ESCO TECHNOLOGIES INC
Form DEF 14A
December 22, 2009

Table of Contents

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

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

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 [ ]

Check the appropriate box:

[ ] Preliminary proxy statement

[X] Definitive proxy statement

[ ] Definitive additional materials

[ ] Soliciting material pursuant to Rule 14a-12

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

ESCO TECHNOLOGIES INC.

(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.

[ ] 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:

(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:

(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

Table of Contents

NOTICE OF THE ANNUAL MEETING OF

THE STOCKHOLDERS OF

ESCO TECHNOLOGIES INC.

St. Louis, Missouri
December 22, 2009

TO THE STOCKHOLDERS OF
ESCO TECHNOLOGIES INC.:

The Annual Meeting of the Stockholders of ESCO Technologies Inc. will be held at the Company s headquarters located at 9900A Clayton Road, St. Louis County, Missouri 63124 on Thursday, February 4, 2010, commencing at 9:30 A.M. central time, at which meeting only holders of record of the Company s common stock at the close of business on December 4, 2009 will be entitled to vote, for the following purposes:

1. To elect two directors to serve for a term expiring in 2013;

2. To vote on a proposal to ratify the Company s appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2010; and

3. To transact such other and further business, if any, as lawfully may be brought before the meeting and any adjournment or postponement thereof.

The Company has mailed to Stockholders a separate notice (dated December 22, 2009) of internet availability of the proxy materials containing instructions on how to access the proxy materials and vote electronically via the internet, or vote by phone, by mail or in person. A paper or e-mail copy of the proxy materials may be requested using one of the methods described in that separate notice.

ESCO TECHNOLOGIES INC.

BY

Chairman, Chief Executive
Officer and President

Secretary

Even though you may plan to attend the meeting in person, please vote electronically via the internet or by telephone (toll-free 1-866-265-2401), or, if you requested paper or e-mail copies of the proxy materials, please complete, sign, date and return the proxy card in the return postage-paid envelope.

TABLE OF CONTENTS

Table of Contents

ESCO TECHNOLOGIES INC.

9900A Clayton Road, St. Louis, Missouri 63124

PROXY STATEMENT

FOR THE ANNUAL MEETING OF THE STOCKHOLDERS TO BE HELD FEBRUARY 4, 2010

This proxy statement is furnished to the holders of all of the issued and outstanding shares of common stock (the Common Shares) of ESCO Technologies Inc. (the Company) in connection with the solicitation of proxies for use in connection with the Annual Meeting of the Stockholders to be held February 4, 2010, and all adjournments thereof, for the purposes set forth in the accompanying Notice of the Annual Meeting of the Stockholders. Such holders are hereinafter referred to as the Stockholders . The Company is first providing access to these proxy materials including the form of proxy to Stockholders on or about December 22, 2009.

Whether or not you expect to be present in person at the meeting, please submit your vote in advance using one of the voting methods described in the separate notice dated December 22, 2009. In voting, you have several choices:

You may vote on each proposal, in which case the Common Shares will be voted in accordance with your choices.

You may, when appropriate, indicate a preference to abstain on any proposal, which will have the effect described in VOTING on page 27.

You may return a properly executed proxy form without indicating your preferences, in which case the proxies will vote the Common Shares as follows: (1) FOR election of the directors nominated by the Board of Directors, (2) FOR the proposal to ratify the Company s appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending September 30, 2010, and (3) in the proxy holder s discretion on such other business as may properly come before the meeting.

Any person giving such proxy has the right to revoke it at any time before it is voted by giving written notice of revocation to the Secretary of the Company, by duly executing and delivering a proxy bearing a later date, or by attending the Annual Meeting and casting a contrary vote in person.

The close of business on December 4, 2009 was fixed as the record date for the determination of the Stockholders entitled to vote at the Annual Meeting of the Stockholders. As of the record date, 26,422,188 Common Shares were outstanding and entitled to be voted at such meeting. The Stockholders will be entitled to cast one vote for each Common Share held of record on the record date.

