

UNIVERSAL STAINLESS & ALLOY PRODUCTS INC
Form DEF 14A
April 25, 2012
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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

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 Pursuant to §240.14a-12

Universal Stainless & Alloy Products, Inc.

(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):

No fee required.

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(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. 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.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Universal Stainless & Alloy Products, Inc.

600 Mayer Street

Bridgeville, Pennsylvania 15017

April 24, 2012

Dear Stockholders:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of Universal Stainless & Alloy Products, Inc., to be held at 10:00 a.m., local time, on May 16, 2012, at the Southpointe Golf Club, 360 Southpointe Boulevard, Canonsburg, Pennsylvania 15317.

The attached Notice of Annual Meeting of Stockholders and Proxy Statement describe the matters to be acted upon at the Annual Meeting. Please review them carefully.

YOUR VOTE IS IMPORTANT. Whether or not you personally plan to attend the Annual Meeting, please take a few moments now to sign, date and return your proxy in the enclosed postage-paid envelope. Regardless of the number of shares you own, your presence by proxy is important to establish a quorum, and your vote is important for proper corporate governance.

Thank you for your interest in Universal Stainless & Alloy Products, Inc.

Sincerely,

Dennis M. Oates

Chairman of the Board, President and Chief Executive Officer

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Universal Stainless & Alloy Products, Inc.

600 Mayer Street

Bridgeville, Pennsylvania 15017

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 16, 2012

The Annual Meeting of Stockholders will be held on May 16, 2012 beginning at 10:00 a.m., local time, at the Southpointe Golf Club, 360 Southpointe Boulevard, Canonsburg, Pennsylvania 15317.

Only holders of the Company's common stock at the close of business on March 22, 2012 will be entitled to vote at the Annual Meeting. A list of persons who were stockholders as of that date and time will be available for examination by any stockholder at the Annual Meeting and for the ten days prior to the meeting during regular business hours, at the Company's executive offices located at 600 Mayer Street, Bridgeville, PA 15017. Stockholders as of the record date may vote in person or by proxy. At the Annual Meeting we will:

1. Elect a Board of Directors;
2. Vote on an advisory, non-binding resolution to approve the compensation for the Company's named executive officers;
3. Vote to amend the Company's Restated Certificate of Incorporation to increase the authorized number of shares of the Company's common stock from 10,000,000 to 30,000,000;
4. Vote to approve the Company's Omnibus Incentive Plan;
5. Vote to amend the Company's existing Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the plan by 50,000 shares;
6. Vote to ratify the appointment of Schneider Downs & Co., Inc. as the Company's independent registered public accountants for 2012; and
7. Attend to any other business properly presented at the meeting.

Your Board of Directors unanimously recommends that you vote in favor of director nominees described in this Proxy Statement, for the advisory, non-binding resolution to approve the compensation of the Company's named executive officers, in favor of the amendment of the Company's Restated Certificate of Incorporation to increase the authorized number of shares of the Company's common stock from 10,000,000 to 30,000,000, in favor of the amendment and restatement of the Company's Stock Incentive Plan, in favor of the amendment of the Company's existing Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the Plan by 50,000 shares and in favor of the ratification of Schneider Downs & Co., Inc. as the Company's independent registered public accountants for 2012.

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This booklet includes the Universal Stainless & Alloy Products, Inc. proxy statement. Enclosed with this booklet are a proxy card and a return envelope that requires no postage if mailed within the United States. A copy of the Universal Stainless & Alloy Products, Inc. 2011 Annual Report on Form 10-K is also enclosed.

By Order of the Board of Directors,

Paul A. McGrath

Vice President of Administration, General Counsel and Secretary

April 24, 2012

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Proxy Statement

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 16, 2012.

The proxy statement, the 2012 President's Letter and the 2011 Annual Report of Universal Stainless & Alloy Products, Inc. are available to review at: <http://www.RRDEZProxy.com/2012/UniversalStainless>.

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April 24, 2012

UNIVERSAL STAINLESS & ALLOY PRODUCTS, INC.

600 MAYER STREET

BRIDGEVILLE, PENNSYLVANIA 15017

PROXY STATEMENT

For 2012 Annual Meeting of Stockholders

BACKGROUND

This Proxy Statement and the accompanying form of proxy are being furnished in connection with the solicitation by the Board of Directors of Universal Stainless & Alloy Products, Inc., a Delaware corporation ("Universal Stainless" or the "Company"), of proxies to be voted at this Annual Meeting of Stockholders. This Proxy Statement and form of proxy are first being sent or given to the stockholders on or about April 24, 2012. The cost of solicitation of proxies will be borne by Universal Stainless, including expenses incurred in connection with the preparation and mailing of the Proxy Statement. The solicitation will be by mail and may also be made personally and by telephone by directors, officers and employees of Universal Stainless, without any compensation, other than their regular compensation as directors, officers or employees. Arrangements will be made with brokerage houses, banks and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of the Company's common stock, and Universal Stainless will reimburse them for reasonable out-of-pocket expenses incurred by them in connection therewith.

