

SENSIENT TECHNOLOGIES CORP
Form DEF 14A
March 15, 2007

SCHEDULE 14A INFORMATION

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

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

SENSIENT TECHNOLOGIES CORPORATION

(Name of Registrant as Specified In Its Charter)

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

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(4) Date Filed:

[LOGO]

March 15, 2007

Dear Fellow Shareholder:

You are invited to attend the Annual Meeting of Shareholders of Sensient Technologies Corporation. The meeting will be held on Thursday, April 26, 2007, at 2:00 p.m., Central Time, at the Peninsula Hotel, 108 East Superior Street, Chicago, Illinois.

We hope that you will be able to join us at the meeting to review the year and take a look at what the future holds for our company. In addition, the business to be transacted is: (i) to elect eight directors of the Company as described in the accompanying Proxy Statement; (ii) to ratify the appointment of Ernst & Young LLP, certified public accountants, as the independent auditors of the Company for 2007; (iii) to approve the Sensient Technologies Corporation 2007 Restricted Stock Plan; and (iv) to transact such other business as may properly come before the meeting or any adjournment thereof.

Whether or not you plan to attend, it is important that you exercise your right to vote as a shareholder. Please indicate your vote on the enclosed proxy card and return it promptly using the envelope provided or vote by telephone or by Internet according to the instructions on the enclosed proxy card. Be assured that your votes are completely confidential.

On behalf of the officers and directors of the Company, we want to thank you for your continued support and confidence.

Sincerely,

/s/ Kenneth P. Manning
Kenneth P. Manning
Chairman, President and Chief Executive Officer

Enclosures

SENSIENT TECHNOLOGIES CORPORATION

777 East Wisconsin Avenue

Milwaukee, Wisconsin 53202

Notice of Annual Meeting

To Be Held April 26, 2007

To the Shareholders of

Sensient Technologies Corporation:

NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Shareholders (Meeting) of Sensient Technologies Corporation, a Wisconsin corporation (Company), will be held at the Peninsula Hotel, 108 East Superior Street, Chicago, Illinois on Thursday, April 26, 2007, at 2:00 p.m., Central Time, for the following purposes:

1. To elect eight directors of the Company as described in the accompanying Proxy Statement.
2. To ratify the appointment of Ernst & Young LLP, certified public accountants, as the independent auditors of the Company for 2007.
3. To approve the Sensient Technologies Corporation 2007 Restricted Stock Plan.
4. To transact such other business as may properly come before the Meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on February 27, 2007 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Meeting and any adjournments thereof.

We encourage you to attend the Meeting and vote your shares in person. However, whether or not you are able to attend the Meeting, please complete the enclosed proxy and return it promptly using the envelope provided or vote by telephone or by Internet according to the instructions on the enclosed proxy card, so that your shares will be represented at the Meeting. You may revoke your proxy at any time before it is actually voted by notice in writing to the undersigned or by attending the Meeting and voting in person. Your attention is directed to the attached proxy statement and accompanying proxy.

On Behalf of the Board of Directors

John L. Hammond
Secretary

Milwaukee, Wisconsin

March 15, 2007

SENSIENT TECHNOLOGIES CORPORATION

777 East Wisconsin Avenue

Milwaukee, Wisconsin 53202

(414) 271-6755

PROXY STATEMENT

for

ANNUAL MEETING OF SHAREHOLDERS

to be held on

April 26, 2007

GENERAL

This proxy statement and accompanying proxy are first being furnished to the shareholders of Sensient Technologies Corporation, a Wisconsin corporation (*Company*), beginning on or about March 15, 2007, in connection with the solicitation by the Board of Directors of the Company (*Board*) of proxies for use at the Company's 2007 Annual Meeting of Shareholders to be held at the Peninsula Hotel, 108 East Superior Street, Chicago, Illinois on Thursday, April 26, 2007, at 2:00 p.m., Central Time, and at any adjournments thereof (*Meeting*), for the purposes set forth in the attached Notice of Annual Meeting and in this proxy statement.

Accompanying this proxy statement are a Notice of Annual Meeting and a form of proxy solicited by the Board for the Meeting. The Annual Report to Shareholders, which also accompanies this proxy statement, contains financial statements for the three years ended December 31, 2006, and certain other information concerning the Company. The Annual Report and financial statements are neither a part of this proxy statement nor incorporated herein by reference.

