

PECO II INC  
Form PRE 14A  
March 14, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

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

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**PECO II, INC.**

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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## **PECO II, INC.**

**1376 STATE ROUTE 598**

**GALION, OHIO 44833**

April 4, 2008

To PECO II, Inc. SHAREHOLDERS:

This year's Annual Meeting of Shareholders of PECO II, Inc. will be held at 9:00 a.m., local time, Tuesday, May 6, 2008, at St. Joseph's Activity Center, 135 North Liberty Street, Galion, Ohio.

As in the past, there will be an informal discussion of our activities, during which time your questions and comments will be welcomed.

We hope that you are planning to attend the annual meeting personally, and we look forward to seeing you. Whether or not you expect to attend in person, the return of the enclosed proxy as soon as possible would be greatly appreciated and will ensure that your shares will be represented at the annual meeting. If you do attend the annual meeting, you may, of course, withdraw your proxy should you wish to vote in person.

On behalf of the directors and management of PECO II, I would like to thank you for your continued support and confidence.

Sincerely yours,

JOHN G. HEINDEL

*Chairman of the Board, President*

*Chief Executive Officer, Chief Financial Officer and*

*Treasurer*

## PECO II, INC.

1376 STATE ROUTE 598

GALION, OHIO 44833

### NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of PECO II, Inc. will be held at St. Joseph's Activity Center, 135 North Liberty Street, Galion, Ohio, on Tuesday, May 6, 2008, at 9:00 a.m. local time, for the following purposes:

1. To elect three directors in Class II for three-year terms and until their successors are duly elected and qualified;
2. To approve a shareholder resolution to authorize the Board of Directors, in its sole and absolute discretion without further action of the shareholders, to amend the Company's Amended and Restated Articles of Incorporation to implement a reverse stock split of the Company's common shares, without par value, at a ratio of 1-for-10 at any time prior to December 31, 2008 (the "Reverse Split");
3. To consider and act upon any other matters which may properly come before the annual meeting or any adjournment or postponement thereof.

Holders of common shares of record at the close of business on March 26, 2008 are entitled to receive notice of and to vote at the annual meeting.

By Order of the Board of Directors,

GUY KEVIN BORDERS

*Vice President of Marketing & Product*

*Development and Secretary*

April 4, 2008

**Please fill in and sign the enclosed proxy and  
return the proxy in the enclosed envelope.**

## **PECO II, INC.**

**1376 STATE ROUTE 598**

**GALION, OHIO 44833**

**PROXY STATEMENT**

**Mailed on or about April 4, 2008**

**Annual Meeting of Shareholders to be held on May 6, 2008**

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors to be used at our Annual Meeting of Shareholders to be held on May 6, 2008, and any adjournment or postponement thereof. The time, place, and purposes of the annual meeting are stated in the notice of annual meeting of shareholders, which accompanies this proxy statement.

The accompanying proxy is solicited by our Board of Directors. All validly executed proxies received by our Board of Directors pursuant to this solicitation will be voted at the annual meeting, and the directions contained in the proxies will be followed in each instance. If no directions are given, the proxy will be voted **FOR** the election of the three nominees for director in Class II listed on the proxy, **FOR** the shareholder resolution authorizing the Board of Directors, in its sole and absolute discretion without further action of the shareholders, to amend the Company's Amended and Restated Articles of Incorporation to implement the Reverse Split, and, with respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or at their discretion.

Any person giving a proxy pursuant to this solicitation may revoke it. You may, without affecting any vote previously taken, revoke a proxy by giving notice to us in writing or in person at the annual meeting or by a duly executed proxy bearing a later date.

The expense of soliciting proxies, including the cost of preparing, assembling and mailing the notice, proxy statement and proxy, will be borne by us. We may pay persons holding shares for others their expenses for sending proxy materials to their principals. In addition to solicitation of proxies by mail, our directors, officers and employees, without additional compensation, may solicit proxies by telephone, facsimile and personal interview. We also may retain a third party to aid in the solicitation of proxies.

### **VOTING RIGHTS**

The record date for determination of shareholders entitled to vote at the annual meeting was the close of business on March 26, 2008. On that date, we had [ • ] common shares, without par value, outstanding and entitled to vote at the annual meeting. Each common share is entitled to one vote.

At the annual meeting, in accordance with the General Corporation Law of Ohio and our Amended and Restated Code of Regulations, the inspectors of election appointed by our Board of Directors for the annual meeting will determine the presence of a quorum and will tabulate the results of shareholder voting. As provided by the General Corporation Law of Ohio and our Amended and Restated Code of Regulations, holders of shares entitling them to exercise a majority of the voting power of the company, present in person or by proxy at the annual meeting, will constitute a quorum for such meeting. The inspectors of election intend to treat properly executed proxies marked **abstain** as present for these purposes.

Nominees for election as directors receiving the greatest number of votes will be elected directors. Votes that are withheld or broker non-votes in respect of the election of directors will not be counted in determining the outcome of the election. Pursuant to our Amended and Restated Articles of Incorporation, shareholders do not have cumulative voting rights.

Approval of Proposal No. 2, the shareholder resolution authorizing the Board of Directors, in its sole and absolute discretion without further action of the shareholders, to amend the Company's Amended and Restated Articles of Incorporation to implement the Reverse Split, will require the affirmative vote of a majority of the Company's issued and outstanding common shares. Votes may be cast in favor of, against, or abstaining from Proposal No. 2. Broker non-votes and abstentions have the effect of a vote against Proposal No. 2.

Pursuant to our Amended and Restated Code of Regulations, all other questions and matters properly brought before the annual meeting will be decided, unless otherwise provided by law, by our Amended and Restated Articles of Incorporation or by our Amended and Restated Code of Regulations, by the vote of the holders of a majority of the shares entitled to vote thereon present in person or by proxy at the annual meeting. In voting for such proposals, votes may be cast in favor, against or abstained. Abstentions will count as present for purposes of the item on which the abstention is noted and will have the effect of a vote against. Broker non-votes, however, are not counted as present for purposes of determining whether a proposal has been approved and will have no effect on the outcome of any such proposal. Please note that your broker or nominee may not be permitted to exercise voting discretion with respect to certain matters to be voted on at the annual meeting. As a result, if you do not provide your broker or nominee specific instructions, your shares may not be voted in such matters.

## SHARE OWNERSHIP OF PRINCIPAL HOLDERS AND MANAGEMENT

The number of shares beneficially owned by each shareholder is determined under rules issued by the Securities and Exchange Commission. This information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power and any shares as to which the individual or entity has the right to acquire beneficial ownership within 60 days after February 1, 2008, through the exercise of any stock option or other right. Unless otherwise indicated, each person named below has sole voting power and investment power with respect to the number of shares set forth opposite his or her respective name.

### Ownership of Common Shares by Principal Shareholders

The following table shows information regarding beneficial ownership of our common shares as of February 1, 2008, unless otherwise indicated, by each person or group which is known by us to own beneficially more than 5% of our common shares.

Name and Address of Beneficial Owner(1)	Common Shares Beneficially Owned	Percent Owned
Delta International Holding Ltd.(2)	18,611,118	45%
Austin W. Marxe and David M. Greenhouse(3)	3,489,021	12.7%
Matthew P. Smith(4)	2,817,450	10.2%
Linda H. Smith(5)	2,817,450	10.2%
Skiritai Capital LLC(6)	2,304,960	8.4%
James L. Green(7)	2,234,314	8.1%
Mary Janet Green(8)	1,984,314	7.2%

- (1) The address of Delta International Holding Ltd. is Scotia Center, 4<sup>th</sup> Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands. The address for Austin W. Marxe and David M. Greenhouse is 153 East 53rd Street, 55th Floor, New York, NY 10022. The addresses for Mr. and Mrs. Smith and Mr. and Mrs. Green are c/o PECO II, Inc., 1376 State Route 598, Galion, OH 44833. The address of Skiritai Capital LLC is 388 Market Street, Suite 700, San Francisco, CA 94111.
- (2) Based on information provided in a Schedule 13D filed on April 7, 2006 by Delta International Holding Ltd., Delta Electronics, Inc. and Delta Products Corporation. Delta International Holding Ltd. s ownership includes an estimated 13,870,743 common shares that are issuable upon the exercise (assuming exercise on February 8, 2008) of a warrant (the Warrant ). The actual number of common shares to be issued upon exercise of the Warrant will not be determined until five days prior to the exercise date of such Warrant.
- (3) Based on information provided in a Schedule 13G/A filed on February 13, 2008, by Austin W. Marxe and David M Greenhouse, controlling principals of AWM Investment Company, Inc. ( AWM ), the general partner of and investment adviser to Special Situations Cayman Fund, L.P. AWM also serves as the general partner of MGP Advisers Limited Partnership, the general partner of and investment adviser to Special Situations Fund III, L.P., and the general partner of Special Situations Fund QP, L.P. Marxe and Greenhouse share voting and investment power over 1,053,183 common shares owned by Special Situations Cayman Fund, L.P., 2,245,930 common shares owned by Special Situations Fund III QP, L.P. and 189,908 common shares owned by Special Situations Fund III, L.P.
- (4) Mr. Smith is a director of PECO II. Mr. Smith s ownership includes 1,317,450 shares held by Mr. Smith and his spouse, Linda H. Smith, as joint tenants, 1,000,000 common shares held by Ashwood I, LLC and 500,000 common shares held by Ashwood II, LLC. Mr. Smith has shared voting and dispositive power over the securities held by these limited liability companies.
- (5) Ms. Smith s ownership includes 1,317,450 common shares held by Ms. Smith and her spouse, Matthew P. Smith, as joint tenants, 1,000,000 common shares held by Ashwood I, LLC, and 500,000 common shares held by Ashwood II, LLC. Ms. Smith has shared voting and dispositive power over the securities held by these limited liability companies.





- (6) Based on information provided in a Schedule 13G filed on October 11, 2007 by Skiritai Capital LLC ( Skiritai ), Leonidas Opportunity Fund L.P. ( Leonidas Fund ), Leonidas Opportunity Offshore Fund Ltd. ( Leonidas Offshore Fund ), Russell R. Silvestri ( Silvestri ), and Lyron L. Bentovim ( Bentovim ). Skiritai serves as the general partner of the Leonidas Fund and investment manager of the Leonidas Offshore Fund. Silvestri and Bentovim are Managing Directors of Skiritai.
- (7) Mr. Green is a director of PECO II. Mr. Green's ownership includes 1,880,700 common shares held by The Green Family Trust and 103,614 held by The Green Charitable Trust, both over which he shares voting and dispositive power with his spouse Mary Janet Green. Mr. Green's ownership also includes 250,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (8) Ms. Green's ownership includes 1,880,700 common shares held by the Green Family Trust and 103,614 held by the Green Charitable Trust, both over which she shares voting and dispositive power with her spouse, James L. Green.

**Ownership of Common Shares by Management**

The following table shows information regarding beneficial ownership of our common shares as of February 1, 2008, unless otherwise indicated, by each director, the nominee for election as a director, each of the officers named in the Summary Compensation Table, and all directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Common Shares Beneficially Owned	Percent Owned
Guy Kevin Borders(2)	232,000	*
Jacque Boyer(3) Albert Chang(4)	80,000	*
Sandra A. Frankhouse(5)	253,118	*
James L. Green(6)	2,234,314	8.1%
John G. Heindel(7)	859,347	3.1%
E. Richard Hottenroth(8)	132,750	*
Miles A. McIntosh(9)	330,000	1.2%
Gerard B. Moersdorf, Jr.(10)	10,000	*
Richard W. Orchard(11)	7,500	*
R. Louis Schneeberger(12)	30,000	*
Matthew P. Smith(13)	2,817,450	10.2%
Thomas R. Thomsen(14)	30,000	*
All directors and executive officers as a group (11 persons)(15)	6,433,361	22.5%

\* Less than 1%.

- (1) The address of the directors and executive officers listed is c/o PECO II, Inc., 1376 State Route 598, Galion, OH 44833.
- (2) Mr. Borders is our Vice President of Marketing & Product Development and Secretary. Mr. Borders's ownership includes 182,000 shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (3) Ms. Boyer is our Vice President of Sales. Ms. Boyer's ownership includes 80,000 shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (4) Mr. Chang is a director of PECO II.

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- (5) Ms. Frankhouse was formerly our Chief Financial Officer, Treasurer, and Secretary. Ms. Frankhouse's ownership includes 90,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options. Ownership information is as of December 31, 2007, the date of Ms. Frankhouse's resignation. To our knowledge, Ms. Frankhouse has pledged 7,000 shares as security.

- (6) Mr. Green is a director of PECO II. Mr. Green's ownership includes 1,880,700 common shares held by The Green Family Trust and 103,614 shares held by The Green Charitable Trust over which he shares voting and dispositive power. Mr. Green's ownership also includes 250,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (7) Mr. Heindel is our Chairman of the Board, President, Chief Executive Officer, Chief Financial Officer and Treasurer. Mr. Heindel's ownership includes 500,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (8) Mr. Hottenroth is a director of PECO II. Mr. Hottenroth's ownership includes 20,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options. Mr. Hottenroth's ownership does not include 65,000 common shares held by his spouse.
- (9) Mr. McIntosh was formerly our Vice President of Operations. Mr. McIntosh's ownership includes 330,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options. Ownership information is as of January 31, 2008, the effective date of Mr. McIntosh's resignation.
- (10) Mr. Moersdorf, Jr. is a director of PECO II.
- (11) Mr. Orchard is a director of PECO II.
- (12) Mr. Schneeberger is a director of PECO II. Mr. Schneeberger's ownership includes 20,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (13) Mr. Smith is a director of PECO II. Mr. Smith's ownership includes 1,317,450 shares held by Mr. Smith and his spouse as joint tenants, 1,000,000 common shares held by Ashwood I, LLC and 500,000 common shares held by Ashwood II, LLC. Mr. Smith has shared voting and dispositive power over the securities held by these limited liability companies.
- (14) Mr. Thomsen is a director of PECO II. Mr. Thomsen's ownership includes 20,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.
- (15) Ownership of all directors and executive officers as a group includes an aggregate of 1,072,000 common shares issuable within 60 days after February 1, 2008 upon the exercise of stock options.

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**ELECTION OF DIRECTORS**

**(Proposal No. 1)**

The authorized number of our directors presently is fixed at nine. As required by our Amended and Restated Articles of Incorporation, the Board of Directors is divided into three classes of directors. The term of office of one class of directors expires each year, and at each annual meeting of shareholders the successors to the directors of the class whose term is expiring at that time are elected to hold office for a term of three years. There are currently three directors in each of Class I, Class II, and Class III.

The term of office of Class II of the Board of Directors expires at this year's annual meeting of shareholders. The term of office of the persons elected directors in Class II at this year's annual meeting will expire at the time of the annual meeting held in 2011. Each director in Class II will serve until the expiration of that term or until his or her successor shall have been duly elected. The Board of Director's nominees for election as Class II directors are Albert Chang, John G. Heindel, and Thomas R. Thomsen.