VOTING PROCEDURES

Who May Vote

Universal Stainless common stockholders of record at the close of business on March 22, 2012 are entitled to vote at the Annual Meeting. Stockholders have one vote per share on each matter being voted on.

Voting Methods

Stockholders of record may complete, sign, date and return their proxy cards in the postage-paid envelope provided. If you sign, date and return your proxy card but do not mark any voting selections, your shares represented by your proxy card will be voted as recommended by the Board of Directors.

If you hold your shares in a broker, bank or other nominee account, you are a beneficial owner of Universal Stainless common stock. In order to vote your shares, you must give voting instructions to the nominee holder of your shares. Universal Stainless asks the nominee holders to obtain voting instructions from the beneficial owners of shares. Proxies that are transmitted by nominee holders on behalf of beneficial owners will be voted as instructed by the nominee holder.

Finally, you may vote in person if you attend the Annual Meeting. You may obtain directions to attend the Annual Meeting and vote in person by contacting Paul A. McGrath, Secretary, at (412) 257-7600.

We urge you to return the proxy card promptly.

Revoking Your Proxy

You may revoke your proxy at any time before it is voted at the Annual Meeting by:

- notifying the Secretary of Universal Stainless in writing that you have revoked your proxy;
- sending a revised proxy dated later than the earlier proxy; or

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voting in person at the Annual Meeting.

Quorum and Voting Information

A quorum is required to conduct business at the Annual Meeting. As of the record date, 6,851,684 shares of Universal Stainless common stock were issued and outstanding. A majority of the outstanding shares, present in person or represented by proxy, constitutes a quorum. If you submit a properly executed proxy card, even if you abstain from voting or withhold votes from director nominees, you will be considered part of the quorum. Broker non-votes also count as shares present for purposes of determining whether a quorum is present.

Abstentions are counted in tabulations of the votes cast by stockholders on each proposal (other than with regard to the election of directors) and will have the effect of a negative vote. Brokers who hold shares in street name for customers have the authority to vote only on certain routine matters in the absence of instruction from the beneficial owners. A broker non-vote occurs when the broker does not have the authority to vote on a particular proposal in its discretion in the absence of voting instructions. The ratification of the appointment of Schneider Downs & Co. as the Company's independent registered public accountants is considered a routine matter with respect to which brokers will have the authority to vote in the absence of voting instructions. Brokers will not have the authority in the absence of voting instructions to vote in the election of directors or with respect to the approval of the advisory, non-binding resolution to approve the compensation for the Company's named executive officers, the approval of an amendment to the Company's Restated Certificate of Incorporation to increase the authorized number of shares of the Company's common stock from 10,000,000 to 30,000,000, the approval of the Company's Omnibus Incentive Plan or the approval of the amendment of the Company's existing Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the plan by 50,000 shares. Under applicable Delaware law, broker non-votes will not be counted for purposes of determining whether any proposal has been approved and are not expected to have any effect on the outcome of any proposal to be considered at the Annual Meeting, other than the proposal to approve the amendment of the Company's Restated Certificate of Incorporation to increase the authorized number of shares of the Company's common stock from 10,000,000 to 30,000,000, with respect to which a broker non-vote will have the effect of a negative vote.

The affirmative vote of a plurality of the shares of common stock represented in person or by proxy at the Annual Meeting and entitled to vote thereon is required for the election of directors. With regard to the election of directors, votes may be cast in favor of nominees or withheld.

Each of (i) the approval of the advisory, non-binding resolution to approve the compensation for the Company's named executive officers, (ii) the approval of the Company's Omnibus Incentive Plan, (iii) the approval of the amendment of the Company's existing Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the plan by 50,000 shares and (iv) the ratification of the appointment of Schneider Downs & Co., Inc. as the Company's independent registered public accounts for 2012 require the affirmative vote of a majority of the shares of common stock present and entitled to vote thereon at the meeting. An abstention will have the effect of a negative vote with respect to these proposals.

The approval of the amendment of the Company's Restated Certificate of Incorporation to increase the authorized number of shares of the Company's common stock from 10,000,000 to 30,000,000 requires the affirmative vote of a majority of the outstanding shares of the Company's common stock entitled to vote thereon at the meeting. An abstention will have the effect of a negative vote with respect to this proposal.

