

SRI SURGICAL EXPRESS INC
Form DEF 14A
April 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. [^])

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

SRI/SURGICAL EXPRESS, 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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SRI/SURGICAL EXPRESS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 20, 2010

Dear Shareholder:

The Annual Meeting of Shareholders of SRI/Surgical Express, Inc. will be held on Thursday, May 20, 2010, at 10:00 a.m., local time, at our corporate headquarters located at 12425 Race Track Road, Tampa, Florida 33626, for the following purposes:

1. To elect two directors to serve until the 2013 Annual Meeting and to hold office until their successors are duly elected and qualified;
 2. To ratify the appointment of Grant Thornton LLP as our independent auditors for the fiscal year ending on December 31, 2010; and
 3. To transact other business that properly comes before the Annual Meeting or any adjournment of the meeting.
- We more fully describe these items of business in the Proxy Statement accompanying this Notice.

All shareholders are cordially invited to attend the Annual Meeting in person. To ensure your representation at the Annual Meeting, we urge you to sign and return the enclosed proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any shareholder attending the Annual Meeting may vote in person, even if he or she has returned a proxy.

For further information about the Annual Meeting, including directions to our corporate headquarters to attend the meeting and vote in person, please contact Iris Gantz at (813) 891-9550 or igantz@srisurgical.com.

By Authorization of the Board of Directors,
Mark R. Faris
Secretary and Chief Financial Officer

Tampa, Florida

April 9, 2010

Important: Whether or not you plan to attend the Annual Meeting, you are requested to complete and promptly return the enclosed proxy in the envelope provided.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on May 20, 2010: This Proxy Statement and our 2009 Annual Report on Form 10-K for the year ended December 31, 2009 are available at <http://www.srisurgical.com/proxy/>.

SRI/SURGICAL EXPRESS, INC.

PROXY STATEMENT

FOR

2010 ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

The enclosed proxy is solicited by the Board of Directors of SRI/Surgical Express, Inc. (the Board of Directors or the Board) for use at the Annual Meeting of Shareholders to be held on Thursday, May 20, 2010, at 10:00 a.m., local time, and at any adjournment of the meeting, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at our corporate and principal executive offices located at 12425 Race Track Road, Tampa, Florida 33626. Our telephone number at our executive offices is (813) 891-9550.

These proxy solicitation materials, together with our 2009 Annual Report to Shareholders on Form 10-K filed with the Securities and Exchange Commission on March 31, 2010 (the Annual Report), were first mailed on or about April 9, 2010, to all shareholders entitled to vote at the Annual Meeting. In this Proxy Statement, the terms SRI, the Company, we, us and our refer to SRI/Surgical Express, Inc.

Record Date

Only shareholders of record at the close of business on March 19, 2010 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. We have one class of outstanding voting securities, our common stock. As of the Record Date, 6,495,978 shares of our common stock were outstanding. For information regarding security ownership by management and by the beneficial owners of 5.0% or more of our common stock, see Security Ownership of Directors, Officers, and Principal Shareholders below.

Revocability of Proxies

You may revoke any proxy given pursuant to this solicitation at any time before its use at the Annual Meeting by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Voting

Each shareholder is entitled to one vote for each share of common stock on all matters presented at the Annual Meeting. The holders of common stock will vote together as one group in the election of directors and other matters presented at the Annual Meeting. Shareholders do not have the right to cumulate their votes in the election of directors.

Solicitation

We will bear the entire cost of solicitation, including the preparation, assembly, printing, and mailing of this Proxy Statement. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to beneficial owners. Certain of our directors, officers, and other employees, without additional compensation, may also solicit proxies personally or by telephone, telegram, letter or facsimile.