Only holders of record of the Company's Common Stock (*Common Stock*) as of the close of business on February 27, 2007, are entitled to notice of, and to vote at, the Meeting. On that date, the Company had 46,831,413 shares of Common Stock outstanding, each of which is entitled to one vote on each proposal submitted for shareholder consideration at the Meeting.

A proxy, in the enclosed form, which is properly executed, duly returned to the Company or its authorized representatives or agents and not revoked or which has been properly voted by telephone or by Internet according to the instructions on the enclosed proxy card and not revoked will be voted in accordance with the shareholder's instructions contained in the proxy. If no instructions are indicated on the proxy, the shares represented thereby will be voted as follows:

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- FOR the Board's eight nominees for director;
- FOR ratification of the Board's appointment of Ernst & Young LLP as the Company's independent auditors for 2007;
- FOR approval of the Sensient Technologies Corporation 2007 Restricted Stock Plan (the 2007 Plan); and
- On such other matters that may properly come before the Meeting in accordance with the best judgment of the individual proxies named in the proxy.

Any shareholder giving a proxy may revoke it at any time before it is exercised at the Meeting by delivering written notice thereof to the Secretary of the Company. Any shareholder attending the Meeting may vote in person whether or not the shareholder has previously filed a proxy. Presence at the Meeting by a shareholder who has signed a proxy does not in itself revoke the proxy. The shares represented by all properly executed proxies received prior to the Meeting and not revoked will be voted as directed by the shareholders.

The cost of soliciting proxies will be borne by the Company. Proxies may be solicited by directors, officers or employees of the Company in person, by telephone or by telegram. The Company will use the services of D. F. King & Co., Inc., New York, New York, to aid in the solicitation of proxies. Their charges will be \$7,500 plus reasonable expenses. The Company will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their expenses in sending proxy materials to the beneficial owners.

ITEM 1.

ELECTION OF DIRECTORS

The Board of Directors currently consists of eight members who are all elected each year for one-year terms. All of the nominees are currently directors of the Company.

It is intended that the persons named as proxies in the accompanying proxy will vote FOR the election of the Board's eight nominees. If any nominee should become unable to serve as a director prior to the Meeting, the shares represented by proxies otherwise voted in favor of the Board's eight nominees or which do not contain any instructions will be voted FOR the election of such other person as the Board may recommend.

Under Wisconsin law, directors are elected by a plurality of the votes cast by the shares entitled to vote in the election, assuming a quorum is present. For this purpose, "plurality" means that the individuals receiving the largest number of votes are elected as directors, up to the maximum number of directors to be chosen in the election. Therefore, any shares of Common Stock which are not voted on this matter at the Meeting (whether by abstention, broker nonvote or otherwise) will have no effect on the election of directors at the Meeting.

Pursuant to the Company's Bylaws, written notice of other qualifying nominations by shareholders for election to the Board must have been received by the Secretary no later than 50 days before the meeting, or March 7, 2007. As no notice of any other nominations was received, no other nominations for election to the Board of Directors may be made by shareholders at the Meeting.

Set forth below is certain information about the Board's nominees.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ALL NOMINEES. SHARES OF COMMON STOCK REPRESENTED AT THE MEETING BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR ALL NOMINEES.

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Name, Age and Committees	Position with Company or Other Occupation	Year First Elected Director
Hank Brown		2004
A, F, N	67 President of the University of Colorado, since August 2005; President and Chief Executive Officer, The Daniels Fund, a charitable foundation, from July 2002 to July 2005; President of the University of Northern Colorado from July 1998 to June 2002; Director of Sealed Air Corporation.	
Dr. Fergus M. Clydesdale		1998
C, E, N, S	70 Distinguished University Professor and Head, Department of Food Science, College of Food and Natural Resources at the University of Massachusetts Amherst.	
James A.D. Croft		1997
A, C, E, S	69 Retired; Director of Richard Ellis Holdings Limited, property and investment consultants until 1998; Chairman, Bartlodge, Ltd. since 1998.	
William V. Hickey		1997
A, E, F, N	62 President, Chief Executive Officer and Director of Sealed Air Corporation, a leading global manufacturer of a complementary line of protective, food and specialty packaging materials and systems; Director of Public Service Enterprise Group Incorporated.	