Confidential Voting Policy

Universal Stainless maintains a policy of keeping stockholder votes confidential. Overall voting results for the matters considered at the Annual Meeting will be disclosed publicly in accordance with applicable rules and regulations of the Securities and Exchange Commission.

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PROPOSALS YOU MAY VOTE ON

1. Election of Directors

There are five nominees for election this year. Detailed information on each nominee is provided under the heading "Nominees for Election as Directors." All directors are elected annually and serve a one-year term, until the next Annual Meeting or until their successors are duly elected and qualified. If any candidate is unable to stand for election at this Annual Meeting, the Board may reduce its size or designate a substitute. If a substitute is designated, shares represented by validly submitted and unrevoked proxies that would have been voted for the original candidate will be voted for the substituted candidate.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE NOMINEE DIRECTORS.

2. Approval of the Compensation for the Named Executive Officers in an Advisory, Non-Binding Vote

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 enables our stockholders to vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material.

As described in detail under the heading "Compensation Discussion and Analysis," our executive compensation programs are designed to provide compensation levels to attract and retain exceptional managerial talent for the present and future and to offer incentive-based programs (i) in order to challenge managers to support the corporate business goals from within their area of authority and (ii) in the interests of Company stockholders. Please read the "Compensation Discussion and Analysis" for additional details about our executive compensation programs, including information about the fiscal year 2011 compensation of our named executive officers.

Highlights of our executive compensation programs include the following:

- the Compensation Committee's intention is for a substantial portion of the named executive officers' compensation to be at risk;
- the balance between annual and longer term compensation achieves consistency in goal setting that considers both short term results and building a platform for future profitable growth;
- incentive compensation is based on measurable and objective financial and business metrics;
- award opportunities under the incentive programs are contingent on meeting performance targets that, in the view of the Compensation Committee, are significant challenges to management; and
- the Company has stock ownership guidelines for its officers, including all of the named executive officers, which call for a minimum level of stock ownership, which is designed to further link their interests to increased stockholder value.

The Compensation Committee continually reviews the compensation programs for our named executive officers to ensure that they achieve the desired goal of offering total compensation consisting of base salary and incentive opportunities that are performance-oriented and linked to the interests of stockholders. We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we will ask our stockholders to vote **FOR** the following resolution at the Annual Meeting:

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RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders, pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in that proxy statement.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board of Directors. Our Board of Directors and our Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL, ON AN ADVISORY, NON-BINDING BASIS, OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE COMPENSATION DISCUSSION AND ANALYSIS, THE COMPENSATION TABLES AND ANY RELATED MATERIAL DISCLOSED IN THIS PROXY STATEMENT.

3. Approval of an Amendment of the Company's Restated Certificate of Incorporation to Increase the Authorized Number of Shares of the Company's Common Stock from 10,000,000 to 30,000,000

Background

The Company's stockholders are being asked to approve an amendment to the Company's Restated Certificate of Incorporation (the Certificate of Incorporation) to increase the authorized number of shares of its common stock from 10,000,000 shares to 30,000,000 shares (the Amendment). The Amendment was approved, subject to stockholder approval, by the Company's Board of Directors on February 3, 2012. The complete text of the proposed form of the Amendment is set forth in Appendix A to this proxy statement. The proposed form of the Amendment set forth in Appendix A is subject to revision for such changes as may be required by the Secretary of State of the State of Delaware and other changes consistent with this proposal that the Company may deem necessary or appropriate. The Company intends to file the Amendment with the Secretary of State of the State of Delaware promptly following stockholder approval of this proposal.

In connection with the Company's initial public offering, its Certificate of Incorporation was amended and restated in 1994 to set the number of authorized shares of the Company's common stock at 10,000,000 shares. The Board of Directors at this time believes that it is in the best interests of the Company and its stockholders to effect the Amendment because the Board of Directors does not believe that the currently available number of unissued and unreserved shares provides sufficient flexibility for corporate action in the future in support of the Company's business. As of March 22, 2012 there were:

- 6,851,684 shares of common stock issued and outstanding;
- 424,021 shares of common stock reserved for issuance upon the conversion of the Company's currently outstanding convertible notes, which were issued in August 2011;
- 720,100 shares of common stock reserved for issuance in connection with the Company's currently outstanding equity awards; and
- 312,318 shares of common stock reserved for issuance in connection with future equity awards that the Company may make under its Stock Incentive Plan.

The Board of Directors also believes that the availability of the additional authorized shares for issuance from time to time is desirable in order to avoid the costs and delays associated with repeated separate amendments to the Certificate of Incorporation in the future as opportunities arise. Neither the Company nor the Board of Directors currently has any definitive understandings, arrangements or agreements, either oral or written, regarding the issuance of the additional authorized shares of common stock.