Quorum; Abstentions; Broker Non-Votes

A majority of the shares of our common stock entitled to vote on a matter, represented in person or by proxy, will constitute a quorum for action on a matter at the Annual Meeting. We count shares that reflect withheld votes, abstentions or broker non-votes (i.e., shares held by a broker or nominee that are represented at

the Annual Meeting, but with respect to which such broker or nominee is not empowered to vote on a particular proposal) as shares that are present for purposes of determining the presence of a quorum, but not in determining the number of shares voted for or against any nominee for election as a director or any other proposal. For Proposal No. 1, the two director nominees receiving the highest number of affirmative votes cast will be elected as directors. Proposal No. 2 requires that the number of votes cast in favor of the applicable proposal exceeds the number of votes cast against the proposal. Withheld votes, abstentions and broker non-votes will not be counted as votes cast for purposes of determining whether the proposal has received sufficient votes for approval, and therefore will have no effect on the outcome of the vote.

Fiscal Year End

The Company's fiscal year ends on the Sunday nearest December 31.

Communications with Directors

You may communicate with any of our directors or with all directors as a group by sending communications by regular mail to: SRI/Surgical Express, Inc., c/o Chairman of the Board of Directors, 12425 Race Track Road, Tampa, Florida 33626.

Communications are distributed to the Board of Directors, or to any individual director or directors as appropriate, depending on the content of the communication. Members of our Board of Directors have requested that certain items that are unrelated to their duties and responsibilities be excluded, such as spam, junk mail and mass mailings, product or service complaints, resumés and other forms of job inquiries, and business solicitations or advertisements. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any excluded communication will be made available to any outside director upon request. The procedures regarding distribution of shareholder communications to the Board of Directors have been approved by a majority of independent directors.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our Board of Directors has fixed the number of directors at seven pursuant to our bylaws. As described below, two directors are being renominated for new terms because their current terms expire on the date of the Annual Meeting and five directors will continue to serve after the Annual Meeting.

Nominees for Election at the 2010 Annual Meeting

Members of our Board of Directors serve staggered three-year terms expiring at the third Annual Meeting of Shareholders after their election. At the 2010 Annual Meeting, we will be electing two directors to serve a term of three years through our 2013 Annual Meeting. Our Board of Directors has authorized the nomination of the persons as candidates named in this Proxy Statement. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the two nominees named below, both of whom are presently directors. In the event that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the current Board of Directors to fill the vacancy. We do not expect that any nominee will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until a successor has been elected and qualified.

Michael D. Israel and Wayne R. Peterson are being renominated for new terms as directors because their current terms expire on the date of the Annual Meeting. Certain information with respect to our nominees for election as director appears below:

Name	Age	Principal Occupation	New Term Expires
Michael D. Israel	56	President and CEO, Westchester Medical Center	2013
Wayne R. Peterson	58	Private Investor	2013

Michael D. Israel has been a director since May 21, 2009. Mr. Israel is currently the President and CEO of Westchester Medical Center. Mr. Israel previously provided varying degrees of executive level leadership to high quality organizations such as Jewish Health System (North Shore-Long Island), and Duke University Health System, and has 33 years of experience in the healthcare industry.

Wayne R. Peterson served as our Executive Vice President from 1994 and our Chief Operating Officer from May 2001, in each case until his retirement on December 31, 2002. Mr. Peterson has been a director since 1994 and served as a consultant to us from January 1, 2003 until December 31, 2003, and from March 2006 until May 1, 2009. In 1991, Mr. Peterson co-founded our predecessor, Amsco Sterile Recoveries, Inc., and served as Vice President until we acquired Amsco Sterile Recoveries in 1994. Before joining Amsco Sterile Recoveries, Mr. Peterson was President of Agora Development, Inc., a real estate development company. He now engages in private investment activities.

Required Vote

The two nominees receiving the highest number of affirmative votes of the shares of common stock present or represented and entitled to be voted for them shall be elected as directors. Votes withheld from any director, abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no further legal effect under Florida law.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE NOMINEES LISTED ABOVE.