A copy of the Company s Annual Report to Stockholders for the fiscal year ended September 30, 2009 is available for review at www.escotechnologies.com.

The solicitation of this proxy is made by the Board of Directors of the Company. The solicitation will be by mail and via the internet, and the expense thereof will be paid by the Company. Proxies may also be solicited by telephone, e-mail or telefax by directors, officers or regular employees of the Company.

Table of Contents

I. ELECTION OF DIRECTORS

The Board of Directors unanimously recommends a vote FOR election of V.L. Richey, Jr. and J.M. Stolze, the two nominees for Directors listed below.

Nominees and Continuing Directors

The Company s Bylaws provide that the number of directors shall not be less than three nor greater than ten, and shall be determined from time to time by majority vote of the Board of Directors. In accordance with the Bylaws, the Board of Directors has fixed the number of directors at seven. Currently, there is a total of six directors. Pursuant to the Company s Articles of Incorporation, a majority of the directors in office may fill any vacancy on the Board of Directors. As of the date of mailing of this proxy statement, the Nominating and Corporate Governance Committee has not determined whether or whom to propose as a candidate for an additional director. The Board is divided into three classes, with the terms of office of each class ending in successive years. Two directors of the Company are to be elected for terms expiring at the Annual Meeting in 2013, or until their respective successors have been elected and have qualified. Certain information with respect to the nominees for election as directors proposed by the Board of Directors and the other directors whose terms of office as directors will continue after the Annual Meeting is set forth below. Should any one or more of the nominees be unable or unwilling to serve (which is not expected), the proxies (except proxies marked to the contrary) will be voted for such other person or persons as the Board of Directors of the Company may recommend. Proxies cannot be voted for more than two nominees.

Name, Age, Principal Occupation or Position, Other Directorships	**Served as Director Since**
NOMINEES FOR TERMS ENDING IN 2013	
V.L. Richey, Jr., 52	2002
Chairman, Chief Executive Officer and President of the Company	
J.M. Stolze, 66	1999
Retired Vice President and Chief Financial Officer, Stereotaxis, Inc., manufacturer of medical instruments	
TO CONTINUE IN OFFICE UNTIL 2012	
J.M. McConnell, 68	1996
Retired Chief Executive Officer, Instron Corporation, manufacturer of scientific instruments	
Director of Warren Resources, Inc.	
D.C. Trauscht, 76	1991
Chairman, BW Capital Corporation, private investment company	
Director of Bourns Inc.	
TO CONTINUE IN OFFICE UNTIL 2011	
L.W. Solley, 67	1999
Retired Executive Vice President, Emerson Electric Co., manufacturer of electrical and other products	
J.D. Woods, 78	2001
Chairman Emeritus and retired Chief Executive Officer, Baker Hughes Incorporated, supplier of oilfield equipment and services	
Director of Foster Wheeler Ltd. and Complete Production Services, Inc.	

Each of the nominees and continuing directors has had the same position with the same employer as stated in the preceding table during the past five years, except as follows:

Since April 2003, Mr. Richey has been Chairman and Chief Executive Officer of the Company. Since September 30, 2006, he has also been President.

From May 2004 until November 2009, Mr. Stolze was Vice President and Chief Financial Officer of Stereotaxis, Inc.

Board of Directors and Committees

The Board of Directors has determined that none of the non-management directors has any relationship with the Company other than in his capacity as a director and stockholder, and, as a result, such directors are determined to be independent under the standards of the New York Stock Exchange. The non-management directors are J.M. McConnell, L.W. Solley, J.M. Stolze, D.C. Trauscht and J.D. Woods.

There were four meetings of the Board of Directors during fiscal 2009. All of the incumbent directors attended at least 75% of the meetings of the Board and committees on which they served. The Company s policy requires the attendance of all directors at the Annual Meeting of Stockholders, except for absences due to causes beyond the reasonable control of the director. Each of the six directors in office at the time of the 2009 Annual Meeting attended that meeting except Mr. McConnell, who was absent due to illness.

