UNITED BANCORPORATION OF ALABAMA INC
Form 10-Q
August 13, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009
Commission file number 000-25917
UNITED BANCORPORATION OF ALABAMA, INC.
(Exact name of registrant as specified in its charter)

Delaware	63-0833573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
200 East Nashville Avenue, Atmore, Alabama	36502
(Address of principal executive offices)	(Zip Code)

(251) 446-6000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as define in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of August 12, 2009.

Class A Common Stock 2,257,314 Shares
Class B Common Stock -0- Shares

UNITED BANCORPORATION OF ALABAMA, INC.
FORM 10-Q
For the Quarter Ended June 30, 2009
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

United Bancorporation of Alabama, Inc.
and Subsidiary
Consolidated Balance Sheets

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and due from banks	$ 13,895,305	$ 35,148,646
Interest bearing deposits in banks	82,437,543	91,773,852
Federal funds sold	20,000,000	16,600,000
Cash and cash equivalents	116,332,848	143,522,498
Securities available for sale (amortized cost of $65,014,366 and $84,725,733 respectively)	64,823,828	85,526,712
Securities held to maturity (market values of $27,943,929 and $6,596,039 respectively)	28,021,142	6,550,000
Loans	287,195,698	279,779,877
Less: Allowance for loan losses	4,899,092	3,591,558
Net loans	282,296,606	276,188,319
Premises and equipment, net	18,227,993	18,856,327
Interest receivable	3,003,551	3,253,604
Intangible assets	934,763	934,763
Other assets	16,135,462	15,212,784
Total assets	529,776,193	550,045,007
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	146,125,851	172,291,464
Interest bearing	327,745,763	318,864,162
Total deposits	473,871,614	491,155,626
Securities sold under agreements to repurchase	0	1,861,237
Advances from Federal Home Loan Bank of Atlanta	1,527,500	1,609,900
Treasury, tax, and loan account	686,270	495,572
Interest payable	803,081	912,570
Accrued expenses and other liabilities	1,997,721	1,577,461

Note payable to Trust	10,310,000	10,310,000
Total liabilities	489,196,186	507,922,366
Stockholders equity		
Preferred stock of $.01 par value. Authorized 250,000 shares; 10,300 shares, net of discount	9,983,741	9,953,381
Class A common stock, $0.01 par value. Authorized 5,000,000 shares; issued and outstanding, 2,388,992 and 2,388,125 shares, respectively	23,890	23,881
Class B common stock, $0.01 par value. Authorized 250,000 shares; no shares issued or outstanding	0	0
Additional paid in capital	6,458,691	6,429,869
Unearned stock based compensation	(79,394)	(87,446)
Accumulated other comprehensive income (loss) net of tax	(114,327)	480,584
Retained earnings	25,541,054	26,572,188
	41,813,655	43,372,457
Less: 153,839 and 155,855 treasury shares, at cost, respectively	1,233,648	1,249,816
Total stockholders equity	40,580,007	42,122,641
Total liabilities and stockholders equity	$ 529,776,193	$ 550,045,007

See Notes to Consolidated Financial Statements

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United Bancorporation of Alabama, Inc.
And Subsidiary
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest income:				
Interest and fees on loans	$ 4,288,089	$ 4,874,837	$ 8,413,890	$ 9,931,722
Interest on investment securities available for sale:				
Taxable	601,793	767,392	1,250,807	1,704,939
Nontaxable	309,552	348,257	635,473	695,677
Total investment income	911,345	1,115,649	1,886,280	2,400,616
Other interest income	61,957	147,550	166,911	401,736
Total interest income	5,261,391	6,138,036	10,467,081	12,734,074
Interest expense:				
Interest on deposits	1,766,175	2,363,789	3,660,424	4,968,961
Interest on other borrowed funds	99,396	340,178	203,050	952,018
Total interest expense	1,865,571	2,703,967	3,863,474	5,920,979
Net interest income	3,395,820	3,434,069	6,603,607	6,813,095
Provision for loan losses	2,240,000	500,000	2,600,000	740,000
Net interest income after provision for loan losses	1,155,820	2,934,069	4,003,607	6,073,095
Noninterest income:				
Service charge on deposits	869,184	857,712	1,716,277	1,665,179
Investment securities gains (losses), net	172,066	(2,700)	172,066	61
Mortgage loan and related fees	44,817	58,240	77,285	118,871
Other	175,848	226,938	399,811	473,600
Total noninterest income	1,261,915	1,140,190	2,365,439	2,257,711
Noninterest expense:				
Salaries and benefits	2,162,829	2,067,828	4,359,825	4,225,148

Net occupancy expense	602,401	601,060	1,176,912	1,212,924
Other	1,409,856	1,234,637	2,452,321	2,422,274
Total noninterest expense	4,175,086	3,903,525	7,989,058	7,860,346
Earnings (Losses) before income tax benefits	(1,757,351)	170,734	(1,620,012)	470,460
Income tax benefits	(753,200)	(61,073)	(825,188)	(74,081)
Net earnings (losses)	(1,004,151)	231,807	(794,824)	544,541
Preferred stock dividends	128,750		203,139	
Accretion on preferred stock discount	15,289		30,360	
Net earnings (losses) available to common shareholders	$ (1,148,190)	$ 231,807	$ (1,028,323)	$ 544,541
Basic earnings (losses) per share	$ (0.51)	$ 0.10	$ (0.46)	$ 0.24
Diluted earnings (losses) per share	$ (0.51)	$ 0.10	$ (0.46)	$ 0.24
Basic weighted average shares outstanding	2,234,920	2,251,235	2,234,394	2,250,852
Diluted weighted average shares outstanding	2,236,167	2,252,091	2,235,641	2,251,708
Cash dividend per share	$	$	$	$ 0.08

Statement of Comprehensive Income (Loss)

Net earnings (losses)	$ (1,004,151)	$ 231,807	$ (794,824)	$ 544,541
Other comprehensive income (loss), net of tax:				
Unrealized holding losses arising during the period	(331,165)	(621,141)	(491,671)	(141,783)
Reclassification adjustment for gains included in net earnings (losses)	(103,240)	1,620	(103,240)	(37)
Comprehensive Income (Loss)	$ (1,438,556)	$ (387,714)	$ (1,389,735)	$ 402,721

See Notes to Consolidated Financial Statements

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United Bancorporation of Alabama, Inc.
And Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Cash flows from operating activities		
Net earnings (losses)	$ (794,824)	$ 544,541
Adjustments to reconcile net earnings to net cash provided by operating activities		
Provision for loan losses	2,600,000	740,000
Depreciation of premises and equipment	657,379	649,401
Net amortization (accretion) of premium / discount on investment securities available for sale	49,121	(539,165)
Net amortization of premium on investment securities held to maturity	131,201	
Gain on sales of investment securities available for sale, net	(172,066)	(61)
(Gain) loss on sale of other real estate	(22,418)	1,045
Writedown of other real estate	4,500	85,000
Stock-based compensation	17,982	11,400
Gain (loss) on disposal of equipment	9,790	(4,754)
Decrease in interest receivable	250,053	707,614
(Increase) decrease in other assets	(2,064,872)	46,234
Decrease in interest payable	(109,489)	(36,444)
Increase (decrease) in accrued expenses and other liabilities	584,876	(127,421)
Net cash provided by operating activities	1,144,043	2,077,390
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	34,209,798	710,398,842
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	1,000,000	
Proceeds from sales of investment securities available for sale	14,258,707	4,993,512
Purchases of investment securities available for sale	(25,410,331)	(729,134,228)
Purchases of investment securities held to maturity	(22,602,343)	
Net increase in loans	(10,492,428)	(24,923,951)
Purchases of premises and equipment, net	(46,835)	(1,590,869)
Proceeds from sale of premises and equipment	8,000	7,000
Proceeds from sale of other real estate	116,997	113,279
Net cash used in investing activities	(8,958,435)	(40,136,415)
Cash flows from financing activities		
Net increase (decrease) in deposits	(17,284,012)	2,440,022