Directors with Terms Continuing After the 2010 Annual Meeting

The directors who will continue to serve after the Annual Meeting are set forth below:

Name	Age	Principal Occupation	Term Expires
Directors			
James T. Boosales	66	Private Investor	2012
James M. Emanuel	61	Private Investor	2011
Charles W. Federico	61	Private Investor	2011
Charles T. Orsatti	66	Managing Partner, Fairfield Capital Partners, Inc.	2012
Gerald Woodard	63	Chief Executive Officer of SRI	2011

James T. Boosales served as our Executive Vice President and Chief Financial Officer from 1994 until August 2002, and as our Executive Vice President until he retired on December 31, 2002. He has been a director since our inception in 1994, and served as a consultant to us from the date of his retirement through December 31, 2003. He served as President, International, of Fisher-Price, Inc., a \$200 million division of the toy and juvenile products company, from 1990 through 1993. Before joining Fisher-Price, Inc., Mr. Boosales served in several senior executive capacities with General Mills, Inc., including President, International, for Kenner Parker Toys, Inc./Tonka Corp. from 1985 to 1989, during and after its spin-off as a public company, and President of Foot-Joy, Inc. from 1982 to 1985. Mr. Boosales now engages in private investment activities.

James M. Emanuel has been a director since May 2, 1996. Between January 1984 and June 1997, he served as the Chief Financial Officer of Lincare, Inc., a national provider of respiratory therapy services for patients with pulmonary disorders. He also served as the Chief Financial Officer and a director of Lincare Holdings, Inc. between November 1990 and June 1997. Mr. Emanuel also served as a director of Anesthetix Holdings, LLC, a privately held company, until the company was sold on December 31, 2009. Mr. Emanuel has engaged in consulting and private investment activities since his retirement from Lincare Holdings, Inc. in June 1997.

Charles W. Federico has been a director since June 27, 2006, and has been Chairman of the Board of Directors since May 24, 2007. Mr. Federico is a director of Orthofix International N.V., and most recently served as its Group President and Chief Executive Officer. He served as President of Orthofix Inc. from 1996 to 2002. From 1985 to 1996, Mr. Federico was the President of Smith & Nephew Endoscopy. From 1981 to 1985, Mr. Federico served as Vice President of Dyonics, initially as Director of Marketing and subsequently as General Manager. Previously, he held management and marketing positions with General Foods, Air Products Corporation, Puritan Bennett Corporation and LSE Corporation. Mr. Federico currently is a director on the Boards of Mako Surgical Corporation, Power Medical Interventions and BioMimetic Therapeutics, Inc. Mr. Federico also sits on the Board of Trustees of the Orthopaedic Research and Education Foundation, and previously was a Founding Trustee and board member of the American Sports Medicine Institute.

Charles T. Orsatti has been a director since February 10, 2004. Mr. Orsatti is currently a director on the boards of AngioDynamics, Inc., a Nasdaq-listed medical device manufacturer, and a private company, Biotronic NeuroMonitoring. He also served as a director of djOrthopedics, Inc., a NYSE-listed orthopedic sports medicine company, until November 2007. Since 1995, Mr. Orsatti has been Chairman and Managing Partner of Fairfield Capital Partners, Inc., a private equity investment firm. Prior to 1995, Mr. Orsatti was Chairman and Chief Executive Officer of Fairfield Medical Products Corporation, a manufacturer of critical care products. From 1983 to 1986, he was Chief Executive Officer of Coloplast, Inc., a manufacturer of single use products and then served as Chief Operating Officer and President of two medical divisions of British Oxygen Corporation. Mr. Orsatti began his career with the medical products division of Air Products and Chemicals, Inc. and subsequently worked for the Critikon Division of Johnson & Johnson.

Gerald Woodard has been a director and our Chief Executive Officer since December 31, 2007. Mr. Woodard has served in executive and management positions with healthcare companies since 1986. Prior to joining SRI, Mr. Woodard served as the President of the Linvatec subsidiary of ConMed Corporation since 2000. ConMed Linvatec is a supplier of orthopedic and sports medicine products, endoscopic imaging systems, and various operating room and critical care products. From 1998 to 2000, Mr. Woodard was President of the Elekta Holdings subsidiary of Elekta AB, a manufacturer of stereotactic radiosurgery systems and radiation therapy systems. From 1994 to 1998, Mr. Woodard worked with Marquette Medical Systems, Inc., where he most recently was President of its Monitoring and Information Systems Division.