The many responsibilities and the substantial time commitment of being a director of a public company require that the Company provide adequate incentives for the directors continued performance by paying compensation commensurate with the directors expertise and duties. The non-management directors are compensated based upon their respective levels of Board participation and responsibilities, including service on Board committees. Directors who are employees of the Company do not receive any compensation for service as directors. Compensation paid to non-management directors is as follows: annual cash retainer $30,000; additional annual cash retainer for Lead Director $15,000; annual fee for four Board meetings $4,800; annual cash retainer for Chairman of Audit and Finance Committee $7,000; annual cash retainer for Chairmen of Human Resources and Compensation and Nominating and Corporate Governance Committees $5,000; annual fee for four meetings of Audit and Finance Committee and Human Resources and Compensation Committee $4,800; annual fee for five meetings of Nominating and Corporate Governance Committee $6,000. All of the above-mentioned cash retainers and fees are paid in January of each year. In addition, for attendance at any Board or Committee meeting in excess of the numbers stated above, a fee of $1,200 may be paid following such meeting. Also, each non-management director receives a retainer of 800 Common Shares per quarter.

Under the Company s Directors Extended Compensation Plan, a Plan for non-management Directors who began Board service prior to April 2001, each director currently on the Board who has served as a non-management director for at least five years will, after the later of termination of services as a director or reaching age 65, receive for life an annual benefit equal to a percentage of the fiscal year 2001 annual cash retainer for directors of $20,000. Such percentage ranges from 50% to 100% based upon years of service as a director. In the event of death of a retired director who is eligible under this plan, 50% of the benefit will be paid to the surviving spouse for life. On or after retirement, if the eligible director so elects, the actuarial equivalent of the benefit may be received in a single lump sum. Certain of the eligible directors have elected to receive this lump sum distribution at the time of retirement, in compliance with section 409(a) of the Internal Revenue Code.

Directors may elect to defer receipt of all of their cash compensation and/or all of their quarterly stock retainer. If elected, the deferred amounts are credited to the director s deferred compensation account in stock equivalents. Deferred amounts will be distributed in Common Shares or cash at such future dates as specified by the director unless distribution is accelerated in certain circumstances, including a change in control of the Company. The stock portion which has been deferred may only be distributed in Common Shares.

Directors are subject to stock ownership guidelines. Under these guidelines, each independent director is expected to accumulate shares having a total cash value equal to five times the annual cash retainer. These shares must be accumulated within five years of guideline adoption or appointment to the Board. All directors are in compliance with the guidelines.

4

Table of Contents

DIRECTOR COMPENSATION

The following table sets forth the compensation of the Company s non-management directors for fiscal 2009.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2)	All Other Compensation ($)	Total ($)
J.M. McConnell	$ 45,600(3)	$ 139,976			$ 25,320		$ 210,896
L.W. Solley	45,600(4)	139,976			48,026		233,602
J.M. Stolze	46,600(5)	139,976			51,155		237,731
D.C. Trauscht	70,400(6)	139,976			14,005		224,381
J.D. Woods	44,600(7)	139,976			24,757		209,333

(1) Dollar amounts based on the market value of the stock on the date of each quarterly award of 800 shares under the Compensation Plan for Non-Employee Directors. The amounts reflect the actual dollar amounts recognized for financial statement reporting purposes for fiscal 2009.

Date of Award	Shares	Share Price
October 1, 2008	800	$ 48.22
January 2, 2009	800	42.36
April 1, 2009	800	37.98
July 1, 2009	800	46.41

(2) Represents the increase in actuarial present value of the accumulated benefits under the Company s extended compensation plan for non-management directors from September 30, 2008 to September 30, 2009. Non-management directors are eligible to participate in the plan after at least five years of Board service. The plan pays benefits as a percentage of $20,000 at time of retirement based on completed years of Board service. The percentage is 50% for five years of Board service and increases by 10% for each additional year of service to 100% for ten or more years of Board service. Benefits are paid quarterly commencing the later of the director s 65th birthday or retirement. In the event of death, 50% of the annual benefit is payable to the surviving spouse for the life of the spouse. The change in pension value shown above includes the effect of changes in actuarial assumptions from year to year. Pension values increased due to the effect of changes in actuarial assumptions. The increase in pension value due to assumption changes for Messrs. McConnell, Solley, Stolze, Trauscht and Woods was $29,526, $30,982, $33,287 $19,315 and $13,151, respectively.

