

ELITE PHARMACEUTICALS INC /DE/
Form SC 13D/A
August 10, 2009

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

SCHEDULE 13D
(Amendment No. 1)
Under the Securities Exchange Act of 1934

ELITE PHARMACEUTICALS, INC.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

28659T200

(CUSIP Number)

Anthony G. Miller
Trellus Management Company, LLC
350 Madison Avenue, 9th Floor
New York, NY 10017
212.389.8799

Copy to:

Richard Metsch, Esq.
Shearman & Sterling LLP
599 Lexington Avenue
New York, NY 10022
212.848.4000

(Name, Address and Telephone Number of Person Authorized
to Receive Notices and Communications)

April 8, 2009

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box o.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SCHEDULE 13D

CUSIP No. 28659T200

Page 2 of 10 Pages

NAME OF REPORTING PERSONS

1

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Trellus Management Company, LLC (13-3807183) (on behalf of three managed accounts)

2

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

- (a) x
- (b) o

3

SEC USE ONLY

4

SOURCE OF FUNDS (See Instructions)

WC

5

CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) o

6

CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware limited liability company

7

SOLE VOTING POWER

NUMBER OF SHARES

-0-

8

SHARED VOTING POWER

BENEFICIALLY OWNED BY EACH

8

27,491,877

9

SOLE DISPOSITIVE POWER

REPORTING PERSON

9

WITH

-0-

10

SHARED DISPOSITIVE POWER

27,491,877

11

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

27,491,877

12

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions) o

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13

39.29%

TYPE OF REPORTING PERSON (See Instructions)

14

IA

SCHEDULE 13D

CUSIP No. 28659T200

Page 3 of 10 Pages

NAME OF REPORTING PERSONS

1 I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Trellus Partners, L.P.

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See
2 Instructions)

(a) x

(b) o

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED o
PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

NUMBER OF
8 SHARES

-0-

BENEFICIALLY
9 OWNED BY
EACH

SHARED VOTING POWER

18,902,288

REPORTING
10 PERSON

SOLE DISPOSITIVE POWER

WITH

-0-

SHARED DISPOSITIVE POWER

11

18,902,288

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

18,902,288

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES o
CERTAIN SHARES (See Instructions)

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13

27.02%

TYPE OF REPORTING PERSON (See Instructions)

14

PN

SCHEDULE 13D

CUSIP No. 28659T200

Page 4 of 10 Pages

NAME OF REPORTING PERSONS

1 I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Trellus Partners, L.P. II

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

(a) x
(b) o

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED o
PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

8 NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON

-0-
SHARED VOTING POWER

200,982
SOLE DISPOSITIVE POWER

9 WITH

-0-
SHARED DISPOSITIVE POWER

10 200,982

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

200,982

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES o
CERTAIN SHARES (See Instructions)

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13

0.29%

TYPE OF REPORTING PERSON (See Instructions)

14

PN

SCHEDULE 13D

CUSIP No. 28659T200

Page 5 of 10 Pages

NAME OF REPORTING PERSONS

1 I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Trellus Offshore Fund Limited

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)

- (a) x
- (b) o

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED o
PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

		7	SOLE VOTING POWER
	NUMBER OF		-0-
	SHARES		SHARED VOTING POWER
	BENEFICIALLY	8	8,388,607
	OWNED BY		SOLE DISPOSITIVE POWER
	EACH	9	-0-
	REPORTING		SHARED DISPOSITIVE POWER
	PERSON	10	8,388,607
WITH			

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

8,388,607

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES o
CERTAIN SHARES (See Instructions)

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13

11.99%

TYPE OF REPORTING PERSON (See Instructions)

14

CO

SCHEDULE 13D

CUSIP No. 28659T200

Page 6 of 10 Pages

1 NAME OF REPORTING PERSON
 S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
 Adam Usdan

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See
 Instructions)
 (a) x
 (b) o

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)
 WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED o
 PURSUANT TO ITEMS 2(d) or 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION
 USA

	7	SOLE VOTING POWER
NUMBER OF		-0-
SHARES		SHARED VOTING POWER
BENEFICIALLY	8	27,491,877
OWNED BY		SOLE DISPOSITIVE POWER
EACH	9	-0-
REPORTING		SHARED DISPOSITIVE POWER
PERSON	10	27,491,877

11 WITH
 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
 27,491,877

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES o
 CERTAIN SHARES (See Instructions)

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13

39.29%

TYPE OF REPORTING PERSON (See Instructions)

14

IN

Item 1. Security and Issuer.

The class of equity securities to which this statement on Schedule 13D relates is the Common Stock (the “Shares”) of Elite Pharmaceutical, Inc. (the “Issuer”), with its principal executive offices located at 165 Ludlow Avenue, Northvale, NJ 07647.

Item 2. Identity and Background.

(a) This statement is being filed jointly by Trellus Management Company, LLC (“Trellus”), Trellus Partners, L.P., a Delaware limited partnership (“TPLP”), Trellus Partners, L.P. II, a Delaware limited partnership (“TPLPII”), Trellus Offshore Fund Limited, a Cayman Islands limited liability company (“TOF”), and Adam Usdan (each a “Reporting Person” and collectively, the “Reporting Persons”). Trellus Management Company, LLC is the investment adviser to TPLP, TPLPII, and TOF. Adam Usdan is the controlling principal and chief investment officer of Trellus.

(b) The addresses of the principal business and principal offices of each Reporting Person is 350 Madison Avenue, 9th Floor, New York, New York 10017.

(c) The principal business of Trellus is the offering of investment advisory services to various entities. The principal business of each of TPLP, TPLPII, and TOF is the investing in securities.

(d) None of the Reporting Persons has been, and none of their executive officers or directors has been, during the last five years, convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) None of the Reporting Persons has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction resulting in a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws, or finding any violation with respect to such laws.

Anthony Miller is the chief financial officer of Trellus. John Alderman is a principal of Trellus and a portfolio manager. The Reporting Persons have no executive officers other than Mr. Usdan, Mr. Miller and Mr. Alderman. TOF has a board of directors and the remaining Reporting Persons do not have Boards of Directors. Mr. Miller has not been subject to any proceeding described in (e) above. Adam Usdan and Anthony Miller are citizens of the United States.

Item 3. Source and Amount of Funds or Other Consideration

Not applicable.

Item 4.

Purpose of Transaction.

The Reporting Persons do not have any present plans or proposals which relate to or would result in any of the following: (i) an extraordinary corporate transaction involving the Issuer or any of its subsidiaries, (ii) a sale or transfer of a material amount of the assets of the Issuer or any of its subsidiaries, (iii) any change in the present board of directors or management of the Issuer, (iv) any material change in the Issuer's capitalization or dividend policy, (v) any other material change in the Issuer's business or capital structure, (vi) any change in the Issuer's charter or bylaws or other instrument corresponding thereto or other action which may impede the acquisition of control of the Issuer by any person, (vii) causing a class of the Issuer's securities to be deregistered or delisted, (viii) a class of equity securities of the Issuer becoming eligible for termination of registration or (ix) any action similar to any of those enumerated above.

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Item 5. Interest in Securities of the Issuer.

(a) Items 11 and 13 of the cover page for each Reporting Person is incorporated herein by reference. The calculations of the percentages in this Statement are based on the number of shares of Common Stock and preferred stock convertible into common shares as disclosed by the Issuer to the Reporting Persons.

(b) Items 7 - 10 of the cover page for each Reporting Person is incorporated herein by reference.

(c) During the past sixty days the Reporting Persons have engaged in the following transactions in the securities of the Issuer:

On April 3, 2009 the Reporting Persons sold 200,700 shares of Common Stock. On April 6, 2009 the Reporting Persons sold 174,252 shares of Common Stock. On April 8, 2009 the Reporting Persons sold 393,200 shares of Common Stock. On July 15, 2009 The Reporting Persons sold 561,342 shares of Common Stock. On July 21, 2009 the Reporting Persons sold 138,528 shares of Common Stock.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understanding or Relationships With Respect to Securities of the Issuer.

