

MFIC CORP
Form DEF 14A
April 30, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

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

MFIC CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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 - (2) Aggregate number of securities to which transaction applies:
 - (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):
 - (4) Proposed maximum aggregate value of transaction:
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 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

MFIC CORPORATION
30 Ossipee Road
Newton, Massachusetts 02464-9101

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Our Stockholders:

The 2007 Annual Meeting of Stockholders of MFIC Corporation, a Delaware corporation (the Company), will be held on Thursday, June 21, 2007 at 10:00 a.m., local time, at the offices of the Company located at 30 Ossipee Road, Newton, Massachusetts, for the following purposes:

1) To elect a Board of Directors to serve for the ensuing year and until their respective successors have been duly elected and qualified.

The nominees the Board of Directors proposes to present for election are:

Irwin J. Gruverman	Leo Pierre Roy
James N. Little	George Uveges
	Eric G. Walters

2) To ratify the appointment of the firm of UHY LLP as independent auditors for the Company for the fiscal year ending December 31, 2007.

3) To transact such other business as may properly come before the meeting and any adjournments thereof.

Only stockholders of record on the transfer books of the Company at the close of business on April 26, 2007 are entitled to notice of, and to vote at, the meeting.

Please sign, date and return the enclosed proxy in the enclosed envelope at your earliest convenience. If you return your proxy, you may nevertheless attend the meeting and vote your shares in person.

All stockholders are cordially invited to attend the meeting.

By Order of the Board of Directors
/s/ James N. Little
James N. Little
Acting Chairman of the Board of Directors

Newton, Massachusetts
April 30, 2007

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED WITHIN THE UNITED STATES.

This proxy statement and the form of proxy enclosed with this proxy statement is intended to be first mailed to stockholders on or about May 14, 2007.

PROXY STATEMENT

**MEETING OF STOCKHOLDERS
OF MFIC CORPORATION
TO BE HELD ON
June 21, 2007**

Proxies in the form enclosed with this proxy statement are being solicited by the Board of Directors of MFIC Corporation, a Delaware corporation (the Company), for use at the Annual Meeting of Stockholders to be held on Thursday, June 21, 2007, at 10:00 a.m., local time, at the offices of the Company located at 30 Ossipee Road, Newton, Massachusetts 02464 and at any adjournments thereof (the Meeting).

Only stockholders of record as of the close of business on April 26, 2007 will be entitled to notice of and to vote at the Meeting. As of that date, 10,173,746 shares of common stock, par value \$.01 per share (the Common Stock), of the Company were issued and outstanding and entitled to vote at the Meeting. The shares of Common Stock are the only outstanding voting securities of the Company. Stockholders are entitled to cast one vote for each share held of record.

An Annual Report to Stockholders, containing financial statements for the fiscal year ended December 31, 2006, is being mailed together with this proxy statement to all stockholders entitled to vote. This proxy statement and the form of proxy enclosed with this proxy statement is intended to be first mailed to stockholders on or about May 14, 2007.

All properly executed proxies returned in time to be counted at the Meeting will be voted as stated below under Voting Procedures. Any stockholder giving a proxy has the right to withhold authority to vote for any individual nominee to the Board of Directors by writing that nominee's name in the space provided on the proxy.

Stockholders should return properly executed proxies to the address on the proxy cards. Execution of a proxy will not in any way affect a stockholder's right to attend the Meeting and vote in person. A stockholder may revoke a proxy at any time before it is voted at the Meeting by notifying the Secretary of the Company in writing at the address set forth above, by submitting a properly executed proxy bearing a later date, or by revoking the proxy at the Meeting. Attendance at the Meeting will not by itself constitute the revocation of a proxy.

In addition to the election of directors, the stockholders will consider a vote to ratify the Board of Directors' selection of the Company's auditors (as recommended by the Company's Audit Committee), each as further described in this proxy statement. Where a choice has been specified on the proxy with respect to these matters, the shares represented by the proxy will be voted in accordance with the specification and will be voted FOR these matters if no specification is indicated.

The Board of Directors of the Company knows of no other matters to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board of Directors will be voted with respect thereto in accordance with the judgment of the persons named as attorneys in the proxies.

PROPOSAL 1

ELECTION OF DIRECTORS

Each director of the Company is elected annually and holds office for the ensuing year and until his successor has been elected and qualified. The Company's By-laws state that the number of directors constituting the entire Board of Directors shall be determined by resolution of the Board of Directors. The Board of Directors has set the number of directors at five effective as of June 21, 2007.