A Audit Committee
 C Compensation and Development Committee
 E Executive Committee

F Finance Committee
 N Nominating and Corporate Governance Committee
 S Scientific Advisory Committee

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Name, Age and Committees	Position with Company or Other Occupation	Year First Elected Director
Kenneth P. Manning E, S	65 Chairman of the Board, President and Chief Executive Officer of the Company; Director of Badger Meter, Inc. and Sealed Air Corporation.	1989
Peter M. Salmon		2005
F, S	57 President, The International Food Network, Inc., an international provider of research and development services for food and beverage products.	
Dr. Elaine R. Wedral		2006
S	62 Retired; President of Nestle's Research and Development, Worldwide Food Service Systems from 1988 to 2004; Director of Balchem Corporation.	
Essie Whitelaw		1993
C, N	59 Senior Vice President of Private Sector Claims Administration, Wisconsin Physician Services, a provider of health insurance and benefit plan administration, since 2001; President and Chief Operating Officer of Blue Cross & Blue Shield of Wisconsin, a comprehensive health insurer, to 2000.	

A Audit Committee

C Compensation and Development Committee

E Executive Committee

F Finance Committee

N Nominating and Corporate Governance Committee

S Scientific Advisory Committee

Except as noted, all nominees have held their current positions or otherwise have served in their respective positions with the listed organizations for more than five years. No director, nominee for director or executive officer had any material interest, direct or indirect, in any business transaction of the Company or any subsidiary during 2006, nor does any director, nominee or executive officer have any material interest, direct or indirect, in any such proposed transaction. The Board has determined that all members of the Board, except Mr. Manning, are independent under the applicable rules of the New York Stock Exchange and the Securities and Exchange Commission (the "SEC"). See "Corporate Governance-Director Independence" below.

Corporate Governance

Board Meetings and Meeting Attendance

The Board of Directors met five times during 2006. Each director attended at least 75% of the meetings of the Board and the Board Committees on which he or she served that were held during the period in which he or she was a director in 2006. The Company's Corporate Governance Guidelines provide that all directors are expected to attend the Annual Meeting of Shareholders. In 2006, all Board members attended the Annual Meeting of Shareholders.

Committees of the Board of Directors

Executive Committee

The Executive Committee of the Board of Directors, which currently consists of Messrs. Croft, Hickey and Manning and Dr. Clydesdale, met once in 2006. This Committee has the power and authority of the Board of Directors in directing the management of the business and affairs of the Company in the intervals between Board of Directors meetings, except to the extent limited by law, and reports its actions at regular meetings of the Board.

Audit Committee

The Audit Committee of the Board of Directors met ten times during 2006. Messrs. Brown, Croft and Hickey are the current members of the Audit Committee. All members of the Audit Committee meet the independence and experience requirements of the New York Stock Exchange and the SEC. This Committee, among other things: (i) has sole responsibility to appoint, terminate, compensate and oversee the independent auditors of the Company and to approve any audit and permitted non-audit work by the independent auditors; (ii) reviews the adequacy and appropriateness of the Company's internal control structure and recommends improvements thereto, including management's assessment of internal controls and the internal audit function; (iii) reviews with the independent auditors their reports on the consolidated financial statements of the Company and the adequacy of the financial reporting process, including the selection of accounting policies; (iv) reviews and discusses with management the Company's practices regarding earnings press releases and the provision of financial information and earnings guidance to analysts and ratings agencies; (v) obtains and reviews an annual report of the independent auditor covering the independent auditor's quality control, any inquiry or investigation by governmental or professional authorities within five years and independence; (vi) sets hiring policies for employees or former employees of the independent auditor; (vii) establishes procedures for receipt of complaints about accounting or auditing matters; and (viii) reviews the adequacy and appropriateness of the various policies of the Company dealing with the principles governing performance of corporate activities. These policies, which are set forth in the Company's Code of Conduct, include antitrust compliance, conflict of interest and business ethics. The Board of Directors has adopted a written charter for the Audit Committee, which is incorporated in the Company's Bylaws and posted on its website. The Audit Committee reviews and reassesses the adequacy of this charter at least annually. The Board also approved on December 5, 2002, a Code of Ethics for Senior Financial Officers, as contemplated by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Board has determined that Mr. Hickey is an audit committee financial expert in accordance with SEC rules. Any changes made to the Code of Ethics, and any waivers granted thereunder, will be posted and available on the Company's website.