The proxy holders named in the accompanying proxy or their substitutes will vote the proxy at the annual meeting or any adjournment or postponement thereof for the election as directors of the three nominees unless the shareholder instructs, by marking the appropriate space on the proxy, that authority to vote is withheld. Each of the nominees has indicated his or her willingness to serve as a director, if elected. If any nominee should become unavailable for election (which contingency is not now contemplated or foreseen), it is intended that the shares represented by the proxy will be voted for such substitute nominee as may be named by the Board of Directors. In no event will the accompanying proxy be voted for more than three nominees or for persons other than those named below and any such substitute nominee for any of them.

**Nominees for Election as Class II Directors Terms Expire in 2011**

**Albert Chang**, age 47 Director since 2006.

Albert Chang has served as General Manager of the Energy Solutions Business Group of Delta Electronics, Inc., Taipei, Taiwan, since January 2008. Mr. Chang also served as Delta's General Manager, Power Systems Business Group II from November 2003 to December 2007, General Manager, Telecom Power Division from October 2001 to October 2003 and the Deputy General Manager from August 1998 to September 2001. He served as Delta's Director, Adapter Products from July 1994 to July 1998.

**John G. Heindel**, age 53 Director since 2005.

John G. Heindel became Chairman of the Board of Directors of our Company in June 2006, President and Chief Executive Officer of the Company in July 2005, and Chief Financial Officer and Treasurer in January 2008. Prior to his service with the Company, Mr. Heindel provided strategic consulting services since June 2003 to various companies interested in making acquisitions in the communications industry. Prior to his work as a consultant, Mr. Heindel spent more than 22 years with Lucent Technologies and its predecessor companies, most recently as the Company's President, Worldwide Services.

**Thomas R. Thomsen**, age 72 Director since 2003.

Thomas R. Thomsen is a veteran of more than 45 years in the telecommunications industry. His career includes 32 years with Western Electric/AT&T, where he held responsibilities for manufacturing, services, marketing, sales and administration at the senior executive level. After retiring from AT&T in 1990, he served as Chairman of the Board and CEO of Lithium Technology Corp., a publicly held development stage company, from August 1995 to November 1999. Mr. Thomsen currently serves on the board of EFJ Inc., where he has been a director since July 1995, and the Executive Committee For The University of Nebraska Technology Park. Previously, he served on the boards of Western Electric, Sandia Corp, Olivetti Inc., AT&T Credit Corp., Lithium Technology Corp, and Rensselaer Polytechnic Institute.

**Class III Directors Continuing in Office Terms Expire in 2009**

**James L. Green**, age 80 Director since 1988.

James L. Green was one of the founders of PECO II in 1988, served as Chairman of the Board of Directors until July 2001, served as Chief Executive Officer from 1988 to 1990 and April 2003 to June 2006, and as the President from 1989 to 1990 and April 2003 to June 2006. Mr. Green has over 50 years of experience in the communications industry. From 1983 to 1988, Mr. Green also worked as a management consultant in the international communications industry. From 1983 to 1985, Mr. Green was President and Chief Executive Officer of NovAtel Communications, Ltd. in Calgary, Canada. From 1953 to 1983, Mr. Green served in various capacities with the Power Equipment Company, North Electric Company and ITT, the predecessor businesses of PECO II, Inc.

**Richard W. Orchard**, age 54 Director since 2006.

Mr. Orchard is a retired telecommunications executive with over 25 years experience in sales, operations and general management. Mr. Orchard most recently served as Chief Transition Officer of Sprint Nextel Corporation in connection with the merger of Sprint and Nextel Communications, Inc. from December 2004 until late 2005. Prior to his role as Chief Transition Officer, Mr. Orchard served as Nextel's Senior Vice President and Chief Service Officer and prior to that as Eastern Regional President. Prior to joining Nextel, Mr. Orchard also served in various capacities for AirTouch and PacTel for 10 years and Motorola Communications for five years. Mr. Orchard is also a director of Grande Communications Holdings, Inc., a company subject to the reporting requirements of Section 15(d) of the Securities Act of 1934, as amended.

**Matthew P. Smith**, age 54 Director since 1994.

Matthew P. Smith served as the Chairman of the Board from July 2001 until July 2005. Mr. Smith was employed by PECO II in various capacities between 1989 and May 2004, including as Chief Executive Officer from 1998 to June 2002, and as our President from 1998 to July 2001. From 1996 to 1998, he served as Executive Vice President, from 1991 to 1998, he served as Secretary, and from 1990 to 1998 he served as Treasurer.

**Class I Directors Continuing in Office Terms Expire in 2010**

**E. Richard Hottenroth**, age 71 Director since 1997.

E. Richard Hottenroth has been a member of the firm Hottenroth, Garverick, Tilson & Garverick, Co., L.P.A. since 1961. Hottenroth, Garverick, Tilson & Garverick, Co., L.P.A. provides legal services to PECO II.

**Gerard B. Moersdorf, Jr.**, age 56 Director since 2006.

Gerard B. Moersdorf, Jr. is the founder and innovator behind a start-up company called ACScout that has been highly successful from its inception in late 2006. He was also the founder of Applied Innovation Inc., which was acquired by Kentrox, Inc. in May 2007. Mr. Moersdorf served as Applied Innovation's Chairman of the Board from 1986 to May 2007, President, Chief Executive Officer, and Treasurer from 1986 to 2000 and as its President and Chief Executive Officer from August 2002 to January 2005.

**R. Louis Schneeberger**, age 53 Director since 2003.

Since January 2008, R. Louis Schneeberger has been a Partner and Managing Director of Knowledge Investment Partners, an alternative investment firm focused on the education sector with offices in Cleveland, New York, San Francisco and Geneva. From November 2005 to December 2007, R. Louis Schneeberger was an independent consultant who focused on assisting in several mergers and acquisitions and performing the Chief

Financial Officer function for a Cleveland based large private company. From February 2004 to November 2005, Mr. Schneeberger served as Chief Financial Officer for OM Group, Inc, a \$1.3 billion international producer of metal-based specialty chemicals. Mr. Schneeberger is an experienced public-company executive with a background in public accounting and as a strategist, turnaround specialist, and business advisor. He was Chief Financial Officer and a director of Olympic Steel, Inc. (NASDAQ: ZEUS) from 1987 to 2000 and Chairman of the Board and audit committee of Royal Appliance Manufacturing Company (NYSE: RAM) from July 1995 to April 2003. He began his career with Arthur Andersen (1977 to 1987).

**The Board of Directors unanimously recommends a vote FOR the three nominees as Class II Directors whose three-year term will expire in 2011. Your proxy will be so voted unless you specify otherwise.**

**RESOLUTION AUTHORIZING THE BOARD OF DIRECTORS TO AMEND THE  
COMPANY S AMENDED AND RESTATED ARTICLES OF INCORPORATION TO  
IMPLEMENT A REVERSE SPLIT OF THE COMPANY S COMMON SHARES, WITHOUT  
PAR VALUE, AT A RATIO OF 1-FOR-10 AT ANY TIME PRIOR TO DECEMBER 31, 2008**

**(Proposal No. 2)**

**General**

Our Board of Directors has approved and is seeking shareholder approval of a resolution to authorize the Board of Directors, in its sole and absolute discretion without further action of the shareholders, to amend the Company s Amended and Restated Articles of Incorporation (the Amendment ) to implement a reverse stock split of the Company s common shares, without par value, at a ratio of 1-for-10 at any time prior to December 31, 2008 (the Reverse Split ).

If our shareholders approve this proposal, our Board of Directors will have the authority, but not the obligation, in their sole and absolute discretion, and without further action on the part of the shareholders, to effect the approved Reverse Split by filing the Amendment with the Delaware Secretary of State. If the Amendment has not been filed with the Delaware Secretary of State by the close of business on December 31, 2008, our Board of Directors will abandon the Amendment constituting the Reverse Split.

The reason we want to effect the Reverse Split is to increase the market price per share of our common stock in order to maintain the listing of our common stock on the NASDAQ Capital Market. See Reasons for the Reverse Stock Split. We believe that maintaining the listing of our common stock on the NASDAQ Capital Market is in the best interests of our shareholders.

If the Reverse Split is implemented, the Amendment would not reduce the authorized number of our common shares, without par value. Except for any changes as a result of the treatment of fractional shares, each shareholder will hold the same percentage of common shares outstanding immediately after the Reverse Split as such shareholder held immediately prior to the Reverse Split.

**Reasons for the Reverse Split**

The reason we want to effect the Reverse Split is to increase the market price per share of our common stock. Our common stock has been traded on what is now known as the NASDAQ Capital Market since June 2003, and prior to that was traded on the NASDAQ National Market since our initial public offering in August 2000. One of the requirements for continued listing on the NASDAQ Capital Market is that shares retain a \$1.00 minimum bid price. The price of our common stock has not been above \$1.00 per share since December 2006. On February 13, 2007, we received a notice from NASDAQ stating that we had 180 calendar days (until August 13, 2007) to regain compliance with the minimum bid price requirement. On August 14, 2007, we received a second notice from NASDAQ informing us that pursuant to NASDAQ s previous communication,

dated February 13, 2007, the Company had not regained compliance with minimum closing bid price requirement, and that NASDAQ has granted the Company an additional 180 calendar days (until February 7, 2008) to regain compliance with the \$1.00 per share minimum closing bid price requirement.

On February 8, 2008, we received a notice from NASDAQ informing us that we had not regained compliance with minimum closing bid price requirement, and that the Company's common stock would be suspended on February 20, 2008, unless the Company requests an appeal of this determination by appealing to a NASDAQ Listing Qualifications Panel (the Panel). We requested a written appeal on February 13, 2008, and a hearing was set for March 20, 2008. The Reverse Split was the primary focus of our written presentation to the Panel of our Plan to regain compliance with the \$1.00 per share minimum closing bid price requirement. According to NASDAQ, the Panel usually takes 30 days after the hearing to issue its decision and had not done so by date of this proxy statement.

We believe that maintaining the listing of our common stock on the NASDAQ Capital Market is in the best interests of PECO II and our shareholders. Listing on the NASDAQ Capital Market increases the liquidity of PECO II common stock and may minimize the spread between the bid and ask prices quoted by market makers. Further, maintaining our NASDAQ Capital Market listing may enhance our access to capital that is necessary to fund our operations. A delisting from the NASDAQ Capital Market will also make us ineligible to use Securities and Exchange Commission (SEC) Form S-3 to register the sale of shares of our common stock or to register the resale of our securities held by certain of our security holders with the SEC, thereby making it more difficult and expensive for us to register our common stock or other securities and raise additional capital.

Form S-3 generally allows the registration statement to be continuously updated through the incorporation by reference of our periodic SEC filings. We are a party to one registration rights agreement which requires us to maintain the effectiveness of registration statements relating to the resale of common shares, and common shares issuable upon the exercise of outstanding warrants, held by Delta International Holding Ltd. This registration statement is currently on Form S-3. If we are ineligible to use Form S-3, we will need to file new registration statements on some other permitted Form which may not permit incorporation by reference of the information in our periodic SEC filings. Maintaining the effectiveness of such registration statements and keeping the information contained therein current and up to date will become extremely difficult, time-consuming and expensive. Under the applicable registration rights agreements, we could become subject to damages upon and during the continuance of any such failure. We would also incur additional costs under state blue-sky laws to sell equity if we are delisted.

We also believe that the increased market price of our common stock expected as a result of implementing a Reverse Split will improve the marketability and liquidity of our common stock and will encourage interest and trading in our common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Additionally, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of our common stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. It should be noted, however, that the liquidity of our common stock may in fact be adversely affected by the proposed Reverse Split given the reduced number of shares that would be outstanding after the Reverse Split.

For the above reasons, we believe that having the ability to effect the Reverse Split will help us regain and maintain compliance with the NASDAQ listing requirements, could improve the marketability and liquidity of our common stock, and allow us to continue to use Form S-3 for the registration of the sale of our shares, and is therefore in the best interests of PECO II and our shareholders.



However, we cannot assure you that the Reverse Split, if implemented, will have the desired effect of proportionately raising our common stock price over the long term, or at all. The effect of a reverse split upon the market price of our common stock cannot be predicted with any certainty, and the history of similar stock splits for companies in similar circumstances to PECO II is varied. In addition, we cannot assure you that the Panel will grant the company a conditional listing to effectuate the Reverse Split and regain compliance with the minimum per share bid price. Accordingly, we cannot assure you that we will be able to maintain our NASDAQ listing after the Reverse Split is effected or that the market price per share after the Reverse Split will exceed or remain in excess of the \$1.00 minimum bid price for a sustained period of time. The market price of our common stock may vary based on other factors which are unrelated to the number of shares outstanding, including our future performance. We also cannot assure you that our common stock will not be delisted due to a failure to meet other continued listing requirements even if after the Reverse Split the market price per share of our common stock remains in excess of \$1.00.

#### **Board Discretion to Implement the Reverse Split**

If the Reverse Split is approved by our shareholders, it will be effected, if at all, only upon a determination by our Board of Directors that a Reverse Split is in the best interests of our shareholders. Notwithstanding approval of the Reverse Split by our shareholders, our Board of Directors may, in its sole discretion, abandon all of the proposed amendments and determine prior to the effectiveness of any filing with the Secretary of State of the State of Delaware not to effect the Reverse Split prior to December 31, 2008, as permitted under Section 242(c) of the Delaware General Corporation Law. If the Board fails to implement any of the amendments prior to December 31, 2008, shareholder approval again would be required prior to implementing any subsequent reverse stock split.

#### **Effects of the Reverse Stock Split**

Except for adjustments that may result from the treatment of fractional shares as described below, each shareholder will hold the same percentage of our outstanding common stock immediately following the Reverse Split as that shareholder held immediately prior to the reverse stock split. On February 1, 2008, we had 27,487,297 shares of our common stock outstanding and 122,512,703 shares of common stock that were authorized but unissued. Our Board of Directors has reserved for possible future issuance approximately 13,827,878 common shares of common stock for issuance upon the exercise of outstanding warrants, 3,935,096 common shares of common stock for issuance for future grants and upon exercise of options granted under our Amended 2000 Performance Plan and 247,303 shares of common stock for issuance under our Employee Stock Purchase Plan. All of these share numbers will be adjusted in the ratio of the Reverse Split.

After the effective date of the proposed Reverse Split, each shareholder will own a reduced number of shares of our common stock. For example, every 10 common shares that a shareholder owns will be combined and converted into a single common share. We estimate that, following the Reverse Split, we would have approximately the same number of shareholders. Except for any changes as a result of the treatment of fractional shares, the completion of the Reverse Split alone would not affect any shareholder's proportionate equity interest in PECO II. By way of example, a shareholder who owns a number of shares that, prior to the Reverse Split, represented 1% of our outstanding common shares would continue to own 1% of our outstanding shares after the Reverse Split. The Reverse Split will not reduce your ownership interest except as a result of the treatment of fractional shares as specified below. The Reverse Split may, however, increase the number of shareholders of PECO II who own odd lots of less than 100 of our common shares. Brokerage commission and other costs of transactions in odd lots are generally higher than the costs of transactions of more than 100 shares of common stock.

