield, Colorado. The Company intends to mail this proxy statement and accompanying proxy card on or about August 21, 2006, to all stockholders entitled to vote at the Annual Meeting.

Solicitation

The Company will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional information furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock of the Company beneficially owned by others to forward to such beneficial owners. The Company may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of the Company. No additional compensation will be paid to directors, officers or other regular employees for such services.

Voting Rights and Outstanding Shares

Only holders of record of common stock at the close of business on August 11, 2006 will be entitled to notice of and to vote at the Annual Meeting. At the close of business on August 11, 2006, the Company had 11,844,235 shares of common stock outstanding and entitled to vote. Each holder of record of common stock on such date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting.

All votes will be tabulated by the inspector of elections appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions and broker non-votes will be considered present at the Annual Meeting for the purpose of establishing a quorum.

With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect.

Brokerage firms who hold shares in street name for customers have the authority to vote those shares with respect to the election of directors if such firms have not received voting instructions from a beneficial owner.

Revocability of Proxies

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Secretary of the Company at the Company's principal executive office, 5405 Spine Road, Boulder, Colorado 80301, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy. If no direction is indicated, the shares will be voted FOR the election of each of the nominees for director. The persons named in the proxies will have discretionary authority to vote all proxies with respect to additional matters that are properly presented for action at the Annual Meeting.

Stockholder Proposals

Proposals of stockholders that are intended to be presented at the Company's 2007 Annual Meeting of Stockholders must be received by the Company not later than December 29, 2006 in order to be included in the proxy statement and proxy relating to that annual meeting.

Any stockholder proposal to be considered at the Company's 2007 Annual Meeting, but not included in the proxy materials, must be submitted in writing and received by the Company not fewer than 60 days prior to the 2007 Annual Meeting; provided, however, that in the event that fewer than 70 days' notice or public announcement of the date of the meeting is given or made to stockholders, to be timely, notice by the stockholder must be received not later than the close of business of the tenth day following the day on which public announcement of the meeting date is first made by the Company.

PROPOSAL 1

ELECTION OF DIRECTORS

In accordance with the Company's mandatory retirement policy, Mr. Morgenthaler, age 79, will not stand for re-election at the 2006 Annual Meeting of Stockholders. Mr. Morgenthaler will be named Director Emeritus upon his retirement from the Board of Directors. On August 2, 2006, the Board of Directors approved a resolution reducing the number of directors from seven to four.

There are four nominees for election to the Board of Directors. Each director to be elected will hold office until the 2007 Annual Meeting of Stockholders. In any event, a director elected pursuant to this proxy statement will hold office until his successor is elected and is qualified, or until such director's earlier death, resignation or removal.

Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the four nominees named below. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected and management has no reason to believe that any nominee will be unable to serve. Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote.

NOMINEES

The names of the nominees and certain information about them are set forth below.

Mr. Dean K. Allen. Mr. Allen, age 70, has served as a director since July 1993 and Chairman of the Board of the Company since May 2006. In January 2001, Mr. Allen retired as President of Parsons Europe, Middle East and South Africa, a position he had held since February 1996. Mr. Allen was Vice President and General Manager of Raytheon Engineers and Constructors, Europe, from February 1994 to December 1995. Earlier in his career, Mr. Allen served as Executive Vice President of Fluor Corporation, where he was employed for 25 years. He currently serves as a director for Techo Consult International.

Mr. Yvon Pierre Cariou. Mr. Cariou, age 60, has served as President and Chief Executive Officer since November 2000 and as a director since May 2006. From March 2000 to November 2000, Mr. Cariou was a consultant who performed research and development projects for the oil industry and market research for a start-up company. From November 1998 to March 2000, Mr. Cariou was President and Chief Executive Officer of Astrocosmos Metallurgical Inc., a division of Groupe Carbone Lorraine of France, involved in the design and fabrication of process equipment for the chemical and pharmaceutical industries. From September 1993 to September 1998, Mr. Cariou was a Partner and Vice President Sales and Marketing of Hydrodyne/FPI Inc., an aerospace components manufacturer specializing in liquid propulsion. From January 1991 to September 1993, Mr. Cariou was President of MAINCO Corp., an elevator design, build and service company and a division of Nu-Swift, a public company based in the United Kingdom. Earlier in his career, Mr. Cariou served as President and Chief Executive Officer of L.A. Water Treatment Inc., an industrial and municipal water treatment systems company and a subsidiary of London-based Thames Water Plc and as President and Chief Executive Officer of Goldsworthy Engineering, a specialist in the engineering and manufacture of automated systems for the laying of aerospace composite materials. He also spent fifteen years with Carbone Lorraine, a global industrial components manufacturer, where he held various executive positions in France and the United States, including President of Carbone USA Corp.