Net increase (decrease) in securities sold under agreements to repurchase	(1,861,237)	28,651,152
Cash dividends preferred stock	(203,139)	
Cash dividends common stock	(167,426)	(337,471)
Proceeds from exercise of stock options		9,986
Proceeds from sale of common stock	5,130	6,732
Purchase of treasury stock		(31,388)
Proceeds from sale of treasury stock	29,938	61,884
Repayments of advances from FHLB Atlanta	(82,400)	(82,400)
Increase (decrease) in other borrowed funds	190,698	(130,522)
Net cash provided by (used in) financing activities	(19,375,258)	30,587,995
Net decrease in cash and cash equivalents	(27,189,650)	(7,471,030)
Cash and cash equivalents, beginning of period	143,522,498	54,119,315
Cash and cash equivalents, end of period	$ 116,332,848	$ 46,648,285
Supplemental disclosures		
Cash paid during the period for:		
Interest	$ 3,972,963	$ 5,957,423
Income taxes	52,352	83,161
Noncash transactions		
Transfer of loans to other real estate through foreclosure	$ 1,784,141	$ 1,552,060

See Notes to Consolidated Financial Statements

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UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements

NOTE 1 General

This report includes interim consolidated financial statements of United Bancorporation of Alabama, Inc. (the Corporation) and its wholly-owned subsidiary, United Bank (the Bank). The interim consolidated financial statements in this report have not been audited. In the opinion of management, all adjustments necessary to present fairly the financial position and the results of operations for the interim periods have been made. All such adjustments are of a normal recurring nature. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods. For further information, refer to the consolidated financial statements and footnotes included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2008.

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NOTE 2 Net Earnings (Losses) per Share

Basic net earnings (losses) per share were computed by dividing net earnings (losses) by the weighted average number of shares of common stock outstanding during the three and six month periods ended June 30, 2009 and 2008. Common stock outstanding consists of issued shares less treasury stock. Diluted net earnings (losses) per share for the three and six month periods ended June 30, 2009 and 2008 were computed by dividing net earnings (losses) by the weighted average number of shares of common stock and the dilutive effects of the shares subject to options and restricted stock grants awarded under the Corporation s equity incentive plans, based on the treasury stock method using an average fair market value of the stock during the respective periods. Presented below is a summary of the components used to calculate diluted earnings (losses) per share for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Diluted earnings (losses) per share	$ (0.51)	$ 0.10	$ (0.46)	$ 0.24
Weighted average common shares outstanding	2,234,920	2,251,235	2,234,394	2,250,852
Effect of the assumed exercise of stock options based on the treasury stock method using average market price	1,247	856	1,247	856
Total weighted average common shares and potential common stock outstanding	2,236,167	2,252,091	2,235,641	2,251,708

NOTE 3 Investment Securities

Available for Sale

The amortized cost and fair value of investment securities available for sale at June 30, 2009 and December 31, 2008 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2009				
U.S. government sponsored agencies	$ 34,867,979	$ 410,555	$ (163,255)	$ 35,115,279
State and political subdivisions	30,136,234	277,545	(707,160)	29,706,619
Mortgage-backed securities				
Equity securities	10,153		(8,223)	1,930
	$ 65,014,366	$ 688,100	$ (878,638)	$ 64,823,828
December 31, 2008				
U.S. government sponsored agencies	$ 38,977,901	$ 574,397	$	$ 39,552,298
State and political subdivisions	33,040,244	511,299	(428,646)	33,122,897
Mortgage-backed securities	12,707,588	193,462	(49,533)	12,851,517
Equity securities				
	$ 84,725,733	$ 1,279,158	$ (478,179)	$ 85,526,712

The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the three and six months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Gross gains realized	$ 189,353	$ 1,000	$ 189,353	$ 3,761
Gross losses realized	(17,287)	(3,700)	(17,287)	(3,700)
Net gain (loss) realized	$ 172,066	$ (2,700)	$ 172,066	$ 61

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Those investment securities classified as available for sale which have an unrealized loss position at June 30, 2008 and December 31, 2008 are detailed below:

June 30, 2009

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies & mortgage-backed securities	$ 11,101,766	$ (163,255)	$	$	$ 11,101,766	$ (163,255)
State and political subdivisions	$ 9,900,093	$ (275,962)	$ 3,453,563	$ (431,198)	13,353,656	(707,160)
Equity securities	1,930	(8,223)			1,930	(8,223)
	$ 21,003,789	$ (447,440)	$ 3,453,563	$ (431,198)	$ 24,457,352	$ (878,638)

December 31, 2008

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies & mortgage-backed securities	$ 2,453,105	$ (27,224)	$ 1,191,568	$ (22,309)	$ 3,644,673	$ (49,533)
State and political subdivisions	7,843,035	(387,848)	1,218,280	(40,798)	9,061,315	(428,646)
	$ 10,296,140	$ (415,072)	$ 2,409,848	$ (63,107)	$ 12,705,988	$ (478,179)

The following table presents the amortized costs, fair value and weighted-average yield of securities available for sale by contractual maturity at June 30, 2009. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal Income Tax rate.

	Within 1 Year	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Total**
Amortized Cost					
U.S. government sponsored agencies	$ 2,499,399	$ 20,053,913	$ 12,314,667	$	$ 34,867,979
State and political subdivisions	1,004,889	6,405,901	12,805,916	9,919,528	30,136,234
Equity securities	10,153				10,153
Total	$ 3,514,441	$ 26,459,814	$ 25,120,583	$ 9,919,528	$ 65,014,366

Fair Value

U.S. government sponsored agencies	$ 2,506,197	$ 20,262,006	$ 12,347,076	$	$ 35,115,279
State and political subdivisions	1,010,089	6,485,366	12,741,644	9,469,520	29,706,619
Equity securities	1,930				1,930
Total	$ 3,518,216	$ 26,747,372	$ 25,088,720	$ 9,469,520	$ 64,823,828
Total Average Yield	2.11%	3.53%	4.00%	4.09%	3.72%

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Held to Maturity

The amortized cost and fair value of investment securities held to maturity at June 30, 2009 and December 31, 2008 were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
June 30, 2009				
U.S. government sponsored agencies securities	$ 27,521,142	$ 101,554	$ (178,767)	$ 27,443,929
Other domestic debt securities	500,000			500,000
	$ 28,021,142	$ 101,554	$ (178,767)	$ 27,943,929
December 31, 2008				
U.S. government sponsored agencies securities	$ 6,050,000	$ 46,539	$ (500)	$ 6,096,039
Other domestic debt securities	500,000			500,000
	$ 6,550,000	$ 46,539	$ (500)	$ 6,596,039

There were no sales of securities held to maturity for the three and six months ended June 30, 2009 and 2008.