Because the Reverse Split will result in a reduction in the number of our outstanding common shares, the Reverse Split will be accompanied by a corresponding decrease in the total number of issued shares; however, it will not result in a reduction in the number of common shares that our Board of Directors is authorized to issue

under our Amended and Restated Articles of Incorporation. The amendment will also not affect the number of authorized serial preferred shares which PECO II may issue, which shall remain at 5,000,000 shares. There are no shares of preferred stock outstanding.

The table below illustrates the approximate percentage reduction in the outstanding common shares as a result of the Reverse Split, the approximate number of common shares that would remain outstanding following the Reverse Split, the approximate number of common shares that would remain authorized following the Reverse Split and the approximate number of common shares that would remain authorized but unissued following the Reverse Split. The information in the following table is based on the 27,487,297 common shares outstanding as of February 1, 2008.

<b>Proposed</b>	<b>Percentage Reduction in Outstanding Common Shares</b>	<b>Approximate Common Shares Outstanding after the Reverse Split</b>	<b>Total Shares Authorized after the Reverse Split</b>	<b>Common Shares Authorized after the Reverse Split</b>	<b>Preferred Shares Authorized after the Reverse Split</b>	<b>Post-Split Common Shares to be Authorized but Unissued after the Reverse Split</b>
<b>Reverse Split</b>						
1 for 10	90%	2,748,729	155,000,000	150,000,000	5,000,000	147,251,271

**Treatment of Fractional Shares**

No fractional common shares will be issued as a result of the Reverse Split. Instead, shareholders who otherwise would be entitled to receive a fractional common share as a consequence of the Reverse Split, upon surrender to the exchange agent of the certificates representing such fractional shares, will be entitled to receive cash in an amount equal to the product obtained by multiplying (i) the closing sale price of our common shares on the business day immediately preceding the effective date of the Reverse Split as reported on the NASDAQ Capital Market by (ii) the number of our common shares of our common stock held by the shareholder that would otherwise have been exchanged for the fractional share interest.

**Effect of the Reverse Stock Split on Options and Warrants**

The number of common shares subject to our outstanding options and warrants will automatically be reduced in the same ratio as the Reverse Split. The per share exercise price of those options and warrants will also be increased in direct proportion to the Reverse Split ratio, so that the aggregate dollar amount payable for the purchase of the shares subject to the options and warrants will remain unchanged. For example, assume that an optionee holds options to purchase 1,000 shares at an exercise price of \$1.00 per share. On the effectiveness of the Reverse Split, the number of shares subject to that option would be reduced to 100 shares and the exercise price would be proportionately increased to \$10.00 per share. In connection with the Reverse Split, the number of shares of common stock issuable upon exercise or conversion of outstanding stock options and warrants will be rounded to the nearest whole share and no cash payment will be made in respect of such rounding. In addition, the proposed Reverse Split will reduce the number of shares of common stock available for future issuances under our Amended 2000 Performance Plan in proportion to the 1-for-10 Reverse Split ratio.

**Exchange of Stock Certificates**

The combination of, and reduction in, the number of our outstanding shares as a result of the Reverse Split will occur automatically on the date that the selected amendments to our Amended and Restated Articles of Incorporation effectuating the Reverse Split are filed with the Secretary of State of the State of Ohio (referred to as the effective date), without any action on the part of our shareholders and without regard to the date that stock certificates representing the shares prior to the Reverse Split are physically surrendered for new stock certificates.

As soon as practicable after the effective date, transmittal forms will be mailed to each holder of record of certificates for our common shares to be used in forwarding such certificates for surrender and exchange for certificates representing the number of our common shares such shareholder is entitled to receive as a result of

the Reverse Split. Our transfer agent will act as exchange agent for purposes of implementing the exchange of the stock certificates. The transmittal forms will be accompanied by instructions specifying other details of the exchange. Upon receipt of the transmittal form, each shareholder should surrender the certificates representing our common shares prior to the Reverse Split in accordance with the applicable instructions. Each holder who surrenders certificates will receive new certificates representing the whole number of our common shares that he or she holds as a result of the Reverse Split. No new certificates will be issued to a shareholder until the shareholder has surrendered such shareholder's outstanding certificate(s) together with the properly completed and executed transmittal form to the exchange agent. **Shareholders should not destroy any stock certificates and should not submit their stock certificates until they receive a transmittal form from our transfer agent.**

#### **Accounting Consequences**

Our common shares will remain without par value per share after the Reverse Split. As a result, on the effective date of the Reverse Split, there will be no change in the stated capital on our balance sheet. The amounts of net income or loss per common share and net book value per common share will be increased because there will be fewer shares of our common stock outstanding. We do not anticipate that any other accounting consequences will arise as a result of the Reverse Split.

#### **No Appraisal Rights**

Under the Ohio General Corporation Law, our shareholders are not entitled to appraisal rights with respect to our proposed amendments to our Amended and Restated Articles of Incorporation to effect the Reverse Split, and we will not independently provide our shareholders with any such rights.

#### **Certain Material U.S. Federal Income Tax Consequences of the Reverse Stock Split**

The following is a summary of certain material U.S. federal income tax consequences of the Reverse Split to holders of our common shares. It addresses only shareholders who hold the pre-reverse split common shares and post-reverse split common shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the Code). This discussion does not purport to be a complete discussion of all of the possible federal income tax consequences of the Reverse Split and does not account for or consider the federal income tax consequences to shareholders in light of their individual investment circumstances or to shareholders subject to special treatment under the federal income tax laws, including but not limited to:

banks, financial institutions, thrifts, mutual funds or trusts;

tax-exempt organizations;

insurance companies;

dealers in securities or foreign currency;

real estate investment trusts, personal holding companies or regulated investment companies;

foreign or United States expatriate shareholders;

shareholders who are not United States persons, as defined in Section 7701 of the Code;

controlled foreign corporations;

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shareholders with a functional currency other than the U.S. dollar;

shareholders who hold the pre-reverse split common shares as part of a straddle, hedge, constructive sale, conversion transaction, or other integrated investment;

shareholders who hold the pre-reverse split common shares as qualified small business stock within the meaning of Section 1202 of the Code;

common trusts;

traders, brokers, or dealers in securities who elect to apply a mark-to-market method of accounting;

partnerships or other pass-through entities or investors in such entities;

shareholders who are subject to the alternative minimum tax provisions of the Code;

shareholders who acquired their pre-reverse split common shares pursuant to the exercise of employee stock options, through a tax-qualified retirement plan, or otherwise as compensation; or

holders of warrants or stock options.

This summary is based upon the Code, existing and proposed U.S. Treasury regulations promulgated thereunder, legislative history, judicial decisions, and current administrative rulings and practices, all as in effect on the date hereof and all of which are subject to differing interpretations. Any of these authorities could be repealed, overruled, or modified at any time. Any such change could be retroactive and, accordingly, could cause the tax consequences of the Reverse Split to vary substantially from the consequences described herein. Further, no ruling from the Internal Revenue Service (the IRS) or opinion of legal or tax counsel will be obtained with respect to the matters discussed herein, and there is no assurance or guarantee that the IRS would agree with the conclusions set forth in this summary.

**SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE REVERSE SPLIT, INCLUDING THE APPLICABILITY OF ANY STATE, LOCAL, GIFT, OR FOREIGN TAX LAWS, CHANGES IN APPLICABLE TAX LAWS, AND ANY PENDING OR PROPOSED LEGISLATION OR AUTHORITY.**

The Reverse Split is intended to constitute a recapitalization within the meaning of Section 368(a)(1)(E) of the Code. Certain filings with the IRS must be made by PECO II and certain significant holders of our common shares in order for the Reverse Split to qualify as a recapitalization.

Assuming the Reverse Split qualifies as a recapitalization, a holder of our common shares generally will not recognize gain or loss on the Reverse Split, except to the extent of cash, if any, received in lieu of a fractional share interest in the post-reverse split common shares. A shareholder who receives cash in lieu of a fractional share interest in the post-reverse split common shares generally will recognize gain or loss equal to the difference, if any, between the cash received and the portion of the tax basis of the pre-reverse split common shares allocated to the fractional share interest. Subject to the limitations above and assuming the holder of our common shares holds such stock as a capital asset within the meaning of Section 1221 of the Code, such gain or loss will be long-term capital gain or loss if the pre-reverse split common shares were held for more than one year by the shareholder. The aggregate tax basis of the post-reverse split common shares received will be equal to the aggregate tax basis of the pre-reverse split common shares exchanged therefore (excluding any portion of the shareholder's tax basis allocated to fractional share interests). The holding period of the post-reverse split common shares received in the Reverse Split will include the holding period of the pre-reverse split common shares exchanged.

Assuming the Reverse Split qualifies as a recapitalization, no gain or loss will be recognized by PECO II as a result of the Reverse Split.

The foregoing discussion is intended only as a summary of certain U.S. federal income tax consequences of the Reverse Split and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences of the Reverse Split.

**The Board of Directors unanimously recommends a vote FOR Proposal 2. Your proxy will be so voted unless you specify otherwise.**

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**BOARD OF DIRECTORS AND CORPORATE GOVERNANCE MATTERS**

The Board of Directors held six meetings during the year ended December 31, 2007. During 2007, no director attended fewer than 75% of the aggregate of the total number of meetings of the Board of Directors, held during the period for which he or she has been a director, and the total number of meetings held by all Committees of the Board on which he or she served, during the periods that he or she served, except for Mr. Chang who attend four out of six Board meetings during 2007.

The Board of Directors has determined that the following of its members are independent under the listing standards of the NASDAQ Stock Market: Messrs. Hottenroth, Orchard, Moersdorf, Jr., Schneeberger, and Thomsen.

Mr. Hottenroth is a partner in the law firm Hottenroth, Garverick, Tilson & Garverick, Co., L.P.A. Although Mr. Hottenroth's law firm provided legal services to PECO II in 2007 (and will continue to provide such services in 2008), the amount of legal fees paid to that firm in 2007 did not exceed the non-independence thresholds as set forth by the NASDAQ listing standards. The Board is aware of this relationship and determined that the payments made to Mr. Hottenroth's firm did not interfere with the exercise of his independent judgment as a director.

The independent directors intend to meet at least twice a year in executive sessions. Any independent director can request that an additional session be scheduled. The Company encourages each member of the Board of Directors to attend each annual meeting of shareholders. All of the Company's current directors who were members of the Board at last year's annual meeting of shareholders held on May 22, 2007, were in attendance, except for Mr. Chang.

The Board of Directors maintains two standing committees: an Audit Committee and a Compensation/Nominating Committee. Set forth below is the current membership of each of the above-described committees:

**Compensation/Nominating Committee**

E. Richard Hottenroth

(Chairman)

Richard W. Orchard

R. Louis Schneeberger

Thomas R. Thomsen

**Audit Committee**

R. Louis Schneeberger

(Chairman)

Gerard B. Moersdorf, Jr.

Richard W. Orchard

The Board has adopted a charter for the Audit Committee and a charter for the Compensation/Nominating Committee. The Board also adopted a Code of Conduct and Ethics that applies to all of PECO II's employees, officers and directors. These documents can be found on our website at [www.peco2.com](http://www.peco2.com) by clicking on the link for Investor Relations.

**Audit Committee**

The Audit Committee hires, oversees and reviews the activities of our independent registered public accounting firm and various company policies and practices. The specific functions and responsibilities of the Audit Committee are set forth in the Audit Committee Charter adopted by the Board of Directors. Our Board has determined that each of the members of the Audit Committee satisfies the current independence standards of the NASDAQ Stock Market listing standards and Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended. The Audit Committee met four times in 2007. The Board appointed Mr. Orchard to the Audit Committee on May 22, 2007, to replace Mr. Dallas, who was not nominated for reelection as a director of the Company and ceased to be a director and Audit Committee member on such date.

The Board also has determined that R. Louis Schneeberger is an audit committee financial expert as that term is defined in Item 407(d)(5)(ii) of Regulation S-K. As an audit committee financial expert, Mr. Schneeberger satisfies the NASDAQ financial literacy and sophistication requirements.

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## Compensation/Nominating Committee

The Compensation/Nominating Committee of the Board of Directors reviews executive compensation and administers the Company's stock option, incentive and employee stock purchase plans. The Compensation/Nominating Committee reviews and approves on an annual basis the corporate goals and objectives with respect to compensation for our Chief Executive Officer. In addition, the Compensation Committee evaluates, at least once a year, our Chief Executive Officer's performance in light of these established goals and objectives and, based upon these evaluations, sets the Chief Executive Officer's compensation, including salary, bonus, incentive and equity compensation. Our Chief Executive Officer is not permitted to be present during voting or deliberations of his compensation. The Compensation Committee also reviews and approves on an annual basis the evaluation and compensation structure for the Company's other executive officers, including approval of salary, bonus, incentive and equity compensation. Our Chief Executive Officer and, occasionally, our Human Resources Director are present and provide input at the meeting and deliberations on the compensation of the Company's other executive officers but are not permitted to be present at the vote.

The Compensation Committee also recommends to the Company's full Board of Directors the compensation for non-employee Board members. For more information on the compensation aspects of the Compensation/Nominating Committee, please refer to Executive Compensation Discussion and Analysis The Compensation/Nominating Committee beginning on page 20 below.

The Compensation/Nominating Committee also considers and recommends to the Board of Directors nominees for election as directors and candidates to fill vacancies on the Board of Directors. Each member of the Compensation/Nominating Committee is independent in accordance with the applicable corporate governance listing standards of the NASDAQ Stock Market. The Compensation/Nominating Committee met five times in 2007.

Directors may be nominated by the Board of Directors or by shareholders in accordance with our Amended and Restated Code of Regulations. As a matter of course, the Compensation/Nominating Committee reviews the qualifications of various persons to determine whether they might make good candidates for consideration for membership on the Board of Directors. The Compensation/Nominating Committee will review all proposed nominees for the Board of Directors, including those proposed by shareholders, in accordance with its mandate contained in its charter and as described below. The Compensation/Nominating Committee will select qualified candidates and review its recommendations with the Board of Directors, which will decide whether to invite the candidate to be a nominee for election to the Board of Directors.

The Compensation/Nominating Committee does not rely on a fixed set of qualifications for director nominees. The Committee's primary mandate with respect to director nominees is to create a Board with a broad range of skills and attributes that is aligned with the Company's needs. The minimum qualifications for director nominees are that they:

be able to dedicate the time and resources sufficient for the diligent performance of the duties required by a member of the Board of Directors;

not hold positions that conflict with their responsibilities to the Company; and

comply with any other minimum qualifications for either individual director nomination program is designed to provide:

levels of base compensation that are competitive with comparable companies;

annual incentive compensation that varies in a manner consistent with the achievement of individual performance objectives and financial results of the Company;

long-term incentive compensation that focuses executive efforts on building shareholder value through meeting longer-term financial and strategic goals; and

benefits that are meaningful and competitive with comparable companies and the relevant market.

