

NORTECH SYSTEMS INC  
Form DEF 14A  
March 24, 2015

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  X

Filed by a Party other than the Registrant  O

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

Nortech Systems Incorporated  
(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.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**To be Held May 6, 2015**

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**TO THE SHAREHOLDERS OF NORTECH SYSTEMS INCORPORATED:**

The Annual Meeting of Shareholders of Nortech Systems Incorporated (the Company) will be held at the Wayzata Country Club, 200 West Wayzata Boulevard, Wayzata, Minnesota, on May 6, 2015, at 3:00 p.m., for the following purposes:

1. To elect seven members of the Board of Directors to serve for a one-year term and until their successors are elected and qualify;
2. To approve, on an advisory basis, the compensation of our named executive officers (referred to as the Say-on-Pay proposal);
3. To approve the Company's Restated Equity Appreciation Rights Plan; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on March 11, 2015, will be entitled to notice of and to vote at the meeting or any adjournment thereof.

**Important Notice regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on May 6, 2015: The Notice and Proxy Statement and Annual Report on Form 10-K are available online at [www.proxyvote.com](http://www.proxyvote.com).**

**YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING. WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE. IF YOU ATTEND THE MEETING, YOU MAY REVOKE THE PROXY AND VOTE YOUR SHARES IN PERSON.**

Your attention is called to the accompanying Proxy Statement.

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March 27, 2015

By Order of the Board of Directors  
Martin R. Rosenbaum  
*Secretary*

**Nortech Systems Incorporated**

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**PROXY STATEMENT**

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**ANNUAL MEETING OF SHAREHOLDERS, MAY 6, 2015**

This Proxy Statement is furnished to shareholders of NORTECH SYSTEMS INCORPORATED, a Minnesota corporation (the Company), in connection with the solicitation on behalf of the Company's Board of Directors of proxies for use at the annual meeting of shareholders to be held on May 6, 2015, and at any adjournment thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

The address of the principal executive office of the Company is 1120 Wayzata Boulevard East, Suite 201, Wayzata, Minnesota 55391. We will begin mailing this proxy statement and proxy card to shareholders on or about March 27, 2015.

**SOLICITATION AND REVOCATION OF PROXIES**

The Company will pay the costs and expenses of solicitation of proxies. In addition to the use of the mails, directors, officers and regular employees of the Company may solicit proxies personally or by telephone or letter with extra compensation. The Company will reimburse brokers and other custodians, nominees or fiduciaries for their expenses in forwarding proxy material to principals and obtaining their proxies.

Proxies in the form enclosed are solicited on behalf of the Board of Directors. Any shareholder giving a proxy in this form may revoke it at any time before it is exercised. Such proxies, if received in time for voting and not revoked, will be voted at the annual meeting in accordance with the specifications indicated on the proxy.

**VOTING RIGHTS AND REQUIREMENTS**

Only shareholders of record as of the close of business on March 11, 2015 will be entitled to sign proxies or to vote. On that date, there were 2,742,992 shares issued, outstanding and entitled to vote. Each share of Common Stock is entitled to one vote. A majority of the outstanding shares present in person or by proxy at the meeting is required to transact business, and constitutes a quorum for voting on items at the meeting. If you vote, your shares will be part of the quorum. Abstentions and broker non-votes will be counted as being present at the meeting in determining the quorum, but neither will be counted as a vote in favor of a matter. A broker non-vote is a proxy submitted by a bank, broker or other custodian that does not indicate a vote for some of the proposals because the broker does not have or does not exercise discretionary voting authority on certain types of proposals and has not received instructions from its client as to how to vote on those proposals.

**Vote Required**

*Election of Directors* The affirmative vote of a plurality of the shares of Common Stock present in person or by proxy and entitled to vote at this annual meeting is required for the election to the Board of each of the nominees for director. Shareholders do not have the right to cumulate their votes in the election of directors. Plurality means that the individuals who

receive the greatest number of votes cast. For are elected as directors. The approval of the number of directors requires the affirmative vote of a majority of the votes cast at the meeting by shareholders who are entitled to vote.

*Say-on-Pay* The advisory vote on executive compensation in Item 2 is not binding on us; however, we will consider the shareholders to have approved our executive compensation if the number of shares voted For the proposal exceed the number of shares voted Against the proposal. A shareholder who abstains with respect to this proposal will have no effect on its outcome.