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Purpose and Effects of Proposed Amendment

The Board of Directors has determined that it is advisable and in the best interests of the Company and its stockholders to increase the number of shares of the Company's authorized common stock to 30,000,000 shares so that the Company will have additional authorized but unissued shares of common stock in an amount adequate to provide for the Company's potential future needs. The Board of Directors also believes that it is in the best interests of the Company and its stockholders to have additional shares of common stock authorized at this time to alleviate the expense and delay of holding future special meetings of stockholders to authorize additional shares of common stock when and if the need arises. If this proposal is approved, the additional shares of common stock will be available for issuance from time to time in the discretion of the Board of Directors without further stockholder action, except as may be required, for example, for a particular transaction or by applicable law or stock exchange rules. The additional shares may be used for any proper corporate purpose, including, among other things, future acquisitions of property or securities of other companies, stock dividends, stock splits, stock options, settlements of conversions of convertible debt and equity financings. The Company also is likely to issue additional equity securities in the future for the purpose of providing incentive compensation to employees, officers and directors.

The additional shares of common stock to be authorized will become part of the existing class of the Company's common stock, and the Amendment will not affect the terms of any currently outstanding shares of the Company's common stock. The Amendment also will not affect the rights of the holders of currently outstanding shares of the Company's common stock, except for effects such as dilution of the earnings per share and voting rights of current holders of common stock, which would occur upon issuance by the Company of any newly authorized shares of its common stock.

Anti-Takeover Effects of Provisions of the Company's Certificate of Incorporation and By-laws

Although the Board of Directors is motivated solely by business and financial considerations in proposing this Amendment, stockholders nevertheless should be aware that the overall effect of the increase in the number of authorized shares of the Company's common stock may be to render more difficult or to dissuade a merger, tender offer or other takeover attempt. This would be true even if a given transaction may be considered to be favorable to the Company's non-management stockholders. For example, the Company could use the additional shares of common stock to oppose a hostile takeover attempt or delay or prevent changes of control or changes in or removal of its management. The issuance of a significant amount of additional shares of common stock would effectively dilute the voting power of the other outstanding shares and increase the potential cost to acquire control of the Company.

The Company is not aware of any current threat or attempt by any party to accumulate a material number of shares of the Company's common stock or otherwise gain control of the Company and is not presenting this proposal with the intent that it be utilized as a type of anti-takeover device. The proposal is being made at this time solely to provide the Company with greater flexibility to issue shares for general corporate purposes that may be identified in the future.

Summary of Terms of the Company's Common Stock

The additional shares of common stock for which authorization is being sought will have the same par value, voting rights and rights to dividends and distributions as, and will be identical in all other respects to, the shares of the Company's common stock currently authorized. Holders of the Company's common stock have the right to share ratably in dividends on shares of common stock as may be declared by the Board of Directors. Upon liquidation or dissolution, each outstanding share of common stock will be entitled to share equally in the Company's assets legally available for distribution to stockholders after the payment of all debts and other liabilities, subject to any superior rights of the holders of preferred stock. Common stockholders have no pre-emptive rights, and there are no conversion or redemption privileges or sinking fund provisions with respect to the Company's common stock. The Company's common stock does not have cumulative voting rights associated with it.

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THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF AN AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF THE COMPANY'S COMMON STOCK FROM 10,000,000 TO 30,000,000.

4. Approval of the Company's Omnibus Incentive Plan

The Company instituted its Stock Incentive Plan (the Option Plan) in September 1994, and the Option Plan most recently was most recently amended in 2010. An aggregate of 1,750,000 shares of common stock is currently authorized for issuance under the Option Plan. As of December 31, 2011, options (net of cancelled or expired options) covering an aggregate of 1,447,682 shares of the Company's common stock have been granted under the Option Plan, of which options to purchase 727,582 shares have been exercised.

The Option Plan provides for awards of incentive stock options and nonqualified stock options to our eligible employees and nonqualified stock options to certain eligible nonemployee directors. The Board of Directors believes that the Option Plan has been effective in attracting qualified employees and directors to the Company and its affiliates and in providing long-term incentives and rewards to those individuals responsible for the Company's growth and success. The Board further believes that the awards granted under the Option Plan have provided an incentive that aligns the economic interests of plan participants with those of our stockholders.

Stock options have long been an integral and essential component of competitive compensation packages for companies in our industry. However, changes in accounting and tax policies, as well as evolution of the employment marketplace, has contributed to the continuing development of innovative compensation practices involving several alternative forms of equity-based incentives. In view of these developments, the Board believes that the adoption and approval of a new long-term incentive plan permitting the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, performance shares and other stock- and cash-based incentive awards to employees, consultants and directors of the Company and its affiliates will provide the Company with a flexible and dynamic long-term incentive compensation structure and is in the best interests of the Company.