Those investment securities classified as held to maturity which have an unrealized loss position at June 30, 2009 and December 31, 2008, are detailed below:

June 30, 2009

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government sponsored agencies	$ 14,257,117	$ (178,767)	$	$	$ 14,257,117	$ (178,767)
Other domestic debt securities						
Total temporarily impaired securities	$ 14,257,117	$ (178,767)	$	$	$ 14,257,117	$ (178,767)

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December 31, 2008

Description of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized losses	12 months or more Fair Value	12 months or more Unrealized losses	Total Fair Value	Total Unrealized losses
U.S. Government sponsored agencies	$ 999,500	$ (500)	$	$	$ 999,500	$ (500)
Other domestic debt securities						
Total temporarily impaired securities	$ 999,500	$ (500)	$	$	$ 999,500	$ (500)

The following table presents the amortized costs, fair value and weighted-average yield of securities held to maturity by contractual maturity at June 30, 2009. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% Federal Income Tax rate.

	Within 1 Year	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Total**
Amortized Cost					
U.S. government sponsored agencies	$	$ 8,080,107	$ 18,438,229	$ 1,002,806	$ 27,521,142
State and political subdivisions					
Other debt securities		500,000			500,000
Total	$	$ 8,580,107	$ 18,438,229	$ 1,002,806	$ 28,021,142
Fair Value					
U.S. government sponsored agencies	$	$ 8,115,981	$ 18,324,441	$ 1,003,507	$ 27,443,929
State and political subdivisions					
Other debt securities		500,000			500,000
Total	$	$ 8,615,981	$ 18,324,441	$ 1,003,507	$ 27,943,929
Total Average Yield	0.00%	3.09%	3.43%	1.15%	3.24%

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NOTE 4 Allowance for Loan Losses

The following table summarizes the activity in the allowance for loan losses for the six month periods ended June 30 ($ in thousands):

	June 30	
	2009	**2008**
Balance at beginning of year	3,592	3,982
Provision charged to expense	2,600	740
Loans charged off	(1,314)	(2,159)
Recoveries	21	19
Balance at end of period	4,899	2,582

At June 30, 2009 and 2008, the amounts of nonaccrual loans were $20,147,173 and $8,168,374 respectively.

NOTE 5 Operating Segments

Statement of Financial Accounting Standard 131 (SFAS 131), *Disclosures about Segments of an Enterprise and Related Information,* establishes standards for the disclosure made by public business enterprises to report information about operating segments in annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Corporation operates in only one segment commercial banking.

NOTE 6 Stock Based Compensation

At June 30, 2009, the Corporation had two stock-based compensation plans. The 1998 Stock Option Plan and the 2007 Equity Incentive Plan are described more fully in Note 13 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008. The Corporation accounts for its stock based compensation plans under FAS 123R, *Share-Based Payment*, whereby compensation cost is recognized for all stock-based payments based upon the grant-date fair value.

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Stock Options

1998 Stock Option Plan

The following table represents stock option activity for the six months ended June 30, 2009:

	Shares under option	**Weighted average exercise price per share**	**Weighted average remaining contractual life**
Options outstanding, beginning of period	38,806	15.36	
Granted			
Surrendered			
Exercised			
Options outstanding, end of period	38,806	15.36	2.6
Exercisable, end of period	38,006	15.30	2.5

The following table displays information pertaining to the intrinsic value of option shares outstanding and exercisable for the periods ended June 30, 2009 and 2008, respectively.

	2009	**2008**
Aggregate intrinsic value of outstanding options	$17,381	$58,021
Aggregate intrinsic value of exercisable options	$17,381	$13,229

The 1998 Stock Option Plan terminated pursuant to its terms effective December 22, 1998 and no additional awards will be made under such plan.

2007 Equity Incentive Plan

The following table represents stock option activity for the six months ended June 30, 2009:

	Shares under option	**Weighted average exercise price per share**	**Weighted average remaining contractual life**
Options outstanding, beginning of period			
Granted	4,000	14.85	
Surrendered			
Exercised			
Options outstanding, end of period	4,000	14.85	9.9
Exercisable, end of period	800	14.85	9.9

The following table displays information pertaining to the intrinsic value of option shares outstanding and exercisable for the periods ended June 30, 2009 and 2008, respectively.

	2009	**2008**
Aggregate intrinsic value of outstanding options	$600	$
Aggregate intrinsic value of exercisable options	$120	$

The following is a summary of the Corporation s weighted average assumptions used to estimate the weighted-average per share fair value of options granted on the date of grant using the Black-Scholes option-pricing model.

	2009	2008
Weighted-average expected life (in years)	10	N/A
Expected Volatility	20.00%	N/A
Risk-free interest rate	3.86%	N/A
Expected dividend yield	2.02%	N/A
Weighted-average fair value of options granted during the period	$ 3.88	N/A

Restricted Stock

The following table represents restricted stock activity under the 2007 Equity Incentive Plan for the six months ended June 30, 2009:

	stock activity	**average fair value**
Shares under grant at beginning of period	9,580	17.34
Granted	442	14.85
Surrendered		
Vested		
Shares under grant at end of period	10,022	17.20

Shares available for future stock grants to employees and directors under the 2007 Equity Incentive Plan of United Bancorporation of Alabama, Inc. were 293,978 at June 30, 2009.

As of June 30, 2009, there was $17,479 of total unrecognized compensation costs related to the nonvested share based compensation arrangements granted under the 1998 and 2007 Plans. That cost is expected to be recognized over a period of approximately 3.75 years.

NOTE 7 Fair Value of Financial Instruments

Effective January 1, 2008, the Corporation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date. The adoption of SFAS 157 did not have an impact on the Corporation s financial statements except for the expanded disclosures noted below.

The Corporation determines the fair market values of financial instruments based on the fair value hierarchy. The standard describes three levels of inputs that may be used to measure fair value as provided below.

Level 1 Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Currently, substantially all of the Corporation s available-for-sale securities are considered to be Level 2 securities.

		Fair Value Measurements at June 30, 2009 Using		
	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs (Level 3)
AFS Securities	$64,823,828	$1,930	$64,821,898	$

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan s existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan impairment as nonrecurring Level 3.

Foreclosed Assets (Other Real Estate)

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets.

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Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the foreclosed assets as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the foreclosed asset as nonrecurring Level 3.
The following table presents the assets carried on the balance sheet by asset type and by level within the FAS No. 157 valuation hierarchy (as described above) as of June 30, 2009, for which a nonrecurring change in fair value has been recorded during the year ended December 31, 2008.

	Carrying Value at June 30, 2009				**Six Months Ended June 30, 2009 Total gains**
	Total	Level 1	Level 2	Level 3	**(losses)**
Impaired loans (1)	$19,200,702	$	$6,490,552	$12,710,150	$ (2,273,902)
Foreclosed assets	7,209,141		7,209,141		(4,500)

(1) Losses related to loans were recognized as either charge-offs or specific allocations of the allowance for loan loss

In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*. SFAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. While SFAS 159 was effective for the Corporation beginning January 1, 2008, the Corporation has not elected the fair value option that is offered by this statement.

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation s financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation s financial instruments, but rather a good-faith estimate of the fair value of financial instruments held by the Corporation. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

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The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

(a) Cash and Short-term Investments

Fair value approximates the carrying value of such assets.

(b) Investment Securities and Other Securities

The fair value of investment securities is based on quoted market prices. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

(c) Loans

The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation s historical experience with repayments adjusted to estimate the effect of current market conditions.

(d) Bank Owned Life Insurance

The fair value of bank owned life insurance approximates its carrying value.

(e) Deposits

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities.

The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

(f) Securities Sold Under Agreements to Repurchase

Due to their short-term nature, the fair value of securities sold under agreements to repurchase approximates their carrying value.