*Restated Equity Appreciation Rights Plan* The approval of the Restated Equity Appreciation Rights Plan requires the affirmative vote of a majority of the votes cast at the meeting by shareholders who are entitled to vote. An abstention by a shareholder with respect to this proposal will have the same effect as a vote Against the proposal.

*Routine Versus Non-Routine Matters.* Brokers cannot vote on their customers' behalf on non-routine proposals such as Item 1, the election of directors, Item 2, the advisory vote on executive compensation and Item 3, the approval of the Restated Equity Appreciation Rights Plan. Because brokers require their customers' direction to vote on such non-routine matters, it is critical that shareholders provide their brokers with voting instructions.

*Effect of Broker Non-Votes.* If you hold your shares in street name and do not provide voting instructions to your bank, broker or other custodian, your shares will not be voted on any proposal on which your broker does not have or does not exercise discretionary authority to vote (a broker non-vote), such as may be the case with a non-routine matter for which you do not provide voting instructions. A broker non-vote on any of the proposals presented at the annual meeting will have no effect on the outcome of the proposal.

## ITEM 1

### ELECTION OF DIRECTORS

The Board of Directors currently consists of seven members. The Board has nominated the individuals below to be elected at the meeting. All of the nominees except Mr. Kennedy are presently directors of the Company. Proxies solicited by the Board will, unless otherwise directed, be voted for the election of the following seven nominees:

**MICHAEL J. DEGEN**

**KATHLEEN IVERSON**

**MICHAEL KENNEDY**

**DAVID B. KUNIN**

**KENNETH LARSON**

**RICHARD W. PERKINS**

**RICHARD G. WASIELEWSKI**

Following is information regarding the nominees:

Name	Age	Position
Michael J. Degen	71	Chairman of the Board of Directors
Kathleen Iverson	59	Director
Michael Kennedy	45	Director Nominee
David B. Kunin	55	Director
Kenneth Larson	74	Director
Richard W. Perkins	84	Director
Richard G. Wasielewski	63	Chief Executive Officer and Director

Mr. Degen served as president and chief executive officer of the Company from May 2002 through December 31, 2013. On January 1, 2014, he was appointed executive chairman of the Board of Directors. Effective January 1, 2015, he became a consultant to the Company and Chairman of the Board. Mr. Degen's experience includes 17 years with the Toro Company, a leader in the Lawn & Garden Industry, from 1983 to 2000. As managing director of Toro's Operations, Mr. Degen gained firsthand knowledge and experience in complex multi-plant operations, customer service and organization management. Mr. Degen has been a director of the Company since May 1998. Mr. Degen brings to our Board his experience and knowledge of our business derived from his recent position as president and CEO and a long-term Board member.

Ms. Iverson is currently the CEO (consulting) of Black Hills IP, a provider of IP, paralegal and trademark services since October of 2014. Ms. Iverson currently serves on the Board of Directors of MOCON Inc., which develops, manufactures and markets measurement, analytical and monitoring product for the barrier packaging, food and pharmaceutical markets. She previously served as a Director of Speed Commerce, Inc., a provider of end to end e-commerce services from 2008 until 2014. Ms. Iverson served as President and CEO of CyberOptics Corporation, a designer and manufacturer of optical process control sensors and measurement inspection systems used in the electronic assembly and semiconductor industries, from January 2003 until her retirement in January 2014. Ms. Iverson held a variety of positions with CyberOptics beginning in 1998; she was a Director from May 1998 through January 2014, and she was Chairman of the Board from August 2009 through January 2014. Ms. Iverson brings to our Board her experience and knowledge from her executive and board positions and strong experience in the electronics manufacturing industry. Ms. Iverson has been a director of the Company since March 2015. She was recommended by the CEO.

Mr. Kennedy is currently the Vice President of Sales of Wesco Aircraft Holdings, Inc., a provider of supply chain management solutions to the global aerospace and defense industries, since November 2014. Prior to joining Wesco, Mr. Kennedy served as Vice President of Asset and Supplier Marketing of WPG Americas, Inc., a large distributor of electronic components, from May 2013 to November 2014. From May 1994 to February 2013, Mr. Kennedy held increasingly senior positions at Arrow Electronics, Inc. and was most recently the Vice President EMEA PEMCO Engineering and Marketing. Mr. Kennedy brings to our Board his experience and knowledge from twenty-one years in the electronics products distribution and supply chain management industries. Mr. Kennedy was recommended by the CEO.