Shares represented by all proxies received by the Board of Directors and not marked as withholding authority to vote for any individual director or for all directors will be voted FOR the election of all the nominees, unless one or more nominees is unable or unwilling to serve. The Board of Directors knows of no reason why any such nominee would be unable or unwilling to serve as a director, but if such should be the case, proxies may be voted for the election of some other person as the Board of Directors may recommend in his place, or for fixing the number of directors at a lesser number. The affirmative vote of a majority of the shares present, in person or by proxy, and entitled to vote on the election of directors is required to elect each member of the Board of Directors. See Voting Procedures.

THE BOARD OF DIRECTORS RECOMMENDS THE ELECTION OF MR. GRUVERMAN, MR. LITTLE, MR. ROY, MR. UVEGES AND MR. WALTERS AS DIRECTORS, AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

Directors and Executive Officers

Each director of the Company is elected annually and holds office for the ensuing year and until his successor has been elected and qualified. The names of the Company's other current directors and named executive officers, and certain information about them are set forth below:

Name	Age	Title
Irwin J. Gruverman	73	Director, Chairman Emeritus
Robert P. Bruno	69	President and Chief Operating Officer
Jack M. Swig	58	Vice President Corporate Development and General Counsel
Dennis P. Riordan	60	Controller
James N. Little	66	Acting Chairman of the Board
Leo Pierre Roy	49	Director
George Uveges	59	Director
Eric G. Walters	54	Director

IRWIN J. GRUVERMAN served as the Chief Executive Officer, Chairman of the Board of Directors, Treasurer and Secretary of the Company since its inception in 1983 until April 6, 2007. On that date, Mr. Gruverman submitted his resignation from those positions at the Company. From the Company's inception in 1983 to June 1993, and from November 21, 2000 until May 17, 2001, Mr. Gruverman served as its President. Mr. Gruverman is a director of InVitro International, a publicly held provider of toxicity test kits and of MicroChem Corporation, a privately held manufacturer of chemicals for electronic manufacturing applications.

ROBERT P. BRUNO joined the Company on April 8, 1996 as Vice President of Sales/Marketing. He served in that capacity until October 2000. Mr. Bruno was appointed as Chief Operating Officer on

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November 30, 2000. Mr. Bruno was appointed as President on May 17, 2001 with such appointment becoming effective on May 21, 2001.

JACK M. SWIG joined the Company as a full time employee in January 1996 and was appointed in January 1999 as the Vice President Corporate Development and General Counsel. He has served as the Company's General Counsel and Investor Relations Manager since 1993. Mr. Swig has more than 25 years venture capital, corporate finance and merchant/investment banking experience.

DENNIS P. RIORDAN joined the Company on February 12, 1996 as the Controller and has worked for the Company full-time in that capacity since joining the Company. Mr. Riordan previously served as Controller Residential Group for Winthrop Management from May 1989 to May 1994. From June 1986 to May 1989, he served in various positions as an assistant controller at Krupp Management, a real estate concern. Prior to that, Mr. Riordan spent twelve years in public accounting, primarily as an audit manager.

JAMES N. LITTLE has served as a director of the Company since December 1995 and was appointed Acting Chairman of the Board on April 6, 2007. From December 2005 until August, 2006, Dr. Little served as Senior Vice President of Cetek Corporation, a position he also held from August 1998 until December 2001. From December 2001 until December 2005, he served as the President of Cetek, which is a biotechnology drug discovery company. Dr. Little currently provides private consulting services. From 1981 to August 1998, Dr. Little served as a Senior Vice President of Sales, Marketing and Business Development for Zymark Corporation (which was later acquired by Caliper Life Sciences), a manufacturer of scientific instrumentation. Prior to Zymark, Dr. Little was Senior Vice President of Waters Corp., a publicly held supplier of scientific instruments. Dr. Little serves on the Company's Compensation, Audit and Nominating and Corporate Governance Committees.

LEO PIERRE ROY has served as a director of the Company since June 2000. Mr. Roy has more than 25 years of experience as a senior manager and consultant. Mr. Roy currently serves as director of environmental and energy services at Vanasse Hangen & Brustlin, Inc. (VHB), an engineering firm providing transportation, land development, and environmental services. Prior to joining VHB in September 2003, Mr. Roy was the Vice President and Chief Operating Officer of The Bioengineering Group, Inc., a firm engaged in consulting in the areas of erosion control, water quality, ecological restoration and bioengineering from September 2000 to September 2003. Between 1998 and 2000 he served as the President of Houqua & Company, Inc., a consulting firm specializing in strategic planning and development services. From 1997 to 1998, Mr. Roy served as President and Chief Operating Officer of Energy Answers Corporation, a designer, developer and owner of resource recovery, power, recycling and solid waste management companies. From 1992 to 1996, Mr. Roy served first as Director of Waste Policy and Planning and later as Undersecretary of the Executive Office of Environmental Affairs for the Commonwealth of Massachusetts. From 1990 to 1991, Mr. Roy was the Regional Manager of Special Projects for Waste Management, Inc. From 1985 to 1989, he was the Vice President and Chief Operating Officer of Orne Enterprises, a venture capital, environmental technology holding company. Mr. Roy is the Chairman of the Company's Compensation Committee and serves on the Company's Audit and Nominating and Corporate Governance Committees.