Accordingly, on February 3, 2012, the Board adopted the Omnibus Incentive Plan (the Incentive Plan), subject to the approval of the Company's stockholders. Stockholder approval of the Incentive Plan is desired, among other reasons, to ensure the tax deductibility by the Company of awards under the Incentive Plan for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and to meet the listing requirements of the Nasdaq Global Select Market.

Stockholders are requested in this Proposal No. 4 to approve the new Incentive Plan, which upon approval will replace the Option Plan. However, the Option Plan will continue in effect after approval of the Incentive Plan for so long as and solely to the extent necessary to administer previously-granted awards that remain outstanding under such plan. If the Incentive Plan is not approved by the stockholders, it will not become effective and the Company may continue to grant awards under the Option Plan in accordance with its terms.

The affirmative vote of the holders of a majority of the shares of common stock that are represented in person or by proxy and entitled to vote at the meeting will be required to approve the Incentive Plan. As a result, abstentions will have the same effect as negative votes. The Company reserves the right to adopt such other compensation plans and programs from time to time as it deems appropriate and in the best interests of the Company and its stockholders.

The Incentive Plan reflects the following key changes from the Option Plan:

Additional Shares Reserved for Grant. The Incentive Plan reserves a total of 712,318 shares of the Company's common stock to be available for grants under the Incentive Plan, which consists of the 312,318 shares that remain available for grant under the Option Plan plus an additional 400,000 shares.

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Addition of Restricted Stock, Stock Units and Other Stock-Based Awards. Awards available for grant under the Incentive Plan also include restricted stock, restricted stock units and other stock-based awards.

Permit Awards to Consultants. The Incentive Plan permits awards to be granted to consultants providing services to the Company and its affiliates, as well as employees and non-employee directors.

Minimum Vesting and Performance Periods. Stock-based awards generally will vest no sooner than over a three-year period. However, if an award is performance-based, the minimum vesting schedule or forfeiture period will be one year. These vesting and forfeiture requirements are subject to special rules or terms that may apply to director awards or in connection with a participant's death, disability, or involuntary termination or a change in control of the Company. Also, the Committee will have discretion to award up to 4% of the shares reserved under the Incentive Plan without regard to these minimum vesting or forfeiture periods.

Designation of Available Performance Goals. The Plan provides a set of designated financial or other performance metrics that may be used to make performance-based awards under the Incentive Plan.

Elimination of Repricing. The Incentive Plan expressly prohibits the repricing of options without stockholder approval.

Inclusion of Clawback Provisions. The Plan provides that incentive awards will be subject to clawback requirements in the event of a restatement of the Company's financials or under other circumstances as may be required under Company policies and applicable law.

The material features of the Incentive Plan are summarized below. The summary is qualified in its entirety by reference to the specific provisions of the Incentive Plan, the full text of which is set forth as [Appendix B](#) to this proxy statement.

Purpose and Function

The purpose of the Incentive Plan is to attract and retain highly qualified persons to serve as non-employee directors, employees and consultants of the Company, and to promote greater ownership by such individuals in the Company in order to align the interests of such individuals more closely with the interests of the Company's stockholders.

Eligibility and Limitation on Awards

The Committee (as defined below) may grant awards to any employee, director or consultant providing services to the Company or a participating subsidiary. However, a nonemployee director who owns, individually or together with family members, in excess of 5% of the Company's outstanding stock is not eligible to receive awards under the Incentive Plan. It is presently contemplated that approximately 50 persons will be eligible to receive awards.

The maximum awards that can be granted under the Incentive Plan to a single participant in any calendar year will be 100,000 shares of stock in the form of stock options, restricted stock, restricted stock units, performance awards and other stock-based awards, and \$900,000 in the form of cash-based incentive awards.

Administration

The Incentive Plan is administered by the Compensation Committee of the Board (the "Committee"). The Committee has the authority to determine, within the limits of the express provisions of the Incentive Plan, the individuals to whom awards will be granted, the nature, amount and terms of such awards and the objectives and conditions for earning such awards. The Committee generally has discretion to delegate its authority under the Incentive Plan to another committee of the Board or a subcommittee, or to such other party or parties, including officers of the Company, as the Committee deems appropriate.

Types of Awards

Awards under the Plan may include incentive stock options, non-qualified stock options, restricted shares of common stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards.

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Stock Options. The Committee may grant to a participant options to purchase Company common stock that qualify as incentive stock options for purposes of Section 422 of the Code (incentive stock options), options that do not qualify as incentive stock options (non-qualified stock options) or a combination thereof. The terms and conditions of stock option grants, including the quantity, exercise price, vesting periods, and other conditions on exercise will be determined by the Committee.