Mr. Kunin has been since 1998 and presently is the chief executive officer of Beautopia LLC, a beauty products manufacturing business. From 1997 until October 2011 he served as a director of Regis Corporation, the world's largest owner and franchisor of hair salons. He spent ten years in sales and senior management positions for computer companies, contract manufacturing and printed circuit board fabrication. He serves as president of a family holding company, Curtis Squire, Inc., the owner of 49% of the Company's outstanding common stock. Mr. Kunin has been a director of the Company since May 2014. Mr. Kunin brings to our Board his experience in the contract manufacturing and printed circuit board businesses as well as his experience as a director of a publicly owned company.

Mr. Larson is currently the chief executive officer of Classic Space and was chairman of the board for Restaurant Technologies, Inc., an installer of automated cooking oil systems for the fast food restaurant industry, from 1999 until the company was sold in June 2011. Mr. Larson was president and chief operating officer of Polaris Industries, a leader in sales and service to the ATV and snowmobile industries, from 1988 to 1998. Mr. Larson has gained firsthand experience in corporate financial performance and all aspects of manufacturing within multidivisional operations. He has been a director of the Company since 2002. He served on the board of Feather Lite, Inc. a publicly held company until it was acquired in 2006. Mr. Larson brings to our Board his experience and knowledge from both his past executive positions and strong manufacturing background.

Mr. Perkins has served since 1985 as president, chief executive officer and a director of Perkins Capital Management, Inc., a registered investment advisor. He has been a director of the Company since 1993 and is the chairman of the Audit Committee. Mr. Perkins serves as a director for several privately held companies. At certain times during the past five years he has served as a director for CNS, Inc., PW Eagle, Inc., Lifecore Biomedical, Inc., Teledigital, Inc., Vital Images, Synovis Life Technologies, Inc., and Two Way TV (US), Inc. With his varied experiences as a director and investment manager working in the financial markets, Mr. Perkins has gained firsthand knowledge and experience in audit and internal controls over financial reporting and related matters dealing with shareholders and governance issues.

Mr. Wasielewski was senior vice president and chief financial officer of the Company from April 2004, when he joined the Company, until February 13, 2013, when he was appointed to the additional position of president and chief operating officer. He was appointed chief executive officer and a director of the Company effective January 1, 2014.

#### **DIRECTORS MEETINGS**

There were five meetings of the Board of Directors during the last fiscal year. All directors acting that year attended all meetings of the Board and committees of the Board on which such director served.

The Board of Directors has established a Nominating and Corporate Governance Committee, a Compensation Committee, and an Audit Committee. The members of each committee are Messrs. Larson, Perkins and Riley. The Board of Directors has determined that Messrs. Larson, Perkins and Riley are independent directors under the rules established by the Securities and Exchange Commission and the Marketplace Rules of The NASDAQ Stock Market (NASDAQ). Further, the Board has determined that Mr. Perkins is an audit committee financial expert as defined by applicable regulations of the Securities and Exchange

Commission. In the last fiscal year the Audit Committee met four times, the Compensation Committee met four times, and the Nominating and Corporate Governance Committee met three times. The charters of all committees are posted on the Company's website at [www.nortechsys.com](http://www.nortechsys.com). We encourage Board members to attend the annual meeting of shareholders. All present members of the Board attended the 2014 annual meeting.

### BOARD LEADERSHIP STRUCTURE

The Board has determined that the positions of Chairman of the Board and Chief Executive Officer should be held by different persons. The Board believes that this leadership structure has enhanced the Board's oversight of, and independence from, the Company's management and the Board's ability to carry out its roles and responsibilities on behalf of the shareholders.