GEORGE UVEGES has served as a director of the Company since November 2005. Mr. Uveges is the founder and principal in the Tallwood Group, an angel investing firm that provides financial and management advisory services in addition to investment capital. Mr. Uveges has been a member of the adjunct faculty at Newbury College since 2006. From 2001 to 2004, Mr. Uveges served as the President and Chief Executive Officer of TranXenoGen, Inc., a development-stage, publicly-held biotech company focused on developing new methods for manufacturing therapeutic proteins and a portfolio of products, including generics, a cancer treatment and antibodies. He was also a director of that company from 2001 to 2005. Prior to that, Mr. Uveges served as Chief Financial Officer at a number of companies and also practiced as a certified public accountant. Mr. Uveges is a member of the Board of Directors of Harvard

Bioscience, Inc., a publicly held developer, manufacturer and marketer of products used in life science research, where he also serves on the audit committee. Mr. Uveges is also a member of the Board of Directors of Operation ABLE, a non-profit corporation. Mr. Uveges is the Chairman of the Company's Nominating and Corporate Governance Committee, is a member of the Company's Audit and Compensation Committees and is a financial expert on the Audit Committee.

ERIC G. WALTERS has served as a director of the Company since November 2005. Mr. Walters is Vice President and Chief Financial Officer of CardioTech International, Inc., a publicly traded company, which focuses on medical device design, development and manufacturing that enhance the treatment of cardiovascular disease. Prior to joining CardioTech, Mr. Walters served as Vice President and Chief Financial Officer at Konarka Technologies, Inc., a developer of light-activated plastic (photovoltaic) material. Prior to joining Konarka, Mr. Walters served in various capacities at PolyMedica Corporation during a 13-year period, including Executive Vice President and Chief Financial Officer. Mr. Walters is a member of the Board of Directors of CorNova, Inc., a privately held developer of coronary stents and other medical devices. Mr. Walters, a CPA, is a Member, American Institute of Certified Public Accountants, a Fellow of the Massachusetts Society of Certified Public Accountants, and a Member in Financial Executives International. Mr. Walters is the Chairman of the Audit Committee of the Board of Directors and is a financial expert on the Audit Committee.

Significant Employees

THOMAI PANAGIOTOU joined the Company on March 31, 2003 as Director of Research and Development. Dr. Panagiotou was appointed as Vice President, Research and Development on January 1, 2005. Dr. Panagiotou is a Member of both the American Chemical Society, and the American Association of Pharmaceutical Scientists. Prior to joining the Company, Dr. Panagiotou served from 2000 to 2003 as Manager at Arthur D. Little, Inc. Prior to that, Dr. Panagiotou worked at TIAX, LLC, a consulting company where she was involved in the development of a pulmonary delivery device. From 1997 to 2000, Dr. Panagiotou was Principal Engineer at Physical Sciences, Inc., a company providing contract research and development services in aerospace, energy, environmental, manufacturing and medical applications. Dr. Panagiotou is 43 years old.

THOMAS HOARTY joined the Company as Vice President of Marketing and Sales on November 1, 2005. Prior to joining the Company, Mr. Hoarty served, from July 2002 to October 2005, as Worldwide Director of Sales and Marketing for Kinetic Systems, Inc., a worldwide provider of process and mechanical solutions for customers in the electronics, biopharmaceutical and general industry markets. Mr. Hoarty was responsible for sales of vibration isolation equipment. From September 2001 to May 2002 Mr. Hoarty was the National Sales Manager for CyBio-US Inc., a medical laboratory equipment manufacturer of laboratory apparatus specializing in automation. Mr. Hoarty has over twenty years experience in sales and marketing of capital equipment. Mr. Hoarty is 49 years old.

Certain Relationships and Related Transactions

We are not now, nor have we been since the beginning of 2006, a party to any transaction, nor do we contemplate entering into any proposed transaction, with any related person (which term includes any of our directors or executive officers or any immediate family member of such directors or executive officers) the value of which exceeds \$65,150 (approximately one percent (1%) of the average of our total assets at year-end for the last three completed fiscal years), and in which any related person had or will have a direct or indirect material interest.