The exercise price for stock options may not be less than the fair market value of the Company's common stock on the date such stock options are granted, and the exercise period may not exceed ten years from the date of grant. On April 11, 2012, the market price per share of the Company's common stock was \$42.50 based on the closing price of the common stock on the Nasdaq Global Select Market on such date.

Restricted Stock and Restricted Stock Unit. The Committee may award to a participant shares of common stock subject to specified restrictions, referred to as restricted stock herein. The Committee also may award to a participant restricted stock units representing the right to receive shares of common stock or the value of shares of stock in the future. Shares of restricted stock and restricted stock units are subject to forfeiture if the participant does not meet certain conditions such as continued employment over a specified period or the attainment of specified performance targets over such period. With respect to participants subject to Section 162(m) of the Code, the applicable performance targets for awards of restricted stock or restricted stock units will be established, in the Committee's discretion, based on one or more of the Performance Goals described under the section titled *Performance Goals* below.

Performance Awards. The Committee may grant performance awards to participants under such terms and conditions as the Committee deems appropriate. A performance award entitles a participant to receive a payment from the Company, the amount of which is based upon the attainment of predetermined performance targets over a specified award period. Performance awards may be paid in cash, shares of common stock or a combination of cash and shares, as determined by the Committee.

Award periods will be established at the discretion of the Committee. The performance targets will also be determined by the Committee. With respect to participants subject to Section 162(m) of the Code, the applicable performance targets will be established, in the Committee's discretion, based on one or more of the Performance Goals described under the section titled *Performance Goals* below. To the extent that a participant is not subject to Section 162(m) of the Code, when circumstances occur that cause predetermined performance targets to be an inappropriate measure of achievement, the Committee, at its discretion, may adjust the performance targets or the amount or value of the performance award.

Other Stock-Based Awards. The Committee may grant equity-based or equity-related awards, referred to as other stock-based awards, other than options, restricted stock, restricted stock units, or performance awards. The terms and conditions of each other stock-based award will be determined by the Committee. Payment under any other stock-based awards will be made in common stock or cash, as determined by the Committee.

Cash-Based Awards. The Committee may grant cash-based incentive compensation awards, which would include performance-based annual cash incentive compensation to be paid to covered employees subject to Section 162(m) of the Code. The terms and conditions of each cash-based award will be determined by the Committee. The following material terms will be applicable to performance-based cash awards granted to covered executives subject to Section 162(m):

- The class of persons covered consists of those senior executives of the Corporation who are from time to time determined by the Committee to be subject to Section 162(m) of the Code (the covered employees).
- The targets for annual incentive payments to covered employees will consist only of one or more of the Performance Goals discussed under the section titled *Performance Goals* below. Use of any other target will require ratification by the stockholders if failure to obtain such approval would jeopardize tax

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deductibility of future incentive payments. Such performance targets will be established by the Committee on a timely basis to ensure that the targets are considered preestablished for purposes of Section 162(m) of the Code.

- In administering the incentive program and determining incentive awards, the Committee will not have the flexibility to pay a covered executive more than the incentive amount indicated by his or her attainment of the performance target under the applicable payment schedule. The Committee will have the flexibility, based on its business judgment, to reduce this amount.
- The cash incentive compensation feature of the Incentive Plan does not preclude the Board or the Committee from approving other incentive compensation arrangements for covered employees.

Annual Stock Option Awards to Non-Employee Directors. In addition to discretionary awards that may be granted to participants under the Incentive Plan, the Incentive Plan provides for annual stock option grants to non-employee directors who do not own in excess of 5% of the Company's outstanding stock (the Annual Director Option). Each Annual Director Option will provide for the right to purchase 10,000 shares of common stock and is granted in four equal installments of 2,500 shares. The installments are granted on May 31, August 31, November 30 and February 28 of each year. The per share exercise price is equal to the closing price of a share of the Company's common stock for the trading day immediately preceding the date of the grant. Each installment of the Annual Director Option vests in three annual installments beginning on the first anniversary of the applicable grant date. Each Annual Director Option will expire on the tenth anniversary of the applicable grant date.

Performance Goals

For participants who are subject to Section 162(m) of the Code, the performance targets applicable to certain awards granted to such individuals under the Incentive Plan may be established by the Committee based on one or more of the following measures (the Performance Goals):

- net earnings or net income (before or after taxes);
- earnings per share or earnings per share growth, total units or unit growth;
- net sales, sales growth, total revenue, or revenue growth;
- net operating profit;
- return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales, or revenue);
- cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment);
- earnings before or after taxes, interest, depreciation, and/or amortization;
- gross or operating margins;
- share price or relative share price (including, but not limited to, growth measures and total shareholder return);

- market share or change in market share;
- customer retention or satisfaction;
- working capital targets;
- safety performance measures;
- quantifiable, objective measures of individual performance relevant to the particular individual's job responsibilities.