Compensation and Development Committee

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The current members of the Compensation and Development Committee of the Board of Directors, which held three meetings during 2006, are Mr. Croft, Dr. Clydesdale and Ms. Whitelaw. This Committee, among other things: (i) reviews and approves all compensation programs for senior management of the Company, including salary structure, base salary and short-term and long-term incentive compensation plans, including stock options and non-qualified fringe benefit programs; (ii) prepares reports for, and reviews compensation-related disclosures

in, the annual proxy statement; (iii) reviews and approves annual changes in each elected officer's compensation including base salary and short-term and long-term incentive awards, and approves all executive employment contracts; (iv) annually recommends to the Board of Directors the election of Company officers; and (v) annually reviews the performance of the Chief Executive Officer and reviews and approves the Chief Executive Officer's management development and succession plans for the Company.

See Compensation Discussion and Analysis regarding various Committee policies and procedures and Compensation and Development Committee Report for the Committee's report on 2006 executive compensation.

Finance Committee

The Finance Committee of the Board of Directors, which currently consists of Messrs. Brown, Hickey and Salmon, held four meetings during 2006. Among other things, this Committee reviews and monitors the Company's financial planning and structure to ensure conformity with the Company's requirements for growth and fiscally sound operation, and also reviews and approves: (i) the Company's annual capital budget, long-term financing plans, existing credit facilities and investments and commercial and investment banking relationships; (ii) existing insurance programs, foreign currency management and the stock repurchase program; and (iii) the financial management and administrative operation of the Company's qualified and nonqualified benefit plans.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of the Board of Directors, which currently consists of Messrs. Brown and Hickey, Dr. Clydesdale and Ms. Whitelaw, met twice during 2006. Each member of the Committee satisfies New York Stock Exchange independence requirements. Among other functions, this Committee: (i) studies and makes recommendations concerning the composition of the Board of Directors and its committee structure, and reviews the compensation of Board and Committee members; (ii) recommends persons to be nominated by the Board of Directors for election as directors of the Company and to serve as proxies at the annual meeting of shareholders; (iii) considers nominees recommended by shareholders; (iv) assists the Board in its determination of the independence of each director; (v) develops corporate governance principles for the Company and reassesses such principles annually; and (vi) oversees the system of corporate governance and the evaluation of the Board and management from a corporate governance standpoint. The Committee identifies and recommends candidates it believes are qualified and suitable to serve as a director consistent with the criteria for selection of directors adopted by the Board. A copy of the Company's Director Selection Criteria is attached as Appendix A to this proxy statement. Recommendations for Board candidates may be made to the Committee by the Company's Chairman and Chief Executive Officer, other current Board members and Company shareholders. The Committee also from time to time utilizes the services of third-party search firms. Once appropriate candidates are identified, the Committee evaluates their qualifications to determine which candidate best meets the Company's Director Selection Criteria, without regard to the source of the recommendation. Recommendations by shareholders for director nominees should be forwarded to the Secretary of the Company, who will relay such information to the Committee Chair. The recommendations should identify the proposed nominee by name, should describe every arrangement or understanding with such person and should provide at least the detailed information about the nominee that is required by SEC rules for the solicitation of proxies for election of directors. Shareholders should look to the information required pursuant to the Company's Bylaws for shareholder nominations as a guide to the information required. Under the Company's Bylaws, shareholders also have the right to directly nominate a person for election as a director so long as the advance notice and informational requirements contained in the Bylaws are satisfied. See the discussion under Future Shareholder Proposals and Nominations below.

Scientific Advisory Committee

The Scientific Advisory Committee of the Board of Directors, which currently consists of Drs. Clydesdale and Wedral and Messrs. Croft, Manning and Salmon, met twice during 2006. Among other functions, this

Committee: (i) reviews the Company's research and development programs with respect to the quality and scope of work undertaken; (ii) advises the Company on maintaining product leadership through technological innovation; and (iii) reports on new technological trends and regulatory developments that would significantly affect the Company and suggests possible new emphases with respect to its research programs and new business opportunities.

Committee Charters and Other Governance Documents

Charters for the Audit, Compensation and Development, and Nominating and Corporate Governance Committees of the Company's Board of Directors, as well as the Company's Code of Conduct, Standards of Conduct for International Employees, Code of Ethics for Senior Financial Officers, and Corporate Governance Guidelines are available on the Company's website (www.sensient-tech.com), and are available in print to any shareholder upon request. If there are any amendments to the Code of Conduct, the Standards of Conduct, the Code of Ethics or the Corporate Governance Guidelines, or if waivers from any of them are granted for executive officers or directors, those amendments or waivers also will be posted on the Company's website.