Mr. Bernard Hueber. Mr. Hueber, age 64, served as a director of the Company from June 2000 to June 2005 and was Chairman of the Board of the Company from June 2000 until June 2002 before rejoining the Board in June 2006. Following his retirement from Groupe SNPE in June 2002, Mr. Hueber became Secretary General of the Federation of European Explosives Manufacturers (FEEM) and continues to serve in that capacity. From 1990 to December 2001, Mr. Hueber served as the Chairman of the Board and Chief Executive Officer of Nobel Explosifs France. From January 2002 until his retirement from Groupe SNPE in June 2002, Mr. Hueber served as General Manager of Groupe SNPE's Industrial Explosives operating unit. From June 2003 to the

present, Mr. Hueber has served as a Director of Financiere Harle Bickford & Cie and its subsidiary Davey Bickford & Smith. These companies are involved in pyrotechnics for the explosives and automotive industries and in radio communication.

Mr. Gerard Munera. Mr. Munera, age 70, has served as a director since September 2000. From October 1996 to the present, Mr. Munera has been General Manager of Synergex Group LLC, a personally controlled holding company with diversified investments, including real estate, securities, gold mining and high technology industries. Mr. Munera is also a Director of SiVault Systems, Inc., Meridian Gold Inc., Mag Industries Corporation and Nevsun Resources Ltd. Between 1990 and 1991, Mr. Munera was Senior Vice President of Corporate Planning and Development and a member of the Executive Committee of RTZ plc. Between 1991 and 1994, Mr. Munera was President of Minorco (USA), a diversified \$1.5 billion natural resources group. From 1994 to October 1996, Mr. Munera was Chairman and CEO of Latin American Gold Inc., a gold exploration and mining company.

**THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF EACH NAMED NOMINEE**

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Executive Officers

The following individuals serve as executive officers of the Company. Each executive officer is appointed by the Board of Directors and serves at the pleasure of the Board.

<u>Name</u>	<u>Position</u>	<u>Age</u>
Mr. Yvon Pierre Cariou	President and Chief Executive Officer	60
Mr. Richard A. Santa	Vice President, Chief Financial Officer and Secretary	55
Mr. John G. Banker	Vice President, Marketing and Sales, Clad Metal Division	59

Mr. Yvon Pierre Cariou. Mr. Cariou has served as President and Chief Executive Officer since November 2000 and as director since May 2006. From March 2000 to November 2000, Mr. Cariou was a consultant who performed research and development projects for the oil industry and market research for a start-up company. From November 1998 to March 2000, Mr. Cariou was President and Chief Executive Officer of Astrocosmos Metallurgical Inc., a division of Groupe Carbone Lorraine of France, involved in the design and fabrication of process equipment for the chemical and pharmaceutical industries. From September 1993 to September 1998, Mr. Cariou was a Partner and Vice President Sales and Marketing of Hydrodyne/FPI Inc., an aerospace components manufacturer specializing in liquid propulsion. From January 1991 to September 1993, Mr. Cariou was President of MAINCO Corp., an elevator design, build and service company and a division of Nu-Swift, a public company based in the United Kingdom. Earlier in his career, Mr. Cariou served as President and Chief Executive Officer of L.A. Water Treatment Inc., an industrial and municipal water treatment systems company and a subsidiary of London-based Thames Water Plc and as President and Chief Executive Officer of Goldsworthy Engineering, a specialist in the engineering and manufacture of automated systems for the laying of aerospace composite materials. He also spent fifteen years with Carbone Lorraine, a global industrial components manufacturer, where he held various executive positions in France and the United States, including President of Carbone USA Corp.