(g) FHLB, Other Borrowed Funds and Subordinated Debt

The fair value of the Corporation s other borrowed funds and subordinated debt approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

- leadership
- strategic planning
- financial results
- succession planning

- human resources/diversity
- communications with the Board, management, employees, and shareholders
- external relations
- Board relations

The Compensation Committee gathers the results of this evaluation. The Compensation Committee then considers these evaluations and discusses the same with the CEO. Based on the foregoing, the Compensation Committee then makes CEO compensation recommendations to the entire Board of Directors. Pursuant to this process, the CEO's base salary and stock-based awards are determined and approved by the Board. Evaluations, as stated herein, are also undertaken for non-CEO executive officers. Through these evaluation processes, the Compensation Committee and the Board can exercise positive or negative discretion concerning compensation decisions. Evaluations of our employees generally take place on or about the employee's anniversary date of employment, except the CEO evaluation which occurs in August and evaluations of non-CEO executive officers which now occur occur in February of each year to coincide with the Compensation Committee verification of achievement of the performance metrics related to payment of the additional profit-sharing bonuses and performance-based bonuses.

The Compensation Committee considers the foregoing factors in varying degrees in its review of the CEO. In its 2015 review of CEO performance which occurred in August 2015, the Compensation Committee and the Board highlighted positive reviews with respect to financial results, leadership, and staffing. Succession planning was also covered in the 2015 CEO performance review.

Specifics on Elements of Compensation for 2015

Tables. The "Summary Compensation Table for 2015" shows the base salary, bonuses (including performance-based bonuses and personal goal achievement bonuses), restricted stock awards, stock option awards, and other compensation for each of our named executive officers. Total compensation for each applicable named executive officer is also reflected in that Table. The "Grants of Plan-Based Awards for 2015" Table sets forth stock-based compensation. The "Outstanding Equity Awards at Fiscal Year-End December 31, 2015," Table and the "Option Exercises and Stock Vested for 2015" Table further demonstrate efforts to align our executive officers' interests with those of our shareholders. We continue to believe these compensation elements and the mix of these elements are appropriate for the Company given its culture, performance, industry, and current opportunities and challenges.

Base Salary. The base salaries for our named executive officers are set forth in the "Summary Compensation Table for 2015." The Company approved guidelines for 2015 that salaried employees, including executive officers, were eligible for an increase in base salary of up to 4 percent per year for performance alone, and up to 10 percent per year total if increased responsibilities are undertaken (or, potentially more in the case of a promotion). These guidelines have been left in place for 2016 with the exception of base salary, which may be increased up to 5 percent for performance alone.

- For 2015, our CEO received a 4 percent increase in base pay, based on Company guidelines of 0-4 percent. Mr. Downing received a 50 percent increase in base pay due to his promotion and an increase in responsibilities, Mr. Nash received a 15 percent increase in base pay due to an increase in responsibilities, Mr. Ryan received an 8 percent increase in base pay due to an increase in responsibilities, and Mr. Matthews received a 4 percent increase in base pay based on Company guidelines.
- Increases were predicated largely on financial performance of the Company during the previous twelve months. The qualitative factors included above in the review of CEO performance also impacted other executive officer compensation determinations.
- Base salaries for executives still remain below market as performance-based (including stock-based), incentive compensation is emphasized, consistent with the Company's entrepreneurial culture.

Bonuses. Profit-Sharing Bonuses and other performance-based bonuses, as discussed above, and discretionary bonuses for named executive officers are also set forth in the "Summary Compensation Table for 2015." The Company has approved a guideline such that employees, other than participants in the Performance-Based Compensation Plan, are eligible for personal goal achievement bonuses of up to 50 percent of base salary (or, potentially more, in the case of exemplary performance). The additional profit-sharing bonuses and performance-based bonuses earned in 2015 under the Performance-Based Bonus Plan are set forth in the Non-Equity Incentive Plan Compensation Column of the "Summary Compensation Table for 2015." Personal goal achievement bonuses earned in 2015 are set forth in the Bonus Column of the "Summary Compensation Table for 2015."

For 2015, participants in the Performance-Based Bonus Plan became eligible for an increase in the Profit-Sharing Bonus percentage due to a 12 percent year-over-year increase in sales, with such bonus calculated as set forth herein.

With respect to the performance metrics for the performance bonus under the Performance-Based Bonus Plan for 2015:

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Performance Metric	Weighting Factor	Threshold	Target	Actual Result
EBITDA	1/3	$415,653,830	$500,285,000	In excess of Target
Diluted Earnings Per Share	1/3	$0.88	$0.99	In excess of Target
Quality	1/3	*	*	In excess of Target

*Quality thresholds and targets are a non-variable calculation based on parts per million plus over-all corporate cost of quality.

In February 2016, the Compensation Committee verified achievement of a year-over-year increase in sales and the above performance metrics under the Performance-Based Bonus Plan and implemented the Performance-Based Bonus Plan (effective for 2015). As such, each executive officer was awarded an initial Profit-Sharing Bonus and a performance bonus of ten percent (10%) of base salary, as set forth in the "Summary Compensation Table for 2015" and as set forth in Part III, Item 11 of the Company's form 10-K for the year ended December 31, 2015.

Personal goal achievement bonuses reflect our Compensation Committee's and Board of Directors' positive and negative discretion. As noted, the Compensation Committee and the Board generally prefer to emphasize stock-based compensation for the CEO, which is evidenced by the CEO not receiving any personal goal achievement bonuses for 2015, 2014, or 2013.

Stock-Based Compensation. Our named executive officers are also eligible to receive grants of stock options under our Employee Stock Option Plan and grants of restricted stock under our Second Restricted Stock Plan. The Company has approved guidelines so that stock option awards up to an established percentage may be made under our Employee Stock Option Plan and restricted stock awards of up to an established percentage may be made under our Second Restricted Stock Plan. During 2015:

- CEO -135,000 stock option shares granted
- Other Executive Officers - 4,580 to 16,880 stock option shares granted
- Restricted Stock Awards of 1,650 shares to 6,000 shares

These awards are predicated on both individual and company performance, while creating incentives to help achieve our long-term goals and align employee interests with those of our shareholders. In particular, in the case of our CEO, the Compensation Committee prefers stock option grants to the CEO rather than more significantly increasing base pay or bonuses to a level that might be more commensurate with the market for chief executive talent. In light of the fact that our CEO's base pay is low, and the fact that he received no personal goal achievement bonus or restricted stock award, along with the Company's emphasis on incentive compensation, our CEO was granted the foregoing stock option award in 2015, which will only benefit him if our shareholders benefit as well.

Our Employee Stock Option Plan, as amended and restated, makes stock options generally available to all of our salaried employees. All options are granted to employees around the end of the quarter in which their anniversary date of employment occurs at scheduled meetings of the Compensation Committee (except in the case of named executive officer stock option grants, which are done when approved by the entire Board of Directors as discussed above). Stock options are only granted at their fair market value on the date of Compensation Committee meetings with all such grants being reviewed and approved by the Compensation Committee (except named executive officer stock option grants, which are only granted at their fair market value on the date approved by the entire Board). Generally, stock option awards to officers have a seven-year term and become exercisable (as long as employment continues), for 20 percent of the shares on each anniversary of the grant date commencing on the first anniversary of the grant date, although a five-year term might be used in order to accommodate certain circumstances. Stock options for other employees generally carry a five- to seven-year term and similarly vest over time.