(3) Represents: annual cash retainer $30,000, board meeting fees $4,800, committee meeting fees $10,800.

(4) Represents: annual cash retainer $30,000, board meeting fees $4,800, committee meeting fees $10,800.

(5) Represents: annual cash retainer $30,000, board meeting fees $4,800, committee meeting fees $4,800, committee chairman fee $7,000.

(6) Represents: annual cash retainer $30,000, lead director fee $15,000, board meeting fees $4,800, committee meeting fees $15,600, committee chairman fee $5,000.

(7) Represents: annual cash retainer $30,000, board meeting fees $4,800, committee meeting fees $4,800, committee chairman fee $5,000.

CORPORATE GOVERNANCE

The Board of Directors has adopted corporate governance guidelines and a code of business conduct and ethics applicable to all of the Company s directors, officers and employees. Additionally, the Board of Directors has adopted a code of ethics for senior financial officers applicable to the Company s Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Controller and persons performing similar duties. These documents are posted on the Company s web site: www.escotechnologies.com. A copy of each of the corporate governance

5

guidelines, the code of business conduct and ethics and the code of ethics for senior financial officers is also available in print to any Stockholder who requests it.

Mr. Trauscht, the Company s Lead Director, presides at meetings of the non-management directors (each of whom is deemed independent), which normally occur in conjunction with each Board meeting. Parties desiring to communicate concerns regarding the Company to the non-management Directors may direct correspondence to the Lead Director of the Board at the following address: Mr. D.C. Trauscht, Lead Director, ESCO Technologies Board of Directors, ESCO Technologies Inc., 9900A Clayton Road, St. Louis, MO 63124-1186. Parties who wish to communicate with a particular director may write to such director at ESCO Technologies Inc., 9900A Clayton Road, St. Louis, MO 63124-1186, Attn: Secretary. All such letters will be forwarded promptly to the relevant director.

Related Person Transactions and Procedures

The Company reviews relationships and transactions in which the Company and Related Persons are participants to determine whether such Related Persons have a direct or indirect material interest. Related Persons include the Company s directors, director nominees, executive officers, 5% or more Stockholders or their immediate family members. The Company has developed and implemented processes and controls to obtain information from Related Persons about Related Person Transactions and for the purpose of determining, based on the facts and circumstances, whether a Related Person has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to a Related Person are disclosed in this proxy statement.

Pursuant to these processes, all directors and executive officers annually complete, sign and submit a Directors and Officers Questionnaire and a Conflict of Interest Questionnaire that are designed to identify Related Person Transactions and both actual and potential conflicts of interest. Additionally, 5% or more Stockholders are requested to respond to certain questions designed to identify direct or indirect material interests by such 5% or more Stockholder in any transactions with the Company. The Company s policy on Related Person Transactions requires prompt notice to the General Counsel by a Related Person of any material interest that such Related Person may have in a proposed transaction with the Company. If the Chairman of the Corporate Governance and Nominating Committee determines that a conflict exists, after notice from the General Counsel, the Committee will review the material facts of the proposed transaction and determine whether to approve or disapprove such transaction. The Committee will consider whether the transaction with the Related Person is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances. If advance Committee approval is not feasible or is not obtained, review of the transaction will occur after the fact, and the Committee shall be empowered to approve, ratify, amend, rescind or terminate the transaction.

COMMITTEES

The members of the Board of Directors are appointed to various committees. The standing committees of the Board are: the Executive Committee, the Audit and Finance Committee, the Human Resources and Compensation Committee and the Nominating and Corporate Governance Committee. Each of these committees operates under a written charter adopted by the Board of Directors.