Executive Sessions of Independent Directors

The Company's independent directors, who also constitute the non-management directors, meet at regularly scheduled executive sessions without management not less frequently than three times per year. The independent directors held three executive sessions during 2006. The responsibility for presiding at each meeting of independent directors is rotated among all independent members of the Board of Directors in alphabetical order.

Interested parties who wish to make their concerns known by communicating directly with the presiding independent director or with the independent directors or the Board as a group may do so in writing addressed to the attention of the Company Secretary. The Company's Corporate Governance Guidelines provide that all such communications will be relayed by the Company Secretary to the appropriate independent director unless the content is obviously inappropriate for Board or independent director review.

Director Independence

The Company's Corporate Governance Guidelines provide guidelines for determining whether a director is independent from management. For a director to be considered independent, the Board must make an affirmative determination that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). The guidelines contain the following specific criteria, which reflect the currently applicable New York Stock Exchange rules, to assist the Board in determining whether a director has a material relationship with the Company. A director is not independent if:

- The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer of the Company.
- The director has received, or has an immediate family member who has received for service as an executive officer, during any twelve-month period within the last three years, more than \$100,000 in direct compensation from the Company (other than fees in connection with services as director or other non-contingent deferred compensation for prior service).

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- (A) The director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time.

- The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company and any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
- The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to or received payments from the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of the other company's consolidated gross revenues.

In addition, the guidelines state that no director shall be independent unless he or she shall meet the requirements for independence under applicable securities laws. For purposes of determining independence, the Company includes any parent or subsidiary in a consolidated group with the Company.

Based on these criteria, the Board has affirmatively determined that Messrs. Brown, Croft, Hickey and Salmon, Drs. Clydesdale and Wedral and Ms. Whitelaw (who are all of the members of the Board except Mr. Manning) are independent under the applicable rules of the New York Stock Exchange and the Securities and Exchange Commission and the Company's independence criteria. In making this determination, the Board reviewed information provided by each of the directors to the Company. None of the directors identified as independent had any material relationship with the Company or its senior executive officers.

The Company has no relationships with any of the independent directors (other than as a director and a shareholder), except that Sealed Air Corporation, of which Mr. Hickey is President and Chief Executive Officer, purchased \$98,657 and \$107,820 in colors from one or more units of the Company in 2006 and 2005, respectively. The Board determined that this immaterial relationship did not impair Mr. Hickey's independence.

Director Compensation and Benefits

Directors who are not employees of the Company received during 2006 an annual retainer of \$30,000 and fees of \$1,500 for each Board and Committee meeting attended in addition to reimbursable expenses for such attendance. Each Committee chairperson received an additional \$5,000 annually for serving in that capacity.

The Company has an unfunded retirement plan for non-employee directors who have completed at least three years of service with the Company as a director. The plan provides a benefit equal to the annual retainer for directors in effect at the time of the director's departure from the Board. This benefit, payable only during the lifetime of the participant, continues for a period equal to the amount of time the individual was an active director. During the benefit period, the participant must be available to the Chairman of the Board for consultation.

The Company has a Directors' Deferred Compensation Plan available to any director who is entitled to compensation as a Board member. Under this plan, the maximum amount that is eligible to be deferred is the total of all fees paid to the director by reason of his or her membership on the Board or any Committee thereof. The plan provides that directors may defer all or part of their director fees and the deferral may be in cash or Common Stock. The fees deferred in cash are credited to individual deferred compensation accounts which bear interest at the rate of 8.0% per annum. The amounts deferred pursuant to this plan will be paid either: (i) in a lump sum on January 31st of the calendar year following the year in which the director ceases to be a director or on January 31st of any year thereafter; or (ii) in five equal consecutive annual installments commencing on January 31st of the first calendar year after the director ceases to serve as a director. In the event of death, the balance in a director's account will be paid in a lump sum to a designated beneficiary or to the director's estate.

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The Company has a Directors Stock Option Plan for any director who is not an employee of the Company. The plan provides for each director to be granted options to purchase 2,000 shares of the Company's common stock annually on May 1. The options have an exercise price equal to the market price of the Company's stock on

the date of grant and vest in increments of one-third of the total grant on each of the first, second and third anniversaries of the date of grant.

The Company also has a Directors Stock Plan for any director who is not an employee of the Company. This plan provides for an annual grant of 900 shares of the Company's common stock to each non-employee director on the Annual Meeting date. The shares vest in increments of one-third of the total grant on each of the first, second and third anniversaries of the date of grant.