None.

Item 7. Materials to be Filed as Exhibits.

Exhibit A. Joint Filing Agreement.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

August 10, 2009

/s/ Adam Usdan

(4)

Amount shown represents the value of stock units credited to Mr. Stupp's stock unit account in 2013 on account of dividends paid on our common stock during the prior calendar year, in accordance with the terms of the Deferred Compensation Plan.

8

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary. This Compensation Discussion and Analysis describes our compensation philosophies, the factors we consider in developing our compensation packages and the elements of our compensation arrangements for our executives. We operate in a very competitive industry, and our executive compensation program is intended to attract, retain and motivate executives who lead our business and to align their interests with the long-term interests of our stockholders. The principal elements of our compensation program are base salaries, annual cash incentive bonuses and long-term incentives in the form of equity awards. We believe that our compensation program provides appropriate incentives to our executives to achieve our financial and strategic goals without encouraging them to take excessive risks in their business decisions. Our compensation program is designed to reward our executive officers for high level corporate performance, which we believe was achieved again in 2013, the financial highlights of which are as follows:

	2013	2012	Change
Revenues	\$ 131,993,000	\$ 119,062,000	10.9%
Operating Income	37,944,000	33,626,000	12.8%
Net Income	26,582,000	23,629,000	12.5%
Income per Diluted Share	\$ 13.18	\$ 11.66	13.0%

Our financial performance in 2013 was a significant factor in determining our incentive compensation for that year. Elements of the program are also intended to reward key personnel for individual responsibilities, experience, performance and capacity to influence our results. We provide limited perquisites for our executive officers. We have stock ownership guidelines to ensure that our present and future executive officers, as well as certain other designated officers of the Company or our subsidiaries, acquire and maintain a meaningful equity stake in the Company.

Roles of the Compensation Committee, Management and Outside Consultants. Our Compensation Committee reviews and makes recommendations to our Board of Directors for our executive officers' base salaries, salary increases, and discretionary bonuses, as well as cash incentive bonuses for our executive officers who participate in our Short-Term Incentive Plan. In addition, our Compensation Committee administers our equity incentive program. To assist in this process, our Compensation Committee reviews tally sheets identifying the annual compensation for each of our executive officers in previous years, including base salaries, cash incentive bonuses, discretionary cash bonuses, long-term incentive awards, benefits and perquisites. Each executive officer's tally sheet also shows the amount payable to that executive officer upon termination of employment under various circumstances and reflects the executive officer's equity ownership, including stock owned free of restrictions, restricted stock, restricted stock units and stock options. From time to time, directors who are not members of the Compensation Committee and Mr. Emile Battat, our Chairman, and Mr. David Battat, our President and Chief Executive Officer, attend meetings, or parts of meetings, of the Compensation Committee. The Compensation Committee does not delegate the authority to make equity awards. Our executive officers are responsible for the salaries, salary increases, cash incentive bonuses and discretionary cash bonuses for key personnel in our operating units who are not executive officers, and they administer our Short-Term Incentive Plan, subject to our Compensation Committee's review of, and recommendation to our Board of Directors with respect to, cash incentive bonuses for our two executive officers who are eligible to participate in that plan. In considering the base salary for Mr. David Battat and cash incentive bonuses under the Short-Term Incentive Plan for Mr. David Battat and Jeffery Strickland, our Vice President and Chief Financial Officer, Secretary and Treasurer, the Compensation Committee takes into account the recommendations of

Mr. Emile Battat, and in considering the base salary for Mr. Strickland, the Compensation Committee takes into account the recommendations of Messrs. Emile Battat and David Battat. Messrs. Emile Battat, David Battat and Strickland participated with the Compensation Committee in the development of our Short-Term Incentive Plan that was adopted by our Board of Directors in 2013 and is modeled after our subsidiaries' bonus plans that have been terminated in connection with the adoption of the Short-Term Incentive Plan.

At various times since 2006, at the request of the Compensation Committee we have engaged Mercer to provide information regarding compensation of executive officers. In 2011 Mercer provided us with market compensation data relative to the compensation of chief executive officers, chief operating officers and chief financial officers in companies with annual revenues of approximately \$110 million. The materials from Mercer provided us with information regarding base salary, target bonus, target total annual compensation, long-term incentives, and total

direct compensation and has been used by our Compensation Committee to obtain a more thorough understanding of compensation practices in companies similar in size to the Company and to assist our Compensation Committee in formulating its recommendations to our Board of Directors regarding the compensation structure and levels of our executive officers. In the latter part of 2011 Mercer was engaged to provide, and in early 2012 provided, additional information to the Compensation Committee respecting market trends in executive compensation during 2011, including base salaries, annual incentives, long-term incentives and perquisites. The Mercer report also included survey information regarding president and chief executive officer compensation for companies with annual revenues of approximately \$120 million. That information was used by our Compensation Committee in recommending the compensation of, or making awards to, executive officers in 2012. Early in 2014, we engaged Mercer again, and it provided a report that included updated information similar to that provided in prior reports with respect to 15 medical products and device companies with market capitalizations ranging from \$300 million to \$1.7 billion. That information was used to assist our Compensation Committee in formulating its recommendations for base salaries for 2014 for Messrs. David Battat and Strickland.

Elements of Our Compensation Program. Our compensation program's main elements are base salaries, annual cash incentive bonuses and long-term incentives in the form of equity awards. Additional elements are our health insurance plan, retirement benefits under our Section 401(k) Savings Plan, or 401(k) Plan, and limited perquisites. We utilize these elements because we believe they are necessary or helpful in achieving the objectives of our compensation program. For example, base salaries are designed to attract and retain executive officers and key personnel and are intended to be at competitive levels. Annual cash incentive bonuses and equity awards are intended to reward executive officers and key personnel and provide incentives for superior results by us and for individual responsibility and performance. Equity awards also are intended to align the interests of our executive officers and key personnel with the interests of our stockholders. The combination of these elements is designed to compensate employees fairly for the services they provide on a regular basis. Generally, the Compensation Committee analyzes the individual performance of our executive officers, with input from Messrs. Emile Battat and David Battat with respect to Mr. Strickland's individual performance.

We believe that base salary is a very significant element of our program in terms of attracting and retaining executive officers and other key employees. Annual cash incentive bonuses for our executive officers and other key personnel, which provide them with the opportunity to receive cash compensation in addition to their base salaries, are intended to reward them for the performance of the Company and for individual performance as well. We consider long-term incentives in the form of equity awards as very important in aligning the interests of our executive officers and key personnel with the interests of our stockholders. We do not have a specific policy of awarding options as opposed to restricted stock or restricted stock units. For many years, our equity awards were primarily in the form of stock options because of the incentive they provide to employees in that they have to be in the money for the employees to realize any benefit from the awards. However, in the past few years restricted stock and restricted stock units have also been important elements of our compensation program. We believe that our health insurance benefits, along with certain other benefits, are necessary components of our compensation program insofar as attracting and retaining employees.

As discussed below, Mr. Emile Battat is entitled to annual cash bonuses equal to a fixed percentage of year-to-year increases in our operating income. This arrangement was determined based on our Compensation Committee's discussions with him and is set forth in his employment agreement. For 2013, the cash bonuses for Messrs. David Battat and Strickland were awarded under our Short-Term Incentive Plan. In addition to the formula-based cash incentive bonuses to which our executive officers may be entitled, they also may receive discretionary cash bonuses if recommended by our Compensation Committee and approved by our Board of Directors. However, none of our executive officers is paid a fixed or guaranteed annual bonus.