Policies And Procedures For Related Party Transactions

Our Board of Directors reviews, approves and/or ratifies all transactions involving related persons. The purpose of the review is to determine that such transactions are conducted on terms not materially less favorable to us than what would be usual and customary in transactions between unrelated persons and, in the case of transactions involving Directors, to determine whether such transactions affect the independence of a Director in accordance with the relevant rules and standards issued by the Securities and Exchange Commission. Our Code of Ethics provides guidance on business relations between us and our Directors, officers, and employees. We filed our Code of Ethics with our Annual Report on Form 10-K in 2005. The Code of Ethics is available on our website at <http://www.mficcorp.com/nethics.html>.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of Forms 3, 4 and 5 and amendments thereto furnished to the Company by its reporting persons, no director, officer or beneficial owner of more than ten percent of any class of securities of the Company failed to file on a timely basis any report as required by Section 16(a) of the Exchange Act during the most recent fiscal year.

Board of Directors, Committees and Meetings

The business and affairs of the Company are managed on a day-to-day basis by the Company's management and executive officers, under the supervision and review of the Board of Directors. Each of the Directors, other than Mr. Gruverman, is independent in accordance with the standards of the Securities and Exchange Commission. In accordance with the disclosure requirements of the Securities and Exchange Commission, although we are not presently listed on any national securities exchange, each of the Directors, other than Mr. Gruverman, is independent in accordance with the standards of the American Stock Exchange. Mr. Vincent Cortina, who retired from the Board on June 20, 2006, was also independent in accordance with the standards of the Securities and Exchange Commission and the American Stock Exchange. The Board of Directors of the Company held 4 meetings and acted by unanimous written consent 4 times during the fiscal year ended December 31, 2006.

Ratification by a majority of the full Board of Directors is required with respect to decisions taken by the committees. During the fiscal year ended December 31, 2006, each of the directors attended more than 75% of (i) the total number of meetings of the Board of Directors, and (ii) the total number of meetings held by all committees on which each director served. Written communications from the Company's stockholders can be sent to the Board of Directors at the Company's principal business address and marked to the attention of the specific Director with which the stockholder wishes to communicate, or if not to any specified director, then to the Chairman or Acting Chairman of the Board of Directors. All stockholder communications are forwarded to the specific Director to whom it is addressed. If addressed to the Board of Directors as a whole, the Chairman of the Board of Directors reviews each communication and determines, in his judgment, whether to forward it to the Board of Directors as a whole. This process has been adopted by a majority of the Company's independent directors.

The Company expects, absent extraordinary circumstances, that each member of the Board of Directors will attend the Company's Annual Meeting of Stockholders. Last year, all members of the Board of Directors personally attended the 2006 Annual Meeting of Stockholders.

The Nominating and Corporate Governance Committee

The Board of Directors of the Company has a standing nominating and corporate governance committee comprised of Messrs. Little, Roy and Uveges, each of whom is independent in accordance with the standards of the Securities and Exchange Commission. In accordance with the disclosure requirements of the Securities and Exchange Commission, although we are not presently listed on any national securities

exchange, each of the Directors on the Nominating and Corporate Governance Committee is independent in accordance with the standards of the American Stock Exchange. Mr. Cortina was a member of the Nominating and Corporate Governance Committee until June 20, 2006 and was also independent in accordance with the standards of the Securities and Exchange Commission and the American Stock Exchange. The Nominating and Corporate Governance Committee has a charter that is attached to this proxy statement as Appendix A and which is available on the Company's website at <http://www.mficcorp.com/nnomcorpgov.html>. The Nominating and Corporate Governance Committee reviews and reports to the Board on an occasional basis regarding the size and composition of the Board and recommends to the Board nominees for election to the Board. The Nominating and Corporate Governance Committee met 4 times and acted by unanimous written consent 0 times in 2006.

The Nominating and Corporate Governance Committee accepts and considers nominations by directors, executive officers, employees, advisors and consultants and security holders. The Company may hire an outside consultant to help in the search for a new director. Stockholders should submit nominations in writing to the Company's Board of Directors, which should be mailed to the Company's principal mailing address, addressed to the attention of the Corporate Secretary. When the Nominating and Corporate Governance Committee becomes aware of a vacant seat on the Board of Directors, whether because of retirement or resignation of a director or otherwise, the Nominating and Corporate Governance Committee, or a subcommittee thereof, reviews all nominations received, and recommends whether nominees should be submitted to the full Board of Directors. Neither the Nominating and Corporate Governance Committee nor the Board of Directors has established any specific minimum criteria or qualifications that a nominee must possess. The Nominating and Corporate Governance Committee and the Board of Directors review all nominees on the basis of the nominee's qualifications, including the nominee's independence, education and business experience. In addition, the Nominating and Corporate Governance Committee considers other factors, such as whether a nominee will have sufficient time to devote to being an active member of the Board of Directors.