In designing and administering the Company's executive compensation program, the Compensation Committee attempts to strike an appropriate balance among these various elements. The Compensation Committee considers the pay practices of the compensation peer group to determine the appropriate pay mix and compensation levels. With respect to performance-based pay, the Compensation Committee believes that executive compensation should be closely tied to the Company's financial performance and the individual performance and responsibility level of the particular executive officer. The Compensation Committee also believes that the Company's executive compensation program should include a significant equity-based component because it best aligns the executives' interests with those of the Company's shareholders. For purposes of retention, the Compensation Committee believes that the equity-based component should have meaningful conditions to encourage valued employees to remain in the employ of the Company. Finally, the Compensation Committee also considers other forms of executive pay as a means to attract, retain and motivate highly qualified executives.

***Process for Establishing Compensation***

The Compensation Committee is comprised of two independent directors, both of whom satisfy the relevant NASDAQ rules and SEC regulations. There are no interlocking relationships between any member of the Compensation Committee and any of our executive officers. None of the Compensation Committee members is an officer, employee or former officer or employee of the Company.



The Compensation Committee is responsible for all compensation decisions for the chief executive officer and, in conjunction with the Board of Directors, the other executive officers. The chief executive officer annually reviews the performance of the other executive officers, which review includes the consideration of market pay practices of the compensation peer group, if available, in conjunction with both Company and individual performance. The conclusions and recommendations of the chief executive officer for compensation of the other executive officers are presented to the Compensation Committee for review and recommendation to the Board of Directors for approval. The Compensation Committee has absolute discretion as to whether it recommends to the Board of Directors for approval these recommendations or makes adjustments as it deems appropriate. The Compensation Committee also adheres to this process for staff vice presidents and director level employees.

### ***Role of the Independent Compensation Consultant***

Robert Kurisu first served as the Compensation Committee's independent executive compensation consultant in 2009. The compensation consultant's responsibilities include, but are not limited to, providing compensation market data, reviewing the Company's compensation information, reviewing the design of the executive compensation program periodically, participating in meetings of the Compensation Committee, providing independent analysis of CEO, COO, and CFO compensation, and providing advice to the Compensation Committee, as requested. The Compensation Committee has the sole authority to hire and terminate Mr. Kurisu, and may seek advice from Mr. Kurisu without the involvement of management.

After review and consultation with Mr. Kurisu, the Compensation Committee determined that Mr. Kurisu is independent and that there is no conflict of interest that would result from retaining Mr. Kurisu

### ***The Elements of Compensation***

Total direct compensation includes cash, in the form of base salary and annual incentives, and long-term equity incentives and indirect compensation in the form of benefits. The Compensation Committee evaluates the mix between these three elements based on the pay practices of comparable companies and other considerations supporting the Company's general compensation philosophy and objectives.

The companies included in the compensation peer group are selected primarily on the basis of their comparability to the Company based on size, as measured through annual revenue, market capitalization and other financial measures. Although the Compensation Committee also considers and reviews information from proxy statements of companies not in the compensation peer group and other relevant survey data, it particularly focuses on the practices of the compensation peer group in considering compensation levels for

the chief executive officer and chief financial officer. Our Compensation Committee uses peer group information as a point of reference, but does not benchmark or target compensation levels against the peer group. The Compensation Committee considers the opinions and recommendations of the chief executive officer, chief financial officer and various outside advisers, and strives to be fully informed in its determination of the appropriate compensation mix and award levels for the named executive officers. All compensation decisions take into consideration the Compensation Committee's guiding principles of fairness to employees, retention of talented executives and fostering improved Company performance, which it believes will ultimately benefit the Company's shareholders. In addition, compensation decisions take into consideration the most recent advisory vote of the Company's shareholders with respect to the compensation of the named executive officers. In our 2016 annual meeting of shareholders, approximately 81% of the votes cast approved such compensation.

With respect to the named executive officers, the following describes in greater detail the objectives and policies behind the various elements of the compensation mix.

#### Base Salary

It is the Company's philosophy that employees be paid a base salary that is competitive with the salaries paid by comparable organizations based on each employee's experience, performance, value and geographic location. Generally, the Company has chosen to position cash compensation at levels which will allow the Company to remain competitive in attracting and retaining executive talent. The allocation of total cash between base salary and incentive bonus awards is based on a variety of factors. The Compensation Committee considers a combination of the executive's performance, the performance of the Company and the individual business or corporate function for which the executive is responsible, the nature and importance of the position and role within the Company, the scope of the executive's responsibility and the current compensation package in place for the executive, including the executive's current annual salary and potential bonus awards under the Company's short-term incentive plan. The Company deviates from this process when an executive's compensation is set pursuant to the terms of an asset purchase agreement or similar transaction; this did not apply this year. The Compensation Committee generally evaluates executive salaries annually.

#### Annual Incentive Bonus

The Company intends to continue its strategy of compensating the named executive officers through programs that emphasize performance-based incentive compensation. The Company's short-term incentive compensation program is designed to recognize and reward named executive officers (and other employees) who contribute meaningfully to the Company's profitability at the corporate level and increase in shareholder value.



In general, the annual incentive bonus ties incentive compensation to net earnings per share as reported in the Company's audited financial statements adjusted for certain items ("BEPS") and achievement of individual goals. These adjustments typically include bonus expense, stock compensation expense and related tax benefits and other non-recurring items approved by the Compensation Committee. More specifically, the annual incentive bonus is calculated as follows: base salary multiplied by TIA (as defined below), multiplied by BEPS percentage, multiplied by percentage completion of individual goals. There is no maximum bonus payment under the program.

BEPS is further allocated to the business unit level and each individual receives a percentage based on the level of involvement with that business unit. Under this program, the Compensation Committee establishes a minimum BEPS target that must be reached before any bonuses are earned. The target BEPS is based upon the annually established financial growth plan and goal.

The Compensation Committee also establishes for each participant in the program, including named executive officers, individual target incentive amounts ("TIA") that may be earned, in whole or in part, depending upon whether the minimum BEPS target is reached and by how much it is exceeded during the fiscal year. For 2017, the TIA as a percentage of base salary were as follows: Mr. M. Benstock, 60%; Mr. Demott, 40%; Mr. P. Benstock, 40%; and Mr. Alpert, 35%. The BEPS level for 100% payout of the TIA in 2017 was \$0.89 per share for these participants. At the minimum target BEPS level, these participants would have earned a bonus equal to 20% of the TIA.

The BEPS for Mr. Leide is based on the net earnings per share adjusted for certain items generated by the Remote Staffing Solutions segment. These adjustments typically include bonus expense, stock compensation expense and related tax benefits and other non-recurring items approved by the Compensation Committee. In 2017, the BEPS level for 100% payout for Mr. Leide was \$0.22 and at the minimum target BEPS level, Mr. Leide would have earned a bonus equal to 30% of the TIA.

For fiscal year 2017, the Company's BEPS was \$1.31 and The Remote Staffing Solutions' BEPS was \$0.29. The incentive compensation earned under the annual incentive bonus program for the 2017 fiscal year was paid in February 2018, and is disclosed in the "Non-equity incentive plan compensation" column for such year in the Summary Compensation Table below.

For 2018, base salary for the named executive officers has been set as follows: Mr. M. Benstock, \$541,704; Mr. Demott, \$400,400; Mr. P. Benstock, \$328,919; Mr. Alpert, \$172,820; and Mr. Leide, \$231,004. For 2018, the TIA (as a percentage of base salary) has been set as follows: Mr. M. Benstock, 60%; Mr. Demott, 40%; Mr. P. Benstock, 35%; and Mr. Alpert, 35%. The BEPS level for 100% payout of the TIA in 2018 will be equal to \$1.13 per share for Mr. M. Benstock and Mr. Demott and \$1.09 per share for Mr. P. Benstock and Mr. Alpert. For 2018, the TIA (as a percentage of base salary) has been set at 30% for Mr. Leide, with a

BEPS level for 100% payout of the TIA equal to \$0.26.

The Company also, from time-to-time, awards discretionary annual bonuses to executives (and other employees). These bonuses are designed to further the Company's compensation philosophy and objectives, including retaining and rewarding valuable employees. For the fiscal year 2017, the Company paid the discretionary bonuses disclosed in the "Bonus" column for such year in the Summary Compensation Table below.

### Long-Term Incentive Awards

Long-term incentive awards are an important component of the Company's total compensation package. The Compensation Committee believes that equity-based compensation ensures that the Company's named executive officers have a continuing stake in the long-term success of the Company. Accordingly, the Company's named executive officers (and other employees) may participate in the 2013 incentive stock and awards plan (the "2013 Stock and Awards Plan" or the "2013 Plan"), which provides for grants of equity incentive awards, including stock options, performance shares, performance units, stock awards, stock appreciation rights and other stock-based awards. Awards may be granted under the 2013 Plan from time to time until May 2, 2023, unless the 2013 Plan is terminated prior to that date. The Compensation Committee approves all awards under the 2013 Plan and acts as the administrator of the 2013 Plan.

Award levels under the 2013 Plan for the chief executive officer and chief financial officer are determined based on the compensation practices of the compensation peer group, retention of these executives, fairness, fostering improved Company performance and other considerations; award levels under the 2013 Plan for the other executives are determined based on retention of these executives, fairness, fostering improved Company performance and other considerations. In general, long-term incentive awards affected by reference to our compensation peer group are targeted at the median of the compensation peer group with appropriate adjustments for individual and Company performance. In general, stock options and stock appreciation rights ("SARs") granted under the 2013 Plan vest immediately, have a 5-year term and have an exercise price equal to the fair market value of the Company's common stock at closing on the date of grant. For restricted stock, the shares generally are held by the Company's transfer agent until restrictions lapse. Participants generally are entitled to any dividends payable on their restricted stock and to vote their shares. Restricted stock cannot be sold or transferred until the shares vest. Should an executive officer leave the Company prior to the completion of the applicable vesting schedule, the unvested portion of the grant is forfeited, with certain exceptions.

Historically, the determination of whether equity compensation awards will be granted is made promptly following the conclusion of the prior fiscal year because the awards are made (or not) based upon the Compensation Committee's assessment of the Company's overall performance for such period, as well as the committee's assessment of the individual's overall performance over the same time. This determination is generally made considering the totality of the circumstances and not necessarily on the basis of one or more specified performance metrics.

The Company also may award performance shares to certain executive officers. These grants are based on the employee's satisfactory achievement of certain performance-based metrics.

On February 1, 2018, Mr. M. Benstock and Mr. Demott were awarded 16,959 and 7,949 restricted shares, respectively, of the Company's common stock. These shares vest on February 1, 2021 provided the executives are still employed by the Company on that date. Mr. M. Benstock and Mr. Demott received reimbursement of cash taxes paid due to their 83(b) elections on these restricted stock grants in the amounts of \$266,667 and \$125,000, respectively. In addition, On February 1, 2018, the following option awards were granted: Mr. M. Benstock: 13,200 shares; Mr. Demott: 11,600 shares and each of Mr. P. Benstock, Mr. Leide, and Mr. Alpert: 7,200 shares. These grants and bonus amounts are not reflected in the Summary Compensation Table below as they occurred in 2018.

#### Broad-Based Benefits Programs

The named executive officers are entitled to participate in certain benefits programs that are available to all full-time employees. These benefits include health, dental, vision, disability and life insurance, paid vacation, and a Company-sponsored 401(k) plan. Certain executive officers also are eligible to participate in other benefits programs that are available to all full-time employees or that were available to certain full-time employees at the time the executive officer accrued the benefit, including a pension plan and a nonqualified deferred compensation plan. The Company may contribute and/or match participant contributions to the 401(k) plan or the deferred compensation plan. The Company's 401(k) and/or nonqualified deferred compensation plans contain a discretionary company contribution element; one named executive officer received a company contribution in 2017. The Company provides for matching contributions by the Company for each plan participant in the 401(k) plan in an amount equal to 25% of the first 4% of the employee's deferred compensation.

#### Other Benefits Programs

Certain executive officers also are entitled to participate in benefits programs that are not available to all full-time employees. These benefits include a nonqualified and unfunded supplemental employee retirement plan and a supplemental medical plan.

### **Named Executive Officers**

Executive officers of the Company are elected or appointed by the Board of Directors and hold office until their successors are elected or until their earlier death, resignation or removal. Named executive officers are identified based on SEC rules. The named executive officers of the Company are as follows:

<b>Name</b>	<b>Title</b>
Michael Benstock	Chief Executive Officer
Andrew D. Demott, Jr.	Chief Operating Officer, Chief Financial Officer and Treasurer
Alan D. Schwartz	Former President
Peter Benstock	Executive Vice President
Dominic Leide	President, The Office Gurus and Vice President of Administration and Customer Support
Jordan M. Alpert	Vice President, General Counsel & Secretary

Mr. Schwartz, the former President of the Company, retired from the Company on March 31, 2017. He continues to serve as a consultant to and a director of the Company.

## **Evaluation of Chief Executive Officer Compensation and Executive Performance**

### **Compensation of Chief Executive Officer**

The Compensation Committee meets first on its own and then with the other independent directors each year in executive session to evaluate the performance of the Company's chief executive officer. A written summary of results and recommendations related to bonus compensation prepared by Company management is provided to the committee in advance of the committee's consideration of the chief executive officer's compensation. The Compensation Committee does not confer with the chief executive officer or any other members of management when setting the chief executive officer's base salary. The Compensation Committee also considers the pay practices of the compensation peer group, information provided by the independent compensation consultant (upon request by the committee), and the Company's philosophy and objectives when setting the chief executive officer's compensation, including, but not limited to, fairness, retention, and driving shareholder value. The Compensation Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the chief executive officer.

### **Compensation of Other Executive Officers**

The chief executive officer meets with the Compensation Committee to review his compensation recommendations for the other executive officers. The chief executive officer describes the findings of his performance evaluations of all such persons and provides the basis of his recommendations to the Compensation Committee, including the scope of each person's duties, oversight responsibilities and individual objectives and goals against results achieved. In its analysis of the other executive officers, the Compensation Committee applies the same or similar considerations to this group as it applies when considering the chief executive officer's base salary. The Compensation Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of the executive officers.

### **Administrative Policies and Practices**

To evaluate and administer the compensation programs of the chief executive officer and other executive officers, the Compensation Committee meets periodically each year in conjunction with one or more regularly scheduled Board meetings. The Compensation Committee also holds special meetings and meets telephonically to discuss extraordinary items as necessary.





**Summary Compensation Table**

The following table sets forth all compensation paid or accrued during fiscal years 2017, 2016, and 2015 to the named executive officers. All share and per share information in the footnotes to this table have been adjusted to give retroactive effect to the 2-for-1 stock split effective on February 4, 2015.