SEC Settlement

The Securities and Exchange Commission (the "SEC") approved a settlement in July 2003 arising from its investigation of our accounting for transactions underlying a restatement of our financial results for the third quarter of 2001. SRI, James T. Boosales, and Wayne R. Peterson consented to an administrative cease and desist order regarding books and records, internal controls, and reporting provisions of the Securities Exchange Act of 1934. The SEC did not assess penalties or make any finding of fraud by SRI or the individuals. Messrs. Boosales and Peterson retired as officers in December 2002 and serve on our Board of Directors. Mr. Peterson is a nominee for reelection to our Board of Directors.

Executive Officers

Name	Age	Principal Position(s)
Executive Officers		
Gerald Woodard	63	Chief Executive Officer
Mark R. Faris	43	Vice President, Chief Financial Officer and Secretary
William J. Braun	55	Senior Vice President of Operations
David J. McGuire	44	Senior Vice President of Sales

Gerald Woodard has been a director and our Chief Executive Officer since December 31, 2007. His business experience is described above see *Directors with Terms Continuing After the 2010 Annual Meeting* .

Mark R. Faris has been an employee of SRI since February 2007. He is currently our Vice President, Chief Financial Officer and Secretary, having previously served as Controller and Vice President until December 23, 2009. Before joining us, Mr. Faris served as Director of Treasury for WellCare Health Plans, Inc. from 2005 to 2007 and as Director of Finance and Controller of Regeneration Technologies, Inc. from 2003 to 2005. Mr. Faris served as an audit senior manager with PricewaterhouseCoopers LLP where he began his career in 1991. Mr. Faris is a certified public accountant.

William J. Braun joined us in March 2009 as Senior Vice President of Operations. Previously, Mr. Braun was with Invacare Corporation beginning in 2005, most recently as the Vice President of North American Operations and prior to that, Vice President of Quality and Regulatory Affairs. From 2000 to 2005, Mr. Braun served as the Director of Manufacturing Operations in Mexico and South America for Tyco Electronics.

David J. McGuire has been an employee of SRI since its incorporation in September 1994. He is currently our Senior Vice President of Sales. He served as our Senior Vice President of Strategic Sourcing from January 2006 until March 2008. Prior to January 2006, Mr. McGuire served in various sales and operational positions at SRI, including as the general manager of our largest reprocessing facility.

CORPORATE GOVERNANCE

General Information About the Board of Directors and Corporate Governance

Our policies and practices comply with existing listing standards of The NASDAQ Stock Market LLC (NASDAQ) and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

Our Board of Directors has determined that five of our seven directors are independent under the listing standards of NASDAQ as of the date of this Proxy Statement, and six of seven of our directors are non-employee directors;

The non-employee members of our Board of Directors meet regularly without the presence of management;

Our Board of Directors has a standing Compensation Committee, Audit Committee, and Nominating and Governance Committee;

Our Board of Directors has determined that each member of the Compensation Committee, the Audit Committee and the Nominating and Governance Committee is independent under the listing standards of NASDAQ;

The Audit Committee meets with management and the auditors to receive information concerning the design and operation of internal controls;

Grant Thornton LLP, our independent accounting firm, reports directly to the Audit Committee; and

On the recommendation of the Audit Committee, our Board of Directors has adopted an Amended and Restated Code of Business Conduct and Ethics for our directors, officers and employees, and a compliance policy to allow for confidential and anonymous reporting of suspected or known violations of these policies.

Our Board of Directors has adopted written charters for its Audit Committee, Compensation Committee, and Nominating and Governance Committee that clearly establish their respective roles and responsibilities. Each charter provides that the respective committee is authorized to obtain advice and independently seek assistance from outside advisors.

We maintain a corporate governance page on our website, which includes key information about our corporate governance practices, including the charters for the Audit Committee, Compensation Committee, and Nominating and Governance Committee, as well as our Amended and Restated Code of Business Conduct and Ethics. The corporate governance page can be found at <http://www.srisurgical.com> by clicking on About Us, Investors then Corporate Governance.