The Executive Committee s function is to exercise the full authority of the Board of Directors between Board meetings, except that the Executive Committee may not take certain specified actions which the Board of Directors has reserved for action by the whole Board. The Committee held one meeting in fiscal 2009. Mr. Richey (Chairman) and Mr. Trauscht are the members of the Committee.

The Audit and Finance Committee s functions generally are to assist oversight by the Board of Directors of the Company s financial reporting process, the Company s compliance with legal and regulatory requirements, the independent registered public accounting firm s (the accounting firm) qualifications and independence, and the performance of the Company s internal audit function and the accounting firm. These functions include the responsibility to appoint, retain and oversee the accounting firm and its performance of the annual audit; to annually evaluate the qualifications, independence and prior performance of the accounting firm; to review the scope of the accounting firm s work and approve its annual audit fees and any non-audit service fees; to review the Company s internal controls with the accounting firm and the internal audit executive; to review with the accounting firm any problems it may have encountered during the annual audit; to discuss 10-K and 10-Q reports with management and the accounting firm before filing; to review and discuss earnings press releases; to discuss with management major financial risk exposures; to review the annual plan and associated resource allocation of the internal audit function; to review the Company s reports to Stockholders with management and the accounting firm, and to receive certain assurances from management; to prepare a report as required by the SEC (the SEC) to be included in the annual proxy statement; and to review the effectiveness of the Company s legal, regulatory and corporate governance compliance programs. Each member of the Committee is an independent director, as defined in the applicable listing standards of the New York Stock Exchange. The Board of Directors has determined that Mr. Stolze, the Chairman of the Audit and Finance Committee, is an audit committee financial expert within the meaning of Item 407(d)(5)(ii) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the Exchange Act), and is independent within the meaning of the applicable listing standards of the New York Stock Exchange. The Committee met four times in fiscal 2009. Mr. Stolze (Chairman), Mr. McConnell and Mr. Trauscht are the members of the Committee. The Committee s charter is posted on the Company s web site: www.escotechnologies.com under the Corporate Governance link and is available in print to any Stockholder who requests it.

The Human Resources and Compensation Committee s functions generally are to review and approve corporate goals and objectives relevant to compensation of the Chief Executive Officer; to evaluate the Chief Executive Officer s performance in light of these goals and objectives; to determine and approve the Chief Executive Officer s compensation level based upon the evaluation; to review and approve the compensation of officers and other key executives, incentive compensation plans, equity-based plans and other compensation plans; to review and approve material changes to benefit programs, including new programs; to review the performance, development, and succession planning for the Company management; to assure that executive officers and other senior executives of the Company are compensated in a manner consistent with the strategy of the Company and competitive practice; to review and discuss with management the Company s Compensation Discussion and Analysis (CD&A) and recommend its inclusion in the annual proxy statement and Form 10-K for filing with the SEC; and to oversee the Charitable Contributions Program. Each member of the Committee is an independent director, as defined in the applicable listing standards of the New York Stock Exchange. The Committee met four times in fiscal 2009. Mr. Woods (Chairman), Mr. Solley and Mr. Trauscht are the members of the Committee. The Committee s charter is posted on the Company s web site: www.escotechnologies.com under the Corporate Governance link and is available in print to any Stockholder who requests it.