Restricted stock awards are granted at the discretion of the Compensation Committee at scheduled meetings of the Compensation Committee (except in the case of named executive officers restricted stock awards, which are made when approved by the entire Board of Directors, as noted below). Historically, grants of restricted stock to eligible employees have been considered once every three years for each eligible employee. Beginning in February 2016, the Compensation Committee expects to grant restricted stock awards annually for non-CEO named executive officers at the time of the reviews of such individuals (and annually for certain other officers as well). Usually, these share grants are restricted for five years from the date of grant, and as such are viewed as an important retention tool. Dividends are paid on restricted shares so granted if, and to the extent, we pay dividends on our common stock. The vesting schedules associated with stock option and restricted stock awards, in part, discourage excessive and unnecessary risk-taking (especially when considered in connection with the stock ownership guidelines for executive officers).

Other Compensation. All other compensation for named executive officers set forth in the "Summary Compensation Table for 2015" includes "matching" contributions by the Company pursuant to our 401(k) plan, restricted stock dividends, the personal use of designated Company automobiles by certain executive officers or reimbursement for business use of personal vehicles, and certain costs associated with the personal use of Company aircraft, as detailed in the notes to the "Summary Compensation Table for 2015." Also, membership fees at a local country club are paid as detailed in the notes to the "Summary Compensation Table for 2015." We make available to certain executives Company aircraft for personal use, provided it does not conflict with any business purpose for the aircraft. All executives are assessed the value of the incremental costs of personal use of Company aircraft. The cost to the Company related to personal use of Company aircraft is calculated using the SIFL (Standard Industry Fare Level) rates as outlined by the IRS in accordance with Treasury Regulation Section 1.61-21 (Taxation of fringe benefits). Certain costs associated with the personal use of Company aircraft are considered a taxable fringe benefit as reflected in the notes to the "Summary Compensation Table for 2015." For tax purposes, the additional income that is considered a taxable fringe benefit is subject to income inclusion as reflected in the notes to the "Summary Compensation Table for 2015."

Director Compensation

Our Board of Directors has responsibility for periodically assessing our director compensation program.

For 2015, each director who was not an employee of the Company received:

- $12,000 annual directors' retainer fee ($3,000 per quarter)
- $1,750 for each Board meeting attended
- $1,250 for each Committee meeting attended
- An option to purchase 7,000 shares of our common stock

The Lead Independent Director received an additional retainer fee in the amount of $10,000 for 2015. The Chairmen of our Compensation and Audit Committees also received an additional retainer fee in the amount of $5,000 for each committee for 2015. For 2016, Board fees have been set at: $14,400 annual directors' retainer fee ($3,600 per quarter); $2,100 for each Board meeting attended; and $1,500 for each Committee meeting attended. For 2016, the Lead Independent Director, Compensation Committee Chairman, and Audit Committee Chairman additional retainer fees have been set at $12,000, $6,000, and $6,000, respectively. The non-employee directors annual option to purchase 7,000 shares of our common stock is at a price per share equal to the closing price of our stock on the NASDAQ on the date of each annual meeting of shareholders in accordance with our shareholder approved 2012 Amended and Restated Non-Employee Director Stock Option Plan, as amended. See the "Director Compensation Table for 2015." Like executives, Board members may make personal use of Company aircraft if such use does not conflict with any business purpose for the aircraft. The cost to the Company related to such personal use by directors is calculated using SIFL (Standard Industry Fare Level) rates as discussed above. We believe this director compensation to be reasonable and appropriate.

Stock Ownership

The Company has adopted Stock Ownership Guidelines (*) providing that executive officers should own three times their annual salaries in Company common stock and directors should own two times their annual director fees in Company common stock. As noted above, such guidelines help discourage excessive and unnecessary risk-taking in the context of the Company’s emphasis on stock-based compensation. The Compensation Committee continues to assess the Stock Ownership Guidelines, compliance with such guidelines, and appropriate means to ensure compliance with such guidelines. In addition, the Company's Anti-Hedging and Anti-Pledging Policy prohibit directors and executive officers from leveraging their ownership of Company stock or pledging Company stock to secure personal loans.

Impact of Regulatory Requirements

In making compensation design and award decisions, we have considered the ability to deduct compensation in accordance with Internal Revenue Code Section 162(m). We have also considered the impact of Section 16 of the Securities and Exchange Act of 1934 and rules promulgated thereunder. Since we do not currently have a deferred compensation plan, consideration of the impact of Internal Revenue Code Section 409A in compensation design and award decisions has not been significant. The executive compensation disclosure rules applicable to annual reports and proxy statements with respect to the disclosure of compensation-related risks for all employees, certain matters related to compensation consultants, reporting of equity awards in the compensation tables, and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act related to compensation have had no material impact on our decisions regarding compensation. The shareholder advisory vote on named executive officer compensation occurring this year, as well as future shareholder advisory votes on named executive officer compensation, will be considered by the Compensation Committee and Board of Directors in making future compensation decisions.

Conclusion

We have reached the conclusion that each individual element of compensation, as well as the total compensation, delivered to our named executive officers and to our directors during 2015 are reasonable, appropriate, and in the best interests of our Company and our shareholders. That determination is based on a continuation of our compensation philosophy and practices which we believe align both the short-term and long-term interests of our employees with those of our shareholders. It remains the case that each element of our compensation program is important to accomplishing the Company's goals of creating an entrepreneurial environment so that our employees are motivated to remain with us, individually perform to the best of their abilities, and focus on our long-term success.

EXECUTIVE COMPENSATION

Summary Compensation

The following table sets forth the compensation earned by the principal executive officer, principal financial officer, and other executive officers for services rendered to the Company for the fiscal year ended December 31, 2015.

Summary Compensation Table for 2015

Name and Principal Position	Year	Salary ($)	(1) Bonus ($)	(2) Stock Awards ($)	(3) Option Awards ($)	(4) Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)	(5) All Other Compensation ($)	Total ($)
Fred Bauer,	2015	523,102	118,033	—	662,466	204,022	—	29,076	1,536,699
Chairman and	2014	496,513	119,097	—	1,224,080	—	—	93,902	1,933,592
CEO	2013	479,960	103,368	—	1,081,769	—	—	43,672	1,708,769
Steve Downing,	2015	253,846	60,307	93,000	66,515	126,026	—	53,413	653,107
Senior Vice	2014	193,209	116,569	—	80,933	—	—	28,140	418,851
President and CFO	2013	134,057	96,817	229,140	68,458	—	—	8,207	536,679
Kevin Nash,	2015	163,046	49,793	46,500	31,760	83,773	—	42,177	417,049
Vice President – Accounting and CAO	2014	149,827	68,953	160,620	52,732	—	—	28,513	460,645
Scott Ryan, Assistant General Counsel	2015	184,424	44,121	26,416	18,446	83,656	—	24,060	381,123
Joseph	2015	147,430	66,265	—	23,586	72,096	—	24,060	333,437
Matthews, Vice President - Purchasing	2014	133,121	51,883	107,080	40,205	—	—	14,428	346,717
Mark Newton,	2015	299,261	42,699	—	—	—	—	482,935	824,895
Former	2014	362,592	150,539	—	171,721	—	—	30,820	715,672
Senior Vice President	2013	296,861	132,426	127,300	165,059	—	—	19,953	741,599

(1) Amounts set forth include discretionary bonuses for Messrs. Nash, Ryan and Matthews of $12,000, $2,500 and $33,000 respectively.

(2) For each outstanding restricted stock award, the value shown is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 (as opposed to what is included in the Company's financial statements). See the Company’s Annual Report (Footnote 5) for the years ended December 31, 2015, 2014 and 2013 for the assumptions made in the valuation of restricted stock. The actual number of restricted shares granted is shown in the "Grants of Plan-based Awards for 2015" table included in this Proxy Statement. Assuming continued employment with the Company, restrictions on shares lapse upon expiration of five years from date of grant. Dividends are and will be paid on the shares if, and to the same extent, paid on the Company's common stock. Executive officers are eligible

to receive restricted stock awards at the discretion of the Compensation Committee in accordance with the Restricted Stock Plan and as discussed in the "Compensation Discussion and Analysis" section of this Proxy Statement.