Set forth below is a summary of the compensation paid to each non-employee director in fiscal 2006:

2006 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)(4)	Option Awards \$(2)(3)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation \$(5)	Total (\$)
H. Brown	\$ 68,000	\$ 16,226	\$ 7,981	\$ 28,000	\$	\$ 120,207
Dr. F. M. Clydesdale	57,500	16,938	9,145	11,000		94,583
J. A. D. Croft	74,000	16,938	9,145	9,000		109,083
W. V. Hickey	73,000	16,938	9,145	14,000		113,083
P. M. Salmon	48,000	4,061	2,316	26,331		80,708
Dr. E. R. Wedral	30,000	4,061	2,316	25,000		61,377
E. Whitelaw	45,000	16,938	9,145	7,000		78,083
M. Batten (5)	17,225	22,964	11,789		27,775	79,753
J. Bergstrom (5)	9,725	22,964	11,789		27,775	72,253

(1) Includes annual retainer, attendance and chairmanship fees.

(2) The amounts in the table reflect the compensation expense recognized by the Company during 2006 for stock awards and option awards to the named director in 2003 to 2006. In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), which requires us to recognize compensation expense for stock options and other stock-related awards granted to our employees and directors based on the estimated fair value of the equity awards at the time of grant. The compensation expense is required to be recognized over the vesting period. The requirements of SFAS No. 123(R) became effective beginning in the first quarter of fiscal 2006. The assumptions used to determine the valuation of the awards are discussed in note 5 to our consolidated financial statements. The grant date fair value of the 2006 stock award to each director was \$18,225, and the grant date fair value of the 2006 option award to each director was \$10,400.

(3) The options have an exercise price equal to the market price of the Company's stock on the date of grant and vest in increments of one-third of the total grant on each of the first, second and third anniversaries of the date of grant.

(4) Each non-employee director had the following equity awards outstanding as of the end of fiscal 2006:

Name	Option Awards	Stock Awards
	Number of Securities Underlying Unexercised Options (#)	Number of Shares of Stock That Have Not Vested (#)
H. Brown	6,000	1,800
Dr. F. M. Clydesdale	14,000	1,800
J. A. D. Croft	14,000	1,800
W. V. Hickey	14,000	1,800
P. M. Salmon	2,000	900
Dr. E. R. Wedral	2,000	900
E. Whitelaw	14,000	1,800
M. Batten (5)	12,000	
J. Bergstrom (5)	8,000	

(5) Mr. Batten and Mr. Bergstrom each retired from service as a director during 2006. The amounts in the All Other Compensation column of the 2006 Director Compensation Table reflect payments to Messrs. Batten and Bergstrom in 2006 under the Company's unfunded retirement plan.

AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board, the Audit Committee of the Board (the Committee) assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During 2006, the Committee met ten times. The Committee discussed the financial information contained in each quarterly earnings announcement and in each of the Company's Forms 10-Q and 10-K with the Company's Vice President and Chief Financial Officer, its Vice President, Controller and Chief Accounting Officer and its independent auditors prior to release of the earnings announcement and prior to filing the Company's Forms 10-Q and 10-K with the Securities and Exchange Commission, respectively. During each fiscal quarter of 2006, the procedures undertaken in connection with the Chief Executive Officer and Chief Financial Officer certifications for Forms 10-Q and 10-K were reviewed, including the Company's disclosure controls and procedures and internal controls.

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence, consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and discussed with the auditors any relationships that may impact their objectivity and independence. The Committee has also considered whether the provision of any non-audit services by the auditors is compatible with maintaining the auditors' independence. The Committee is satisfied as to the auditors' independence. The Committee also discussed with management, the Company's internal auditors and the independent auditors the quality and adequacy of the Company's internal controls and the internal audit function's organization, responsibilities, budget and staffing. The Committee reviewed with both the independent and the internal auditors their audit plans, audit scopes and identification of audit risks.

The Committee discussed and reviewed with the independent auditors all communications required by the Public Company Accounting Oversight Board, including those described in Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements. The Committee also discussed the results of the internal audit examinations and met separately with the Company's internal auditors.