### RISK OVERSIGHT

Management and the Company's outside counsel discuss risks, both during Board meetings and in direct discussions with Board members. These discussions identify Company risks which are prioritized and assigned to the appropriate Board committee or the full Board for oversight. Internal control and financial risks are overseen by the Audit Committee; compensation risks are overseen by the Compensation Committee; CEO succession planning is overseen by the Governance and Nominating Committee; and compliance risks are typically overseen by the full Board. Management regularly reports on each such risk to the relevant committee or the Board, and material risks identified by a relevant committee are then presented to the full Board. The Company's risk management program as a whole is reviewed annually at a meeting of the Board. Additional review or reporting on Company risks is conducted as needed or as requested by the Board or committee.

### EXECUTIVE OFFICERS

The Executive Officers of the Company are as follows:

Name	Age	Position
Richard G. Wasielewski	63	Chief Executive Officer and Director
Curtis J. Steichen	58	Senior Vice President, Chief Marketing and Sales Officer
Paula M. Graff	58	Vice President and Chief Financial Officer

Mr. Wasielewski joined the Company in April 2004 as Vice President and Chief Financial Officer. He was appointed President and Chief Operating Officer in February 2013 and Chief Executive Officer on January 1, 2014.

Mr. Steichen has been Chief Marketing and Sales Officer since January 2012. He has held senior marketing and operational positions with the Company since May 2005.

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Ms. Graff joined the Company in May 2013 as Director of Finance. She was appointed Vice President and Chief Financial Officer on January 1, 2014. From 2009 until she joined the Company she was engaged in general corporate tax consulting for domestic and international companies. From 1989 to 2009 she was employed by The Toro Company as Director of Tax Accounting/Assistant Treasurer.

**COMPENSATION COMMITTEE**

The Compensation Committee is composed of the independent outside directors whose names appear below. The Committee has a charter which is available on the Company's website (www.nortechsys.com). The Committee determines the compensation of executive officers of the Company. Compensation for executive officers includes four elements: base salaries, bonuses, share-based compensation and equity appreciation rights. Salaries are based on factors such as the individual's level of responsibility and the amount of salary paid to executives with similar responsibilities in comparable companies. Bonuses are awarded based on a combination of the executive's success in meeting certain pre-established individual goals and the Company's performance in meeting certain financial goals. All share-based compensation and equity appreciation rights plans are designed to increase the incentive for an executive's interest in the Company's success as measured by the market value of its stock or other financial-related measures and to align the interests of the executives with those of the Company's shareholders.

The Chief Executive Officer's base compensation for 2014 was established under an employment agreement executed in 2014. It was determined that the total compensation of the Chief Executive Officer was comparable to compensation of chief executive officers of comparable companies. The base compensation of the other executive officers was set at the level necessary to attract and retain executives performing the functions being performed by such executives.

Kenneth Larson, Chair

C. Trent Riley

Richard W. Perkins

*Members of the Compensation Committee*

**2014 SUMMARY COMPENSATION TABLE**

The table below shows the compensation of the Company's Chief Executive Officer and each of the other two most highly compensated executive officers for services to the Company in 2014 and 2013.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary \$</b>	<b>Non-Equity Incentive Plan Compensation \$ (2)</b>	<b>All Other Compensation \$ (3)</b>	<b>Total \$</b>
Richard G. Wasielewski Chief Executive Officer (1)	2014	263,173	24,570	16,780	304,523
	2013	226,923	39,083	51,958	317,964
Curtis J. Steichen Senior Vice President	2014	199,735	24,570	38,565	262,870
	2013	193,100	35,333	43,977	272,410
Paula M. Graff Chief Financial Officer	2014	174,808	12,840	4,865	192,513
	2013	104,615	12,650	5,092	122,357



(1) The Company in 2014 entered into an employment agreement with Mr. Wasielewski, its Chief Executive Officer providing (a) for a base salary subject to increases related to the Company's general executive pay schedule during the term of the agreement, (b) that he will participate in any incentive plan for which the Company determines he is eligible, and (c) that if Mr. Wasielewski becomes unable to perform his duties because of illness or other incapacity during the term of the agreement, his compensation and his medical, dental and life insurance shall be continued for a period of 24 months. The agreement also provides that if Mr. Wasielewski initiates the termination of employment, he will not for a period of one year following his termination of employment, anywhere in the United States or Mexico, engage in any business or in any manner be connected with or employed by any organization, in direct competition with the Company's business.