We endeavor to structure our compensation program so that our base salaries and annual cash incentive bonus opportunities are adequate to attract and retain key personnel and we have sufficient long-term equity compensation to motivate our executive officers and other key personnel to focus on our performance over the longer term. We believe that our compensation program is designed in a manner so as not to encourage excessive risk taking. Our executive officers' base salaries are fixed amounts and therefore do not encourage risk taking. Our annual and long-term incentive compensation arrangements for our executive officers are tied to our performance on an annual basis and over the longer term. We believe that those incentive programs, taken together with base salaries, are balanced and do not promote excessive risk taking.

Our Compensation Committee considers the following corporate factors in establishing our compensation program and making compensation decisions:

our earnings per share;
our operating income;
total stockholder return;
our return on equity;
safety; and
efficiency of our operations.

At our annual meeting of stockholders in 2013, our stockholders overwhelmingly approved, on an advisory basis, our executive compensation, with approximately 94% of the shares present, in person or by proxy, at the meeting and entitled to vote thereon being voted to approve the compensation of our executive officers. The Compensation Committee has considered those results in deciding to retain our general approach to executive compensation.

Base Salaries

In structuring the compensation program, we start with the annual base salary and build on that element. Salaries are based on the executive officer's performance, responsibilities, experience, capacity to influence our results, competitive conditions and length of service with us. When considering the base salaries for our executive officers, our Compensation Committee reviews the total annual compensation for those executive officers for previous years, including base salary, cash incentive bonuses and discretionary cash bonuses, long-term incentive awards, benefits and perquisites. To facilitate this review, our Compensation Committee uses tally sheets identifying each of these elements. Our executive officers' base salaries are not contingent on our corporate performance.

For 2013, the base salaries of our three executive officers were as follows: The base salary of Mr. Emile Battat was \$600,000, the same level as in 2012; the base salary of Mr. David Battat was \$450,000, also the same level as in 2012; and the base salary of Mr. Strickland was fixed at \$260,000, a \$10,000 increase over his 2012 base salary. The 2013 base salaries of Messrs. David Battat and Strickland were fixed in accordance with recommendations of our Compensation Committee, after taking into consideration information provided by Mercer, and Mr. Emile Battat's base salary was fixed in his employment agreement and in accordance with the recommendation of our Compensation Committee.

Annual Incentive Compensation

During 2013, we adopted our Short-Term Incentive Plan in which our executive officers, other than Mr. Emile Battat, and certain key personnel are eligible to be selected to participate. This plan provides for annual incentive compensation in the place of the annual incentive compensation plans that were maintained by our three principal subsidiaries and is intended to provide a more coordinated and uniform approach to our annual incentive compensation program. Under the plan, an awards pool is established each year equal to a portion of our subsidiaries' operating profits. The awards pool will be funded each year through contributions by our subsidiaries as determined under the terms of the plan. The awards pool is used to pay cash bonuses under employment agreements, other discretionary cash bonuses to employees who are not participating in the Short-Term Incentive Plan and other employment-related expenses. The balance of the awards pool, if any, is available for cash incentive bonuses to participating executive officers and key personnel. Cash incentive bonuses are based in part on a bonus allocation formula that takes into account a number of factors, including the participant's salary, an individual bonus rate, the profitability of the subsidiary employing the participant (where applicable), and individual participant

performance. The cash incentive bonus amounts determined pursuant to that formula for our executive officers are then subject to review by our Compensation Committee, which takes into account the recommendations of the Chairman of the Board, and the Compensation Committee's recommendations to our Board of Directors, which determines the cash incentive bonus amounts for our executive officers. In the case of key personnel, the bonus amounts determined pursuant to the formula are subject to adjustments by our executive officers. Cash incentive bonuses under the Short-Term Incentive Plan for each year are determined by March 15 of the year immediately following the year for which the pool is established, with at least 75% of a participant's bonus to be paid by that March 15 and the balance, which is generally 25% of the bonus amount, to be paid by March 15 of the following year if the participant is employed by the Company at the time of payment. The plan is administered by our executive officers, subject to our Compensation Committee's review of, and recommendations to our Board of

Directors with respect to, bonuses for Mr. David Battat and Mr. Strickland. For 2013, Mr. David Battat's cash incentive bonus was \$900,000 and Mr. Strickland's cash incentive bonus was \$260,000, with 75% of each incentive bonus having been paid by March 15, 2014 and the remaining 25% to be paid by March 15, 2015 provided the executive officer is employed by the Company at the time of payment. Mr. Emile Battat is entitled to annual cash incentive bonuses equal to a fixed percentage of year-to-year increases in our operating income as provided in his employment agreement. Our Compensation Committee has the authority to exercise its discretion to adjust any increase in our operating income to disregard one-time, nonrecurring extraordinary items and is to make such equitable adjustments as are required to give effect to acquisitions, divestitures or similar corporate transactions. For 2013, Mr. Emile Battat received a cash incentive bonus in the amount of \$345,446 based on such formula.

Our Compensation Committee has the authority to recommend discretionary cash bonuses based on the performance of the Company, one or more Company units or individual performance. We believe that this discretionary authority is useful because there may be circumstances that would support awards being made in addition to those under, or in the absence of attainment of the performance goals in, the plans and arrangements discussed above. No discretionary cash bonuses were paid to our executive officers for 2013.

Long-Term Incentive Awards

Long-term equity-based compensation is an integral part of our total compensation package. It is intended to align the interests of our executive officers and key personnel with the interests of our stockholders in focusing on long-term growth and stock performance. We review the costs and benefits to us from the various forms of long-term compensation, including stock options, restricted stock and restricted stock units. In selecting the form of awards, we take into account that stock options will have little or no value if we do not have increased profitability and that restricted stock and restricted stock units may continue to have value, though possibly reduced, if our profitability declines.

Our policy is that if we are going to make equity awards, other than in connection with new hires or unusual circumstances, those awards will be made at the meeting of our Compensation Committee held in conjunction with our annual stockholders meetings, which usually are held each May. Our Compensation Committee made equity awards to each of our executive officers in May of 2011 or 2012, and those awards vest during or at the end of the five year period beginning on the date on which the award was made. No equity awards were made to our executive officers in 2013.

Benefits and Perquisites

We provide various benefits to our executive officers, including health insurance and life and disability insurance as a part of our total compensation package. We also maintain a 401(k) Plan for all of our employees, including our executive officers. Under our 401(k) Plan, we make matching contributions of up to 3.5% of a participant's eligible compensation. Our executive officers are fully vested in our matching contributions. Perquisites are not a significant component of compensation for our executive officers.

Termination and Change in Control Arrangements

We have agreements or plans under which our executive officers are entitled to payments and benefits upon termination of employment under certain circumstances. The terms of Mr. Emile Battat's arrangement are included in his employment agreement and were determined on the basis of recommendations by our Compensation Committee after discussions with him. The terms of Mr. David Battat's arrangement were recommended by our Compensation

Committee after consideration of his responsibilities and experience. The terms of Mr. Strickland's severance plan were recommended by our Compensation Committee after consideration of Mr. Strickland's total compensation package and length of service with the Company. We have structured our arrangements with our executives so that a change in control alone does not trigger any payments and, with respect to their equity awards, results only in acceleration of vesting. We believe acceleration of vesting provides our executive officers a reasonable measure of protection in the event of a change in control. For a more detailed discussion of the terms of these arrangements, see "Potential Termination and Change in Control Payments" at page 18 of this proxy statement.

Stock Ownership Guidelines for Officers

Our stock ownership guidelines, which were adopted by our Board of Directors in 2010, are designed to ensure that our executive officers, and designated officers of our subsidiaries, acquire and maintain a meaningful equity stake in the Company and to align their interests more closely with those of our stockholders. The guidelines provide that within four years of becoming subject to the guidelines our Chief Executive Officer will own 16,000 shares of our common stock, our Chief Operating Officer will own 8,000 shares of our common stock and our Chief Financial Officer will own 6,000 shares of our common stock. Other officers of the Company or our subsidiaries who are designated by our Board of Directors are required to own at least 2,000 shares of our common stock by the later of five years from being designated and five years after adoption of the guidelines. Shares of our stock that count toward those guidelines are shares owned outright, shares held as restricted stock, shares underlying stock units and shares held in certain trusts, family limited partnerships or limited liability companies or similar investment vehicles.