Audit Fees

During the years ended December 31, 2006 and 2005, aggregate fees (including expenses) for the annual audit of the Company's financial statements were approximately \$2,118,000 and \$2,347,000, respectively. Audit fees include fees for the audit of the Company's consolidated financial statements, fees for statutory audits of foreign entities, fees for quarterly review services and fees related to the Company's SEC filings.

Audit-Related Fees

During the years ended December 31, 2006 and 2005, aggregate fees (including expenses) for audit-related services provided by the independent auditors were \$0 and approximately \$59,000, respectively. Audit-related fees include fees for audits of the Company's employee benefit plans, non-audit related accounting consultations and acquisition due diligence services.

Tax Fees

During the years ended December 31, 2006 and 2005, aggregate fees (including expenses) for tax services provided by the independent auditors were approximately \$114,000 and \$339,000, respectively. Tax services include tax compliance, tax advice and tax planning.

All Other Fees

No other fees were paid to the Company's auditors in 2006 or 2005.

All of the services described above were approved by the Audit Committee. At its February 2007 meeting, the Committee reviewed and approved resolutions continuing the Company's Audit Committee Pre-Approval Policy for a new twelve-month period. This policy provides that the Committee is required to pre-approve all audit and non-audit services performed by the independent auditor and specifies certain audit, audit-related and tax services that have general pre-approval for the next twelve months, subject to specified dollar limits. The policy also provides that any services by the independent auditor not generally pre-approved or above the specified dollar limits must be submitted for pre-approval by the Audit Committee. Pursuant to the resolutions and the policy, the Chairman of the Audit Committee has the authority to grant pre-approval when necessary, provided that such pre-approval is reported to the Committee at its next meeting.

The Committee reviewed the audited financial statements of the Company as of and for the year ended December 31, 2006, with management and the independent auditors. Management has the responsibility for the preparation of the Company's financial statements and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the Securities and Exchange Commission. As further discussed in Item 2, Ratification of Appointment of Independent Auditors, the Committee has appointed Ernst & Young LLP, subject to shareholder approval, to be the independent auditors for 2007 and the Board

recommended that the shareholders ratify that appointment.

Date: February 8, 2007

Hank Brown,
Chairman

James A.D. Croft
William V. Hickey

PRINCIPAL SHAREHOLDERS
Management

The following table sets forth certain information as of February 27, 2007, regarding the beneficial ownership of Common Stock by each of the executive officers of the Company who is named in the Summary Compensation Table below (named executive officers), each director and nominee, and all of the directors and executive officers of the Company as a group. Except as otherwise indicated, all shares listed are owned with sole voting and investment power.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership and Percent of Class (1)(2)(3)
Hank Brown	10,537
Richard Carney	239,626
Dr. Fergus M. Clydesdale	16,998
James A.D. Croft	25,152
John L. Hammond	229,083
William V. Hickey	18,411
Richard F. Hobbs	448,017
Kenneth P. Manning	1,262,086
Ralph G. Pickles	216,095
Peter M. Salmon	3,301
Dr. Elaine R. Wedral	916
Essie Whitelaw	15,845
All directors and executive officers as a group (18 persons)	2,814,044

- (1) Except for Mr. Manning, who beneficially owns 2.7% of the outstanding Common Stock, no director or named executive officer beneficially owns 1% or more of the Company's Common Stock. The beneficial ownership of all directors and executive officers as a group represents 6.0% of the outstanding Common Stock. In each case this percentage is based upon the assumed exercise of that number of options which are included in the total number of shares shown (see Note (2), below).
- (2) Includes the following shares subject to stock options which are currently exercisable or exercisable within 60 days of February 27, 2007: Mr. Brown 2,000 shares; Mr. Carney 135,333 shares; Mr. Hammond 144,333 shares; Mr. Hobbs 308,833 shares; Mr. Manning 850,666 shares; Mr. Pickles 152,266 shares; each director (other than Messrs. Brown, Salmon and Manning and Dr. Wedral) 10,000 shares; and all directors and executive officers as a group 1,852,761 shares.
- (3) Includes 3,700 shares held by Mr. Brown's wife, 2,800 shares held by Mr. Carney's wife and 2,000 shares held by Mr. Manning's wife.

Other Beneficial Owners

The following table sets forth information regarding beneficial ownership by those persons whom the Company believes to be beneficial owners of more than 5% of the Common Stock of the Company as of February 27, 2007, based solely on review of filings made with the Securities and Exchange Commission.

Name and Address of Beneficial Owner	Amount	and Nature	Percent of
	of Ownership	Class (1)	