

HAWKINS INC  
Form DEF 14A  
July 01, 2016

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934  
Filed by the registrant   
Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement.

Confidential, for use of the Commission only (as permitted by Rule 14A-6(e)(2)).

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to section 240.14a-11(c) or Section 240.14a-12.

HAWKINS, 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):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:



HAWKINS, INC.

2381 Rosegate

Roseville, Minnesota 55113

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held August 4, 2016

To our Shareholders:

The Annual Meeting of Shareholders of Hawkins, Inc. will be held at the Midland Hills Country Club, 2001 Fulham Street, Roseville, Minnesota on Thursday, August 4, 2016, at 3:00 p.m., Central Time, for the following purposes:

1. To elect nine directors.
2. To advise in a non-binding vote to approve the compensation of our executive officers as disclosed in the attached proxy statement, or a “say-on-pay” vote.
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on June 13, 2016 as the record date for determining the shareholders entitled to vote at the Annual Meeting. Accordingly, only shareholders of record at the close of business on that date will be entitled to vote. Our transfer books will not be closed.

BY ORDER OF THE BOARD OF DIRECTORS

RICHARD G. ERSTAD, Secretary

Dated: July 1, 2016

**IMPORTANT:** To assure the necessary representation at the Annual Meeting, you are urged to SIGN AND RETURN THE ENCLOSED PROXY PROMPTLY TO SAVE THE COMPANY THE EXPENSE OF ADDITIONAL SOLICITATION. You may revoke your proxy at any time prior to its exercise, and returning your proxy will not affect your right to vote in person if you attend the Annual Meeting and revoke the proxy.

---

## PROXY STATEMENT

HAWKINS, INC.

2381 Rosegate

Roseville, Minnesota 55113

July 1, 2016

The following proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors to be voted at the Annual Meeting of Shareholders (the “Annual Meeting”) to be held on Thursday, August 4, 2016, at the Midland Hills Country Club, 2001 Fulham Street, Roseville, Minnesota, at 3:00 p.m., Central Time, and at any adjournments of such meeting. Distribution of this Proxy Statement and proxy to shareholders began on or about July 1, 2016.

## SOLICITATION

The cost of soliciting proxies and of the notices of the meeting, including the preparation, assembly and mailing of proxies and this Proxy Statement, will be borne by us. In addition to the use of the mail, proxies may be solicited personally or by telephone, mail or electronic mail by our directors, officers and regular employees. Furthermore, arrangements may be made with brokers, banks and similar organizations to send proxies and proxy materials to beneficial owners for voting instructions. We will reimburse such organizations for their expenses.

## REVOCATION AND VOTING OF PROXY

Any proxy given pursuant to this solicitation and received in time for the Annual Meeting will be voted in accordance with the instructions in such proxy, unless the proxy is properly revoked prior to the meeting. Any shareholder giving a proxy may revoke it prior to its exercise at the meeting by (1) delivering a written notice expressly revoking the proxy to our Secretary at our principal executive offices, (2) signing and forwarding to us at our principal executive offices a later dated proxy, or (3) attending the Annual Meeting and casting his or her votes personally.

If you indicate on your proxy that you wish to abstain from voting, and you hold your shares in street name or your broker records abstentions, your shares will be considered present and entitled to vote at the Annual Meeting. Such shares will also count toward determining whether or not a quorum is present for the Annual Meeting. A majority of the outstanding shares of our common stock represented in person or by proxy is necessary to constitute a quorum for the transaction of business at the Annual Meeting. If a shareholder (including a broker) does not give authority to a proxy to vote, or withholds authority to vote on a certain proposal, then the shareholder’s shares will not be considered present or entitled to vote on that proposal.

If you hold your shares in street name and do not provide voting instructions to your broker, your broker has authority under New York Stock Exchange rules to vote those shares for or against “routine” proposals. Brokers cannot vote on their customers’ behalf on “non-routine” proposals such as the approval of an equity compensation plan, the election of directors or an advisory vote on executive compensation. These rules apply to us even though the shares of our common stock are traded on the NASDAQ Global Market. If a broker votes shares for which its customers have not provided voting instructions for or against a “routine” proposal, then those shares are counted for the purpose of establishing a quorum at the Annual Meeting and also will be counted for the purpose of determining the outcome of “routine” proposals. If a broker does not receive voting instructions as to a non-routine proposal, or chooses to leave shares unvoted on a routine proposal, a “broker non-vote” will occur and those shares will be counted for the purpose of establishing a quorum at the Annual Meeting, but not for determining the outcome of those proposals. Shares that are subject to broker non-votes are considered not entitled to vote on the particular proposal, and effectively reduce the number of shares needed to approve that proposal.

As of the date of this proxy statement, we know of no matters that will be presented for determination at the meeting other than those referred to in this proxy statement. If any other matters properly come before the meeting calling for a vote of shareholders, proxies in the enclosed form returned to us will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgment of the proxy holders.