(3) For each outstanding stock option award, the value shown is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 (as opposed to what is included in the Company's financial statements). See the Company’s Annual Report (Footnote 5) for the years ended December 31, 2015, 2014, and 2013 for the assumptions made in the valuation of stock options. The actual number of stock options granted is shown in the "Grants of Plan-based Awards for 2015" table included in this Proxy Statement.

(4) Amounts set forth relate to the additional profit-sharing bonuses and performance-based bonuses earned in 2015 under the Performance-Based Bonus Plan and are discussed further in the "Compensation Discussion and Analysis" section of this Proxy Statement.

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(5) Other compensation includes the sum of restricted stock dividends and "matching" contributions by the Company pursuant to its 401(k) Plan. In addition, other compensation includes the use of Company automobiles or reimbursement for personal vehicles pursuant to the Company's policy for use of such vehicles and membership fees at a local country club for Messrs. Bauer, Downing and Nash. Other compensation for Messrs. Bauer, Downing and Nash also includes certain costs associated with the personal use of Company aircraft which is subject to income inclusion as a taxable fringe benefit. Other compensation for Mr. Newton includes amounts paid, pursuant to Mr. Newton's severance agreement further described in the Company's 8-K filing on June 22, 2015.

The Company makes Company aircraft available to the executives when personal use does not conflict with any business purpose for the aircraft. The cost of the flight is calculated using the SIFL (Standard Industry Fare Level) rates published by the IRS in accordance with Treasury Regulation Section 1.61-21 (Taxation of fringe benefits).

(6) As disclosed in previously filed Form 8-K's, Mr. Nash became an executive officer effective June 16, 2014, Mr. Matthews became an executive officer effective July 22, 2014, Mr. Newton was no longer an executive officer as of June 18, 2015, and Mr. Ryan became an executive officer on August 20, 2015.

Grant of Plan-Based Awards

The following table discloses the actual number of restricted stock awards and stock options granted and the grant date of those awards. It also captures potential future payouts under the Company's non-equity and equity incentive plans.

Grants of Plan-Based Awards for 2015

Name	(1) Grant Date	(2) Estimated Future Payouts Under Non-Equity Incentive Plans			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	(3) All Other Option Awards: Number of Securities Underlying Options (#)	(4) Exercise or Base Price of Option Awards ($/Sh)	(5) Grant Date Fair Value of Stock and Option Awards ($)
		Thres-hold ($)	Target ($)	Maxi-mum ($)	Thres-hold (#)	Target (#)	Maxi-mum (#)				
Fred Bauer	09/19/15	$—	$137,020	$197,309	—	—	—	—	135,000	$15.89	$662,466
Steve Downing	09/30/15	$—	$88,380	$131,040	—	—	—	6,000	16,880	$15.50	$159,515
Kevin Nash	09/30/15	$—	$48,770	$72,311	—	—	—	3,000	8,060	$15.50	$78,260
Scott Ryan	12/31/15	$—	$55,360	$82,082	—	—	—	1,650	4,580	$16.01	$44,862
Joseph Matthews	03/31/15	$—	$37,532	$55,648	—	—	—	—	4,950	$18.30	$23,586
Mark Newton		—	—	—	—	—	—	—	—	—	—

(1) The Grant Date is the date the Compensation Committee met to approve the grants or when the Compensation Committee's recommendation was approved by the entire Board of Directors in the case of Mr. Bauer.

(2) Estimated future payouts under the Company's Pay for Performance Plan is based on the plan guidelines as approved by the Board of Directors as of February 18, 2016. Estimated "Target" payments are based on the Company achieving growth and performance metrics at the mid-point of its estimated 2016 public guidance as disclosed in the Company's 8-K filing on January 28, 2016. "Maximum" payments are based on the Company achieving growth and performance metrics at the top end of the range also disclosed on January 28, 2016. Should the Company achieve growth above the top end of its guided range, "Maximum" payments could increase beyond what is shown in this

table.

(3) The option grants for Messrs. Bauer, Downing, Nash, Ryan and Matthews, are seven-year options that become exercisable, as long as employment with the Company continues, for 20 percent of the shares on each anniversary of the grant date commencing with the first anniversary of the grant date.

(4) The exercise price was the closing price of the stock on the date the Compensation Committee met to approve the option grants or as of the day when the Compensation Committee's recommendation was approved by the entire Board of Directors. The exercise price may be paid in cash, in shares of the Company's common stock, and/or by the surrender of the exercisable options valued at the difference between the exercise price and the market value of the underlying shares.

(5) Stock option grant date fair values are based on the Black-Scholes option valuation model in accordance with FASB ASC Topic 718. Restricted stock awards represent the aggregate value at the date of grant for shares of common stock awarded under the Company's Second Restricted Stock Plan. See the Company's Annual Report (Footnote 5) for the year ended December 31, 2015, for the assumptions made in the valuation of stock options

Outstanding Equity Awards at Fiscal Year End

The following table shows outstanding stock option awards classified as exercisable and unexercisable as of December 31, 2015, for the named executive officers. It also shows restricted stock awards not yet vested as of December 31, 2015. The information contained in this table is based on the 2 for 1 common stock split effected as of December 31, 2015 in the form of a 100% stock dividend.

Outstanding Equity Awards at Fiscal Year-End at December 31, 2015

	Option Awards					Stock Awards			
Name	(1) Number of Securities Underlying Unexercised Options (#) Exercisable	(1) Number of Securities Underlying Unexercised Options (#) Unexercis-able	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	(2) Option Exercise Price ($)	Option Expiration Date	(3) Number of Shares or Units of Stock That Have Not Vested (#)	(4) Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Fred Bauer	228,000	—	—	7.25	8/13/2016	—	—	—	—
	239,400	—	—	9.12	8/12/2017	—	—	—	—
	150,000	100,000	—	9.12	8/16/2019	—	—	—	—
	104,000	156,000	—	11.28	8/15/2020	—	—	—	—
	200,000	50,000	—	12.35	8/11/2018	—	—	—	—
	52,000	208,000	—	14.69	9/20/2021	—	—	—	—
	—	135,000	—	15.89	8/19/2022	—	—	—	—
	973,400	649,000	—			—	—	—	—
Steve Downing	8,820	—	—	12.48	9/29/2016	—	—	—	—
	—	—	—	—	9/27/2017	8,000	128,080	—	—
	—	—	—	—	9/27/2018	18,000	288,180	—	—
	6,000	4,000	—	8.64	9/27/2019	—	—	—	—
	7,200	10,800	—	12.80	9/30/2020	6,000	96,060	—	—
	4,500	18,000	—	13.39	9/30/2021	—	—	—	—
	—	16,880	—	15.50	9/30/2022	—	—	—	—
	26,520	49,680	—			32,000	512,320	—	—
Kevin Nash	—	2,880	—	8.64	9/27/2017	4,320	69,163	—	—
	—	—	—	—	9/27/2018	6,000	96,060	—	—
	3,480	6,660	—	12.80	9/30/2018	—	—	—	—
	—	—	—	—	9/30/2019	12,000	192,120	—	—
	—	—	—	—	9/30/2020	3,000	48,030	—	—