Board Composition

Our Nominating and Governance Committee is responsible for evaluating the composition of our Board of Directors and leading the search for qualified individuals for election as directors. To fulfill this responsibility, the Nominating and Governance Committee reviews the composition of the full Board of Directors to determine the qualifications and areas of expertise needed to further enhance the composition of the Board of Directors and works with management in attracting candidates with those qualifications. Appropriate criteria for Board membership include the following:

Directors should be individuals of high integrity, independence and substantial accomplishments;

Directors should have demonstrated leadership ability and the ability to exercise sound business judgment; and

The background and experience of directors should be in areas important to our Company, such as business, finance, operations, healthcare and distribution industry experience.

In identifying potential director candidates, the Nominating and Governance Committee endeavors to identify candidates with a diversity that reflects the Company's customers and the communities in which the Company operates.

We believe that each of our directors possesses the key attributes above, and the experiences, qualifications and skills below that we have determined are important in light of SRI's business and structure.

Michael D. Israel

Leadership position as President and Chief Executive Officer of Westchester Medical Center

Industry experience as a member of executive leadership team for major health systems

Wayne R. Peterson

Leadership and operating experience as our former Chief Operating Officer

Industry experience as co-founder of our predecessor, Amco Sterile Recoveries, Inc.

James T. Boosales

Leadership and financial experience as our former Executive Vice President and Chief Financial Officer

Global business experience as President, International of Fisher-Price, Inc. and for Kenner Parker Toys, Inc./Tonka Corp. Over 16 years of financial, marketing and general management experience with several General Mills, Inc. companies, including Foot-Joy, Inc. and Parker Brothers.

James M. Emanuel

Approximately 36 years of industry and financial and accounting business experience, including as Chief Financial Officer of national healthcare services company, Lincare, Inc. and Lincare Holdings, Inc.

Outside board experience as a director and Audit Committee Chairman of two private companies in healthcare industry: Senior Home Care, Inc. and Anesthetix Holdings, LLC. Also was a board member of a national healthcare holding company, Lincare Holdings, Inc.

Charles W. Federico

Leadership experience as Group President and Chief Executive Officer of OrthoFix International N.V., as well as President of Smith & Nephew Endoscopy (formerly Dyonics).

Business, industry and marketing experience as Director of Marketing and General Manager of Dyonics and other marketing and management positions with General Foods, Air Products Corporation, Puritan Bennett Corporation and LSE Corporation.

Outside board experience as a director of public and private companies in the health care industry

Affiliation with leading healthcare associations (as trustee of the Orthopaedic Research and Education Foundation and American Sports Medicine Institute)

Charles T. Orsatti

Approximately 40 years of business experience in healthcare industry

Private equity management experience as managing partner of Fairfield Capital Partners, Inc., a fund focused on the healthcare industry

Outside board committee experience as a director of djOrthopedics, Inc., a NYSE-listed orthopedic sports medicine company (until its sale on November 2007), AngioDynamics, Inc., a Nasdaq-listed medical device manufacturer and Biotronic NeuroMonitoring, a private healthcare company

Gerald Woodard

Leadership experience as President of Linvatec subsidiary of ConMed Corporation and Elekta Holdings

Role as our Chief Executive Officer since January 2008

Board Leadership Structure

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We currently have an independent Chairman of the Board of Directors separate from our Chief Executive Officer. Our Board of Directors believes it is important to maintain flexibility in its board leadership structure depending on our needs at the time, but firmly supports having an independent director in a board leadership position at all times. Our Chairman of the Board provides independent leadership of the Board of Directors. Having an independent Chairman or lead director enables non-management directors to raise issues and concerns for board consideration without immediately involving management. The Chairman or lead director also serves as a liaison between the Board of Directors and senior management. Our Board of Directors has determined that the current structure, a Chairman of the Board of Directors, separate from our Chief Executive Officer, is the most appropriate structure at this time.

Board Role in Risk Oversight

Our Board of Directors is responsible for risk oversight. The Board has asked our Audit Committee to work with management to identify key risks and develop and maintain strategies to address them. Management and the Audit Committee will regularly report to the Board of Directors regarding these efforts.