**SUMMARY  
COMPENSATION  
TABLE**

Name and principal position	Year	Salary (\$)	Bonus (\$) (1)	Stock awards (\$) (2)	Option awards (\$) (3)	Non-equity incentive compensation (\$) (4)	Change in	All other compensation (\$) (6)	Total (\$)
							and nonqualified deferred earnings (\$) (5)		
Michael Benstock	2017	523,386	266,667	400,000	79,695	792,834	930,693	27,892	3,021,167
Chief Executive Officer	2016	523,387			78,575	642,244	639,851	35,311	1,881,233
	2015	513,133			83,200	659,766	492,449	16,508	1,758,262
Andrew D. Demott, Jr.	2017	385,000	125,000	187,485	70,035	466,554	416,140	25,604	1,675,818
Chief Operating Officer & CFO	2016	344,889			67,350	338,569	223,908	22,875	977,317
	2015	324,454			62,400	337,993	245,453	20,506	990,459
Alan D. Schwartz	2017	102,504						373,041	475,545
Former President	2016	400,018			67,350	225,076	30,399	30,146	732,715
	2015	387,058	35,000		70,720	257,503	385,843	19,691	1,155,815

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Peter Benstock	2017	319,339	534,555	44,436	28,900	199,463	27,898	1,154,591
Executive Vice President	2016	311,550	25,000	44,900	-	83,946	26,327	456,300
	2015	305,447		62,400	61,146	212,848	23,849	663,597
Dominic Leide	2017	199,328		44,436	179,982	12,963	10,268	446,977
President, The Office Gurus and Vice President of Administration and Customer Support	2016	160,535	250,000	545,011	44,900	72,813	4,792	1,088,805
	2015	155,961		41,600	183,791	-	10,100	391,452
Jordan M. Alpert	2017	166,670		44,436	187,247	6,321	8,640	413,314
Vice President, General Counsel and Secretary								

Mr. Schwartz retired from the Company on March 31, 2017. He continues to serve as a consultant to and a director of the Company. Compensation data for Mr. Alpert is presented for only 2017, which is the year in which he became a named executive officer.

(1) The bonus amounts for Mr. M. Benstock and Mr. Demott represent reimbursement of cash taxes paid due to their 83(b) elections on their restricted stock grants issued in 2017. On February 14, 2011, Mr. Leide was granted a long-term performance bonus to be awarded if Mr. Leide remained continuously employed until February 1, 2016. Other than as disclosed in this column, no other discretionary bonuses were earned during the periods indicated.

(2) On February 3, 2017, Mr. M. Benstock and Mr. Demott were awarded 23,571 and 11,048 restricted shares, respectively, of the Company's common stock. These shares were unvested as of December 31, 2017 and vest on February 3, 2020 provided the executives are still employed by the Company on that date. On February 3, 2017, Mr. P. Benstock was granted 15,750 performance shares that vest on February 3, 2022 provided he remains continually employed by the Company until vesting. In addition, Mr. P. Benstock received a grant of 15,750 performance shares that vest on February 3, 2022 provided he meets certain revenue goals over the vesting period and remains continually employed by the Company until vesting. On February 5, 2016, Mr. Leide was granted 16,667 performance shares that vest on February 5, 2021 provided he remains continually employed by the Company until vesting. In addition, Mr. Leide received a grant of 16,667 performance shares that vest on February 5, 2021 provided he meets certain revenue goals over the vesting period and remains continually employed by the Company until vesting. The amounts reported represent the grant date fair value of the award measured in accordance with FASB ACS Topic 718. Refer to Note 12 – Share Based Compensation in the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2017 for the relevant assumptions used to determine the valuation.

(3) The dollar amounts represent the fair value of the awards granted during each of the years presented in accordance with FASB ASC Topic 718. Refer to Note 12 – Share-Based Compensation in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017 for the relevant assumptions used to determine the valuation of our share-based awards.

(4) The amounts in this column include incentive bonuses earned during the respective calendar year. These amounts are paid during February of the following year. See "Compensation Discussion and Analysis" and the Grants of Plan-Based Awards table for more information regarding the annual incentive bonus.

(5) The amounts reported reflect the aggregate change in the actuarial present value of each named executive officer's accumulated benefit under the defined benefit pension plans in which they participate. The change in pension value reflects changes in age, service and earnings during 2017. The amount for Mr. Schwartz in 2017 was negative \$631,830. The amount for Mr. Leide in 2015 was negative \$635. The Company did not pay above-market or preferential rates on any non-qualified deferred compensation.

(6) The Company provides the named executive officers with certain group, health, medical and other non-cash benefits generally available to all salaried employees and not included in this column pursuant to SEC guidance, because they do not discriminate in scope, terms or operation in favor of executive officers. The amounts shown in this column include the following for Mr. M. Benstock, Mr. Demott, Mr. Schwartz and Mr. P. Benstock: matching contributions on 401(k) deferrals, insurance premiums for life insurance, insurance premiums for a supplemental medical plan, which is a fully insured hospital and medical expense reimbursement plan covering certain key management employees and their dependents, and personal automobile use. For Mr. Schwartz, the amounts include fees paid under his consulting agreement. For Mr. Leide, the amounts represent matching contributions on 401(k) deferrals, a discretionary 401(k) contribution,

and insurance premiums for life insurance. For Mr. Alpert, the amounts represent matching contributions on 401(k) deferrals, a discretionary 409(A) contribution, and insurance premiums for life insurance.

### **Employment and Compensation Arrangements**

The Company has not entered into employment agreements with any of the named executive officers.

**Grants of Plan-Based Awards**

The following table sets forth information regarding grants of plan-based awards for the named executive officers during fiscal year 2017.

**GRANTS OF  
PLAN-BASED  
AWARDS**

Name	Grant Date	Estimated future payouts under non-equity incentive plan awards (1)			Estimated future payouts under equity incentive plan awards (2)			All other stock awards of shares of stock or units (#) (2)	All other option awards of shares of stock or units (#) (2)	Exercise price of option awards (\$/Sh)	Grant date fair value of stock and option awards (\$) (3)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Michael Benstock	2/3/2017	62,806	314,032-				23,571	16,500	16.97	479,695	
Andrew D. Demott, Jr.	2/3/2017	30,800	154,000-				11,048	14,500	16.97	257,520	

Alan Schwartz	-	-	-	-	-	-	-	-
Peter Benstock	25,547	127,736-						
2/3/2017			15,750	15,750	9,200	16.97	578,991	
Dominic Leide	20,929	69,765 -						
2/3/2017					9,200	16.97	44,436	
Jordan M. Alpert	11,667	58,335 -						
2/3/2017					9,200	16.97	44,436	

(1) The amounts represent the potential threshold and target payouts under our 2017 annual incentive bonus program. There is no maximum payout. Actual payments are reflected in the "Non-equity incentive compensation plan" compensation column of the Summary Compensation Table. For an explanation of how the payouts are calculated, see "Compensation Discussion and Analysis" and "Annual Incentive Bonus".

(2) On February 3, 2017, Mr. M. Benstock and Mr. Demott were awarded 23,571 and 11,048 restricted shares, respectively, of the Company's common stock. These shares were unvested as of December 31, 2017 and vest on February 3, 2020 provided the executives are still employed by the Company on that date. On February 3, 2017, Mr. P. Benstock was granted 15,750 performance shares that vest on February 3, 2022 provided he remains continually employed by the Company until vesting. In addition, Mr. P. Benstock received a grant of 15,750 performance shares that vest on February 3, 2022 provided he meets certain revenue goals over the vesting period and remains continually employed by the Company until vesting. There is no threshold or maximum for these awards.

(3) The amounts reported represent the grant date fair value of the awards measured in accordance with FASB ACS Topic 718. Refer to Note 12 – Share Based Compensation in the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2017 for the relevant assumptions used to determine the valuation.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information regarding the outstanding equity awards held by the named executive officers at December 31, 2017, the last day of the Company's 2017 fiscal year. All share and per share information in this table has been adjusted to give retroactive effect to the 2-for-1 stock split effective on February 4, 2015.

**OUTSTANDING  
EQUITY  
AWARDS AT  
FISCAL  
YEAR-END**

<b>Option Awards</b>			<b>Stock Awards</b>			<b>Equity</b>
						<b>Equity</b>
						<b>Incentive</b>
						<b>Incentive</b>
						<b>Plan</b>
						<b>Awards:</b>
						<b>Market</b>
						<b>or Payout</b>
						<b>Value of</b>
						<b>Unearned</b>
						<b>Unearned</b>
						<b>Shares,</b>
						<b>Units or</b>
						<b>Other</b>
						<b>Rights</b>
						<b>that have</b>
						<b>not</b>
						<b>not</b>
						<b>Vested</b>
						<b>Vested</b>
<b>Number of</b>	<b>Number of</b>	<b>Equity</b>	<b>Number</b>	<b>Market</b>	<b>Equity</b>	
<b>Securities</b>	<b>Securities</b>	<b>Incentive</b>	<b>of</b>	<b>Value</b>	<b>Incentive</b>	
<b>Underlying</b>	<b>Underlying</b>	<b>Plan</b>	<b>Shares</b>	<b>of</b>	<b>Plan</b>	
<b>Unexercised</b>	<b>Unexercised</b>	<b>Awards:</b>	<b>or Units</b>	<b>Shares</b>	<b>Awards:</b>	
<b>Options</b>	<b>Options</b>	<b>Number of</b>	<b>that</b>	<b>or</b>	<b>Number</b>	
<b>Exercisable</b>	<b>Unexercisable</b>	<b>Securities</b>	<b>have</b>	<b>Units</b>	<b>of</b>	
	<b>Unexercised</b>	<b>Underlying</b>	<b>not</b>	<b>of</b>	<b>Unearned</b>	
	<b>Options</b>	<b>Unexercised</b>	<b>Vested</b>	<b>Stock</b>	<b>Shares,</b>	
		<b>Unearned</b>		<b>that</b>	<b>Units or</b>	
		<b>Options</b>		<b>have</b>	<b>Other</b>	
				<b>not</b>	<b>Rights</b>	
				<b>Vested</b>	<b>that have</b>	
					<b>not</b>	
					<b>not</b>	
					<b>Vested</b>	
					<b>Vested</b>	



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Name	(#) (1)	(#)	(#)	(\$)	(2)	(#) (3)	(\$)	(#) (3)	(\$)
Michael Benstock						23,571	629,581-		-
	13,586			7.36	2/7/2019				
	16,000			18.66	2/6/2020				
	17,500			16.35	2/5/2021				
	16,500			16.97	2/3/2022				
Andrew D. Demott, Jr.						11,048	295,092-		-
	12,000			18.66	2/6/2020				
	15,000			16.35	2/5/2021				
	14,500			16.97	2/3/2022				
Alan D. Schwartz	8,241			18.66	2/6/2020				
Peter Benstock						15,750	420,683	15,750	420,683
	17,714			5.65	2/1/2018				
	13,586			7.36	2/7/2019				
	12,000			18.66	2/6/2020				
	10,000			16.35	2/5/2021				
	9,200			16.97	2/3/2022				
Dominic Leide						16,667	445,176	16,667	445,176
	13,586			7.36	2/7/2019				
	8,000			18.66	2/6/2020				
	10,000			16.35	2/5/2021				
	9,200			16.97	2/3/2022				
Jordan M. Alpert									
	13,586			7.36	2/7/2019				
	8,000			18.66	2/6/2020				
	10,000			16.35	2/5/2021				
	9,200			16.97	2/3/2022				

(1) Options and stock-settled stock appreciation rights are exercisable immediately upon grant.

(2) The expiration date of each grant occurs five years after the date of the grant.

(3) On February 3, 2017, Mr. M. Benstock and Mr. Demott were awarded 23,571 and 11,048 restricted shares, respectively, of the Company's common stock. These shares were unvested as of December 31, 2017 and vest on February 3, 2020 provided the executives are still employed by the Company on that date. On February 3, 2017, Mr. P. Benstock was granted 15,750 performance shares that vest on February 3, 2022 provided he remains continually employed by the Company until vesting. In addition, Mr. P. Benstock received a grant of 15,750 performance shares that vest on February 3, 2022 provided he meets certain revenue goals over the vesting period and remains continually employed by the Company until vesting. On February 5, 2016, Mr. Leide was granted 16,667 restricted shares that vest on February 5, 2021 provided he remains continually employed by the Company. In addition, Mr. Leide received a grant of 16,667 performance shares that vest on February 5, 2021 provided he meets certain revenue goals over the vesting period and remains continually employed by the Company.

### Option Exercises and Stock Vested

The following table sets forth information regarding exercises of stock options and SARs and vesting of stock for the named executive officers during fiscal year 2017. All share and per share information in this table has been adjusted to give retroactive effect to the 2-for-1 stock split effective on February 4, 2015.

#### Option Exercises and Stock Vested

Name	Option awards	Stock awards		
	Number of shares acquired on exercise (#)	Value realized on exercise (\$ (1))	Number of shares acquired on vesting (#)	Value realized on vesting (\$ (2))
Michael Benstock	80,414	1,380,155	35,000	592,200

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Andrew D. Demott, Jr.	66,000	1,057,773	20,000	338,400
Alan D. Schwartz	96,359	975,856	25,000	423,000
Peter Benstock	34,700	723,625	20,000	338,400
Dominic Leide	-	-	-	-
Jordan M. Alpert	17,714	223,108	-	-

(1) The value realized is computed as the difference between the market value on the date of exercise and the exercise price times the number of options exercised.

(2) The value realized is computed by multiplying the number of shares vested by the market value of the shares on the vesting date.

**Pension Benefits**

Since 1942, the Company has had a retirement plan (the "Basic Plan") which has been qualified under the Internal Revenue Code. The Basic Plan is a "defined benefit" plan, with benefits normally beginning at age 65, is non-contributory by an employee, and the Company's contributions are not allocated to the account of any particular employee. All domestic employees of the Company (except employees included in a retirement plan negotiated as part of a union contract) are eligible to participate in the Basic Plan prior to June 30, 2013. After June 30, 2013, benefits are provided under a "defined contribution plan" and the Basic Plan benefit accruals are frozen. The Company also commenced, effective November 1, 1994, the Superior Uniform Group, Inc. Supplemental Pension Plan (the "Supplemental Plan") which is available to certain eligible employees of the Company, including certain executive officers. Retirement benefits available under the Supplemental Plan are based on the same provisions as under the qualified plan but ignore the salary limitations imposed by the Internal Revenue Service (\$270,000 in 2017). The Supplemental Plan is not frozen.

The Supplemental Plan provides benefits based on years of service and earnings above and below the Covered Compensation Base (the wage bases on which maximum Social Security taxes are payable). The normal monthly retirement benefit is 17.5% of an employee's average monthly compensation during the highest paid five years of the ten years immediately preceding retirement up to his Covered Compensation Base plus 32.5% of such average monthly compensation in excess of his Covered Compensation Base, reduced in the event such employee has less than 25 years of service. No more than 25 years of service may be used in determining the benefit. An employee's compensation includes overtime pay, commissions and any bonus received and therefore includes executive officers' compensation as described in the Salary and Bonus columns of the Summary Compensation Table shown above. There is no offset in retirement benefits for Social Security benefits or other retirement plans or statutory benefits. The Basic Plan was amended as of November 1, 1989. Prior to the amendment, the Basic Plan provided benefits based on years of service and earnings in excess of the Covered Compensation Base. Benefits accrued prior to November 1, 1989 under the Basic Plan would be paid, if higher than the sums set forth above.