## OUTSTANDING SHARES AND VOTING RIGHTS

Edgar Filing: HAWKINS INC - Form DEF 14A

At the close of business on June 13, 2016, the record date, there were 10,556,625 shares of our common stock, par value \$0.05 per share, outstanding. The common stock is our only outstanding class of capital stock. Holders of common stock are entitled to one vote for each share held on the record date with respect to all matters that may be brought before the meeting. There is no cumulative voting for directors.

---

**VOTE REQUIRED**

Proposal One - Election of Directors: Directors are elected by a plurality of the votes cast. A plurality means that the nominees with the greatest number of “for” votes are elected as directors, up to the maximum number of directors to be chosen at the Annual Meeting. Accordingly, an abstention or failure to vote on this proposal (including a broker non-vote) will have no effect on the voting for the election of directors.

Proposal Two - Advisory Vote on Executive Compensation: We will consider our shareholders to have approved our executive compensation if the number of votes cast “for” this proposal exceed the number of votes cast “against” this proposal. Accordingly, an abstention or failure to vote on this proposal (including a broker non-vote) will have no effect on the outcome of this proposal.

## PROPOSAL ONE — ELECTION OF DIRECTORS

At the Annual Meeting, nine persons are to be elected to our Board of Directors, each to hold office for the ensuing year and until his/her successor is duly elected and qualified. Our By-Laws provide for a Board of Directors of not fewer than three nor more than eleven directors. Our Board of Directors currently consists of nine directors, as established by resolution of our Board of Directors. Executed and delivered proxies will be voted for the election of all nominees unless you direct otherwise. Should any nominee decline or be unable to accept such nomination or to serve as a director (an event which our management does not now expect to occur), proxies will be voted for a substitute nominee or nominees in accordance with the best judgment of the person or persons acting under them. Our Board of Directors has nominated James A. Faulconbridge, Patrick H. Hawkins, Duane M. Jergenson, John S. McKeon, Mary J. Schumacher, Daryl I. Skaar, Daniel J. Stauber, James T. Thompson and Jeffrey L. Wright for election to the Board of Directors.

## OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” THE ELECTION OF ALL NOMINEES FOR DIRECTOR.

## Information About Our Directors

Our directors have served as our directors continuously since the year indicated below. The following information, including the principal occupation or employment of each director nominee, has been furnished to us by the respective director nominees. All positions are with our company unless otherwise noted.

Director	Principal Occupation or Employment	Age	Director Since
John S. McKeon	Chairman of the Board since 2005; Retired; President and Chief Operating Officer of ConAgra Foods, Inc. Venture Development Group from 2003 to 2005; President and Chief Operating Officer of ConAgra Foods Snack Group (formerly Golden Valley Microwave Foods, Inc.) from 1993 to 2003; President of McKeon Associates, Inc. (corporate finance consulting) from 1991 to 1993; Vice President of Northstar Industries, Inc. from 1976 to 1990. Chief Executive Officer since 2011; President since 2010; Business Director —	71	1984
Patrick H. Hawkins	Food and Pharmaceuticals from 2009-2010; Business Manager — Food and Co-Extrusion Products from 2007-2009; Sales Representative — Food Ingredients from 2002-2009; various positions with the company from 1992 to 2002.	45	2011
James A. Faulconbridge	President of Karges-Faulconbridge, Inc. (engineering and technical services) since 1996.	48	2006
Duane M. Jergenson	Retired; Vice President of Operations of Taylor Corporation from 1985 to 1999; various positions with Taylor Corporation from 1966 to 1985. Twin Cities Habitat for Humanity — Chief Operating Officer since January 2011; Andersen Corporation — Senior Vice President and General Manager	69	1996
Mary J. Schumacher	from 2008 to 2010, Senior Vice President, Research, Technology, Quality and Engineering from 2003 to 2008; various positions at Ecolab Inc. from 1992 to 2003; various positions at The Pillsbury Company from 1979 to 1992.	59	2012
Daryl I. Skaar	Retired; Vice President and Chief Procurement Officer of Lucent Technologies from 1997 to 2000; various positions at 3M from 1965 to 1997, most recently as Vice President of Purchasing and Packaging Engineering. Chief Brand Officer for Stauber Performance Ingredients, Inc., a wholly	74	2001
Daniel J. Stauber	owned subsidiary of Hawkins, Inc., since December 2015; Chief Executive Officer of Stauber from 1998 to 2015, President from 1994 to 1998 and various other positions from 1984 to 1994.	54	February 2016
James T. Thompson	Retired; Executive Vice President — Commercial of The Mosaic Company from 2004 to 2007; board member, Sims Metal Management since 2009;	65	2009

Edgar Filing: HAWKINS INC - Form DEF 14A

various positions at Cargill, Inc. from 1974 to 2004, most recently as President of Cargill Steel from 1996 to 2004.

Retired; G&K Services — Chief Financial Officer from 1999 to 2014,

Executive Vice President and Director from 2009 to 2014, Senior Vice

President from 2004 to 2009, Treasurer and Secretary from 1999 to 2003;

Jeffrey L. Wright

BMC Industries, Inc. — Treasurer from 1998 to 1999, Controller from 1996 to 2009

1998; various positions at Employee Benefit Plans, Inc. from 1993 to 1996,

most recently as Vice President and Treasurer; employed by Arthur Andersen

& Co. from 1984 to 1993.