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The Performance Goals may be measured with respect to the Company or any one or more of its subsidiaries, divisions or affiliates, either in absolute terms or as compared to another company or companies, or an index established or designated by the Committee. The above terms will have the same meaning as in the Company's financial statements, or if the terms are not used in the Company's financial statements, as applied pursuant to generally accepted accounting principles, or as used in the industry, as applicable.

Transferability

No awards may be transferred except upon the participant's death, by will or the laws of descent and distribution, or in certain instances to or for the benefit of designated family members of the participant.

Awards Granted Under the Plan

Upon adoption of the Incentive Plan, the Committee approved restricted stock unit awards in the aggregate amount of 35,000 units to 5 employees, with the named executive officers receiving 32,142 of the aggregate restricted stock units, subject to stockholder approval of the Incentive Plan. No other specific awards have been granted or are contemplated under the Incentive Plan. In addition, the exact types and amounts of any future awards to be made to any eligible participants pursuant to the Incentive Plan are not presently determinable. As a result of the discretionary nature of the Incentive Plan, it is not possible to state who the participants in the Incentive Plan will be in the future or the number of options or other awards to be received by a person or group.

The stock awards granted to the Company's named executive officers under the Option Plan as of December 31, 2011 are set forth in the Outstanding Equity Awards at Fiscal Year-End Table found under the Executive Compensation section of this proxy statement. As of March 31, 2012, (i) the Company's executive officers as a group (5 officers) held outstanding stock option grants for 222,500 shares, (ii) the Company's nonemployee directors as a group (4 directors) held outstanding stock option grants for 263,800 shares, and (iii) all of our employees other than our executive officers (34 employees) held outstanding stock option grants for 233,800 shares.

Shares Subject to the Plan

An aggregate of 712,318 shares (312,318 shares carried over from the Option Plan and 400,000 additional shares reserved for the Incentive Plan) of the Company's common stock is reserved for issuance and available for the grant of awards under the Incentive Plan, including incentive stock options. With respect to awards made under the Incentive Plan, shares of common stock underlying awards that are forfeited or canceled (as a result, for example, of the lapse of an option or a forfeiture of restricted stock) will be available for additional grants under the Incentive Plan. In addition, shares surrendered to or withheld by the Company in payment or satisfaction of the exercise price of an award or any tax withholding obligation with respect to an award will be available for the grant of new awards under the Incentive Plan. Shares to be issued or purchased under the Incentive Plan will be authorized but unissued shares of common stock or issued shares of stock that shall have been reacquired by the Company. Shares issued with respect to awards assumed by the Company in connection with acquisitions do not count against the total number of shares available for new awards under the Incentive Plan.

Antidilution Protection

In the event of any corporate event or transaction that results in a change in the capital structure of the Company, including a change resulting from a stock dividend or stock split, or combination or reclassification of shares, the Board of Directors is empowered to make such equitable adjustments with respect to awards or any provisions of the Incentive Plan as it deems necessary and appropriate, including, if necessary, any adjustments in the maximum number of shares of common stock subject to the Incentive Plan, the number of shares of common stock subject to and the exercise price of an outstanding award, or the maximum number of shares that may be subject to one or more awards granted to any one recipient during a calendar year.

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Amendment and Termination

The Board of Directors may at any time amend or terminate the Incentive Plan, provided that no such action may be taken that adversely affects any rights or obligations with respect to any outstanding awards under the Incentive Plan without the consent of the recipient. No awards may be made under the Incentive Plan after the tenth anniversary of its effective date. Certain provisions of the Incentive Plan relating to performance-based awards under Section 162(m) of the Code will expire on the fifth anniversary of the effective date.

No Repricing

The Incentive Plan specifically prohibits the repricing of stock options without stockholder approval. For this purpose, a repricing means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms of a stock option to lower its exercise price; (ii) any other action that is treated as a repricing under generally accepted accounting principles; and (iii) repurchasing for cash or canceling a stock option at a time when its exercise price is greater than the fair market value of the underlying stock in exchange for another award, unless the cancellation and exchange occurs in connection with a change in capitalization or similar change. Such cancellation and exchange would be considered a repricing regardless of whether it is treated as a repricing under generally accepted accounting principles and regardless of whether it is voluntary on the part of the participant.

Federal Income Tax Consequences

The U.S. federal income tax consequences of the issuance and exercise of awards under the Incentive Plan are summarized below. The following information is only a summary of the tax consequences of the awards, and participants should consult with their own tax advisors with respect to the tax consequences inherent in the ownership or exercise of the awards, and the ownership and disposition of any underlying securities.