The Nominating and Corporate Governance Committee s functions generally are to identify and recommend approval of individuals qualified to become Board members; to recommend director nominees for selection to the Board; to review the composition of the Board committees; to develop and recommend to the Board effective corporate governance guidelines; to oversee the Company s ethics programs; to review conflicts of interest involving related persons, including oversight and administration of the Related Party Transactions policy; and to lead the Board in its annual review of the Board s performance. The Committee will consider candidates for election as directors recommended by Stockholders and evaluate such individuals in the same manner as other candidates proposed to the Committee. All candidates must meet the legal, regulatory and exchange requirements applicable to members of the Board of Directors. The Committee has not established other specific minimum qualifications that must be met by a candidate in order to be considered for nomination by the Committee, but requires that candidates have varied business and professional backgrounds; be persons of the highest integrity; possess sound business judgment and possess such other skills and experience as will enable the Board to act in the long-term interests of the Stockholders. Additionally, the Committee may establish and utilize such other specific membership criteria as the Committee deems appropriate from time to time in light of the Board s need of specific skills and experience. The Committee may identify new candidates for nomination based on recommendations from Company management, employees, non-management directors, third party search firms, Stockholders and other third parties. Consideration of a new candidate typically involves the Committee s review of information pertaining to such candidate and a series of internal discussions, and may proceed to interviews with the candidate. New candidates are evaluated based on the above-described criteria in light of the specific needs of the Board and the Company at the time. Incumbent directors whose terms are set to expire are evaluated based on the above-described criteria, as well as a review of their overall past performance on the Board of Directors. The Committee has the authority to engage third party search firms to identify candidates, but did not do so in fiscal 2009.

Stockholders who wish to recommend director candidates for the next Annual Meeting of Stockholders should notify the Committee no later than September 1, 2010. Submissions are to be addressed to the Nominating and Corporate Governance Committee, c/o the Company s Corporate Secretary, Alyson S. Barclay, at ESCO Technologies Inc., 9900A Clayton Road, St. Louis, MO 63124-1186, which submissions will then be forwarded to the Committee. The Committee is not obligated to nominate any such individual for election. No such Stockholder candidates have been received by the Company for this Annual Meeting. Each member of the Committee is an independent director, as defined in the applicable listing standards of the New York Stock Exchange. The Committee met five times in fiscal 2009. Mr. Trauscht (Chairman), Mr. McConnell and Mr. Solley are the members of the Committee. The Committee s charter is posted on the Company s web site: www.escotechnologies.com under the Corporate Governance link and is available in print to any Stockholder who requests it.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2009, the members of the Human Resources and Compensation Committee were L.W. Solley, D.C. Trauscht and J.D. Woods. None of the foregoing (i) was during fiscal 2009 an officer or employee of the Company; (ii) was formerly an officer of the Company; or (iii) had any relationship requiring disclosure by the Company under any paragraph of Item 404 of Regulation S-K.

Report of the Audit and Finance Committee

The Audit and Finance Committee (the Committee) oversees and monitors the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the Company s systems of internal control. In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management the audited financial statements to be included in the Annual Report on Form 10-K for the year ended September 30, 2009, including a discussion of the quality and the acceptability of the Company s financial reporting practices and the internal controls over financial reporting.

The Committee reviewed with the independent registered public accounting firm (the accounting firm), which is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America, its judgments as to the quality and the acceptability of the Company s financial reporting and such other matters as are required to be discussed with the Committee under auditing standards generally accepted in the United States of America. In addition, the Committee discussed with the accounting firm its independence from management and the Company, including the impact of any non-audit-related services provided to the Company and the matters in the accounting firm s written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board received by the Company regarding the accounting firm s communications with the Committee concerning independence. The Committee also discussed with the accounting firm the matters required to be discussed by the statement on Auditing Standards No. 61, as amended.

Further, the Committee discussed with the Company s internal audit executive and the accounting firm the overall scope and plans for their respective audits. The Committee meets periodically with the internal audit executive and the accounting firm, with and without management present, to discuss the results of the examinations, their evaluations of the Company s internal controls (including internal controls over financial reporting), and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2009 for filing with the SEC. The Committee also evaluated and reappointed KPMG LLP as the Company s independent registered public accounting firm for fiscal 2010.

The Audit and Finance Committee

J.M. Stolze, Chairman
J.M. McConnell
D.C. Trauscht

Table of Contents

EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS

The Human Resources and Compensation Committee (the Committee) is responsible for determining the compensation of the Chief Executive Officer, other senior officers and key executives of the Company.