The following table sets forth information regarding pension benefits for the named executive officers.

**PENSION  
BENEFITS**

<b>Number of years credited service</b>	<b>Present value of accumulated benefit</b>	<b>Payments during last fiscal year</b>
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<b>Name</b>	<b>Plan name</b>	<b>(#) (1)</b>	<b>(\$ (2)</b>	<b>(\$)</b>
Michael Benstock	Supplemental	25.0	3,644,351	-
	Basic	25.0	645,570	-
Andrew D. Demott, Jr.	Supplemental	19.5	1,177,400	-
	Basic	15.0	294,563	-
Alan D. Schwartz	Supplemental	25.0	1,333,412	718,553
Peter Benstock	Supplemental	25.0	946,162	-
	Basic	25.0	531,802	-
Dominic Leide	Basic	7.2	60,298	-
Jordan M. Alpert	Basic	2.3	22,531	-

(1) Mr. M. Benstock, and Mr. P. Benstock have respectively served 38.9 and 34.9 years with the Company. However, the maximum number of years of service that can be credited under the supplemental plan is 25. Effective June 30, 2013, the Company no longer accrues additional benefits for future service or for future increases in compensation levels for the basic plan.

(2) Refer to Note 8 - Benefit Plans in the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2017 for the relevant assumptions used to determine the valuation.

(3) Mr. A. Schwartz retired from the company in 2017. He was paid \$640,317 as a lump sum benefit and \$78,236 as periodic benefits, totaling \$718,533 in pension benefit payments.

### Nonqualified Deferred Compensation

As of December 31, 2017, the Company had one nonqualified deferred compensation plan for which named executive officers and other Company employees are eligible. This plan permits eligible employees to contribute up to 95% of salary, incentive bonus and/or commissions, if earned. The Company may make discretionary contributions to eligible plan participants' accounts; one named executive officer was eligible for a Company contribution in 2017. At the time of the deferral elections, the participant must select a distribution date and a form of payment. The distribution date may be a specific date, upon retirement, or upon separation of service. The form of payment may be lump sum, or 5, 10 or 15 annual installments. Each participant is an unsecured creditor for any benefit under the plan, as no fund has been created for plan benefits that are protected from creditor claims. Participants may choose among several investment measurement funds in which to participate, and participants may change their investment mix at any time. Participants earn a rate of return which tracks the investment return achieved under the participant-selected investment measurement funds. The funds and annual rates of return as of December 1, 2017 are listed below:

<b>Fund Name</b>	<b>Returns (%) 1 Year</b>
American Century VP Value I	8.75
American Funds IS Global Growth & Inc 2	26.06
American Funds IS New World 2	29.44
Columbia VP Income Opportunities 2	6.20
Delaware VIP Small Cap Value Series Std	12.05
Delaware VIP Smid Cap Core Standard	18.65
Dreyfus IP Small Cap Stock Index Svc	12.40
Fidelity VIP Government Money Mkt	0.67
Fidelity VIP Index 500 Init	21.71
Fidelity VIP Overseas Initial	30.28
JPMorgan Insur Tr Mid Cap Value 1	13.76
PIMCO VIT Real Return Admin & Instl	3.66
PIMCO VIT Total Return Admin & Instl	4.92
T. Rowe Price Blue Chip Growth Port	36.17
Templeton Global Bond VIP 2	1.93

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Vanguard VIF Balanced	14.72
Vanguard VIF Equity Income	18.25
Vanguard VIF Mid-Cap Index	19.08
Vanguard VIF Small Co Gr	23.46
Vanguard VIF Total Bond Mkt Idx	3.48
Virtus Duff & Phelps Real Estate Securities Series I	6.25

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The following table shows contributions to the named executive officers deferred compensation accounts for fiscal year 2017 and the aggregate amount of deferred compensation as of December 31, 2017:

**NONQUALIFIED  
DEFERRED  
COMPENSATION**

<b>Name</b>	<b>Executive contributions in last FY (\$ (1))</b>	<b>Registrant contributions in last FY (\$ (1))</b>	<b>Aggregate earnings in last FY (\$ (2))</b>	<b>Aggregate withdrawals/distributions FYE (\$)</b>	<b>Aggregate balance at last FYE (\$)</b>
Michael Benstock	240,561		78,390		515,936
Andrew D. Demott, Jr.	70,785		10,040		94,011
Alan D. Schwartz	90,000		34,402		257,134
Peter Benstock	210,000		62,397		487,844
Dominic Leide	47,328		8,249		55,577
Jordan M. Alpert	10,000	6,000	8,027		51,727

(1) The amounts in the column are included in the Summary Compensation Table.

(2) The amounts in this column are not included in the Summary Compensation Table because they are not above-market or preferential earnings.



### **Potential Payments Upon Termination or Change in Control**

The Company has a severance protection agreement with each of Michael Benstock, Andrew D. Demott, Jr., and Peter Benstock. The agreements are substantively identical to one another. Each of these agreements requires the Company to make severance payments and provide severance benefits to the executive if the executive's employment is terminated within twenty-four (24) months following a "Change in Control".

"Change in Control" under the Company's severance protection agreements generally mean any of the following:

an acquisition of any voting securities of the Company by any person immediately after which such person has beneficial ownership of 20% or more of the combined voting power of the Company's then outstanding voting securities;

the individuals who as of the date of the severance protection agreement are members of the Board of Directors cease to constitute at least two-thirds of the members of the board, provided that (i) if the election, or nomination for election by the Company's common shareholders, of any new director was approved by a vote of at least two-thirds of the incumbent board, such new director shall be considered as a member of the incumbent board, and (ii) no individual shall be considered a member of the incumbent board if such individual initially assumed office as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the board or as a result of any agreement intended to avoid or settle any election or proxy contest; or approval by shareholders of the Company of:

a merger, consolidation or reorganization involving the Company, unless such transaction is a "Non-Control Transaction," which means a merger, consolidation or reorganization of the Company where:  
the shareholders of the Company, immediately before such merger, consolidation or reorganization, own immediately following such transaction at least two-thirds of the combined voting power of the outstanding voting securities of the corporation resulting from such transaction;

the individuals who were members of the incumbent board immediately prior to the execution of the agreement providing for such transaction constitute at least two-thirds of the members of the Board of Directors of the surviving corporation; and  
no person other than (i) the Company, (ii) any subsidiary of the Company, (iii) any employee benefit plan maintained by the Company, the surviving corporation or any subsidiary, or (iv) any person who, immediately prior to such merger, consolidation or reorganization, had beneficial ownership of 20% or more of the then outstanding voting securities has beneficial ownership of 20% or more of the combined voting power of the surviving corporation's then outstanding voting securities;  
o a complete liquidation or dissolution of the Company; or  
o an agreement for the sale lease, transfer, conveyance or other disposition of all or substantially all of the assets of the Company to any person (other than a transfer to a subsidiary).

For these purposes, a termination of employment is generally:

for "Cause" if the executive has been convicted of a felony or if the termination is evidenced by a resolution adopted in good faith by two-thirds of the Company's board that the executive (i) intentionally and continually failed substantially to perform his or her reasonably assigned duties for a period of at least 30 days after a written notice of demand for substantial performance has been delivered to the executive; or (ii) intentionally engaged in illegal conduct or gross misconduct which results in material economic harm to the Company; and  
for "Disability" if the executive experiences a physical or mental infirmity which impairs the executive's ability to substantially perform his duties with the Company for a period of one-hundred-eighty (180) consecutive days.

For these purposes, "Good Reason" generally means the occurrence of any one or more of the following events or conditions, without the executive's consent, after a Change in Control:

the assignment to the executive of any duties inconsistent with the executive's position, authority, duties or responsibilities;  
a reduction by the Company of the executive's base salary or an adverse change in the eligibility requirements or performance criteria under any bonus, incentive or compensation plan, program or arrangement which materially adversely affects the executive;  
any failure to pay the executive any compensation, payment or benefits to which the executive is entitled within five days of the date due;  
the Company's requiring the executive to be based anywhere other than within 25 miles of the executive's job location, except for reasonably required travel;  
the failure by the Company to continue in effect any pension, bonus, incentive, stock ownership, purchase, option, life insurance, health, accident, disability, or any other employee benefit plan, program or arrangement, in which the executive participates, or the taking of any action by the Company that would adversely affect the executive's participation or materially reduce the executive's benefits under any of such plans, without a substantially equivalent replacement;  
the failure of the Company to secure a successor's written agreement to perform the agreement; or

approval by the Company's shareholders of a complete liquidation or dissolution of the Company that does not adequately provide the funds needed to perform the agreement.

As required by Section 409A of the Internal Revenue Code, the named executive officers' agreements may be modified to be in compliance with payment timing and other relevant requirements.

Under these severance protection agreements, if, during the twenty-four (24) months following a "Change in Control," the executive terminates employment for "Good Reason" or for any reason during the 45-day period commencing 180 days after the occurrence of the Change in Control or if the Company terminates his employment other than for Cause, death or disability, then the executive will be entitled to receive the following payments, benefits and rights:

- (i) payment of all amounts earned or accrued through the date of termination, including, base salary, reimbursement for reasonable and necessary expenses incurred on behalf of the Company, vacation pay, bonuses and incentive compensation, and all other amounts that the executive is entitled to under any compensation plan of the Company;
- (ii) payment of a bonus which is calculated pro-rata based on the number of calendar days the executive was employed during the calendar year of his termination;
- (iii) payment of an amount equal to two years of base salary and two years of annual bonus

- (iv) for a period of two years, continuation on behalf of the executive, his dependents and beneficiaries of life insurance, short-term disability, medical, dental and hospitalization benefits;
- (v) payment of the excess retirement benefit the executive would have received had he remained employed for two additional years; and
- (vi) all of the executive's outstanding incentive awards shall become fully vested and, if applicable, fully exercisable.

Alternatively, if during the twenty-four (24) months following a "Change in Control", the executive's employment is terminated by the Company for Cause, death or disability, or by the executive for other than Good Reason or other than during the 45 day period commencing 180 days after the occurrence of a Change in Control, then the executive will be entitled to receive:

- (i) payment of all amounts earned or accrued through the date of termination, including, base salary, reimbursement for reasonable and necessary expenses incurred on behalf of the Company, vacation pay, bonuses and incentive compensation, and all other amounts that the executive is entitled to under any compensation plan of the Company; or
- (ii) if such termination is by the Company due to the executive's death or disability, payment of a bonus which is calculated pro-rata based on the number of calendar days the executive was employed during the calendar year of his termination.

The severance protection agreements also provide that if any payment or benefit to which an executive is entitled pursuant to the agreement gives rise to excise tax liability for, under Section 4999 of the IRC, a tax gross-up will be provided to executive by the Company so that the executive will receive the same after-tax payment as would have been the case if such payment or benefit were not subject to such excise tax.

The Compensation Committee has determined that the foregoing severance and change in control benefits are an important part of a competitive overall compensation arrangement for these named executive officers, are consistent with the objective of attracting, motivating and retaining highly talented executives and are important as a recruitment and retention device. The Compensation Committee also has concluded that change in control benefits help to secure the continued employment and dedication of these named executive officers, mitigate concern that they might have regarding their continued employment prior to or following a change in control and encourage independence and objectivity when considering possible transactions that may be in the best interests of the Company's shareholders but may possibly result in the termination of their employment.

The Compensation Committee has determined that the payment or provision of the foregoing severance and change in control benefits is consistent with competitive practices for positions at the level of these named executive officers. The potential amount of such benefits that an executive may receive in the event of a change in control did not influence the Compensation Committee's decisions regarding other compensation elements due to the fact that a change in control may never occur during the named executive officer's term of

employment.

The following table sets forth the amount each named executive officer would be due under a change in control if the executive's employment were terminated as of December 31, 2017 other than by the Company for cause or disability or death. The amounts payable for cause include only accrued compensation (1). The amounts for death or disability include only accrued compensation (1) and pro-rata bonus (2).

**Potential  
Payments  
Upon  
Change in  
Control**

<b>Name</b>	<b>Accrued</b>	<b>Pro-Rata</b>	<b>Cash Severance</b>	<b>Health and</b>	<b>Cash Retirement</b>	<b>Equity</b>
	<b>Compensation</b>	<b>Bonus</b>		<b>Welfare</b>	<b>Benefits</b>	<b>Awards</b>
	<b>(\$) (1)</b>	<b>(\$) (2)</b>	<b>(\$) (3)</b>	<b>Benefits</b>	<b>(\$) (5)</b>	<b>(\$) (6)</b>
				<b>(\$) (4)</b>		
Michael Benstock	792,834	-	2,621,112	39,480	882,839	629,581
Andrew D. Demott, Jr.	466,554	-	1,615,411	39,480	622,390	295,092
Alan D. Schwartz	-	-	-	-	-	-
Peter Benstock	28,900	-	715,375	34,441	-	841,365
Dominic Leide (7)	179,982	-	-	-	-	341,301
Jordan M. Alpert	187,247	-	-	-	-	-

(1) Amount includes all amounts earned or accrued through the termination date, including bonuses and incentive compensation (other than pro-rata bonus). There is no accrued salary or accrued vacation as of December 31, 2017 or any other amounts under any compensation plan.

(2) There is no pro-rata bonus as of December 31, 2017 as bonuses are earned on a calendar year basis. Bonuses earned for fiscal year 2017 are included in accrued compensation.

(3) Amount is equal to two times the sum of base salary plus bonus amount. The bonus amount is the average of the annual cash bonuses paid or payable during the three full years before the termination date.

(4) For a period of two years, continuation on behalf of the executive, his dependents and beneficiaries the life insurance, short-term disability, medical, dental and hospitalization benefits. The amounts represent the Company's portion of the benefit cost.

(5) The amount represents a cash payment of the excess retirement benefit the executive would have received had he remained employed for two additional years.

(6) Amounts represent the value of accelerated vesting of outstanding stock awards. There is no amount for options or stock appreciation rights as they vest upon issuance.

(7) There is no change in control agreement for Mr. Leide. However, under the 2013 Incentive Stock and Awards Plan, Mr. Leide will receive a pro-rata portion of his unvested performance shares issued on February 5, 2016 upon a change in control.

### **Pay Ratio Disclosure**

In August 2015, pursuant to a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd – Frank Act"), the Securities and Exchange Commission ("SEC") adopted a rule requiring annual disclosure of the ratio of the median employee's annual total compensation to the total annual compensation of the principal executive officer ( "PEO"). The Company's PEO is Mr. Michael Benstock, our chief executive officer.