Incentive Stock Options. A participant who is granted an incentive stock option will not recognize any taxable income for federal income tax purposes either on the grant or exercise of the incentive stock option. If the participant disposes of the shares purchased pursuant to the incentive stock option more than two years after the date of grant and more than one year after the exercise of the option (the required statutory holding period), (a) the participant will recognize long-term capital gain or loss, as the case may be, equal to the difference between the selling price and the option price; and (b) the Company will not be entitled to a deduction with respect to the shares of stock so issued. If the holding period requirements are not met, any gain realized upon disposition will be taxed as ordinary income to the extent of the excess of the lesser of (i) the excess of the fair market value of the shares at the time of exercise over the option price, and (ii) the gain on the sale. Also in that case, the Company will be entitled to a deduction in the year of disposition in an amount equal to the ordinary income recognized by the participant. Any additional gain will be taxed as short-term or long-term capital gain depending upon the holding period for the stock. A sale for less than the option price results in a capital loss. The excess of the fair market value of the shares on the date of exercise over the option price is, however, includable in the option holder's income for alternative minimum tax purposes.

Nonqualified Stock Options. A participant who is granted a nonqualified stock option under the Incentive Plan will not recognize any income for federal income tax purposes on the grant of the option. Generally, on the exercise of the option, the participant will recognize taxable ordinary income equal to the excess of the fair market value of the shares on the exercise date over the option price for the shares. The Company generally will be entitled to a deduction on the date of exercise in an amount equal to the ordinary income recognized by the participant. Upon disposition of the shares purchased pursuant to the stock option, the participant will recognize long-term or short-term capital gain or loss, as the case may be, equal to the difference between the amount realized on such disposition and the basis for such shares, which basis includes the amount previously recognized by the participant as ordinary income.

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Restricted Stock. A participant will not be taxed at the date of an award of restricted stock, but will be taxed at ordinary income rates on the fair market value of any restricted shares as of the date that the restrictions lapse, unless the participant, within 30 days after transfer of such restricted shares to the participant, elects under Section 83(b) of the Code to include in income the fair market value of the restricted shares as of the date of such transfer. If the participant makes the election under Section 83(b) of the Code, the Company will be entitled to a corresponding deduction. Any disposition of shares after restrictions lapse will be subject to the regular rules governing long-term and short-term capital gains and losses, with the basis for this purpose equal to the fair market value of the shares at the end of the restricted period (or on the date of the transfer of the restricted shares, if the employee elects to be taxed on the fair market value upon such transfer). To the extent dividends are payable during the restricted period under the applicable award agreement, any such dividends will be taxable to the participant at ordinary income tax rates and will be deductible by the Company unless the participant has elected to be taxed on the fair market value of the restricted shares upon transfer, in which case they will thereafter be taxable to the employee as dividends and will not be deductible by the Company.

Restricted Stock Units. A participant will normally not recognize taxable income upon an award of restricted stock units, and the Company will not be entitled to a deduction until the lapse of the applicable restrictions. Upon the lapse of the restrictions and the issuance of the earned shares, the participant will recognize ordinary taxable income in an amount equal to the fair market value of the common stock received and the Company generally will be entitled to a deduction in the same amount.

Performance Awards, Other Stock-Based Awards and Cash-Based Awards. Normally, a participant will not recognize taxable income upon the grant of performance awards, other stock-based awards and cash-based awards. Subsequently, when the conditions and requirements for the grants have been satisfied and the payment determined, any cash received and the fair market value of any common stock received in settlement of such awards will constitute ordinary income to the participant. The Company generally also will then be entitled to a deduction in the same amount.

Effective Date

The Incentive Plan will be effective on May 17, 2012, if approved by the stockholders of the Company. If the stockholders do not approve the Incentive Plan, it will not become effective. Instead, the existing Option Plan and all outstanding awards in effect under the Option Plan will continue, and new awards may be granted under the Option Plan up to the number of shares previously reserved for issuance under the Plan and otherwise in accordance with its terms.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2011 with respect to Company's equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
Stock Incentive Plan	720,100	\$ 25.19	312,318
Employee Stock Purchase Plan			18,516
Equity compensation plans not approved by security holders			
Total	720,100	\$ 25.19	330,834

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THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE COMPANY'S OMNIBUS INCENTIVE PLAN.

5. APPROVAL OF AMENDMENT OF EMPLOYEE STOCK PURCHASE PLAN

On February 3, 2012, the Board of Directors approved an amendment to the Company's existing Employee Stock Purchase Plan (the "ESPP") to increase the number of shares reserved for issuance under the ESPP by 5