	2,932	11,728	—	13.39	9/30/2021	—	—	—	—
	—	8,060	—	15.50	9/30/2022	—	—	—	—
	6,412	29,328	—			25,320	405,373	—	—
	4,726	—	—	14.96	12/29/2016	—	—	—	—
	3,280	1,640	—	9.38	12/27/2017	—	—	—	—
	3,610	3,610	—	16.42	12/30/2018	—	—	—	—
Scott Ryan	—	—	—		12/30/2018	3,000	48,030	—	—
	2,080	6,240	—	18.31	12/30/2019	—	—	—	—
	—	—	—		12/31/2020	1,650	26,417	—	—
	—	4,580	—	16.01	12/31/2022	—	—	—	—
	13,696	16,070	—			4,650	74,447	—	—
	—	2,140	—	12.23	9/29/2017	—	—	—	—
	—	4,490	—	10.12	3/27/2018	—	—	—	—
	—	—	—	—	3/27/2018	4,800	76,848	—	—
Joseph Matthews	—	7,066	—	15.41	3/28/2019	—	—	—	—
	—	—	—	—	9/30/2019	8,000	128,080	—	—
	—	4,950	—	18.30	12/31/2022	—	—	—	—
	—	18,646	—			12,800	204,928	—	—
Mark Newton	—	—	—			—	—	—	—

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(1) These options become exercisable, as long as employment with the Company continues, for 20 percent of the shares on each anniversary of the grant date commencing with the first anniversary of the grant date. Mr. Matthews has 13,696 five-year options that become exercisable, as long as employment with the Company continues, for 25 percent of the shares on each anniversary of the grant date commencing with the first anniversary of the grant date. These options were granted to Mr. Matthews before he became an executive officer of the Company. Mr. Nash has 9,540 five-year options that become exercisable, as long as employment with the Company continues, for 25 percent of the shares on each anniversary of the grant date commencing with the first anniversary of the grant date. These options were granted to Mr. Nash before he became an executive officer of the Company. Mr. Ryan has 11,490 five-year options that become exercisable, as long as employment with the Company continues, for 25 percent of the shares on each anniversary of the grant date commencing with the first anniversary of the grant date. These options were granted to Mr. Ryan before he became an executive officer of the Company.

(2) The exercise price was the closing price of the stock on the date the Compensation Committee met to approve the option grants, or when the Compensation Committee's recommendation was approved by the entire Board of Directors in the case of Mr. Bauer. The exercise price may be paid in cash, in shares of the Company's common stock, and/or by the surrender of the exercisable options valued at the difference between the exercise price and the market value of the underlying shares.

(3) Assuming continued employment with the Company, restrictions on shares lapse upon the expiration of five years from the date of grant. Dividends are and will be paid on these shares if, and to the same extent, paid on the Company's common stock.

(4) Represents the aggregate market value as of December 31, 2015, for shares of common stock awarded under the Company's Second Restricted Stock Plan.

Option Exercises and Stock Vested

The following table contains information regarding the exercise of stock options during the fiscal year ended December 31, 2015, by the following executive officers.

Option Exercises and Stock Vested for 2015

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Fred Bauer	216,000	1,734,480	—	—
Steve Downing	6,300	48,549	—	—
Kevin Nash	17,030	96,314	—	—
Scott Ryan	3,000	4,883	2,000	32,780
Joseph Matthews	15,140	61,984	4,000	73,360
Mark Newton	72,388	430,145	—	—

The Company has not adopted any long-term incentive plan, defined benefit or actuarial plan, or non-qualified deferred compensation plan, as those terms are defined in applicable laws, rules, and regulation promulgated by the Securities and Exchange Commission. The Company does not have any contracts with its named executive officers linked to a change in control of the Company other than with respect to vesting certain restricted stock or stock option awards which provisions are applicable to all employees receiving such awards.

DIRECTOR COMPENSATION

The following table discloses the cash, stock option awards, and other compensation earned, paid, or awarded to each of the Company's directors during the fiscal year 2015.

Director Compensation for 2014

Name	(1) Fees Earned or Paid in Cash ($)	Stock Awards ($)	(2) Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	(3) All Other Compensation ($)	Total ($)
Gary Goode	49,500	—	37,069	—	—	—	86,569
Pete Hoekstra	20,750	—	37,069	—	—	—	57,819
Jim Hollars	20,750	—	37,069	—	—	—	57,819
John Mulder	20,750	—	37,069	—	—	—	57,819
Richard Schaum	33,250	—	37,069	—	—	—	70,319
Fred Sotok	25,750	—	37,069	—	—	—	62,819
Jim Wallace	39,500	—	37,069	—	—	—	76,569

(1) Directors who are employees of the Company receive no compensation for services as a director. For 2015, directors who are not employees of the Company received a director's retainer in the amount of $12,000($3,000 per quarter) plus $1,750 for each meeting of the Board attended and $1,250 for each committee meeting attended. For 2015, directors who chaired the Compensation Committee and/or the Audit Committee each received an additional retainer fee in the amount of $5,000. In 2015, the Lead Independent Director received an additional annual retainer fee in the amount of $10,000 as well. Directors fees for 2016 have been adjusted as set forth in the "Compensation Discussion and Analysis" section of this Proxy Statement.

(2) Immediately following each Annual Meeting of Shareholders non-employee directors are entitled to receive an option to purchase 7,000 shares of the Company's common stock at a price per share equal to the closing price of the Company's stock on NASDAQ on that date. Each option has a term of ten years and becomes exercisable in full six months after the date of grant. For each outstanding stock option award, the value shown is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 (as opposed to what is included in the Company's financial statements). See the Company’s Annual Report (Footnote 5) for the years ended December 31, 2015, 2014, and 2013 for the assumptions made in the valuation of stock options.

(3) The Company also makes Company aircraft available to directors for personal use if such use does not conflict with any business purpose for the aircraft. The cost of the flight is calculated using the SIFL (Standard Industry Fare Level) rates published by the IRS in accordance with Treasury Regulation Section 1.61-21 (Taxation of fringe benefits).

The following table summarizes securities issued and to be issued under the Company’s equity compensation plans as of December 31, 2015:
Executive Compensation Plan Summary

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation Plans approved by Shareholders	19,595,639	12.61	19,595,639
Equity Compensation Plans not approved by Shareholders	—	—	—
Total	19,595,639	12.61	19,595,639

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Compensation Committee Interlocks and
Insider Participation

The Compensation Committee, which includes Messrs. Goode (Chairman), Schaum, and Wallace, is currently comprised solely of members of the Company's Board of Directors who are independent under the applicable NASDAQ listing standards. The Compensation Committee is responsible for supervising the Company's executive compensation arrangements, including the making of decisions with respect to the award of stock-based incentives for executive officers.

CERTAIN TRANSACTIONS

The Audit Committee of the Company reviews and approves all related party transactions in accordance with its Charter. The Code of Business Conduct and Ethics requires directors, officers, and employees to report these types of matters. In addition, the Company uses questionnaires for its directors and officers annually in part to discover any unreported related-party transactions. The approval of the Audit Committee is required for related-party transactions.

Since 1978, prior to the time the Company became a publicly held corporation, the Company has leased a building that previously housed its main office, manufacturing and warehouse facilities, and currently houses production operations for the Company's fire protection products. The lessor for that building is G & C Associates, a general partnership, and nearly all of the partnership interests in G & C Associates are held by persons related to Fred Bauer. The lease is a "net" lease, obligating the Company to pay all expenses for maintenance, taxes, and insurance, in addition to rent. During 2015, the rent paid to this partnership was $52,153, and the rent for the current fiscal year is the same (as it has been for a number of years). The Board of Directors believes that the terms of this lease are at least as favorable to the Company as could have been obtained from unrelated parties.