Board Independence

Our Board of Directors has determined that Messrs. Boosales, Emanuel, Federico, Israel and Orsatti are independent under the listing standards of NASDAQ. The Audit Committee, Compensation Committee and Nominating and Governance Committee are each comprised solely of our independent directors. Mr. Peterson is not independent based on his service as a consultant to the Company. Mr. Woodard is not independent based on his service as our Chief Executive Officer. In making its independence determinations, our Board of Directors reviewed transactions and relationships between the director or any member of his immediate family and us or one of our affiliates based on information provided by the director, Company records and publicly available information. In addition, our Board of Directors considered the following types of relationships and transactions: (i) principal employment positions and other public company directorships held by each director; (ii) contracts or arrangements that are ongoing or which existed during any of the past three fiscal years between us and/or our affiliates and any entity for which the non-employee director or his or her immediate family member is an executive officer or ten percent or more shareholder; and (iii) contracts or arrangements that are ongoing or which existed during any of the past three fiscal years between us and/or our affiliates and any other public company for which the director serves as a director.

Board Meetings and Committees of the Board

Our Board of Directors held five meetings, including regularly scheduled and special meetings, during 2009. During 2009, no director attended fewer than 75% of the meetings of the Board of Directors or fewer than 75% of the meetings of any committee of the Board of which he was a member. We invite our Board of Directors to our Annual Meeting of Shareholders, but do not require them to attend. Last year, all of the directors attended our 2009 Annual Meeting. Our Board of Directors has a standing Audit Committee, Compensation Committee, and Nominating and Governance Committee.

Compensation Committee. The Compensation Committee, which currently consists of Messrs. Boosales (chair), Federico, and Orsatti, assists our Board of Directors in making decisions regarding specific compensation plans, salaries, bonuses, and other benefits payable to our executive officers. The Board of Directors has determined that each member of the Compensation Committee is independent under the listing standards of NASDAQ. The Compensation Committee held four meetings during 2009.

The processes and procedures for the consideration and determination of executive compensation are as follows:

The Compensation Committee determines cash compensation for our executive officers with the benefit of a review by our Board of Directors and input from the Chief Executive Officer, regarding compensation of other executive officers.

Our Board of Directors approves equity awards for our executive officers with the benefit of recommendations from the Compensation Committee.

Historically, our Board of Directors has not retained compensation consultants. In establishing compensation for newly engaged executives, our Board of Directors considers recommendations of the Compensation Committee and the executive search firms that assist in recruiting our executives. The Compensation Committee annually gathers and reviews publicly available compensation-related data of similarly situated companies in making its recommendations to our Board of Directors. In 2009, the Compensation Committee engaged Dean Consulting Group, LLC as outside compensation consultant. See *Compensation Discussion and Analysis* beginning on page 17 for additional information about this engagement.

Our Board of Directors has approved a written charter for the Compensation Committee, which the committee reviews annually and updates as appropriate.

Audit Committee. The Audit Committee currently consists of Messrs. Emanuel (chair), Boosales, and Israel. Our Board of Directors has determined that each member of the Audit Committee is independent under the listing standards of NASDAQ, and Messrs. Emanuel and Boosales of the Audit Committee are audit committee financial experts, as that term is defined by the Securities and Exchange Commission (the SEC).

Among other things, the Audit Committee selects and retains (subject to our shareholders' approval) the independent auditors, sets the independent auditors' compensation, reviews and evaluates the results and scope of the audit and other services provided by our independent auditors, reviews reports from management, legal counsel, and third parties relating to legal compliance, and establishes procedures for receipt and treatment of confidential, anonymous submissions by our employees of concerns regarding accounting, auditing, and internal controls matters.

Our Board of Directors has approved a written charter for the Audit Committee, which the committee reviews annually and updates as appropriate. During 2009, the Audit Committee held six meetings.