Mr. Richard A. Santa. Mr. Santa has served as Vice President, Chief Financial Officer and Secretary since October 1996 and served as interim Chief Financial Officer from August 1996 to October 1996. Prior to joining us in August 1996, Mr. Santa was Corporate Controller of Scott Sports Group Inc. from September 1993 to April 1996. From April 1996 to August 1996, Mr. Santa was a private investor. From June 1992 to August 1993, Mr. Santa was Chief Financial Officer of Scott USA, a sports equipment manufacturer and distributor. Earlier in his career, Mr. Santa was a senior manager with Price Waterhouse, where he was employed for ten years.

Mr. John G. Banker. Mr. Banker has served as Vice President, Marketing and Sales, Clad Metal Division since June 2000. From June 1996 to June 2000, Mr. Banker was President of CLAD Metal Products, Inc. From June 1977 to June 1996, Mr. Banker was employed by us and served in various technical, sales and management positions. Mr. Banker held the position of Senior Vice President, Sales and New Business Development from June 1991 to July 1995.

Annual Meeting Attendance

Directors are encouraged to attend the Company's Annual Meeting of Stockholders. Five directors attended the 2005 Annual Meeting of Stockholders held on June 3, 2005, including both of the directors who are up for re-election and were directors at that time.

Board Committees and Meetings

During the fiscal year ended December 31, 2005, the Board of Directors held six meetings. The Board currently has an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee.

The Audit Committee meets with the Company's independent registered public accounting firm at least four times a year to (i) review the results of the annual audit and discuss the financial statements; (ii) hire the independent registered public accounting firm to be retained; and (iii) receive and consider the accountants' comments as to controls, adequacy of staff and management performance and procedures in connection with audit and financial controls. During the year 2005, the Audit Committee was composed of Mr. Dean K. Allen, Dr. George W. Morgenthaler and Mr. Gerard Munera, three non-employee directors who the Board of Directors has determined to meet the definition of independent directors under the Nasdaq's listing standards. The Audit Committee met six times during the 2005 fiscal year. The Audit Committee has determined that Mr. Gerard Munera qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission.

In June 2000, the Board adopted a written Charter of the Audit Committee. The charter, which was revised in April 2004, requires the Audit Committee be comprised of three or more independent directors, at least one of whom has relevant financial or accounting experience.

The Compensation Committee makes recommendations concerning salaries and incentive compensation, awards stock options to employees and non-employee directors under the Company's stock option plans and otherwise determines compensation levels and performs such other functions regarding compensation as the Board may delegate. During the year 2005, the Compensation Committee was composed of four non-employee directors, Mr. Michel Nicolas, Mr. Dean Allen, Mr. Francois Schwartz, and Dr. George W. Morgenthaler. It met once during the 2005 fiscal year. Following the resignation of Mr. Michel Nicolas and Mr. Francois Schwartz in May 2006, the Board appointed Mr. Gerard Munera as a member of the Compensation Committee.

In June 2006, the Board established a Corporate Governance and Nominating Committee comprised of not fewer than three independent directors designated by the Board. Members of the Committee shall serve one-year terms. The Corporate Governance and Nominating Committee is composed of Mr. Dean K. Allen, Dr. George W. Morgenthaler and Mr. Gerard Munera. The purposes of the Committee are (i) to identify and recommend individuals to the Board for nomination as members of the Board and its committees; (ii) to develop and recommend to the Board corporate governance principles applicable to the Corporation; (iii) to oversee the Board's annual evaluation of its performance; and (iv) to undertake such other duties as the Board may from time to time delegate to the Committee. The Committee will meet at least twice annually. The Board adopted a written Charter of the Corporate Governance and Nominating Committee which is attached hereto as Appendix A.

The Board of Directors does not have a formal policy with regard to the consideration of any director nominees recommended by its stockholders because historically the Company has not received recommendations from its stockholders and the costs of establishing and maintaining procedures for the consideration of stockholder nominations would be unduly burdensome. However, any recommendations received from stockholders will be evaluated in the same manner that potential nominees recommended by Board members, management or other parties are evaluated. Any stockholder nominations proposed for Board consideration should include the nominee's name and qualifications for Board membership and should be mailed to c/o Corporate Secretary, Dynamic Materials Corporation, 5405 Spine Road, Boulder, Colorado 80301 or faxed at (303) 604-3948. The Company does not intend to treat stockholder recommendations in any manner different from other recommendations.