To determine the median employee, we reviewed a list of all employees of the Company and its subsidiaries as of December 31, 2017 and examined total cash compensation actually paid to each such employees during 2017. We believe that the use of total cash compensation for all employees is a consistently applied compensation measure because we do not widely grant annual equity awards to employees. Cash compensation was annualized for those full- and part-time employees as of December 31, 2017 who were not employed for the full year. Conversion of foreign currency to U.S. dollars was performed by using the average of the monthly average exchange rates for the year as stated in generally-available published websites. The median employee was then selected from the list.

After identifying the median employee using total cash compensation, we calculated the annual total compensation for such employee using the same methodology we use for our named executive officers as set forth in the 2017 Summary Compensation Table in this proxy statement. The ratio of the annual total compensation of the Company's PEO to the median annual total compensation of all Company employees (excluding the PEO) is as follows:

Median employee's annual total compensation	\$9,640
Annual total compensation of Michael Benstock, our PEO	\$3,021,167
Ratio of Michael Benstock's annual total compensation to the median employee's annual total compensation	313 to 1

As of December 31, 2017, the Company and its subsidiaries employed 2,280 persons, of which 1,524 were based outside of the United States of America and 756 were based inside the United States of America. Using the same method of determining the median employee disclosed above, but limiting the employee pool to only U.S.-based employees, the ratio of the annual total compensation of the Company's PEO to the median annual total compensation of all U.S.-based employees (excluding the PEO) is as follows:

Median U.S.-based employee's annual total compensation	\$28,027
Annual total compensation of Michael Benstock, our PEO	\$3,021,167
Ratio of Michael Benstock's annual total compensation to the median U.S.-based employee's annual total compensation	108 to 1

**Director Compensation**

The following table sets forth information regarding the compensation received by each of the Company's directors during the year ended December 31, 2017, except for Michael Benstock, whose compensation is set forth in the Summary Compensation Table above.

**DIRECTOR  
COMPENSATION**

<b>Name</b>	<b>Fees Earned or Stock Paid in Cash (\$)</b>	<b>Awards (\$) (2)</b>	<b>Option Awards (\$) (1)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Sidney Kirschner	41,250	62,495	20,378	-	124,123
Robin Hensley	28,000	49,986	20,378	-	98,364
Paul Mellini	29,000	49,986	20,378	-	99,364
Todd Siegel	24,750	49,986	20,378	-	95,114

(1) Stock options for our non-employee directors are granted annually. On May 5, 2017, each of the non-employee directors was awarded 2,750 options. The options were granted with an exercise price of \$18.05 per share. The amount shown in this column is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. Refer to Note 12 – Share-Based Compensation in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017 for the relevant assumptions used to determine the valuation of our option awards. All such awards are granted with an exercise price equal to the closing price of the common stock on the date of grant as reported on NASDAQ, are exercisable six months from the date of grant, and generally expire ten years after the date of grant. As of December 31, 2017, Mr. Kirschner had 55,250 options outstanding; Ms. Hensley had 55,250 options outstanding; Mr. Mellini had 36,250 options outstanding; and Mr. Siegel had 15,250 options outstanding. All such options are exercisable.

(2) On November 1, 2017, the Board of Directors approved a restricted stock grant under the terms of the 2013 Stock and Awards Plan to the four independent members of the Board of Directors. Mr. Kirschner received 2,673 shares, and Ms. Hensley, Mr. Mellini, and Mr. Siegel each received 2,138 shares. The fair



value on the date of grant was \$23.38 per share. These shares are unvested and will vest if the directors are still serving on the Company's Board of Directors on November 1, 2020. The shares are subject to accelerated vesting under certain circumstances as outlined in the 2013 Stock and Awards Plan. In addition, on November 1, 2017, Mr. Kirschner received a restricted stock grant that is subject to acceleration upon Mr. Kirschner's retirement from or decision to not seek re-election to the Company's Board of Directors, if such retirement or decision occurred at least one (1) year after the grant date.

All share and per share information in the footnotes to the above table has been adjusted to give retroactive effect to the 2-for-1 stock split effective on February 4, 2015.

Directors who are employees of the Company receive no extra compensation for their services as directors. Commencing as of February 7, 2014, each non-employee director receives up to \$2,000 per Board of Directors meeting attended, and grants of 2,750 stock options per year. In addition each non-employee director receives the following per year in restricted common stock of the Company which vests three years after date of grant: Mr. Kirschner - \$62,500 and Ms. Hensley, Mr. Mellini, and Mr. Siegel - \$50,000. Commencing as of February 7, 2014, each non-employee Director also receives an annual retainer (paid in quarterly installments) as follows: Sidney Kirschner - \$30,000; Robin Hensley - \$18,000; Paul Mellini - \$17,000; and Todd Siegel - \$12,000. Commencing as of November 4, 2016, Todd Siegel's annual retainer was increased to \$15,000. In addition, members of the Audit Committee receive \$500 per committee meeting attended, members of the Compensation Committee receive \$250 per committee meeting attended, members of the Corporate Governance, Nominating and Ethics Committee receive \$250 per committee meeting attended, and members of the Capital Committee receive \$250 per committee meeting attended. Non-employee directors are entitled to reimbursement for expenses incurred in connection with their attendance at Board of Directors meetings and committee meetings. In addition, non-employee directors are eligible to receive additional stock option grants pursuant to our 2013 Incentive Stock and Awards Plan.

Mr. Schwartz retired from the Company on March 31, 2017. In connection with his retirement, the Company entered into a Retirement and Consulting Agreement with Mr. Schwartz, effective March 8, 2017. Under the agreement, Mr. Schwartz performs consulting services for the Company for up to three years after his retirement. The Company pays Mr. Schwartz a monthly fee of \$43,028 for the first year, \$30,983 for the second year, and \$20,746 for the third year. Mr. Schwartz also was afforded certain other benefits as stated in the agreement, the fair value of which is approximately \$10,000 per year. The agreement is subject to early termination by either party. The agreement stipulates that Mr. Schwartz will not be treated as a non-employee director under the Company's compensation plans, policies and practices for any period of his service after his retirement date, and as such, will receive no compensation for his service as a director.

## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement and, based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

BY: Sidney Kirschner and Paul Mellini

## **SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS**

The following table sets forth, as of the Record Date (except as noted), information regarding the beneficial ownership of the Company's Common Stock by (i) each person known to the Company to be the beneficial owner of more than 5% of the Company's Common Stock, (ii) each Director, (iii) each nominee for election as a Director, (iv) each named executive officer, and (v) all Directors and executive officers as a group.

Except as set forth below, percentage ownership is based on 15,135,491 shares of the Company's Common Stock issued and outstanding as of the Record Date. Shares issuable upon exercise of options and SARs within 60 days after the Record Date are deemed to be outstanding for the purpose of computing the percentage ownership and overall voting power of each person deemed to beneficially own such securities, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. All share and per share information in the footnotes to the table has been adjusted to give retroactive effect to the 2-for-1 stock split effective on February 4, 2015.

**SECURITY OWNERSHIP**

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
BENSTOCK-SUPERIOR LTD. 10055 Seminole Boulevard Seminole, Florida 33772	2,782,088 (2)	18.4%
MOHELLE A. STETTNER 2331 Lehigh Parkway N. Allentown, PA 18130	1,238,648 (6)	8.2%
DIMENSIONAL FUND ADVISORS, LP 6300 Bee Cave Road Austin, TX 78746	1,097,104 (5)	7.2%
MICHAEL BENSTOCK 10055 Seminole Boulevard Seminole, Florida 33772	674,755 (3)(7)(8)(9)(10)	4.5%
ALAN D. SCHWARTZ 10055 Seminole Boulevard Seminole, Florida 33772	516,508 (4)(7)	3.4%
PETER BENSTOCK 10055 Seminole Boulevard Seminole, Florida 33772	419,639 (7)	2.8%
ANDREW D. DEMOTT, JR. 10055 Seminole Boulevard Seminole, Florida 33772	225,375 (7)(8)(9)(10)	1.5%
SIDNEY KIRSCHNER 10055 Seminole Boulevard Seminole, Florida 33772	87,304 (7)(11)(12)(13)(14)	0.6%
PAUL MELLINI 10055 Seminole Boulevard Seminole, Florida 33772	80,152 (7)(11)(12)(13)(14)	0.5%
ROBIN HENSLEY 10055 Seminole Boulevard Seminole, Florida 33772	75,157 (7)(11)(12)(13)(14)	0.5%
DOMINIC LEIDE 10055 Seminole Boulevard Seminole, Florida 33772	63,628 (7)	0.4%
TODD SIEGEL 10055 Seminole Boulevard	36,057 (7)(11)(12)(13)(14)	0.2%

Seminole, Florida 33772

JORDAN ALPERT 10055 Seminole Boulevard Seminole, Florida 33772	65,951	(7)	0.4%
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All Directors and Executive Officers as a group (10 persons)	5,026,614	(2)(3)(4)(7)(8)(9)(10)(11)(12)(13)(14)	33.2%
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(1) The number of shares beneficially owned is determined under rules promulgated by the Securities and Exchange Commission (the "SEC"), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after the Record Date through the exercise of any stock option or other right. Inclusion in the table of such shares, however, does not constitute an admission that the director, nominee, named executive officer or principal stockholder is a direct or indirect beneficial owner of such shares. Except as set forth herein, the persons listed have sole voting and investment power with respect to the shares referred to in the table.

(2) Represents shares held of record by Benstock-Superior Ltd., a Florida limited partnership ("Reporting Person"). The general partners of the Reporting Person are Susan B. Schwartz, the wife of our President, Michael Benstock and Peter Benstock (the "General Partners"). The General Partners of the Reporting Person each own three hundred thirty-three and one-third ( $333 \frac{1}{3}$ ) of the one thousand (1,000) total outstanding general partnership units. The voting and disposition of the Company's Common Stock owned by the Reporting Person requires approval of a majority of the general partnership units pursuant to the limited partnership agreement of the Reporting Person. Accordingly, each General Partner disclaims individual beneficial ownership of the shares of the Company's Common Stock owned by the Reporting Person.

(3) Includes 22,600 shares held of record by Mr. M. Benstock's wife. Mr. Benstock disclaims beneficial ownership of such shares.

(4) Includes 244,928 shares held of record by a revocable trust of which the trustee is Mr. Schwartz's wife. Mr. Schwartz disclaims beneficial ownership of such shares. The remaining shares are held of record by a revocable trust of which the trustee is Mr. Schwartz.

(5) This disclosure is based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 9, 2017. Dimensional Fund Advisors LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the “Funds”). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment adviser, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, “Dimensional”) may possess voting and/or investment power over the securities of the Company that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of the Company held by the Funds. However, all securities reported in this schedule are owned of record by the Funds. Dimensional disclaims beneficial ownership of such securities.

(6) Includes 10,288 shares owned by a Trust of which Mrs. Stettner is a Co-Trustee with two of her adult children, and 1,824 shares held as custodian for her children who are now adults. Mrs. Stettner disclaims beneficial ownership of all of these shares.

(7) The share ownership of the following individuals includes that number of shares underlying option and SARs awards following his or her name, which are currently exercisable or are exercisable within 60 days of the Record Date, pursuant to the Company’s 2013 and 2003 Incentive and Stock and Awards Plans: Mr. M. Benstock – 76,786 shares; Mr. Schwartz – 8,241 shares; Mr. P. Benstock – 51,986 shares; Mr. Demott – 53,100 shares; Mr. Kirschner – 55,250 shares; Ms. Hensley – 55,250 shares; Mr. Mellini – 36,250 shares; Mr. Siegel – 15,250 shares; Mr. Leide – 47,986 shares; and Mr. Alpert – 47,986 shares.

(8) Mr. M. Benstock has pledged approximately 68,000 of the shares listed in the table as security for a loan. Mr. Demott has pledged 47,983 of the shares listed in the table as security for a loan.

(9) Includes unvested restricted shares granted on February 3, 2017. These shares will vest on February 3, 2020 if the respective executive is still employed by the Company. The executives have the ability to vote these shares currently. Mr. M. Benstock has 23,571 shares and Mr. Demott has 11,048 shares.

(10) Includes unvested restricted shares granted on November 7, 2014. These shares will vest on November 7, 2017 if the respective director is still serving on the Board of Directors of the Company. The directors have the ability to vote these shares currently. Each director has 1,504 shares.

(11) Includes unvested restricted shares granted on November 6, 2015. These shares will vest on November 6, 2018 if the respective director is still serving on the Board of Directors of the Company. The directors have the ability to vote these shares currently. Each director has 1,819 shares.

(12) Includes unvested restricted shares granted on November 4, 2016. These shares will vest on November 4, 2019 if the respective director is still serving on the Board of Directors of the Company. The directors have the ability to vote these shares currently. Mr. Kirschner – 3,058 shares; Ms. Hensley – 2,446 shares; Mr. Mellini – 2,446 shares; Mr. Siegel – 2,446 shares.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who beneficially own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten percent beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it and written representations from certain reporting persons, the Company believes that, during its most recently completed fiscal year ended on December 31, 2017, all Section 16(a) reports required to be filed by its officers, directors, and greater than ten percent beneficial owners were timely filed, except for the following: Sidney Kirschner, Robin M. Hensley, Paul Mellini and Todd Siegel (one late Form 4 each reporting one transaction).

## **CERTAIN TRANSACTIONS**

### **Director and Officer Liability Insurance**

As authorized by Section 607.0850(12) of the Florida Business Corporation Act, the Company maintains insurance to indemnify it and its Directors and officers from certain liabilities to the extent permitted by law. Such insurance, in the face amount of \$12,000,000, was obtained pursuant to contracts dated August 27, 2017. Under the terms of the contract, the Company paid an annual premium of \$89,700 for the insurance. During 2016, such insurance, in the face amount of \$12,000,000, was obtained pursuant to contracts dated August 27, 2016. Under the terms of the contracts, the Company paid an annual premium of \$89,700 for the insurance. No sums have been paid or sought under any such indemnification insurance.

### **Related Party Transactions**

Our Board of Directors has adopted a written Related Party Transactions Policy, which applies to our directors and officers. This policy requires disclosure to either the Company's general counsel or chief financial officer, and review by either the Audit Committee or the Board of the material terms of any related party transaction, including the approximate dollar value of the amount involved in the transaction, and all the material facts as to the related party's direct or indirect interest in, or relationship to, the related party transaction. The transaction(s) below were reviewed under our Related Party Transactions Policy.

On December 17, 2012, the Company and its Chairman Emeritus, Mr. Gerald M. Benstock, entered into a separation, general release, non-compete, and advisory services agreement which contained a three-year term. During each of 2015, 2016, and 2017, the agreement was extended for one additional year each. The agreement is subject to early termination by either party. During each year of the term, Mr. Benstock will receive \$150,000, plus payments for, or reimbursements of, certain pre-approved travel, lodging, entertainment, and business expenses. Under the agreement, Mr. Benstock also will retain access to an automobile leased for him by the Company for the remainder of the automobile's term, and at the Company's discretion thereafter for the remainder of the term of the agreement. During 2017, 2016, and 2015, Mr. Benstock also received additional consulting fees of \$50,000, \$50,000, and \$50,000, respectively, for consulting services related to discrete Company projects.