Clawback Policy

In March 2014, our Board of Directors, on the recommendation of the Compensation Committee, approved a “clawback” policy. This policy allows the Company to seek recovery with respect to cash incentive bonuses paid to executive officers if, within the preceding three years, any of our financial statements or financial metrics upon which cash incentive bonuses have been based have been materially misstated due to the fraud or intentional misconduct of one or more of our executive officers. In such event, our Board of Directors may direct the Company to seek to recover from any such executive officer the amount by which such executive officer’s cash incentive bonus exceeded the cash incentive bonus that would have been awarded had there been no such misstatement.

Other

The base salaries of our executive officers can be adjusted upwards and downwards, except in the case of Mr. Emile Battat, whose base salary is fixed by his employment agreement, and discretionary bonuses can be awarded based on the individual performance of the executives as well as the performance of the Company or its units. Additionally, we can make equity awards to reward individual performance. We recognize that there may be circumstances where the individual responsibilities and performance of our executive officers or our corporate performance is so exceptional that a material increase in compensation would be appropriate. Likewise, we recognize that there could be a material downturn in our corporate performance, in which event we would consider reducing and, if appropriate, materially reducing compensation levels where permitted. In addition, we recognize that it may be necessary to increase materially compensation to retain personnel who may have attractive offers from other companies. However, this has not been a practice that we have engaged in regularly. We have not had to adjust or restate performance measures upon which awards have been made.

In making equity awards or considering adjustments to base salaries or cash incentives, our Compensation Committee takes into account the other elements of the compensation packages of our executive officers, as well as the number of shares of our common stock owned by our executive officers, the number of unexercised options held, the restricted stock or restricted stock units held, and the potential benefits they may realize upon the sale of the stock underlying these awards.

We also have a policy that discourages hedging the risk of ownership of our securities.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth above. Based on this review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the proxy statement.

Members of the Compensation Committee

Hugh J. Morgan, Jr. (Chairman)

Ronald N. Spaulding

John P. Stupp, Jr.

The following table sets forth summary information concerning the compensation of our three executive officers during the periods indicated.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)(3)	All Other Compensation (\$)	Total (\$)
Emile A Battat (4) Chairman of the Board and former Chief Executive Officer	2013	600,000	—	—	—	345,446	21,091 (5)	966,537
	2012	600,000	—	—	—	—	82,589	682,589
	2011	500,000	—	1,360,800(6)	1,016,012(6)	533,324	20,773	3,430,909
David A. Battat (7) President and Chief Executive Officer and former Chief Operating Officer	2013	450,000	—	—	—	900,000(8)	24,953(9)	1,374,953
	2012	450,000	—	1,710,600	1,009,441	750,000	97,060	4,017,101
	2011	328,750	—	—	—	750,000	11,381	1,090,131
Jeffery Strickland Vice President and Chief Financial Officer, Secretary and Treasurer	2013	260,000	—	—	—	260,000(10)	24,967(11)	544,967
	2012	250,000	100,000	250,000	—	—	12,095	612,095
	2011	235,000	—	—	—	117,500	11,721	364,221

- (1) The amounts presented in this column represent the full aggregate grant date fair value of stock awards made during the year computed in accordance with ASC 718. The assumptions used in the valuations may be found in Note 8 to the financial statements included as a part of our Annual Report on Form 10-K for the year ended December 31, 2013.
- (2) The amounts presented in this column represent the full aggregate grant date fair value of option awards made during the year computed in accordance with ASC 718. The grant date fair value was determined using a Black-Scholes valuation applied to the number of shares granted under an option. The assumptions used in the Black-Scholes valuations and the resulting values per share may be found in Note 8 to the financial statements included as a part of our Annual Report on Form 10-K for the year ended December 31, 2013.
- (3) These awards were made to Mr. Emile Battat under his employment agreement with us. The awards for 2013 to Messrs. David Battat and Strickland were made to them under our Short-Term Incentive Plan. For 2012 and 2011 the awards to Mr. David Battat were made under the Halkey-Roberts Corporation Incentive Compensation Plan, or Halkey-Roberts Plan, which provided for at least 75% of an award for a year to be paid by March 15 of the succeeding year and the remaining amount to be paid by March 15 of the following year provided the

participant who was to receive the payment was employed by Halkey-Roberts or an affiliate on the payment date. The Halkey-Roberts Plan was terminated in connection with the adoption of the Short-Term Incentive Plan, except with respect to awards that had been made but not fully paid as of the adoption of the Short-Term Incentive Plan. For 2011, the award to Mr. Strickland was made under the incentive compensation plan we had for our Chief Financial Officer, which plan was terminated in connection with the adoption of the Short-Term Incentive Plan.

- (4) Mr. Emile Battat ceased serving as our Chief Executive Officer on May 26, 2011.
- (5) Includes the following paid or accrued by us or one or more of our subsidiaries: (i) matching contributions to the 401(k) Plan of \$8,925; (ii) dividends on restricted stock of \$11,640; and (iii) payment of life insurance premiums of \$526.
- (6) These awards were made in connection with the five-year extension of Mr. Emile Battat's employment agreement and were intended by the Compensation Committee as one-time awards to cover the five-year extended term of his employment agreement that commenced on January 1, 2012. The amounts shown represent the full amounts of the compensation expense associated with the awards and are being recognized by the Company over the five year vesting period of the awards that ends in 2016.
- (7) Mr. David Battat began serving as our Chief Executive Officer, and ceased serving as our Chief Operating Officer, on May 26, 2011.
- (8) This amount was awarded to Mr. David Battat for 2013 pursuant to the Short-Term Incentive Plan, and, in accordance therewith, he received 75% of such amount by March 15, 2014 and the remaining 25% is to be paid to him by March 15, 2015 provided he is employed by the Company on the payment date.

- (9) Includes the following paid or accrued by us or one or more of our subsidiaries: (i) matching contributions to the 401(k) Plan of \$8,925; (ii) dividends on restricted stock of \$15,240; and (iii) payment of life insurance premiums of \$788.
- (10) This amount was awarded to Mr. Strickland for 2013 pursuant to the Short-Term Incentive Plan, and, in accordance therewith, he received 75% of such amount by March 15, 2014 and the remaining 25% is to be paid to him by March 15, 2015 provided he is employed by the Company on the payment date.
- (11) Includes the following paid or accrued by us or one or more of our subsidiaries: (i) matching contributions to the 401(k) Plan of \$8,925; (ii) payment of life insurance premiums of \$3,316; and (iii) \$12,726, which is the dollar value of dividend equivalents credited in 2013 with respect to unvested restricted stock units in Mr. Strickland's stock unit account under the 2006 Equity Plan.

The following table sets forth summary information concerning the grants of plan-based awards to our executive officers during the year ended December 31, 2013. We made no equity incentive plan awards to our executive officers in 2013.

Grants of Plan-Based Awards

Name	Grant Type(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		
		Threshold (\$)	Target \$(2)	Maximum (\$)
Emile A Battat	Incentive Compensation	—	345,446	—
David A. Battat	Incentive Compensation	—	900,000	—
Jeffery Strickland	Incentive Compensation	—	260,000	—

- (1) For a description of these awards, see "Incentive Compensation" below and "Certain Agreements, Plans and Transactions" at page 16 of this proxy statement.
- (2) These amounts represent the cash incentive bonuses earned in 2013, with payment of 100% of Mr. Emile Battat's cash incentive bonus having been made by March 15, 2014 and 75% of the cash incentive bonuses for Mr. David Battat and Mr. Strickland having been made by March 15, 2014 and the remaining 25% to be paid to them by March 15, 2015 if they are employed by the Company on the payment date. These incentive compensation awards do not have threshold or maximum payout amounts.