Qualifications for consideration as a director nominee may vary according to the particular area of expertise being sought as a complement to the existing Board composition. However, in making its nominations, the Board of Directors considers, among other things, an individual's business experience, industry experience, financial background, breadth of knowledge about issues affecting the Company, time available for meetings and consultation regarding Company matters and other particular skills and experience possessed by the individual.

On June 8, 2006, the Corporate Governance and Nominating Committee recommended to the Board that Mr. Hueber, a former Chairman of the Board and Chief Executive Officer of the Company, be appointed to fill the unexpired term of one of the director positions. Mr. Hueber officially accepted this appointment on June 14, 2006.

The Company does not currently employ an executive search firm, or pay a fee to any other third party, to locate qualified candidates for director positions.

The Board of Directors believes that it is important for stockholders to have a process to send communications to the Board. Accordingly, stockholders desiring to send a communication to the Board of Directors, or to a specific director, may do so by delivering a letter to the Secretary of the Company at c/o Corporate Secretary, Dynamic Materials Corporation, 5405 Spine Road, Boulder, Colorado 80301 or fax to (303) 604-3948. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Stockholder-Board Communication or Stockholder-Director Communication. All such letters must identify the author as a stockholder and clearly state whether the intended recipients of the letter are all members of the Board of Directors or certain specified individual directors. The Secretary of the Company will open such communications and make copies, and then circulate them to the appropriate director or directors.

During the fiscal year ended December 31, 2005, all of our current directors attended more than 75% of the aggregate of (i) the number of meetings of the Board and (ii) the number of meetings of the committees on which they served.

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PROPOSAL 2

APPROVAL OF THE COMPANY'S 2006 STOCK INCENTIVE PLAN

The Board of Directors is asking stockholders to approve the Company's 2006 Stock Incentive Plan (the 2006 Plan). The Board of Directors has adopted the 2006 Plan, subject to approval at the Annual Meeting. If stockholders approve the 2006 Plan at the Annual Meeting, the 2006 Plan will become effective on September 21, 2006 and terminate on September 21, 2016. If the 2006 Plan is approved, the Company's 1997 Equity Incentive Plan (the 1997 Plan or Prior Plan) will terminate on September 21, 2006, though such termination will not impact awards previously granted under the 1997 Plan.

2006 Plan Summary

The following paragraphs provide a summary of the principal features of the 2006 Plan. This summary does not purport to be complete and is subject to, and qualified in its entirety by, the provisions of the 2006 Plan, which is attached to this proxy statement as Appendix B. Capitalized terms used herein and not defined shall have the same meanings set forth in the 2006 Plan.

Background and Objectives. The objectives of the 2006 Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Participants and to optimize the profitability and growth of the Company through incentives that are consistent with the Company's goals and that link the personal interests of Participants to those of the Company's stockholders. The 2006 Plan permits the grant of the following types of incentive awards: (1) Options, (2) Restricted Stock, (3) Restricted Stock Units (RSUs), (4) Stock Appreciation Rights (SARs), (5) Performance Shares, (6) Performance Units and (7) Other Stock-Based Awards (each individually, an Award).

Shares Subject to the 2006 Plan. The number of shares of the Company's Common Stock (Shares) initially reserved for issuance under the 2006 Plan is 850,000 Shares, plus any shares available under the 1997 Plan. In addition, the following Shares shall not be considered as having been issued under the 2006 Plan or the Prior Plan: (i) Shares that are potentially deliverable under an Award or a Prior Plan award that expires or is canceled, forfeited, settled in cash or otherwise settled without the delivery of Shares, (ii) Shares that are held back or tendered to cover the Exercise Price or tax withholding obligations with respect to an Award or a Prior Plan award, (iii) Shares that are issued pursuant to Awards that are assumed, converted or substituted in connection with a merger, acquisition, reorganization or similar transaction and (iv) Shares that are repurchased in the open market with Option Proceeds from Awards or a Prior Plan award, provided that the aggregate number of Shares deemed not issued pursuant to the repurchase of Shares with Options Proceeds shall not exceed the amount of such proceeds divided by the Fair Market Value of a Share on the date of exercise of the Option or Prior Plan option giving rise to such proceeds. However, for purposes of determining the number of Shares available for grant as Incentive Stock Options, only Shares that are subject to an Award or a Prior Plan award that expires or is canceled, forfeited or settled in cash shall be treated as not having been issued under the 2006 Plan or the Prior Plan. The market value of a Share as of August 11, 2006 was \$30.90.