(2) Includes amounts accrued under the Company's Annual Incentive Compensation Plan. There were no such amounts accrued for in 2014. Amounts accrued for in 2013 were as follows: Mr. Wasielewski \$30,250, Mr. Steichen \$26,500, Mrs. Graff \$12,650. Also includes amounts accrued under the Equity Appreciation Rights Plan. Under this Plan, the Company may award equity appreciation rights units to employees that give the holder the right to receive a cash payment equal to the appreciation in book value per share of common stock from the designated base date to the redemption date. The units are subject to redemption by the Company 36 months after the designated base date.

The following table sets forth as of December 31, 2014, the outstanding grants of equity appreciation rights, including the grant dates, base dates, redemption dates and number of units granted to each of the named executive officers (NEOs).

Name	Grant Date	Base Date	Redemption Date	Units
Richard G. Wasielewski	3/7/2012	12/31/2012	12/31/2015	25,000
	3/7/2012	12/31/2013	12/31/2016	25,000
	2/13/2013	12/31/2014	12/31/2017	25,000
	2/13/2013	12/31/2015	12/31/2018	50,000
	2/13/2013	12/31/2016	12/31/2019	50,000
Curtis J. Steichen	3/7/2012	12/31/2012	12/31/2015	25,000
	3/7/2012	12/31/2013	12/31/2016	25,000
	2/13/2013	12/31/2014	12/31/2017	25,000
	2/13/2013	12/31/2015	12/31/2018	50,000
	2/13/2013	12/31/2016	12/31/2019	50,000
Paula M. Graff	1/1/2014	12/31/2013	12/31/2016	25,000
	1/1/2014	12/31/2014	12/31/2017	25,000

The value of the aggregate outstanding equity appreciation awards to these individuals as of December 31, 2014, was as follows: Messrs. Wasielewski and Steichen each \$33,403, Mrs. Graff \$12,840.

(3) Represents amounts accrued under the Executive Life Insurance Plan for executive officers. Pursuant to this Plan, the Company will pay a bonus to each officer equal to 15% of the officer's base annual salary, as well as an additional bonus to cover federal and state income taxes incurred by the officer with respect to the 15% bonus. The officers are required to purchase life insurance and retain ownership of the life insurance policy once it is purchased. The Plan provides a five-year vesting schedule in which the officers vest in their bonus at a rate of 20% each year. Should an officer terminate employment prior to the fifth year of vesting, that officer must reimburse the Company for any unvested amounts.

#### OUTSTANDING EQUITY AWARDS AT 2014 FISCAL YEAR END

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price \$	Option Expiration Date
Richard G. Wasielewski	10,000(1)		7.79	10/31/2016
	7,500(2)		7.44	3/7/2016
Curtis J. Steichen	10,000(1)		7.79	10/31/2016
	7,500(2)		7.44	3/7/2016
	20,000(3)		5.28	5/16/2015
Paula M. Graff	5,250(4)		5.65	12/11/2023

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- (1) Stock options granted on 11/1/06 vested, and became exercisable in one-third increments on 1/1/08, 1/1/09, and 1/1/10.
- (2) Stock options granted on 3/07/06 vested, and became 100% exercisable on 12/31/08.
- (3) Stock options granted on 5/16/05 vested, and became 100% exercisable on 11/15/05.
- (4) Stock options granted on 12/11/13 vested, and became 100% exercisable on 12/11/14.

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL**

Each of the NEOs has entered into a change of control agreement with the Company. Under the agreement, in the event of an involuntary termination of any of the NEOs after a change in control of the Company, each officer would receive for 36 months (or in a lump sum, at the officer's option) his base salary, annual bonus at time of termination, and continued participation in the Company's health, disability and life insurance plans, and additionally up to \$10,000 for professional outplacement services. Assuming that the triggering event took place on December 31, 2014, the amounts payable to the NEOs would be as follows:

Richard G. Wasielewski	\$	912,322
Curtis J. Steichen	\$	785,262
Paula M. Graff	\$	569,764

**2014 DIRECTOR COMPENSATION**

	Fees Paid	Stock Awards	Option Awards	Total
David Kunin (1)	\$ 13,000			13,000
Kenneth Larson	29,500			29,500
Richard W. Perkins	31,000			31,000
C. Trent Riley	28,000			28,000
Michael Degen (2)	297,136			297,136

(1) Mr. Kunin was elected to the Board on May 7, 2014.