Nominating and Governance Committee. Our Nominating and Governance Committee, which consists of Messrs. Orsatti (chair), Emanuel, and Federico, provides assistance to the Board of Directors in (i) identifying and recommending qualified director nominees; (ii) evaluating the performance and effectiveness of the Board of Directors and its committees; (iii) evaluating and recommending corporate governance guidelines and practices; and (iv) administering our Related Party Transaction Policies and Procedures. The Nominating and Governance Committee may, in its sole discretion, engage director search firms and may consult with outside advisors to assist it in carrying out its duties to the Company. The Nominating and Governance Committee has the sole authority to approve the fees and other retention terms with respect to any such firms. The Board of Directors has determined that each member of the Nominating and Governance Committee is independent under the listing standards of NASDAQ.

The Nominating and Governance Committee considers candidates for directors suggested by our shareholders, provided that the recommendations are made in accordance with the procedures required under applicable law and described in this Proxy Statement under the heading "Requirements to Submit Proxy Proposals and Director Nominations." Shareholder nominations that comply with these procedures and that meet the criteria outlined above receive the same consideration that the Nominating and Governance Committee's nominees receive.

Our Board of Directors has approved a written charter for the Nominating and Governance Committee, which the Committee reviews annually and updates as appropriate. The Nominating and Governance Committee held four meetings during 2009.

Indemnification

We have entered into indemnification agreements with our executive officers and directors. The indemnification agreements provide, among other things, that we will indemnify such officer or director, under the circumstances and to the extent provided for in the agreements, for expenses, damages, judgments, fines and settlements he or she may be required to pay in actions or proceedings which he or she is or may be made a party to by reason of his or her position as a director, officer or other agent of the Company, and otherwise to the fullest extent permitted under applicable law and our bylaws.

Related Party Transactions Policies and Procedures

On July 31, 2007, our Board of Directors adopted written related party transaction policies and procedures (the Policy). For purposes of the Policy, related party transactions include transactions that involve more than \$50,000 in any calendar year in which the Company is a participant and any related party has a direct or indirect interest, and related party includes our officers, directors or 5 percent shareholders and their immediate family members.

Except as described below, the Nominating and Governance Committee (excluding any interested director) (the Committee) will review the material facts of all related party transactions. The Committee will either approve or disapprove of the entry into the related party transaction after taking into account, among other factors it deems appropriate, whether the related party transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party's interest in the transaction. If advance Committee approval of a related party transaction is not feasible, the Committee will consider, and if it deems appropriate, ratifying the transaction at the Committee's next regularly scheduled meeting.

The following related party transactions are deemed to be pre-approved or ratified by the Committee (subject to the specific requirements and limitations set forth in the Policy):

- (a) employment arrangements with our executive officers;
- (b) compensation arrangements with our directors;
- (c) transactions with companies affiliated with related parties if the amount involved does not exceed the greater of \$50,000 or 2 percent of the Company's total annual revenues;
- (d) charitable contributions that do not exceed the lesser of \$50,000 or 2 percent of the charitable organization's total annual receipts;
- (e) transactions pursuant to which all of our shareholders receive proportional benefits;
- (f) transactions involving competitive bids;
- (g) regulated transactions; and
- (h) banking transactions.

Under the Policy, the Committee may establish guidelines for our management to follow in its ongoing dealings with related parties. The Committee will review and assess, at least annually, the appropriateness of ongoing related party relationships and will confirm compliance with any guidelines.

DIRECTOR COMPENSATION

Directors who are not our current employees receive \$1,000 to attend each meeting of the Board of Directors and each of its committees, and a quarterly retainer of \$6,000 under our Non-Employee Directors' Compensation Plan. Directors who chair the Board of Directors or the following committees receive the following amounts for that service:

Chair of:	Annual Fee
Board of Directors	\$ 5,000
Audit Committee	\$ 4,000
Compensation Committee	\$ 3,000
Nominating and Governance Committee	\$ 3,000

Each non-employee director is granted annually options to purchase 7,500 shares of our common stock as of the date of our Annual Meeting. All options vest ratably over a term of three years, have an exercise price equal to the fair market value of the common stock on the date of grant, and expire ten years after the date of grant.