Administration. The 2006 Plan shall be administered by a committee of the Board (the Committee). The Board of Directors has currently designated the Compensation Committee as the Committee for the 2006 Plan. Subject to the provisions of the 2006 Plan, the Committee has the authority to: (1) select the persons to whom Awards are to be granted, (2) determine whether and to what extent Awards are to be granted, (3) determine the size and type of Awards, (4) approve forms of agreement for use under the 2006 Plan, (5) determine the terms and conditions applicable to Awards, (6) establish performance goals for any Performance Period and determine whether such goals were satisfied, (7) amend any outstanding Award in the event of termination of employment of a Change in Control, (8) construe and interpret the 2006 Plan and any Award Agreement and apply its provisions and (9) subject to certain limitations, take any other actions deemed necessary or advisable for the administration of the 2006 Plan. All decisions, interpretations and other actions of the Committee shall be final and binding on all holders of Options or rights and on all persons deriving their rights therefrom. Subject to applicable law, the Committee may delegate its authority under the 2006 Plan.

Eligibility to Receive Awards. The 2006 Plan provides that Awards may be granted to Participants, except that Incentive Stock Options may be granted only to Employees. The approximate number of persons eligible to participate in the 2006 Plan is 30.

Code Section 162(m). The Company has designed the 2006 Plan so that it permits the issuance of Awards that are intended to qualify as performance-based under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

No Repricing. The 2006 Plan prohibits repricing of Options and SARs, including by way of an exchange for another Award, unless stockholder approval is obtained.

Terms and Conditions of Stock Options. Each Option granted under the 2006 Plan is evidenced by an Award Agreement between the optionee and the Company and is subject to the following terms and conditions:

- *Exercise Price.* The Committee sets the Exercise Price of the Shares subject to each Option, provided that the Exercise Price cannot be less than 100% of the Fair Market Value of the Company's Common Stock on the Option grant date. In addition, the Exercise Price of an Incentive Stock Option must be at least 110% of Fair Market Value if, on the grant date, the Participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries (a "10% Stockholder").
- *Form of Consideration.* The means of payment for Shares issued upon exercise of an option is specified in each option agreement. Payment generally may be made by cash, other Shares of Common Stock owned by the optionee, any other method permitted by the Committee, or by a combination of the foregoing.
- *Exercise of the Option.* Each Award Agreement will specify the term of the Option and the date when the Option is to become exercisable, provided that except as specified in an Award Agreement upon a termination of employment or a Change in Control or Subsidiary Disposition, no Option may be exercisable prior to one (1) year from the date of grant. The 2006 Plan provides that in no event shall an Option granted under the 2006 Plan be exercised more than ten (10) years after the date of grant. Moreover, in the case of an Incentive Stock Option granted to a 10% Stockholder, the term of the Option shall be for no more than five (5) years from the date of grant.
- *Termination of Employment.* If an optionee's employment terminates for any reason (including death or permanent disability), all Options held by such optionee under the 2006 Plan expire upon the earlier of (i) such period of time as is set forth in his or her Award agreement or (ii) the expiration date of the Option. The optionee may exercise all or part of his or her Option at any time before such expiration to the extent that such Option was exercisable at the time of termination of employment.

Terms and Conditions of Stock Appreciation Rights. SAR grants may be either freestanding or tandem with Option grants. Each SAR grant shall be evidenced by an agreement that shall specify the Exercise Price, the term of the SAR, the conditions of the exercise, and other such terms and conditions as the Committee shall determine.