Base Salaries

Mr. Emile Battat's base salary is fixed by his employment agreement. Base salaries for Mr. Strickland and Mr. David Battat are reviewed annually, and adjustments are generally made on the basis of our performance as measured by certain financial and non-financial criteria, survey information respecting compensation of executive officers, cost-of-living information and the individual performance of the respective executive officer. The Compensation Committee has not assigned relative weights or values to any of such criteria. With respect to our financial performance, the Compensation Committee generally takes into consideration our operating income, earnings per share, total stockholder return, return on equity, safety and efficiency of our operations.

Incentive Compensation

The Company has adopted the Short-Term Incentive Plan in which our executive officers, other than Mr. Emile Battat, and certain key employees are eligible to be selected to participate. Mr. Emile Battat is eligible for annual cash incentive awards under the terms of his employment agreement. These arrangements are described in more detail in “Certain Agreements, Plans and Transactions” at page 16 of this proxy statement and have been designed to foster a corporate culture focused on bottom line results by providing our executive officers and key employees with a substantial stake in reducing costs and increasing sales and productivity while conserving capital resources. In addition, our executive officers may receive discretionary bonuses if recommended by our Compensation Committee and approved by our Board of Directors.

The following table sets forth summary information concerning our executive officers' outstanding equity awards as of December 31, 2013.

Name	Option Awards					Stock Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)		Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)	
Emile A Battat	10,000	15,000 (2)	181.44	5/26/18	4,500 (2)		1,333,125	
David A. Battat	5,000	20,000 (3)	228.08	5/18/19	6,000 (3)		1,777,500	
Jeffery Strickland	—	—	—	—	1,160.27 (4)		343,730	

(1) Based on the closing price of \$296.25 per share of the common stock of the Company on December 31, 2013.

(2) These awards vest 33.3% per year beginning on May 26, 2014.

(3) These awards vest 25% per year beginning on May 18, 2014.

(4) This award vests on May 18, 2017.

The following table sets forth summary information concerning the vesting of stock during the year ended December 31, 2013 for our executive officers.

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Emile A Battat	—	—	1,500	318,945
David A. Battat	—	—	1,500	314,243
Jeffery Strickland	—	—	—	—

(1) Based on the average of the high and low sales prices of the Company's common stock on the vesting dates.

Certain Agreements, Plans and Transactions

We have an employment agreement with Mr. Emile Battat that provides that he will serve as a senior executive officer of the Company and, subject to his election as a director by the stockholders, will serve as Chairman of the Board if so elected by our Board of Directors. Mr. Emile Battat's employment agreement fixes his base salary for each calendar year during the term at \$600,000. In addition, he is entitled to receive a cash bonus each year equal to a percentage of the increase in operating income for such calendar year over operating income for the prior calendar year, subject to equitable adjustments in operating income in the discretion of the Compensation Committee. Our employment agreement with Mr. Emile Battat also provides for certain payments to be made and benefits provided to him upon termination of employment, as discussed in "Potential Termination and Change in Control Payments" at page 18 of this proxy statement. The term of our employment agreement with Mr. Emile Battat expires on December 31, 2016 and automatically renews for additional one-year terms unless either we or Mr. Emile Battat notifies the other of termination at least 30 days prior to the expiration of the then-current term.

In 2013, our Board of Directors adopted our Short-Term Incentive Plan in which our executive officers, other than Mr. Emile Battat, and certain key employees are eligible to be selected to participate. The Short-Term Incentive Plan provides for the establishment each year of an awards pool that is equal to a portion of our subsidiaries' operating profits and is funded through contributions by those subsidiaries. The awards pool is used to

pay bonuses under employment agreements, other discretionary bonuses to employees who are not participating in the Short-Term Incentive Plan and other employment-related expenses. The balance of the awards pool, if any, is available for bonuses to participating executive officers and key personnel. Bonuses under the Short-Term Incentive Plan are based in part on a bonus allocation formula that takes into account a number of factors, including the participant's salary, an individual bonus rate, the profitability of the subsidiary employing the participant (where applicable), and individual participant performance. The bonus amounts determined pursuant to that formula for our executive officers are then subject to review by our Compensation Committee, which takes into account the recommendations of the Chairman of the Board, and the Compensation Committee's recommendation as to the bonus amounts to our Board of Directors, which fixes the bonuses. The bonus amounts determined pursuant to the bonus formula for key personnel are subject to review and adjustment by our executive officers. Bonuses under the Short-Term Incentive Plan are determined by the March 15 immediately following the performance year, with at least 75% of the participant's bonus to be paid by that March 15 and the balance, which is generally 25% of the bonus, to be paid by the following March 15 if the participant is employed by the Company on the payment date. For 2013, Mr. David Battat was awarded a cash incentive bonus under the Short-Term Incentive Plan of \$900,000 and Mr. Strickland was awarded a cash incentive bonus of \$260,000, with 75% of each bonus having been paid by March 15, 2014 and the remaining 25% to be paid by March 15, 2015 provided the executive officer is employed by the Company on the payment date.

In 2012 and prior years, Mr. David Battat participated in the Halkey-Roberts Incentive Compensation Plan, or Halkey-Roberts Plan. The Halkey-Roberts Plan provided for a bonus pool equal to 15% of the excess of Halkey-Robert's operating profit, reduced by a percentage of the amount of our corporate overhead that was allocated to Halkey-Roberts each calendar year, over that amount required for Halkey-Roberts to realize a 15% return on the average of total net assets excluding cash but including working capital used in the operations of Halkey-Roberts for such calendar year. The Halkey-Roberts Plan provided that each participant would receive 75% of his or her bonus by March 15 of the year following the performance year, and 25% by the next succeeding March 15 provided the participant was then employed by Halkey-Roberts or an affiliate. Mr. David Battat was awarded a bonus under the Halkey-Roberts Plan of \$750,000 for each of 2012 and 2011, with 75% of each such bonus having been paid by March 15 of the year following the performance year and 25% having been paid by the following March 15. With the adoption of the Short-Term Incentive Plan, the Halkey-Roberts Plan has been terminated. We have a change in control agreement with Mr. David Battat that provides that he will be entitled to certain payments and benefits in the event his employment is terminated in connection with a change in control of the Company, as discussed in "Potential Termination and Change in Control Payments" at page 18 of this proxy statement.

Prior to 2013, we had an incentive compensation plan for our Chief Financial Officer. Under that plan, Mr. Strickland was to receive a cash bonus each year equal to a percentage of the increase in operating income for such calendar year over operating income for the prior calendar year, subject to equitable adjustments in the discretion of the Compensation Committee. The bonus was not to exceed 50% of Mr. Strickland's base salary for such calendar year. Mr. Strickland was not awarded a bonus for 2012 pursuant to that plan because our 2012 operating income was lower than our 2011 operating income. For 2011, Mr. Strickland received a bonus of \$117,500 under that plan. In connection with the adoption of the Short-Term Incentive Plan, the plan for our Chief Financial Officer has been terminated. The Company has a severance plan pursuant to which Mr. Strickland will be entitled to certain payments if his employment is terminated under certain circumstances in connection with a change in control of the Company, as discussed in "Potential Termination and Change in Control Payments" at page 18 of this proxy statement.

During 2013, we purchased 36,666 shares of our common stock in open market or privately-negotiated transactions pursuant to a repurchase program approved by our Board of Directors in 2011 that authorized the repurchase of up to 200,000 shares of our common stock. Included in the 36,666 shares purchased in 2013 pursuant to such authorization

were 5,204 shares and 1,500 shares purchased from Messrs. Emile Battat and Strickland, respectively, on December 24, 2013 at a price of \$291.05 per share, the closing price of the Company's common stock on the NASDAQ Global Select Market on that date, which transactions were not effected during a blackout period for trading, and were pre-cleared, under our Insider Trading Policy and ratified by our Audit Committee.