Mr. Gruverman, who, with his spouse, is the holder of approximately 19.2% of the Company's outstanding securities, has previously recommended candidates for open director positions.

The Audit Committee

The Audit Committee, which currently consists of Messrs. Walters, Little, Roy and Uveges, each of whom is an independent director under the standards of the Securities Exchange Commission, oversees the accounting, financial reporting and tax functions of the Company, including matters relating to the internal control over financial reporting and the appointment and activities of our independent accountants. In accordance with the disclosure requirements of the Securities and Exchange Commission, although we are not presently listed on any national securities exchange, each of the members of the Audit Committee is independent in accordance with Section 121(B) of the listing standards of the American Stock Exchange. Mr. Walters, the Chairperson of the Audit Committee, and Mr. Uveges are each an Audit Committee financial expert, as defined under the rules of the Securities Exchange Commission. The Audit Committee met 5 times last year and acted by unanimous written consent on 0 occasions during the fiscal year ended December 31, 2006.

The Audit Committee has a charter, which is reviewed at least annually by the Audit Committee and the entire Board of Directors. The Audit Committee charter was last revised on January 16, 2003 and was filed with the Company's proxy statement in 2005. The Audit Committee charter is available on the Company's website at <http://www.mficcorp.com/naudit.html>.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee, which currently consists of Messrs. Little, Roy and Uveges, determines who receives stock options under the Company's stock plans (except for the 1989 Non-Employee Director Plan, under which grants were automatically made, and the 2006 Stock Plan, with respect to grants that are automatically made to non-employee directors) and also reviews and approves employee remuneration. Each of the members of the Compensation Committee is independent in accordance with the standards of the Securities Exchange Commission. In accordance with the disclosure requirements of the Securities and Exchange Commission, although we are not presently listed on any national securities exchange, each of the Directors on the Compensation Committee is independent in accordance with the standards of the American Stock Exchange. Mr. Cortina was a member of the Compensation Committee until June 20, 2006 and was also independent in accordance with the standards of the Securities and Exchange Commission and the American Stock Exchange. The Compensation Committee held 2 meetings and acted by unanimous written consent on 4 occasions during the fiscal year ended December 31, 2006.

The Compensation Committee adopted a charter on December 28, 2005, which was filed with the Company's proxy statement in 2006. The Compensation Committee charter is available on the Company's website at <http://www.mficcorp.com/ncomp.html>.

During the fiscal year ended December 31, 2006:

- no executive officer of the Company served as a member of the compensation committee of another entity, one of whose executive officers served on the Compensation Committee of the Company;
- no executive officer of the Company served as a director of another entity, one of whose executive officers served on the Compensation Committee of the Company; and
- no executive officer of the Company served as a member of the compensation committee of another entity, one of whose executive officers served as a director of the Company.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section discusses the material elements of compensation awarded to, earned by or paid to the executive officers identified in the Summary Compensation Table in this proxy statement (whom we refer to as our named executive officers) in 2006.

The Compensation Committee of our Board of Directors generally has responsibility for reviewing and determining on both an annual and an as-needed basis the compensation of our named executive officers and key employees and reporting to the Board regarding the foregoing. The Compensation Committee also has responsibility for administering our stock plans, determining the number of stock options, stock appreciation rights or shares of restricted stock, if any, to be granted under those plans and reporting to the Board regarding the foregoing. None of the named executive officers are members of the Compensation Committee. The current Compensation Committee members are Leo Pierre Roy (Chairman), James N. Little and George Uveges.

Overview of Compensation Programs and Objectives

The objectives of the Compensation Committee in recommending the levels and components of compensation for the named executive officers are to:

1. Attract, motivate and retain talented and dedicated executives;
2. Motivate performance to achieve our established goals and objectives; and

3. Provide both cash and equity incentives that align the interests of the named executive officers with the long-term interests of our stockholders.

The Compensation Committee reviews the achievement of corporate goals and individual contributions to our success. The Compensation Committee monitors the results of our executive compensation program to assure that the compensation paid to the named executive officers provides overall competitive pay levels and appropriately rewards superior performance. The Compensation Committee relies on judgment and not upon rigid guidelines or formulas in determining the amount or mix of compensation elements for each named executive officer. Factors affecting the Compensation Committee's judgment include performance compared to strategic goals, the nature of the named executive officer's responsibilities and his or her effectiveness in leading our initiatives to achieve our goals. Our Chief Executive Officer, or in the absence of a CEO our President, as the manager of the members of the executive team, assesses the executives' individual contributions to their respective departmental goals and makes recommendations to the Compensation Committee with respect to increases in base salary, discretionary bonus and long-term incentive awards, for each member of the executive team. The Compensation Committee evaluates, discusses and approves or modifies these recommendations. Each member of the Board who is independent in accordance with the standards of the Securities and Exchange Commission is permitted to attend the Compensation Committee meetings and participate in the discussion. However, approval of each named executive officer's compensation is made by the Compensation Committee and recommended to the Board for ratification. As described in more detail below, the material components of the named executive officers' compensation include base salary, discretionary bonus, long-term incentive awards, limited change-in-control benefits and related severance protection, and other employee benefits. The Compensation Committee believes that each element of our executive compensation program helps us to achieve one or more of our compensation objectives.