The Exercise Price of SARs may not be less than 100% of the Fair Market Value of the Company's Common Stock on the grant date of the Award. The Committee, subject to the provisions of the 2006 Plan, shall have the discretion to determine the terms and conditions of SARs granted under the 2006 Plan. Each Award Agreement will specify the term of the SAR and the date when the SAR is to become exercisable, provided that except as specified in an Award Agreement upon termination of employment or a Change in Control or Subsidiary Disposition, no SAR may be exercisable prior to one (1) year from date of grant.

Upon exercise of a SAR, the holder of the SAR shall be entitled to receive payment in an amount equal to the product of (i) the difference between the Fair Market Value of a share on the date of exercise and the Exercise Price and (ii) the number of shares for which the SAR is exercised. At the discretion of the Committee, payment to the holder of a SAR may be in cash, Shares of Common Stock or a combination thereof. To the extent that a

SAR is settled in cash, the shares available for issuance under the 2006 Plan shall not be diminished as a result of the settlement.

SARs granted under the 2006 Plan expire as determined by the Committee, but in no event later than ten (10) years from the date of grant. No SAR may be exercised by any person after its expiration.

Share Limit for Stock Options and SARs. In order that such Awards may qualify as performance-based compensation under Section 162(m) of the Code, no Participant may be granted Options and SARs to purchase more than 425,000 Shares in any 36-month period.

Terms and Conditions of Restricted Stock and Restricted Stock Unit Grants. Each Restricted Stock and RSU grant shall be evidenced by an agreement that shall specify the purchase price (if any) and such other terms and conditions as the Committee shall determine.

The Committee shall have the discretion to determine (i) the number of Shares subject to a Restricted Stock Award granted to any Participant and (ii) the conditions for vesting that must be satisfied, provided that there shall be a minimum vesting period of three (3) years, except that the Committee has the discretion to provide for a shorter vesting period (not less than one (1) year) for up to 5% of the shares available for Full-Value Awards under the 2006 Plan.

Performance Share Grants. Each Performance Share grant shall be evidenced by an agreement that shall specify such other terms and conditions as the Committee, in its sole discretion, shall determine.

The Committee shall have complete discretion to determine (i) the number of Shares of Common Stock subject to a Performance Share Award and (ii) the conditions that must be satisfied for grant or for vesting, provided that there shall be a minimum vesting period of one (1) year.

Share Limit for Restricted Stock, Restricted Stock Units, Performance Shares and Other Stock-Based Awards. In order that such Awards may qualify as performance-based compensation under Section 162(m) of the Code, no Participant shall be granted Restricted Stock, RSUs, Performance Shares, or Other Stock-Based Awards covering, in the aggregate, more than 425,000 Shares in any 36-month period.

Performance Units. Performance Units are similar to Performance Shares, except that they are cash-based and may be settled in Shares, cash or a combination of the two. The Shares available for issuance under the 2006 Plan shall not be diminished as a result of the settlement of a Performance Unit in cash. Each Performance Unit grant shall be evidenced by an Award Agreement that shall specify such terms and conditions as shall be determined at the discretion of the Committee, provided that there shall be a minimum vesting period of one (1) year.

Limit for Performance Units. In order that such Awards may qualify as performance-based compensation under Section 162(m) of the Code, no Participant shall be granted a Performance Unit Award providing for a payment value of more than \$5,000,000 in any one fiscal year.

Other Stock-Based Awards. The Committee has the right to grant other stock-based Awards that may include, without limitation, grants of Shares based on attainment of performance goals, payment of Shares as a bonus in lieu of cash based on performance goals, and the payment of shares in lieu of cash under other Company incentive or bonus programs. The Committee shall have the discretion to determine the vesting of any such Award, provided that, except as specified in an Award Agreement upon a termination of employment or a Change in Control or Subsidiary Disposition, there shall be a minimum vesting period of three (3) years, except that the Committee has the discretion to provide for a shorter vesting period (not less than one (1) year) for up to 5% of the shares available for Full-Value Awards under the 2006 Plan, and provided further that an Award with a payment of Shares in lieu of cash under other Company incentive or bonus programs shall not be subject to a minimum vesting period.