Related-Party Transactions Policy

Our Audit Committee, pursuant to the Audit Committee Charter, is authorized to review and approve or ratify, in its sole discretion, any related-party transaction, within the meaning of Nasdaq listing rules and rules and regulations promulgated by the SEC. Under the Audit Committee's written policies, transactions involving amounts

in excess of \$120,000 in which a related person has a direct or indirect material interest are subject to review and approval or ratification. The Audit Committee will approve or ratify such a transaction only if it determines that the transaction is in our best interest.

In considering a related-party transaction, the Audit Committee will consider all relevant factors, including as applicable (i) our business rationale for entering into the transaction; (ii) the alternatives to entering into a related-person transaction; (iii) whether the transaction is on terms comparable to those available to third parties or, in the case of employment relationships, to employees generally; (iv) the potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts; and (v) the overall fairness of the transaction to us.

The Audit Committee will periodically monitor the transaction to ensure that there are no changed circumstances that would render it advisable for us to amend or terminate the transaction. Management or the affected director or executive officer is to bring the matter to the attention of the Audit Committee. If a member of the Audit Committee is involved in the transaction, he or she will be recused from all discussions and decisions about the transaction.

Potential Termination and Change in Control Payments

Termination for Just Cause or Without Good Reason

If Mr. Emile Battat's employment is terminated by us for "just cause" or by Mr. Emile Battat without "good reason" (as those terms are defined in Mr. Emile Battat's employment agreement), he is to receive his base salary up to the termination date and the annual bonus for the calendar year in which the termination date occurs, prorated for the number of days in such calendar year prior to the termination date. He will also be entitled to receive his accrued vacation pay, unreimbursed business expenses and vested amounts under the 401(k) Plan.

If Mr. David Battat's employment or Mr. Strickland's employment is terminated for cause, the terminated executive officer will receive his base salary up to the termination date, accrued vacation pay, unreimbursed business expenses and vested amounts under the 401(k) Plan.

Termination Without Just Cause or With Good Reason or Due to Death or Disability

If Mr. Emile Battat's employment is terminated by us without just cause, by Mr. Emile Battat with good reason or due to his death or disability, he will be entitled to receive the same payments and other benefits he would have received had the termination been with just cause plus an amount equal to the sum of one year's base salary and the average annual bonus received by him in the three years prior to the year in which the termination occurs. In addition, we will continue to provide group health plan benefits for him, his spouse and his dependents for one year and all stock options and other equity will fully vest and become exercisable on the termination date.

If Mr. David Battat's or Mr. Strickland's employment is terminated by us without "just cause," by either of them with "good reason" (as those terms are defined in Mr. David Battat's change in control agreement and Mr. Strickland's severance plan) or due to death or disability, and such termination is not in connection with a change in control of the Company, the terminated executive officer will receive the same payments and other benefits he would have received had the termination been with just cause.

Termination Without Just Cause or With Good Reason in Connection with Change in Control

If Mr. Emile Battat's employment is terminated by us without just cause or by Mr. Emile Battat for good reason in contemplation of or within two years following a "change in control" (as that term is defined in Mr. Emile Battat's employment agreement), he will be entitled to receive the same payments and other benefits he would have received had the termination been with just cause, plus an amount equal to two times the sum of one year's base salary and the average annual bonus received by him for the three years prior to the year in which the termination occurs. In addition, we will continue to provide group health plan benefits for him, his spouse and his dependents for one year and all stock options and other equity will fully vest and become exercisable on the termination date.

If Mr. David Battat's employment is terminated by us or Halkey-Roberts without just cause or by Mr. David Battat for good reason in contemplation of or within two years following a "change in control" (as defined in Mr.

David Battat's change in control agreement), he will be entitled to receive the same payments and other benefits he would have received had the termination been with just cause, plus his base salary up to the termination date and the annual bonus for the calendar year in which the termination date occurs, prorated for the number of days in such calendar year prior to the termination date, and an amount equal to two times the sum of one year's base salary and the average annual bonus to which he was entitled for the three years prior to the year in which the termination occurs. In addition, Mr. David Battat's unvested equity awards will vest, and he will be entitled to one year's health benefits.

If there is a change in control of the Company and Mr. Strickland's employment is terminated by us without cause or by Mr. Strickland with good reason prior to Mr. Strickland's death, attainment of age 65 or the expiration of two years following the change in control, Mr. Strickland will be entitled to receive the same payments and other benefits he would have received had the termination been with just cause, plus severance pay in an amount equal to his annual base salary for the 12 months preceding termination of employment. In addition, Mr. Strickland's unvested equity awards will vest.

Change in Control without Termination of Employment

If there is a change in control but no termination of employment, the unvested options and restricted stock held by Messrs. Emile Battat, David Battat and Strickland will vest under the terms of the 2006 Equity Plan.

The following table sets forth the payments and benefits that each executive officer would have received had his employment been terminated, or had a change in control occurred, on December 31, 2013:

Name	Type of Payment or Benefit	Termination for Just Cause or Without Good Reason (\$)	Termination Without Just Cause, For Good Reason, or upon Death or Disability (\$)	Termination Without Just Cause or For Good Reason in Connection with a Change in Control (\$)	Change in Control (\$)
Emile A Battat	Severance Payment(1)	22,000	1,284,263	2,201,080	—
	Equity Awards(2)	—	3,055,275	3,055,275	3,055,275
	Retirement Benefits(3)	82,263	82,263	82,263	—
	Health Benefits	—	14,306	14,306	—
	Total	104,263	4,436,107	5,352,924	3,055,275
	David A. Battat	Severance Payment(4)	14,254	14,254	2,922,588
Equity Awards(2)		—	—	3,140,900	3,140,900
Retirement Benefits(3)		60,817	60,817	60,817	—
Health Benefits		—	—	6,722	—
Total		75,071	75,071	6,131,027	3,140,900
Jeffery Strickland			5,000	5,000	265,000

Severance Payment(5)				
Equity Awards(2)	—	—	343,730	343,730
Retirement Benefits(3)	294,765	294,765	294,765	—
Health Benefits	—	—	—	—
Total	299,765	299,765	903,495	343,730

- (1) Includes unreimbursed business expenses in the amount of \$22,000.
- (2) Represents the market price as of December 31, 2013 of equity awards vesting on termination of employment or change in control less, in the case of options, the exercise price of those options.
- (3) These retirement benefits are the market value of the vested amount contributed by the Company to the named executive officer's account under the 401(k) Plan.
- (4) Includes accrued vacation pay in the amount of \$8,654 and unreimbursed business expenses of \$5,600.
- (5) Includes accrued vacation pay in the amount of \$5,000.

Compensation Committee Interlocks and Insider Participation

During 2013, Messrs. Morgan, Spaulding and Stupp served as members of the Compensation Committee. None of the members of the Compensation Committee was or had previously been an officer or employee of the Company or our subsidiaries or had any relationship requiring disclosure pursuant to Item 404 of Regulation S-K. Additionally, during 2013, none of our executive officers was a member of the board of directors, or any committee thereof, of any other entity one of the executive officers of which served as a member of our Board of Directors, or any committee thereof.

Item No. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

Our Audit Committee has appointed the firm of Grant Thornton LLP as independent accountants to audit our financial statements for the year 2014. Although ratification by stockholders of the selection of Grant Thornton LLP is not required by law, the selection of Grant Thornton LLP is being submitted to our stockholders for ratification because we believe it is a good corporate practice. If stockholders do not ratify the selection, the Audit Committee will reconsider whether to retain Grant Thornton LLP. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interest of us and our stockholders. A representative of Grant Thornton LLP will attend the annual meeting, will have an opportunity to make a statement and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS INDEPENDENT ACCOUNTANTS TO AUDIT OUR FINANCIAL STATEMENTS FOR THE YEAR 2014.

Audit and Related Fees

Audit Fees

The aggregate fees billed by Grant Thornton LLP for professional services rendered for the audit of the Company's annual financial statements and the reviews of the financial statements included in our quarterly reports on Form 10-Q were \$321,231 for the year ended December 31, 2013 and \$314,923 for the year ended December 31, 2012.