Base salaries, change-in-control benefits and other employee benefits are all primarily intended to attract and retain qualified executives. The value of these components in any given year is less dependent on performance than the other elements that comprise our executive compensation package. The Compensation Committee believes that we need to provide the named executive officers with a level of predictable compensation in order to attract and retain top-caliber executives and reward their continued services. The Compensation Committee's general philosophy is that discretionary bonuses and long-term incentive compensation should fluctuate with our success in achieving financial and other goals, and that we should continue to use long-term compensation such as stock options, restricted stock and stock appreciation rights to align stockholder and executives' interests. The Compensation Committee also believes that a mix of longer-term and short-term elements allows us to achieve the dual goals of attracting and retaining executives while motivating their continued performance and aligning their financial interests with those of our stockholders. In 2006, the Compensation Committee implemented a pay for performance approach to executive compensation, whereby the named executive officers, instead of receiving salary increases that we awarded to our other employees, could be eligible for participation in a bonus pool based on our achievement of certain financial criteria.

The Compensation Committee has used relevant data points for comparable companies, such as salary surveys, to assist it in determining the compensation for each of our named executive officers. The Compensation Committee has found it difficult to benchmark the compensation levels of our named executive officers within a peer group of comparable companies due to the nature of our business and technology. The Compensation Committee has evaluated the compensation practices of other high technology companies, including other publicly-held Massachusetts-based advanced materials, advanced technologies and small capital equipment manufacturing companies, in determining an appropriate level and mix of compensation. Among other sources, the Compensation Committee used the *Massachusetts Executive Compensation Report*, 2006, published by the Associated Industries of Massachusetts.

Current Material Elements

Base Salary. In determining the base salaries of our named executive officers in 2006, the Compensation Committee considered the performance of each named executive officer during the prior year, the nature of the named executive officer's responsibilities, the expectations for such named executive officer's performance in 2006 and our past compensation practice. Base salary is paid in cash.

The Compensation Committee customarily determines any adjustments to the base salary of each of our named executive officers at the end of the year preceding the year in which the adjustment will take effect or at the start of the year in which the adjustment will take effect. In December 2005, the Compensation Committee, after reviewing management's budget/forecast for 2006, recommended that the base salaries of our named executive officers remain unchanged for 2006. The Board adopted that position. The base salary that we paid to each of our named executive officers in 2006 is the amount reported for such officer in the Salary column of the Summary Compensation Table below.

Discretionary Bonuses. Discretionary bonuses, if any, for our named executive officers are paid in cash upon the achievement of certain goals. Such bonuses are structured either as payments on an individual basis to a particular named executive officer or as payments to some or all of the named executive officers from a bonus pool to which they are entitled to a certain percentage. The Compensation Committee customarily determines whether or not to grant discretionary bonuses to any of our named executive officers at the end of the year preceding the year in which the bonus is granted or at the start of the year in which the bonus is granted. In December 2005, the Compensation Committee recommended that our named executive officers participate in a bonus pool for possible payment during 2006 after actual financial performance became measurable. The pool was established as a function of our revenue and gross profit margin based on six-month and twelve-month results. The named executive officers' percentage of participation was to be determined pro rata based on their salaries. The Board adopted the Compensation Committee's recommendation. As a result, since our revenue for the six-months ended June 30, 2006 exceeded the Compensation Committee's threshold of \$6.6 million, with a minimum gross profit margin of 52%, and our revenue for the twelve-months ended December 31, 2006 exceeded the Compensation Committee's threshold of \$15.6 million, with a minimum gross profit margin of 52%, we placed \$15,000 and \$75,000, respectively, in the bonus pools for the six-month and twelve-month periods and allocated the bonuses among the named executive officers. The corresponding bonuses that we paid to each of our named executive officers for fiscal year 2006 are shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table below.

The Compensation Committee may recommend that discretionary bonuses be paid on an individual basis to a particular named executive officer using criteria which the Compensation Committee believes to be relevant, such as the performance of the particular officer or the accomplishment of specific objectives by such officer, as well as other factors such as our profitability, revenue, cash flow, customer generation, market share and industry position. The additional bonus that we paid to our President and Chief Operating Officer, Mr. Robert P. Bruno, as the result of our achievement of the revenue and gross profit margin for the twelve-months ended December 31, 2006 set forth above is shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table below.