Performance-Based Awards. The Committee may grant Award which are intended to qualify as performance-based compensation for purposes of deductibility under Section 162(m) of the Code. For any such Award, the

Committee will establish the performance objectives to be used within 90 days after the commencement of the Performance Period, or, if less, 25% of the Performance Period applicable to such Award. The performance objectives to be used shall be selected from the following list of measures (collectively, the Performance Measures): total stockholder return, stock price, net customer sales, volume, gross profit, gross margin, operating profit, operating margin, management profit, earnings from continuing operations before income taxes, earnings from continuing operations, earnings per share from continuing operations, net operating profit after tax, net earnings, net earnings per share, return on assets, return on investment, return on equity, return on invested capital, cost of capital, average capital employed, cash value added, economic value added, cash flow, cash flow from operations, working capital, working capital as a percentage of net customer sales, asset growth, asset turnover, market share, customer satisfaction and employee satisfaction. The targeted level or levels of performance with respect to the Performance Measures may be established at such levels and on such terms as the Committee may determine, in its discretion, on a corporate-wide basis or with respect to one or more business units, divisions, subsidiaries, business segments or functions, and in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies. Unless otherwise determined by the Committee, measurement of performance goals with respect to the Performance Measures above shall exclude the impact of charges for restructurings, discontinued operations, extraordinary items and other unusual or non-recurring items, as well as the cumulative effects of tax or accounting changes, each as determined in accordance with generally accepted accounting principles or identified in the Company's financial statements, notes to the financial statements, management's discussion and analysis or other filings the SEC. Awards that are not intended to qualify as performance-based compensation under Section 162(m) of the Code may be based on these or such other performance measures as the Committee may determine.

Non-Transferability of Awards. An Award granted under the 2006 Plan which is an Incentive Stock Option may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the recipient, only by the recipient. Other Awards will be transferable to the extent provided in the Award, except that no Award may be transferred for consideration.

Adjustments Upon Changes in Capitalization. In the event of any non reciprocal transaction between the Company and the stockholders of the Company that causes the per share value of shares underlying an Award to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Board shall, and in the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, the Board, in its sole discretion, may cause there to be made an equitable adjustment to the number and kind of shares that may be issued under the 2006 Plan, or to any individual under the 2006 Plan, and to the number and kind of shares or other property subject to and the exercise price (if applicable) of any then outstanding Awards, and such adjustment shall be conclusive and binding for all purposes of the 2006 Plan.

Change in Control. In the event of a Change in Control, if the successor corporation does not assume the Awards or substitute equivalent Awards, such Awards shall become 100% vested. In this event, performance-based Awards will vest on a pro rata monthly basis based on the performance level attained on the date of the Change in Control, if determinable, or target level, if not determinable. In such event, the Committee shall notify the Participant that each Award subject to exercise is fully exercisable.

Amendment, Suspensions and Termination of the 2006 Plan. The Company's Board of Directors may amend, suspend or terminate the 2006 Plan at any time; provided, however, that stockholder approval is required for any amendment to the extent necessary to comply with the NASDAQ listing standards or applicable laws. In addition, no amendment, suspension or termination may adversely impact an Award previously granted without the written consent of the Participant to whom such Award was granted unless required by applicable laws.

Benefits to Be Received Upon Approval. It is not possible at this time to determine awards that will be made in the event that the 2006 Plan is approved by stockholders. However, it is anticipated that Awards generally will be similar in total value to those granted under Prior Plans.

Federal Tax Aspects

The following paragraphs are a summary of the material U.S. federal income tax consequences associated with Awards granted under the 2006 Plan. The summary is based on existing U.S. laws and regulations, and there can be no assurance that those laws and regulations will not change in the future. The summary does not purport to be complete and does not discuss the tax consequences upon a Participant's death, or the provisions of the income tax laws of any municipally, state or foreign country in which the Participant may reside. Furthermore, this summary does not address the new federal tax provisions of the recently enacted American Jobs Creation Act of 2004. Although guidance regarding Section 409A of the Code has not been issued, to the extent applicable, it is intended that the 2006 Plan and any Awards granted thereunder will comply with the requirements of Section 409A of the Code. The new rules imposed by the act will change the way certain types of deferred compensation are taxed. As a result, tax consequences for any particular Participant may vary based on individual circumstances.