Audit-Related Fees

There were no fees billed by Grant Thornton LLP for the year ended December 31, 2013 or for the year ended December 31, 2012 for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit Fees" above.

Tax Fees

The aggregate fees billed by Grant Thornton LLP for professional services rendered for tax services were \$15,624 for the year ended December 31, 2013 and \$34,636 for the year ended December 31, 2012. These fees relate to federal and state tax compliance and tax advice in each such year.

All Other Fees

The aggregate fees billed by Grant Thornton LLP for the year ended December 31, 2013, other than those set forth above, totaled \$700 and related to consultation on our stock options. There were no fees billed by Grant Thornton LLP for services rendered for the year ended December 31, 2012 other than those set forth above.

The Audit Committee has determined that the provision by Grant Thornton LLP of the above referenced services is compatible with maintaining its independence.

The Audit Committee has adopted policies and procedures for pre-approval of audit and non-audit services in order to ensure that the provision of those services does not impair the auditor's independence. In accordance with those policies and procedures, we are not to engage the independent auditors to render any audit or non-audit services unless either the service is approved in advance by the Audit Committee or the engagement to render the service is entered into pursuant to the Audit Committee's pre-approval policies and procedures. In the fourth quarter of each year, the Audit Committee is to review the services expected to be performed by the independent auditor. The Audit Committee will pre-approve fee levels for the up-coming fiscal year for each of the following categories: audit, audit-related and tax compliance/planning services (individual projects less than \$10,000). Tax compliance/planning projects exceeding \$10,000 and all other services not pre-approved in the categories above will

require specific pre-approval from the Audit Committee on an individual project basis. Approval for such services may be requested at the next Audit Committee meeting or, if earlier approval is necessary, it may be obtained in accordance with the Audit Committee's delegation to the Audit Committee Chairman as described below. The Audit Committee will not delegate to our management its responsibilities to pre-approve services performed by the independent auditors. However, the Audit Committee has delegated pre-approval authority to the Audit Committee Chairman for unplanned services that arise during the year. The Chairman has the authority to review and approve permissible services up to \$10,000 per service, provided that the aggregate amount of such services does not exceed \$25,000 in any calendar year. The Audit Committee Chairman must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting. During the year ended December 31, 2013, no services were provided by Grant Thornton LLP other than in accordance with the pre-approval policies and procedures then in place.

Audit Committee Report

The Audit Committee of the Board of Directors has reviewed and discussed with management our audited financial statements as of and for the year ended December 31, 2013. The Audit Committee has discussed with Grant Thornton LLP, our auditors, the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board. The Audit Committee has received the written disclosures and the letter from the independent accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountants' communications with the Audit Committee concerning independence and has discussed with the independent accountants the independent accountants' independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to our Board of Directors that the financial statements referred to above be included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Members of the Audit Committee

John P. Stupp, Jr. (Chairman)
Spaulding

Hugh J. Morgan, Jr.
Roger F. Stebbing

Ronald N.

Item No. 3

ADVISORY VOTE TO APPROVE EXECUTIVE OFFICER COMPENSATION

Pursuant to Section 14A of the Securities Exchange Act of 1934 (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010), our stockholders are entitled to vote to approve, on an advisory basis, the compensation of the Company's executive officers. Pursuant to such provisions, we are requesting our stockholders to approve, on an advisory basis, the compensation of our executive officers, each of whom is named in the Summary Compensation Table, as described in the Compensation Discussion and Analysis and disclosed in the Summary Compensation Table and related compensation tables and narrative discussion presented under "Executive Compensation" beginning at page 9 of this proxy statement. Our Board of Directors has determined to hold an advisory vote on the compensation of our executive officers annually until the next required vote on the frequency of stockholder voting on the compensation of the Company's executive officers or the Board of Directors otherwise determines that a different frequency for such advisory voting is in the best interests of our stockholders. Accordingly, unless the Board of Directors determines otherwise, the next advisory vote on the

compensation of our executive officers following the 2014 annual meeting will occur at the annual meeting of stockholders to be held in 2015.

Our executive compensation program has been designed to attract, retain and motivate our executive team by providing competitive compensation within our market. We believe that our executive compensation program provides an appropriate balance between salary and “at-risk” forms of incentive compensation, as well as a mix of incentives that encourage our executives to focus on both short- and long-term goals without encouraging inappropriate risks to achieve performance. We were pleased to receive a favorable vote for our compensation practices at our 2013 annual meeting, with approximately 94% of the shares present, in person or by proxy, at the meeting and entitled to vote thereon being voted to approve, on an advisory basis, the compensation of our executive

officers.

As an advisory vote, this proposal is not binding on the Company. However, our Compensation Committee and our Board of Directors value the opinions of our stockholders expressed through your vote on this proposal and will consider the outcome of this vote in making future compensation decisions for our executive officers.

Accordingly, we will present the following resolution for vote at our 2014 annual meeting of stockholders:

“RESOLVED, that the stockholders of Atrion Corporation (the “Company”) approve, on an advisory basis, the compensation of the Company’s executive officers named in the Summary Compensation Table in the Company’s proxy statement for its 2014 annual meeting of stockholders, as described in the Compensation Discussion and Analysis and disclosed in said Summary Compensation Table and related compensation tables and narrative discussion set forth in said proxy statement.”

The proposal to approve, on an advisory basis, the compensation of our executive officers requires the affirmative vote of the majority of the shares represented in person or by proxy at the annual meeting and entitled to vote on the proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL, ON AN ADVISORY BASIS, OF OUR EXECUTIVE OFFICER COMPENSATION AS PRESENTED IN THIS PROXY STATEMENT.

SECURITIES OWNERSHIP

The following table sets forth information regarding the beneficial ownership of shares of our common stock as of March 26, 2014 by (i) each of our directors, two of whom are also the Board of Directors’ nominees for election as directors at the annual meeting; (ii) our executive officers who are named in the Summary Compensation Table herein; (iii) all of our directors and executive officers as a group; and (iv) each other person known by us to be the beneficial owner of more than 5% of our outstanding common stock.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Class (1)
Emile A Battat (2)	163,703 (3)	8.24 %
David A. Battat	92,624 (3)(4)	4.68 %
Hugh J. Morgan, Jr.	19,534	*
Ronald N. Spaulding	2,054	*
Roger F. Stebbing	6,437	*
John P. Stupp, Jr.	140,347 (5)	7.12 %
Jeffery Strickland	7,519 (6)	*
Royce & Associates, LLC(7)	243,432	12.35 %
T. Rowe Price Associates, Inc.(8)	201,550	10.23 %
All directors and executive officers as a group (7 persons) (9)	432,218	21.66 %

* Less than 1% of class.

(1) Based on 1,970,613 shares of common stock outstanding on March 26, 2014, plus shares that can be acquired through the exercise of options within 60 days thereafter by the specified individual or group. Except as otherwise indicated in the notes to this table, beneficial ownership includes sole voting and investment power.

- (2) The business address for Mr. Emile Battat is One Allentown Parkway, Allen, Texas 75002-4206. Mr. Emile Battat is the father of Mr. David Battat.
- (3) The shares listed include the following shares issuable upon the exercise of options exercisable on March 26, 2014 or within 60 days thereafter: Mr. Emile Battat, 15,000 shares and Mr. David Battat, 10,000 shares. Messrs. Emile Battat and David Battat are parties to award agreements setting forth certain terms of options granted to them under the 2006 Equity Plan.
- (4) Includes 55,500 shares held in a family trust as to which shares Mr. David Battat has shared voting and investment power.
- (5) Includes 135,000 shares held by Stupp Bros., Inc. as to which Mr. Stupp shares voting power and investment power as a director and executive officer, and as a voting trustee of a voting trust which owns 100% of the voting stock, of Stupp Bros., Inc. The 135,000 shares held by Stupp Bros., Inc., which are pledged to that company's lenders as security for its working capital line of credit, represent 6.85% of our common stock outstanding as of March 26, 2014. Mr. Stupp is the direct beneficial owner of 5,347 shares, all of which shares are pledged as collateral for a mortgage loan. Does not include

22,330 shares held in a family trust, the co-trustees of which are Mr. Stupp's wife and one of his children or 413.73 stock units held in Mr. Stupp's stock unit account that will not be converted into shares of our common stock within 60 days after March 26, 2014. The business address for Mr. Stupp and Stupp Bros., Inc. is 3800 Weber Road, St. Louis, Missouri 63125.