Long-Term Incentive Compensation. Periodically, the Compensation Committee grants long-term incentive compensation to our named executive officers in order to provide a long-term incentive which is directly tied to the performance of our stock. These grants provide an incentive to maximize stockholder value by providing the executives an equity interest which further aligns their interests with those of the stockholders. Vesting periods associated with such grants are used to retain our named executive officers and to emphasize the long-term aspect of contribution and performance. In making grants of long-term incentive compensation to our named executive officers, the Compensation Committee considers a number of factors, including our performance, the performance of such persons, the achievement of specific delineated goals, the responsibilities of such persons, the number of stock options and other awards each such person currently possesses and the underlying value of the options and other awards held.

Our stockholders adopted our 2006 Stock Plan on June 20, 2006. Upon the adoption of the 2006 Stock Plan, we ceased granting new options and other awards under our 1988 Stock Plan and our 1989 Non-Employee Director Plan. The Compensation Committee will continue to administer our 1988 Stock Plan and our 1989 Non-Employee Director Plan so long as awards granted under such plans remain exercisable. Under the 2006 Stock Plan, the Compensation Committee may grant awards in the form of stock options, restricted share rights, performance share rights and stock appreciation rights.

Stock Options. Pursuant to the terms of the 2006 Stock Plan, stock options granted to our named executive officers usually have a term of ten years (five years in the case of Mr. Irwin J. Gruverman, due to his ownership of more than 10% of our shares). The exercise price of these grants is 100% of the closing price (110% in the case of Mr. Gruverman, due to his ownership of more than 10% of our shares) of the underlying Common Stock on the date of grant. In general, the options granted to our named executive officers vest in equal annual installments over a four-year period beginning one year after the date of grant. The Compensation Committee may, in certain instances, adjust the vesting period for performance-based options.

Restricted share rights, performance share rights and stock appreciation rights. Restricted share rights typically cliff vest, all at one time, at a date several years subsequent to their grant date. Performance restricted share rights vest upon the achievement of milestones as defined by the Compensation Committee. Stock appreciation rights, which may be paid in cash, allow the Compensation Committee to award units that derive their value from the appreciation in our stock without the issuance of additional shares. We did not issue any awards of restricted share rights, performance share rights or stock appreciation rights to our named executive officers in 2006. Awards of restricted stock and stock appreciation rights are not currently intended to comprise a major part of our long-term incentive compensation strategy. The Compensation Committee may elect, however, from time to time, to grant these types of awards as particular situations arise.

Equity Grant Practices. The Compensation Committee may grant awards to our named executive officers or other eligible participants under our 2006 Stock Plan at any time during the year, including in connection with the hiring or promotion of employees or based upon other special circumstances or performance. In accordance with longstanding policy, we do not backdate or reprice options or grant options retroactively. In addition, we do not coordinate grants of options so that they are made before announcements of favorable information, or after announcements of unfavorable information. Our options are granted at fair market value (deemed to be the closing price of the underlying Common Stock on the date of grant) on a fixed date or event (such as the first Board meeting following an employee's hire), with all required approvals obtained in advance of or on the actual grant date. Board and Compensation Committee meetings are generally scheduled months in advance and scheduling decisions are made without regard to our anticipated earnings or other major announcements. In 2006, we ceased our practice of granting options to new employees on, or effective as of, their date of hire and instead instituted a policy

whereby options are granted to such individuals effective as of the next regularly scheduled Board meeting following their date of hire.

Change-in-Control Benefits and Severance Protection. The change-in-control benefits and related severance protection provided to each of our named executive officers include the provisions in our 2006 Stock Plan that accelerate the vesting of certain awards upon our change in control. Pursuant to our 2006 Stock Plan, outstanding stock options, restricted stock and stock appreciation rights granted to a named executive officer may be assumed by a successor corporation or accelerated if not assumed. In addition, 50% of the unvested portion of an award will accelerate if, within 12 months following a change in control, the successor corporation for a reason other than cause terminates the employment of a named executive officer who holds an award pursuant to the 2006 Stock Plan. These change-in-control provisions apply not only to our named executive officers but to any participant in our 2006 Stock Plan.

Other Compensation and Benefits. Our named executive officers participate in the same group insurance and employee benefit plans as our other salaried employees. As a policy, we do not provide loans or other perquisites to our named executive officers. The lone exception to this policy is reflected in the *All Other Compensation* column of the Summary Compensation Table below, which notes the fact that we pay a quarterly premium for \$100,000 in additional life insurance for Mr. Bruno.