On March 8, 2017, the Company and one of its directors (who, at the time, held the position of President of the Company), Alan D. Schwartz, entered into a Retirement and Consulting Agreement, which would compensate Mr. Schwartz for consulting services performed for up to three years after his retirement from the Company. The Company pays Mr. Schwartz a monthly fee of \$43,028 for the first year, \$30,983 for the



second year, and \$20,746 for the third year. Mr. Schwartz also was afforded certain other benefits as stated in the agreement, the fair value of which is approximately \$10,000 per year. The agreement is subject to early termination by either party. For a complete description of the terms and conditions of the agreement, please refer to the agreement, which was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 13, 2017 (File/Film No.: 001-05869/17685080).

## **REPORT OF THE AUDIT COMMITTEE<sup>1</sup>**

The Company's Audit Committee serves to assist the Board in fulfilling the Board's responsibilities relating to safeguarding of assets and oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company. The members of the Audit Committee meet the independence and experience requirements of NASDAQ and the Securities and Exchange Commission.

The Company's management has primary responsibility for the preparation, presentation and integrity of the Company's financial statements and its financial reporting process. The Company's independent registered public accounting firm, Mayer Hoffman McCann P.C., is responsible for expressing an opinion on the conformity of the Company's audited financial statements to accounting principles generally accepted in the United States of America. The Audit Committee's responsibility is to monitor and oversee these processes. In connection with these responsibilities, the Audit Committee reports as follows:

1. The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2017 with the Company's management.
2. The Audit Committee has discussed with Mayer Hoffman McCann P.C. the matters required to be discussed by the statement on Auditing Standards No. 16, as adopted by the Public Company Accounting Oversight Board.
3. The Audit Committee has received the written disclosures and the letter from Mayer Hoffman McCann P.C. required by applicable requirements of the Public Company Accounting Oversight Board regarding Mayer Hoffman McCann P.C.'s communications with the Audit Committee concerning independence, and has discussed with Mayer Hoffman McCann P.C. its independence.
4. Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for filing with the Securities and Exchange Commission.

BY: Robin Hensley, Sidney Kirschner, and Paul Mellini

<sup>1</sup> The material in this report is not “soliciting material” and is not deemed “filed” with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

**AMENDMENT TO AMENDED AND RESTATED ARTICLES OF INCORPORATION TO CHANGE COMPANY NAME**

**(Proposal 2)**

The Company's shareholders are being asked to consider and, if thought advisable, to approve an amendment to the Company's Amended and Restated Articles of Incorporation changing the Company's name from Superior Uniform Group, Inc. to Superior Group of Companies, Inc., and to authorize the Company to take all steps necessary to effectuate this change, including amending the Company's Amended and Restated Articles of Incorporation by filing Articles of Amendment with the Florida Department of State substantially in the form attached as Annex A to this proxy statement ("Articles of Amendment"). The Board of Directors unanimously adopted resolutions approving the amendment on March 5, 2018. The Company adopted its current name in 1998, at a time when the products and services it provided related almost exclusively to uniforms and related apparel. Since then, the Company has expanded its products and services to include remote staffing solutions and promotional products. In fact, the Company recently updated its reportable operating segments to reflect these developments. The three (3) current segments on which the Company reports are: Uniforms and Related Products, Remote Staffing Solutions, and Promotional Products. The name "Superior Group of Companies, Inc." more accurately describes the Company's current breadth of activities and how they interrelate, and aligns with the future strategic direction of the Company.

The Company will retain its NASDAQ stock symbol of "SGC". Shareholders will not be required to exchange outstanding stock certificates for new stock certificates if the name change is effected.

If the amendment to the Company's Amended and Restated Articles of Incorporation is approved by the shareholders, the name change is expected to become effective soon thereafter upon filing of the Articles of Amendment with the Florida Department of State.

**The Board of Directors recommends a vote "FOR" the proposal to amend the Company's Amended and Restated Articles of Incorporation to change the Company's name from Superior Uniform Group, Inc. to Superior Group of Companies, Inc.**

### **RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Proposal 3)**

Although the Audit Committee has the sole authority to appoint the Company's independent registered public accounting firm, the Audit Committee continues its long-standing practice of recommending that the Board ask the shareholders, at the Annual Meeting, to ratify the appointment of the independent registered public accounting firm. The Audit Committee has appointed Mayer Hoffman McCann P.C., independent registered public accounting firm, to audit the financial statements of the Company for the year ending December 31, 2018.

Shareholder ratification of the Company's independent registered public accounting firm is not required by the Company's Bylaws or otherwise. The Audit Committee and the Board of Directors have elected to seek such ratification as a matter of good corporate practice. If the shareholders do not ratify this appointment, the Audit Committee will consider the appointment of other auditors, but may also decide to retain Mayer Hoffman McCann P.C. as independent registered public accounting firm for 2018. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

The Company expects representatives of Mayer Hoffman McCann P.C. to be present and available to respond to appropriate questions at the 2018 Annual Meeting. Representatives of Mayer Hoffman McCann P.C. will have the opportunity to make a statement if they so desire.

#### **Audit Fees and All Other Fees**

The following table sets forth information regarding fees paid by the Company to Mayer Hoffman McCann P.C. during 2017 and 2016:

<b>Mayer Hoffman McCann, P.C. and CBIZ, Inc.</b>	2017	2016
Audit Fees (1)	\$306,000	\$250,000
Tax Fees	26,150	7,900
All Other Fees	-	-
Audit-Related Fees (Audit of Internal Controls)	45,000-	39,000
Total Fees	\$377,150	\$296,900

(1) Fees for audit services include fees associated with the annual audits and quarterly reviews in 2017 and 2016. Tax Fees were billed for services including assistance with tax compliance and the review and/or preparation of tax returns, a transfer pricing study and tax consultation services. Audit-Related fees are related to the audit of the Company's internal control over financial reporting.

#### **Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

The Audit Committee has concluded that Mayer Hoffman McCann P.C.'s provision of the audit and non-audit services described above is compatible with maintaining Mayer Hoffman McCann P.C.'s independence. The Audit Committee pre-approved all of such services. The Audit Committee has established pre-approval policies and procedures with respect to audit and non-audit services to be provided by its independent auditors. Pursuant to these policies and procedures, the Audit Committee may form, and delegate authority to, subcommittees consisting of one or more members when appropriate to grant such pre-approvals, provided that decisions of such subcommittee to grant pre-approvals are presented to the full Audit Committee at its next scheduled meeting. The Audit Committee's pre-approval policies do not permit the delegation of the Audit Committee's responsibilities to management.

#### **Compensation of Independent Auditors' Employees**

Mayer Hoffman McCann P.C. leases substantially all of its personnel, who work under the control of Mayer Hoffman McCann P.C. shareholders, from wholly-owned subsidiaries of CBIZ, Inc., in an alternative practice structure. As such, approximately 100% of the hours spent on the audit were by personnel who are not full time, permanent employees of Mayer Hoffman McCann P.C.

**The Board of Directors recommends a vote "FOR" the proposal to ratify the appointment of Mayer Hoffman McCann P.C. as our independent registered public accounting firm for the year ending December 31, 2018.**

## **EXPENSES OF SOLICITATION**

The cost of soliciting proxies will be borne by the Company. Proxies may be solicited on behalf of the Company by directors, officers or employees of the Company, who will receive no additional compensation for soliciting, in person or by telephone, e-mail or facsimile or other electronic means. We may reimburse brokers and other persons holding stock in their names, or in the names of nominees, for their expenses for sending proxy materials to principals and obtaining their proxies.

## **ANNUAL REPORT ON FORM 10-K**

We will provide without charge to each person solicited by this proxy statement, upon the written request of any such person, a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission, including the financial statements and a list of exhibits to the Form 10-K. We will furnish to any such person any exhibit described in the list accompanying the Form 10-K upon the advance payment of reasonable fees. Requests for copies of the Form 10-K and/or any exhibits should be directed to Melinda Barreiro, c/o Superior Uniform Group, Inc., 10055 Seminole Boulevard, Seminole, Florida 33772. Your request must contain a representation that, as of February 28, 2018, you were a beneficial owner of shares entitled to vote at the 2018 Annual Meeting of Shareholders.

You may review our filings with the Securities and Exchange Commission by visiting our website at [www.superioruniformgroup.com](http://www.superioruniformgroup.com).

## **OTHER BUSINESS**

Management of the Company does not know of any other business that may be presented at the Meeting. If any matter not described herein should be presented for shareholder action at the Meeting, the persons named in the enclosed Proxy will vote or refrain from voting the shares represented thereby in accordance with their best judgment on such matters after consultation with the Board of Directors.

**SHAREHOLDER PROPOSALS FOR**

**PRESENTATION AT THE 2019**

**ANNUAL MEETING**

In order for proposals of shareholders and shareholder nominations for directors to be eligible for inclusion in our proxy materials relating to the annual meeting of shareholders in 2019 pursuant to SEC Rule 14a-8, they must be submitted in writing to the Company's Secretary and received by the Company at the Company's executive offices at 10055 Seminole Boulevard, Seminole, Florida 33772 by November \_\_, 2018 (unless the date of the 2019 annual meeting is not within 30 days of May 3, 2019, in which case the deadline will be a reasonable time before we begin to print and send the proxy materials for the 2019 annual meeting).

Our Bylaws govern the submission of nominations for director or other business proposals that a shareholder wishes to have considered at a meeting of shareholders, but which are not included in our proxy materials for such meeting. Under the advance notice provisions of our Bylaws, nominations for director or other business proposals to be addressed at our next annual meeting may be made by a shareholder entitled to vote who has delivered a notice to the Company at the foregoing address between December 4, 2018 and January 3, 2019 (unless the date of the 2019 annual meeting is not within 25 days of May 3, 2019, in which case such notice must be received by the Company not later than the close of business on the tenth day following the date on which notice of the 2019 annual meeting is first mailed or made publically known). The procedure for nominating directors is described above under "Director Committees and Meetings – Nomination of Directors." The proxy solicited by the Board for the 2019 annual meeting will confer discretionary authority to vote on behalf of the persons named in such proxy on any shareholder proposal as to which the Company does not receive timely notice pursuant to the advance notice provisions of our Bylaws described above.

All shareholder proposals for inclusion in the Company's proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any shareholder proposal (regardless of whether it is included in the Company's proxy materials), the Company's Amended and Restated Articles of Incorporation, the Company's Amended and Restated Bylaws and Florida law.

By Order of the Board of Directors

/s/ Jordan M. Alpert

JORDAN M. ALPERT

Secretary

Dated: March \_\_, 2018

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**ANNEX A**

**ARTICLES OF AMENDMENT**

**TO**

**AMENDED AND RESTATED ARTICLES OF INCORPORATION**

**OF**

**SUPERIOR UNIFORM GROUP, INC.**

Superior Uniform Group, Inc., a Florida corporation (the “**Corporation**”), in order to amend its Amended and Restated Articles of Incorporation in accordance with Section 607.1003 of the Florida Business Corporation Act (the “**Act**”), does hereby deliver the following Articles of Amendment in accordance with Section 607.1006 of the Act:

**FIRST:** The name of the Corporation is Superior Uniform Group, Inc.

**SECOND:** These Articles of Amendment contain an amendment (“**Amendment**”) to the Corporation’s Amended and Restated Articles of Incorporation, as originally filed on April 21, 1998 (the “**Amended and Restated Articles of Incorporation**”).

**THIRD:** The Amended and Restated Articles of Incorporation are hereby amended as follows:

(a) Section 1 of the Amended and Restated Articles of Incorporation is deleted in its entirety and replaced with:

“1. Name. The name of the corporation is Superior Group of Companies, Inc. (the “Corporation”).”

**FOURTH:** This Amendment was adopted by the Corporation's Board of Directors by unanimous consent on March 5, 2018 and by the shareholders at their annual meeting on May 3, 2018. The number of votes cast for this Amendment by the shareholders was sufficient for approval.

**EXECUTED:** \_\_\_\_\_, 2018

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**SUPERIOR UNIFORM GROUP, INC.**

**10055 Seminole Boulevard, P.O. Box 4002, Seminole, FL 33775-0002**

**THIS PROXY IS BEING SOLICITED BY THE BOARD OF DIRECTORS**

**FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 3, 2018**

The undersigned shareholder appoints MICHAEL BENSTOCK and ANDREW D. DEMOTT, JR., or any one of them, as proxies with full power of substitution and resubstitution, to vote the shares of capital stock of the Company that the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held at the Georgia offices of the Company on May 3, 2018 at Noon, local time, and at any adjournments thereof, upon matters properly coming before the meeting, as set forth in the Notice of Annual Meeting included herewith, unless otherwise specified.

**THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTED, OR IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED FOR THE PROPOSALS INDICATED ON THIS CARD. The proxies, in their discretion, are further authorized to vote (x) for the election of a person to the Board of Directors, if any nominee named herein becomes unable to serve or for good cause will not serve, (y) on any matter which the Board of Directors did not know would be presented at the 2018 Annual Meeting of Shareholders by January 6, 2018, and (z) on other matters which may properly come before the 2018 Annual Meeting of Shareholders and any adjournments or postponements thereof.**

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

**Continued and to be signed on reverse side**

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**PLEASE DETACH ALONG PERFORATED LINE AND MAIL IN THE ENVELOPE PROVIDED.**

**TO VOTE, MARK BLOCKS IN BLUE OR BLACK INK AS FOLLOWS:      KEEP THIS PORTION FOR YOUR RECORDS**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held May 3, 2018. The Proxy Statement and our 2017 Annual Report on Form 10-K are available at: <http://www.viewproxy.com/superioruniformgroup/2018>.**

**The Board of Directors recommends you vote FOR the following proposal:**

1. To elect six Directors to hold office until the next annual meeting of shareholders and until their respective successors are duly elected or appointed and qualified; and

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>		<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>	
01 Sidney Kirschner.				03 Alan D. Schwartz.				05 Paul Mellini.
02 Michael Benstock.				04 Robin Hensley.				06 Todd Siegel.

**The Board of Directors recommends you vote FOR the following proposal:**

**Please sign, date and return promptly in the enclosed envelope.**

2. To approve an amendment to the Company’s Amended and Restated Articles of Incorporation to change its name to “Superior Group of Companies, Inc.”; and

Date \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**FOR    AGAINST    ABSTAIN**

Signature \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**The Board of Directors recommends you vote FOR the following proposal:**

3. To ratify the appointment of Mayer Hoffman McCann P.C. as independent auditors for the fiscal year ending December 31, 2018; and

Signature \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**FOR    AGAINST    ABSTAIN**

(Joint Owners)

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All

holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Address Change/Comments: (If you noted any Address Changes and/or Comments above, please mark box.) Please indicate if you plan to attend this meeting

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**PLEASE DETACH ALONG PERFORATED LINE AND MAIL IN THE ENVELOPE PROVIDED.**

**PROXY VOTING INSTRUCTIONS**

Please have your 11 digit control number ready when voting by Internet or Telephone