- (6) These shares are held in a family limited partnership, the general partner of which is a limited liability company in which Mr. Strickland is a member. Mr. Strickland has shared voting and investment power over these shares. The shares listed do not include 1,172.15 restricted stock units that will not be converted into shares of our common stock within 60 days after March 26, 2014.
- (7) The address of Royce & Associates, LLC ("Royce") is 745 Fifth Avenue, New York, New York 10151. This information is based upon a Schedule 13G/A dated January 6, 2014 filed with the SEC and furnished to the Company reporting that Royce has sole power to vote or direct the vote of and the sole power to dispose or direct the disposition of 243,432 shares of common stock.
- (8) The address of T. Rowe Price Associates, Inc. is 100 East Pratt Street, Baltimore, Maryland 21202. This information is based upon a Schedule 13G/A dated February 14, 2014 filed with the SEC and furnished to the Company by T. Rowe Price Associates, Inc., or Price Associates, and T. Rowe Price Small-Cap Value Fund, Inc., or Small-Cap Value Fund, reporting that Price Associates has sole power to vote or direct the vote of 29,250 shares of common stock and has sole power to dispose of or direct the disposition of 201,550 shares of common stock and that Small-Cap Value Fund has sole power to vote or direct the vote of 172,300 shares of common stock. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such shares of common stock; however, Price Associates has expressly disclaimed beneficial ownership of all such shares.
- (9) See notes (1)-(6) above.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers, directors and persons who own more than 10% of our common stock to file initial reports of ownership and reports of changes of ownership of our common stock with the SEC and to provide copies of those reports to us. We assist our directors and officers with completing and filing these reports. Based upon a review of these filings and written representations from our directors and officers, we believe that all reports were filed timely in 2013.

STOCKHOLDER PROPOSALS

Stockholder Proposals in Our Proxy Statement

In order for proposals by stockholders to be considered for inclusion in our proxy material relating to the 2015 annual meeting of stockholders, such proposals must be received by us on or before December 11, 2014.

Stockholder Proposals and Director Nominations to be Presented at Stockholder Meetings

Our Bylaws provide that a stockholder who desires to propose any business at an annual meeting of stockholders or to nominate one or more persons for election to our Board of Directors at an annual meeting or special meeting called for the purpose of electing directors must give us written notice of such stockholder's intent to bring that business before such meeting or nominate such person or persons for election to our Board of Directors at such meeting. The notice must be received by the Secretary of the Company at our principal executive offices not earlier than the close of business on the 150th day and not later than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting of stockholders. In the event that the date of the annual meeting is more than 30 days

before or more than 60 days after the anniversary date of the previous year's meeting or in the case of a special meeting called for the purpose of electing directors, notice by the stockholder must be received by the Secretary not earlier than the close of business on the 150th day prior to the date of such meeting and not later than the close of business on the later of the 120th day prior to such meeting and the 10th day following the date on which public announcement of the date of the meeting is first made. Such notice for the 2015 annual meeting must be delivered not earlier than December 23, 2014 and not later than January 22, 2015, provided the date of the 2015 annual meeting is not more than 30 days before or more than 60 days after May 22, 2015. Our Bylaws also specify the information that must be included in the notice that stockholders must provide to the Secretary of the Company in order to propose any business to be conducted at an annual meeting or to nominate one or more persons for election to our Board of Directors at an annual meeting or a special meeting called for the purpose of electing directors. The Chairman of the meeting may refuse to transact any business presented or to acknowledge

the nomination of any person made without compliance with the procedures set forth in our Bylaws. The foregoing summary is qualified in its entirety by reference to the full text of our Bylaws which is on file with the Securities and Exchange Commission and is available upon request to the Secretary of the Company.

NO INCORPORATION BY REFERENCE

In our filings with the SEC, information is sometimes “incorporated by reference.” This means that we are referring you to information that has previously been filed with the SEC, and that the information should be considered part of a particular filing. As provided in regulations promulgated by the SEC, the “Audit Committee Report” and the “Compensation Committee Report” contained in this proxy statement specifically are not incorporated by reference into any other filings with the SEC. In addition, this proxy statement includes our website address. This website address is intended to provide inactive, textual references only. The information on our website is not part of this proxy statement.

COST AND METHOD OF SOLICITATION

The cost of soliciting proxies will be borne by us. In addition to the use of the mails, proxies may be solicited personally or by telephone, facsimile and other electronic communication methods by our directors, officers and employees without additional compensation. Brokerage firms, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to the beneficial owners of our common stock held in their names or in those of their nominees, and their reasonable expenses will be reimbursed upon request.

OTHER BUSINESS

Our Board of Directors does not intend to bring any business before the meeting other than that stated herein and is not aware of any other matters that may be presented for action at the meeting. However, if any other matters should properly come before the meeting, or any adjournments thereof, it is the intention of the persons named in the accompanying proxy to vote on such matters as they, in their discretion, may determine.

By Order of the Board of Directors

Jeffery Strickland
Vice President and Chief Financial
Officer, Secretary and Treasurer

April 10, 2014

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**ATRION
CORPORATION**

**ONE ALLENTOWN
PARKWAY**

VOTE BY PHONE- 1-800-690-6903

ALLEN, TX 75002

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK
BLOCKS BELOW IN
BLUE OR BLACK INK
AS FOLLOWS:

M69269-P49764

KEEP THIS PORTION FOR YOUR RECORDS

**THIS PROXY
CARD IS VALID
ONLY WHEN
SIGNED AND
DATED.**

DETACH AND RETURN THIS PORTION ONLY

**ATRION
CORPORATION**

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the

For Withhold For All number(s) of the nominee(s) on the line below.
All All Except

The Board of Directors recommends you vote FOR the nominees listed in Item 1.

1. Election of Directors
 £ £ £
Nominees:

- 01) Emile A Battat
- 02) Ronald N. Spaulding

The Board of Directors recommends you vote FOR Items 2 and 3.

For Against Abstain

- | | |
|---|-------|
| 2. Ratification of the appointment of Grant Thornton LLP as the Company's independent accountants for 2014. | £ £ £ |
| 3. Advisory vote to approve executive officer compensation. | £ £ £ |

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date
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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

M69270-P49764

ATRION CORPORATION

ANNUAL MEETING OF STOCKHOLDERS

**THIS PROXY IS SOLICITED ON BEHALF
OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Hugh J. Morgan, Jr. and John P. Stupp, Jr., or either of them, as proxies of the undersigned, with full power of substitution, and hereby authorizes them to represent and to vote, as specified on the reverse side of this proxy and in their discretion upon such other matters that may properly come before the meeting or any adjournment thereof, all of the shares of Common Stock of Atrion Corporation that the undersigned is entitled to vote at the annual meeting of stockholders of Atrion

Corporation to be held at 10:00 a.m., Central Time, on Thursday, May 22, 2014, at the offices of Atrion Corporation, One Allentown Parkway, Allen, TX 75002, and at any adjournment thereof.

This proxy, if properly executed and returned, will be voted as directed or, if no direction is given, will be voted FOR the nominees listed in Item 1 and FOR Items 2 and 3. If any other matters properly come before the meeting, this proxy will be voted as determined by the proxies in their discretion.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED REPLY ENVELOPE.

Continued and to be signed on reverse side