Incentive Stock Options. No taxable income is recognized when an Incentive Stock Option is granted or exercised, although the exercise is an adjustment item for alternative minimum tax purposes and may subject the optionee to the alternative minimum tax. If the Participant exercises the Option and then later sells or otherwise disposes of the Shares more than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the Exercise Price generally will be taxed as long-term capital gain or loss. If these holding periods are not satisfied, the Participant will recognize ordinary income at the time of the sale or other disposition equal to the difference between the Exercise Price and the lower of (i) the Fair Market Value of the Shares at the date of the Option exercise or (ii) the sale price of the Shares. Any gain or loss recognized on such a premature disposition of the Shares in excess of the amount treated as ordinary income will be treated as long-term or short-term capital gain or loss, depending on the holding period.

Nonqualified Stock Options. No taxable income is recognized when a Nonqualified Stock Option is granted to a Participant with an Exercise Price equal to the Fair Market Value on the date of grant. Upon exercise, the Participant will recognize ordinary income in an amount equal to the excess of the Fair Market Value of the Shares on the exercise date over the Exercise Price. Any taxable income recognized in connection with the exercise of a Nonqualified Stock Option by an Employee is subject to tax withholding by the Company. Any additional gain or loss recognized upon later disposition of the Shares is capital gain or loss, which may be long-term or short-term capital gain or loss depending on the holding period.

Stock Appreciation Rights. No taxable income is recognized when a stock appreciation right is granted to a Participant. Upon exercise, the Participant will recognize ordinary income in an amount equal to the amount of cash received and the Fair Market Value of any Shares received. Any additional gain or loss recognized upon later disposition of the Shares is capital gain or loss, which may be long-term or short-term capital gain or loss depending on the holding period.

Restricted Stock, Restricted Stock Units, Performance Shares, and Performance Units. A Participant generally will not have taxable income upon grant of Restricted Stock, RSUs, Performance Shares, or Performance Units. Instead, the Participant will recognize ordinary income at the time of vesting equal to the Fair Market Value (on the vesting date) of the Shares or cash received minus any amount paid. For Restricted Stock only, a Participant instead may elect to be taxed at the time of grant.

Other Stock-Based Awards. A Participant generally will recognize income upon receipt of the Shares subject to Award (or, if later, at the time of vesting of such shares).

Tax Effect for the Company. The Company generally will be entitled to a tax deduction in connection with an Award under the 2006 Plan in an amount equal to the ordinary income realized by a Participant and at the time the Participant recognizes such income (for example, the exercise of a Nonqualified Stock Option). Special rules limit the deductibility of compensation paid to the chief executive officer and to each of the next four most highly compensated executive officers. Under Section 162(m) of the Code, unless various conditions are met that enable compensation to qualify as performance-based, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, the 2006 Plan has been designed to permit the Committee to grant Awards that qualify as performance-based for purposes of

satisfying the conditions of Section 162(m) of the Code, thereby permitting the Company to receive federal income tax deduction in connection with such Awards even to the extent that they exceed \$1,000,000.

**THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF PROPOSAL 2.**

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PROPOSAL 3

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected Ernst & Young LLP (E&Y) as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006. E&Y has been so engaged since July 18, 2002.

Ratification of the selection of E&Y by stockholders is not required by law. However, as a matter of policy, such selection is being submitted to the stockholders for ratification at the Annual Meeting and it is the present intention of the Board of Directors to continue this policy.

**THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF PROPOSAL 3.**

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of the Company's common stock as of August 11, 2006 by: (i) each person or group known by the Company to be the beneficial owner of more than 5% of the Company's common stock, (ii) each director of the Company; (iii) each executive officer of the Company; and (iv) all executive officers and directors of the Company as a group.

<u>Name and Address (2) of Beneficial Owner</u>	<u>Beneficial Ownership (1)</u>	
	<u>Number of Shares</u>	<u>Percent of Total</u>
Mr. Yvon Pierre Cariou (3)	74,440	*
Mr. Richard A. Santa (3)	121,184	1.02
Mr. John G. Banker (3)	36,158	*
Mr. Dean K. Allen (3)	56,000	*
Mr. Bernard Hueber (3)	-	*
Dr. George W. Morgenthaler (3)	128,756	1.08
Mr. Gerard Munera (3)	10,000	*
All executive officers and directors as a group (4) (7 persons)	426,538	3.54