The Company is highly selective, and hires new employees based upon merit. Employees may also be eligible for certain other benefits which are similarly available on no less favorable terms to other employees of the Company at the same level and pay rate. Family members of any employee are not discouraged from seeking employment.

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS – PRINCIPAL ACCOUNTING FEES AND SERVICES

The Audit Committee and Board of Directors have selected, and submits to shareholders for ratification, Ernst & Young LLP to serve as the Company's independent auditors for the fiscal year ending December 31, 2016. The following fees were billed by Ernst & Young LLP, the Company's independent auditors, for the services provided to the Company during the fiscal years ended December 31:

	2015	2014
Audit Fees	$380,000	$342,700
Audit-Related	—	—
Tax Fees	8,000	15,200
All Other	—	—
Total	$388,000	$357,900

Audit fees include the annual audit of the Company's consolidated financial statements, the audit of internal control over financial reporting, timely quarterly reviews, foreign statutory audits and consultations concerning accounting matters associated with the annual audit. Tax fees principally consist of fees for tax advice. All non-audit services, including those indicated above, are pre-approved by the Audit Committee pursuant to the Revised Audit Committee Procedures for Approval of Audit and Non-audit Services by Independent Auditors, which is attached as Appendix A to this Proxy Statement.

The quality of the staff of Ernst & Young LLP, historical and current performance, expertise in the Company's industries, reasonableness of fees, and independence are all factors that went into the Audit Committee's decision to select Ernst & Young LLP as the Company's independent auditors. Although ratification of the independent auditors by the Company's shareholders is not legally required, our Audit Committee and Board of Directors believes that submission of this matter to the shareholders follows sound business practice and is in the best interest of shareholders in the current environment. If the shareholders do not approve the selection of Ernst & Young LLP, the selection of such firm as our independent auditors will be reconsidered by the Audit Committee. Accordingly, you may vote on the following resolution at the 2015 Annual Meeting of Shareholders:

RESOLVED, that Ernst & Young LLP be and hereby is ratified to serve as the independent auditors of the Company for the fiscal year ended December 31, 2016.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting to respond to appropriate questions and will have an opportunity to make a statement if they desire.

The Board of Directors unanimously recommends a vote FOR the ratification of Ernst & Young LLP to serve as the Company's independent auditors for fiscal year ended December 31, 2016.

ADVISORY VOTE ON EXECUTIVE COMPENSATION

As described in the detail under the "Compensation Discussion and Analysis", the Company's compensation system is intended to create and maintain an entrepreneurial culture; motivate employees to continue technical developments and improve customer satisfaction; and create and maintain teamwork. The Company’s base pay has, historically, been below market, in favor of incentive compensation. The Company believes that by emphasizing incentive compensation, the interests of our named executive officers (and all salaried employees) are aligned with the interests of our shareholders, while remaining appropriately structured so as not to encourage inappropriate risk taking. Shareholders are encouraged to read the "Compensation Discussion and Analysis", the Company compensation tables, and the related narrative disclosure.

In accordance with certain legislation, the Company is providing shareholders with an advisory (nonbinding) vote on compensation programs for named executive officers (sometimes referred to as "say-on-pay"). Accordingly, you may vote on the following resolution at the 2016 Annual Meeting of Shareholders:

RESOLVED, that the compensation of the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including Compensation Discussion and Analysis, compensation tables, and narrative disclosure is hereby APPROVED.

This vote is non-binding. The Board of Directors and the Compensation Committee, which is comprised of independent directors, expect to take into account the outcome this advisory vote when considering future executive compensation decisions, to the extent they can determine the cause or causes of any significant negative voting results.

The Board of Directors unanimously recommends that you vote FOR the approval, on an advisory basis, of the compensation of our named executive officers as disclosed pursuant to Item 402 of Resolution S-K, including Compensation Discussion and Analysis, compensation tables, and narrative disclosure.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE
Based upon a review of Forms 3, 4, and 5 furnished to the Company during or with respect to the preceding fiscal year and written representations from certain reporting persons, the Company is not aware of any failure by any reporting person to make timely filings of those Forms as required by Section 16(a) of the Securities Exchange Act of 1934 except that each of the nonemployee directors (Messrs. Goode, Hoekstra, Hollars, Mulder, Schaum, Sotok, and Wallace) were one (1) day late with reporting on Form 4 an option for each to purchase 7,000 shares of the Company's common stock granted under the Company's shareholder approved Amended and Restated Nonemployee Director Stock Option Plan following the meeting of the Annual Meeting of Shareholders in 2015.
SHAREHOLDER PROPOSALS

Any proposal of a shareholder intended to be presented at the 2017 Annual Meeting of the Company must be received by the Company at its headquarters, c/o Corporate Secretary’s Office, 600 North Centennial Street, Zeeland, Michigan 49464, no later than December 10, 2016, if the shareholder wishes the proposal to be included in the Company’s Proxy Statement relating to that meeting. In addition, the Company’s Bylaws contain certain notice and procedural requirements applicable to shareholder proposals, irrespective of whether the proposal is to be included in the Company’s Proxy materials. To be timely, such a shareholder's notice must be delivered, or mailed and received at, the Company's headquarters as set forth in the Company’s Bylaws. A copy of the Company’s Bylaws is filed with the Securities and Exchange Commission and can be obtained from the Public Reference Section of the Commission or the Company.

MISCELLANEOUS

Management is not aware of any matters to be presented for action at the Annual Meeting other than as set forth in this Proxy Statement. If other business should come before the meeting, it is the intention of the persons named as Proxy holders in the accompanying Proxy to vote the shares in accordance with their judgment. Discretionary authority to do so is included in the Proxy.

The cost of the solicitation of Proxies will be borne by the Company. In addition to the use of the mail and e-mail, Proxies may be solicited personally or by telephone or facsimile by a few regular employees of the Company without additional compensation. The Company has not retained any third party to help solicit proxies but reserves the right to do so. In addition, the Company will reimburse brokers, nominees, custodians, and other fiduciaries for their expenses in connection with sending Proxy materials to registered and beneficial owners and obtaining their Proxies.

A copy of the Notice of 2016 Annual Meeting of Shareholders, the Form 10-K for 2015, the Annual Report, and this Proxy Statement are available, without charge, upon written request from the Corporate Secretary, 600 N. Centennial Street, Zeeland, Michigan 49464.

Shareholders are urged to promptly vote your shares either on the Internet, via telephone, or by dating, signing, and returning the accompanying Proxy in the enclosed envelope.

BY ORDER OF THE BOARD OF DIRECTORS
Scott Ryan
Corporate Secretary

April 4, 2016

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APPENDIX A

Revised Audit Committee
Procedures for Approval of Audit and Non-Audit
Services by Independent Auditors

The following procedure is adopted by the Audit Committee relating to the approval of audit and non-audit services provided by the Company's independent auditors.

1. The Committee has reviewed and approved work to be performed by the independent auditors in the areas of tax, audit and advisory services and subcategories within each category as designated on the attached schedule.

2. Any additional audit and non-audit work performed by the independent auditors that is not included on the attached schedule must be specifically pre-approved as follows:

a. If the proposed independent auditors' engagement is equal to or less than $50,000, the Chairman of the Audit Committee must pre-approve the work and will communicate his approval to the full Audit Committee at the next regularly scheduled meeting of the Audit Committee.

b. If the proposed independent auditors' engagement is greater than $50,000, the full Audit Committee must pre-approve the work.

3. The independent auditors may not conduct any work that is prohibited by applicable SEC rules or regulations.

Effective February 20, 2014

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