Effective March 20, 2006, we entered into a Consulting Arrangement with Wayne Peterson to provide advice on matters relating to operations and supply chain management pending our engagement of a permanent senior vice president of operations. When the arrangement extended into the second half of 2007, Mr. Peterson agreed not to receive any meeting fees, quarterly retainers or stock options payable to our non-employee directors pursuant to our Non-Employee Directors Compensation Plan during the remaining term of the Consulting Arrangement. We terminated this Consulting Arrangement effective May 1, 2009.

The following table shows the compensation information for fiscal year 2009 for our non-employee directors:

2009 DIRECTOR COMPENSATION TABLE

Name (a)	Fees Earned or Paid in Cash (\$) (b)	Option Awards (\$) ⁽¹⁾ (d)	All Other Compensation (\$) (g)	Total (\$) (h)
	James T. Boosales	\$ 42,750	\$ 10,125	\$ 6,280(2)
James M. Emanuel	\$ 44,000	\$ 10,125	\$ 6,280(2)	\$ 60,405
Charles W. Federico	\$ 43,250	\$ 10,125		\$ 53,375
Michael D. Israel	\$ 27,000(3)	\$ 36,525(4)		\$ 63,525
Charles T. Orsatti	\$ 42,750	\$ 10,125		\$ 52,875
Wayne R. Peterson	\$ 25,000(5)	\$ 20,250(6)	\$ 101,263(7)	\$ 146,513

- (1) The amounts in column (d) represent the grant date fair value of equity awards computed in accordance with FASB ASC Topic 718 for option awards granted to each non-employee director in 2009. The aggregate number of outstanding option awards held by each non-employee director as of December 31, 2009 is set forth below:

James T. Boosales	42,000 shares
James M. Emanuel	79,000 shares
Charles W. Federico	50,000 shares
Michael D. Israel	27,500 shares
Charles T. Orsatti	42,000 shares
Wayne R. Peterson	42,000 shares

- (2) This amount represents the dollar value of insurance premiums paid by the Company with respect to health insurance.
- (3) Mr. Israel became a member of the Board of Directors on May 21, 2009.
- (4) A one-time grant was awarded to Mr. Israel for accepting the position on the Board of Directors.
- (5) Fees were paid to Mr. Peterson beginning May 1, 2009, the termination date of his consulting agreement with the Company.
- (6) A grant of 7,500 options was awarded to Mr. Peterson for past service during his consulting agreement with the Company.
- (7) This amount includes (i) consulting fees of \$93,000 and (ii) \$8,263 representing the dollar value of insurance premiums paid by the Company with respect to health insurance.

SECURITY OWNERSHIP OF DIRECTORS, OFFICERS, AND PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of common stock as of February 26, 2010 (the Specified Date), with respect to: (i) each of our directors, nominees and the executive officers named in the Summary Compensation Table below, (ii) all of our directors and executive officers, as a group, as defined in the Securities and Exchange Act of 1934 (the Exchange Act), and (iii) each person known by us to own beneficially more than 5% of our common stock.

The number and percentage of shares beneficially owned is determined under rules of the SEC, and the information does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares for which the individual has sole or shared voting power or investment power and also any shares that the individual has the right to acquire by the Specified Date through the exercise of any stock option or other right. Unless otherwise indicated, we believe all persons listed below have sole voting and investment power with respect to all shares beneficially owned by them. A total of 6,485,978 shares of our common stock were issued and outstanding as of the Specified Date.

Beneficial Owner⁽¹⁾	Class of Stock	Shares Beneficially Owned	Percentage of Class Beneficially Owned
James T. Boosales ⁽²⁾	Common	825,500	12.7%
Estate of Lee R. Kemberling	Common	536,012	8.2%
Wayne R. Peterson ⁽³⁾	Common	268,572	4.1%
David J. McGuire ⁽⁴⁾	Common	143,228	2.2%
Gerald Woodard ⁽⁵⁾	Common	135,000	2.1%
James M. Emanuel ⁽⁶⁾	Common	64,000	*
William J. Braun ⁽⁷⁾	Common	58,901	*
Charles W. Federico			