Compensation Objectives

The Committee s objective is to develop and maintain compensation packages most likely to attract, retain, motivate, and reward the Company s executive officers and other senior officers and key executives. Compensation programs are designed to be consistent with those of other companies engaged in similar industries and/or of similar size with which the Company is likely to compete for talent to enable the Company to employ and retain a high-quality management team. The Committee seeks to use at-risk compensation to maximize the alignment of executive compensation with the long-term interests of Stockholders.

Compensation Summary

The Committee offers its executive officers a compensation package that includes:

- A competitive base salary;
- An annual at-risk cash bonus opportunity based on key performance measures;
- Long-term equity incentive compensation (LTI) based on Company stock performance and retention factors;
- Protection in the form of change of control arrangements through a Severance Plan and employment agreements; and
- Appropriate and reasonable perquisites.

The Committee sets compensation levels based on the skills, experience and achievements of each executive officer, taking into account market checking described below and the compensation recommendations by the Chief Executive Officer, except with respect to his own position. The Committee also considers tally sheets which provide, for each executive officer, a recap of each principal element of compensation as well as benefits, perquisites, outstanding equity awards and stock ownership or potential ownership. The tally sheets also reflect the incremental compensation as a result of various termination scenarios and each element of pay or benefits impacted. The Committee retains the discretion to adjust all elements of compensation as it deems appropriate, subject to the requirements of stockholder approved plans.

Compensation Consultant and Market Checking

The Committee is authorized by its charter to employ independent compensation and other consultants. Every other year and for fiscal 2009, the Committee has engaged Towers Perrin, a nationally recognized compensation consulting firm (Compensation Consultant), to assist the Committee in evaluating executive compensation. An unrelated branch of Towers Perrin has historically been engaged to perform actuarial services for the Company. The Compensation Consultant periodically attends the Committee meetings at the Committee s request and provides information, research and analysis pertaining to executive compensation as requested by the Committee, including updates on market trends, survey data and analysis for market checking. In September 2008, the Compensation Consultant prepared a report which the Committee and management used for their fiscal 2009 market checking. The report included market data from two separate groups of companies as set forth below:

1. A comparative group of six peer companies selected on the basis of industry type, and within each industry, closest comparable size in the utility solutions, test and filtration industries, identified in the Company s 2008 annual report to stockholders as the 2007 Peer Group , and comprised as follows:

Utility Solutions Group:	Itron, Inc.	Badger Meter, Inc.	Roper Industries Inc.
Test:	Tektronix Inc.		
Filtration:	Pall Corporation	Clarcor, Inc.	

2. A combination of two surveys of general manufacturing companies adjusted to the Company s relative size. This second group is included to ensure that comparisons are made with competitors, as well as manufacturing companies of a size similar to the Company. There were between 144 and 272 companies

(depending on the position) that participated in the Compensation Consultant s surveys for the executive officer positions.

For each of the Company s executive officer positions and each principal element of compensation (base salary, cash bonus and LTI), as well as total cash compensation (base salary and cash bonus), and target total direct compensation (target cash compensation and LTI), a review is made against an annual median market rate determined based on the average of these two groups. For fiscal 2009, the Company utilized the average of the 25th and 50th percentiles for the peer companies, due to their larger company size, in determining the average market rates. For FY 2009, the 50th and 75th percentiles were averaged for the manufacturing group due to the Company s relative business complexity.

Each principal element of compensation is reviewed independently against the market rates. Relative Company performance is also periodically compared to the then current peer group to test the overall reasonableness of pay for performance for years in which the Compensation Consultant is engaged.

The September 2008 report included a review of the internal pay relationships between the CEO and other executive officers and a comparison of the pay relationship between like officers in similar sized manufacturing companies. The report reflected that the CEO s pay is well aligned with the other executive officers of the Company and is in line with the pay relationships at the manufacturing companies group. Accordingly, the Committee determined that no changes to the compensation practices were required for fiscal 2009.