(2) On January 1, 2014, Mr. Degen became Executive Chairman pursuant to an amendment to his employment agreement. He received the following compensation under this agreement in 2014: (a) prorated base salary of \$148,923; (b) expense related to Mr. Degen's equity appreciation rights, \$116,586; and (c) other income of \$31,627, including amounts paid under the Executive Life Insurance Plan, reimbursement for health insurance costs and other benefits set forth under the amendment to Mr. Degen's employment agreement dated November 5, 2014. On January 1, 2015, Mr. Degen became a consultant to the Company under an agreement that provides for, among other things, a fee of \$17,500 per month for twelve months for consulting services, and under which Mr. Degen has agreed not to engage in a competitive business within the United States for a period of two years from the date of termination of the agreement.

The aggregate number of restricted stock awards and the aggregate number of option awards outstanding on December 31, 2014, for each of the above-named directors are as follows:



	Stock	Options
Mr. Kunin		
Mr. Larson		17,250
Mr. Perkins		17,250
Mr. Riley		17,250
Mr. Degen (1)		35,000

(1) Mr. Degen also holds equity appreciation rights as follows:

Name	Grant Date	Base Date	Redemption Date	Units
Michael Degen	3/7/2012	12/31/2011	12/31/2014	50,000
	3/7/2012	12/31/2012	12/31/2015	50,000
	3/7/2012	12/31/2013	12/31/2016	50,000
	2/13/2013	12/31/2012	12/31/2015	50,000
	2/13/2013	12/31/2013	12/31/2016	50,000

#### NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The Company has established a Nominating and Corporate Governance Committee of the Board of Directors. All the members of this Committee are independent as defined in the NASDAQ Marketplace Rules.

##### *Shareholder Nominees*

The Committee has adopted a policy of considering director candidates recommended by shareholders. Any shareholder desiring to submit such a recommendation should transmit the candidate's name and qualifications in a letter addressed to:

Nominating and Corporate Governance Committee  
 Nortech Systems Incorporated  
 1120 Wayzata Boulevard East, Suite 201  
 Wayzata, MN 55391

##### *Director Qualifications*

The Company's Directors play a critical role in overseeing the management of the Company and its strategic direction. Qualifications for candidates are based on various criteria, such as broad business and professional skills and experiences as management or directors of other companies. Director candidates are expected to have the necessary time available to perform their duties and responsibilities to the Company.

The Nominating and Corporate Governance Committee and the Board of Directors have established minimum requirements for attracting qualified director candidates as follows: at least 10 years of relevant business experience, ability to read and understand financial statements, no conflict of interest with the Company, and meet the Company's Code of Business Conduct and

Ethics. The Nominating and Corporate Governance Committee and the Board of Directors retain the right to modify these minimum requirements from time to time.

The Nominating and Corporate Governance Committee and the Board of Directors seek directors with diversity of skills and experiences. To determine whether the Board has the appropriate diversity or a new member could improve the diversity the following issues are considered:

- Skills and experiences that are currently represented on the Board
- Desired size of the Board

To determine whether the Board has the appropriate diversity or a new member could improve the diversity the following skills and experiences are considered:

- Mergers and acquisitions experience
- Financial and compliance expertise
- Leadership of a company that has sustained growth
- Contract manufacturing expertise

For new candidates, the Nominating and Corporate Governance Committee and the Board of Directors also consider whether the person will provide gender or racial diversity.

#### *Identifying and Evaluating Nominees for Directors*

The Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating qualified nominees for directors. The Committee periodically assesses the appropriate size and needs of the Board and whether any vacancies are anticipated. If vacancies are anticipated or if the Committee determines that the number of directors should be increased, the Committee considers possible director candidates and follows the director qualification guidelines. Candidates may come to the Committee's attention through present Board members, shareholders or other persons. All candidates will be evaluated by the Committee and the Committee's recommendations will then be transmitted to the entire Board. Assessment of candidates will include a variety of issues, including diversity, skills and experience in the fields of finance and banking, accounting, sales and marketing, technology, international manufacturing, and an understanding of contract manufacturing and the Company's industry.

#### **SECURITY HOLDERS COMMUNICATIONS WITH THE BOARD**

Security holders may send communications to the Company's Board of Directors, or to any individual Board member, by means of a letter to such individual