Employment Agreements

As of December 31, 2006, we do not have employment agreements or agreements providing for payments upon resignation, retirement, other termination or following a change in control with any of our named executive officers. Our named executive officers serve at the will of the Board, which enables us to terminate their employment with discretion as to the terms of any severance arrangement. As noted above, upon a change in control, the vesting of certain awards made to our named executive officers under the 2006 Stock Plan may accelerate.

Stock Ownership Guidelines

The Company currently does not require our directors or named executive officers to own a particular amount of our Common Stock. The Compensation Committee recommends stock and option holdings to our directors and named executive officers to provide motivation to this group and to align their interests with those of our stockholders. The majority of our directors and named executive officers are stockholders.

Return of Incentive Compensation by an Executive

In the case of a significant restatement of our financial results caused by a named executive officer's fraudulent or intentional misconduct, the Board may take action to seek reimbursement of any portion of performance-based or incentive compensation that was paid or awarded to such executive which would not have been paid or awarded if such compensation had been calculated based on the restated financial results. The Audit Committee of the Board will determine whether a financial restatement is significant and will make an initial determination of the cause of the restatement.

Compensation Consultant

Neither we nor the Compensation Committee has any contractual arrangement with any compensation consultant who has a role in determining or recommending the amount or form of named executive officer or director compensation. In the future, either we or the Compensation Committee may engage or seek the advice of one or more compensation consultants.

Compliance with Section 162(m)

The Compensation Committee currently intends for all compensation paid to our named executive officers to be tax deductible to us pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (Section 162(m)). Section 162(m) provides that we cannot deduct for Federal income tax purposes compensation paid to our named executive officers in excess of \$1,000,000, unless, in general, (1) such compensation is performance-based, established by a committee of outside directors and objective, and (2) the plan or agreement providing for such performance-based compensation has been approved in advance by stockholders. The Compensation Committee believes that stockholder interests are best served by not restricting the Committee's discretion and flexibility in crafting compensation programs, even though such programs may result in certain non-deductible compensation expenses. Accordingly, in the future, the Compensation Committee may determine to adopt a compensation program that does not satisfy the conditions of Section 162(m) if in its judgment, after considering the additional costs of not satisfying Section 162(m), such program is appropriate. However, the Compensation Committee does not anticipate paying any named executive officers in excess of \$1,000,000 in the near term.

COMPENSATION COMMITTEE REPORT

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The Compensation Committee has reviewed and discussed the above Compensation Discussion and Analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be incorporated by reference in the Company's Annual Report on Form 10-K for 2006 and included in this proxy statement.

Leo Pierre Roy (Chairman)

James N. Little

George Uveges

Summary Compensation

The following table sets forth for the fiscal year ended December 31, 2006, a summary of the compensation paid to our named executive officers.

SUMMARY COMPENSATION TABLE**FOR THE YEAR ENDED DECEMBER 31, 2006**

Name and Principal Position	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation(1) (\$)	Total (\$)
Irwin J. Gruverman Chief Executive Officer, Chairman of the Board of Directors, Treasurer, and Secretary	125,000	0	0	0	22,050 (2)	0	0	147,050
Robert P. Bruno President and Chief Operating Officer	163,000	0	0	0	53,710 (3)	0	1,314	218,024
Jack M. Swig Vice President, Corporate Development and General Counsel	115,000	0	0	0	20,250 (2)	0	0	135,250
Dennis P. Riordan Controller	110,000	0	0	0	18,990 (2)	0	0	128,990

(1) We pay a quarterly premium for an additional life insurance policy of \$100,000 for Mr. Bruno.

(2) Indicates the amount earned by the named executive officer in 2006 in connection with the bonus pool described above under Compensation Discussion and Analysis-Current Material Elements-Discretionary Bonuses .

(3) In 2006, Mr. Bruno earned \$28,710 in connection with the bonus pool and \$25,000 in connection with an additional bonus as the result of our financial performance, each described above under Compensation Discussion and Analysis-Current Material Elements-Discretionary Bonuses .

Grants of Plan-Based Awards

During the fiscal year ended December 31, 2006, no stock, option or equity incentive plan awards were granted to any of our named executive officers. The non-equity incentive plan awards granted to our named executive officers during the fiscal year ended December 31, 2006 for the fiscal year ending December 31, 2007 are set forth below.

**GRANTS OF PLAN-BASED AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Name	Grant Date	Estimated Future Payouts Under Non -Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)
		Threshold (\$)	Target(1) (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
Irwin J.										
Gruverman(2)	N/A	0	0	0	0	0	0	0	0	0
Robert P. Bruno	N/A	3,750(3)	0	12,500(