In the years in which the Compensation Consultant is not engaged, the Company ages the prior year s data from the manufacturing surveys included in the Consultant s report (by applying a multiplier to the Consultant s prior year survey data consistent with the average market increase for executives in the prior year), and collects pertinent information from peer proxy filings, such as base salary.

Principal Elements of Compensation

The principal elements of compensation (base salary, cash bonus and LTI) for the executive officers are shown in the Summary Compensation Table on page 15.

<u>*Annual Base Salaries*</u> Base salaries are designed to attract, retain, motivate and reward competent, qualified, experienced executives to operate the business. The Company emphasizes performance-based compensation for the executive officers. Historically, the executive officers salaries have been targeted to the median of the annual market rates, as adjusted for the relative value of the jobs within the Company to those in the comparison companies. At the discretion of the Committee, with input by the CEO, executive officers with significant experience and responsibility who consistently demonstrate exemplary performance may be paid more than the market rates set for their positions, while less experienced executive officers may be paid salaries less than the market rates.

Fiscal 2009 base salaries for the executive officers were set by the Committee at the beginning of the fiscal year. The salaries were set based on the Committee s review of current salary levels and target total cash compensation (base salary and cash bonus) compared to the established annual market rates and took into account, for the CEO, fiscal 2008 individual and Company performance, and for the other executive officers, a subjective evaluation of the executives fiscal 2008 performance with input of the CEO.

In considering fiscal 2008 Company performance for the CEO s base salary determination, the Committee took into account the Company s financial and operating performance, including: the Company experienced strong operating performance across all three business segments; the Company s consolidated sales increased 40%; EBIT increased 113%; EBIT margin increased 450 basis points; EPS-Continuing Operations increased 55%; net cash provided by operating activities increased 71%; entered orders increased 35%; and progress was made on the execution of the

Aclara contracts with Pacific Gas & Electric. In addition, during fiscal 2008, the Company completed the acquisition of Doble Engineering Company and the divestiture of Filtertek. Based on these factors, the Committee increased the CEO s base salary and bonus compensation, and set the target total cash compensation for the CEO for fiscal 2009 at the median market rate.

Based on the individual contributions made by the other executive officers and the market rates, the Committee approved a 2009 increase in base salary for the Executive VP and CFO and the Senior VP and General Counsel. Target total cash compensation (base salary and cash bonus) for 2009 was set at the market median rate for the Executive VP and CFO and below the market median rate for the Senior VP and General Counsel. The

Table of Contents

manufacturing survey data, however, indicated that total cash compensation for the Senior VP and General Counsel was at the market median rate. The Company concluded that due to the small sample size of the peer survey its data was not reflective of the market.

Cash Bonus The Committee uses annual performance-based cash bonuses to compensate the executive officers. The Committee establishes performance targets for executive officers, using financial, operational and individual goals linking compensation to overall Company performance. The executive officers goals are determined by each officer and submitted to the CEO for his review, except with respect to his goals which are evaluated and approved by the Lead Director.

For the executive officers, the Company operated two short-term cash bonus plans in fiscal 2009: (i) the Incentive Compensation Plan for Executive Officers (ICP); and (ii) the Performance Compensation Plan (PCP). These at-risk plans closely link the executive officer s pay to the Company s financial results and provide for compensation variability through reduced payments in times of poor performance and higher compensation in times of strong performance. The ICP is a Section 162(m) stockholder approved plan with a fixed target and a range.The PCP also has a fixed target and a range, but allows for Committee discretion in determining actual bonus payouts.

The target short-term bonuses are divided equally between the two plans for the executive officers. The target percentage of total cash compensation represented by the ICP and PCP is based on the level of the position, with targets for fiscal 2009 as follows:

			Cash Bonus		Fiscal 2009			
					Target ICP		Target PCP	
	Base Salary ($)	Base % Total Cash Comp.	Bonus Target ($)	Bonus % Total Cash Comp.	($)	% of Total Cash Comp.	($)	% of Total Cash Comp.
Chairman & CEO	$ 675,000	60%	$ 450,000	40%	$ 225,000	20%	$ 225,000	20%