There are no family relationships among any of our directors, executive officers, or director nominees. On December 23, 2015, we entered into an employment agreement with Mr. Stauber pursuant to which he is to serve as a member of our Board of Directors through December 23, 2018, subject to the approval of the Board of Directors and the standard policies and procedures for such Board service or removal from the Board. Other than the foregoing, there are no arrangements or understandings between any director nominee and any other person pursuant to which a director nominee was selected as a director or a director nominee.

Each director nominee brings unique capabilities to our Board of Directors. The Board believes the nominees as a group have the experience and skills in areas such as general business management, corporate governance, manufacturing, finance, strategic planning and risk management that are necessary to effectively oversee our company. In addition, the Board believes that each of our directors possesses high standards of ethics, integrity and professionalism, sound judgment and a commitment to representing the long-term interests of our shareholders. The following is information as to why each nominee should serve as a director of our company:

Mr. McKeon has been our Chairman of the Board since 2005 and has extensive experience in management, manufacturing and corporate finance, having served as President and Chief Operating Officer of ConAgra Foods, Inc. Venture Development Group. His knowledge of our company and its business is also valuable in formulating and executing our business plans and growth strategies.

Mr. Hawkins has been our Chief Executive Officer since 2011. Mr. Hawkins has been with the company since 1992, giving him an intimate knowledge of our company and its business and a deep passion for our continued success.

Mr. Faulconbridge is a principal of Karges-Faulconbridge, Inc., an engineering and technical services firm that services a broad variety of industries, including the ethanol industry. His background provides the company with technical expertise and insight into ethanol and other industries we serve.

Mr. Jergenson has been on our Board since 1996. His operations management experience with Taylor Corporation, one of the largest privately held companies in the United States, provides valuable perspective and insight as our company seeks and implements growth opportunities.

Ms. Schumacher has extensive knowledge of the chemical industry and valuable experience in research and development, quality and business development with major corporations such as Andersen Corporation, a manufacturer of windows and doors, Ecolab Corporation, a leading supplier of cleaning and sanitizing products and services and Pillsbury Company, a food manufacturer. In addition, Ms. Schumacher holds a bachelor's degree in chemical engineering from the University of Minnesota.

Mr. Stauber has extensive knowledge of the health and nutrition industry, having spent 31 years helping to build Stauber Performance Ingredients into the company we acquired in fiscal 2016, and having served as Chief Executive Officer of Stauber from 1998 to 2015. His knowledge of this business is valuable in formulating and executing our business plans and growth strategies for this new segment of our business.

Mr. Skaar has extensive experience in purchasing and procurement for large public companies, having served as Vice President and Chief Procurement Officer at Lucent Technologies and Vice President of Purchasing and Packing Engineering at 3M. This experience is valuable given the large number of products we must buy to operate our business.

Mr. Thompson has experience with major manufacturing and commodity companies, having served 30 years at Cargill, Inc., including eight years as President of Cargill Steel, and three years as Executive Vice President—Commercial for The Mosaic Company, one of the world's leading producers and marketers of concentrated phosphate and potash. This knowledge and experience is valuable to us in our commodity chemicals business.

Mr. Wright has extensive public company finance and audit experience, having served as Chief Financial Officer of G&K Services, Inc. and having been employed by Arthur Andersen & Co. He also has public company board experience, previously serving as a director of G&K Services, Inc. His background provides us with valuable financial and accounting experience as well as public company board experience.

#### Director Independence

Our Board of Directors has determined that, of the director nominees, each of Messrs. Faulconbridge, Jergenson, McKeon, Skaar, Thompson and Wright, and Ms. Schumacher, are “Independent Directors” as that term is defined under the applicable listing standards of the NASDAQ Stock Market. Accordingly, a majority of our directors are independent.

#### CORPORATE GOVERNANCE

##### Meetings of the Board of Directors

Our Board of Directors held six meetings during the fiscal year ended April 3, 2016, hereinafter referred to as “fiscal 2016.” All then active directors attended at least 75% of the meetings of our Board of Directors and the committees on which they served. All then active directors attended our Annual Meeting of Shareholders in 2015. Our Board of Directors encourages, but does not require, director attendance at annual meetings of shareholders.

##### Leadership Structure of the Board of Directors

Our Board of Directors does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board, as the Board of Directors believes it is in the best interests of the company to make that determination based on the position and direction of the company and the membership of the Board. The positions of Chief Executive Officer and Chairman of the Board are not currently held by the same person. This structure allows us to more fully utilize the skills of Mr. McKeon and ensures a greater active participation of the directors in setting agendas and establishing Board priorities and procedures. Further, this structure permits our Chief Executive Officer to focus on the management of the company’s day-to-day operations.

##### Audit Committee

The Audit Committee, which consists of Jeffrey L. Wright (Chair), James A. Faulconbridge, Mary J. Schumacher and Daryl I. Skaar, is responsible for, among other things, selecting and appointing our independent auditors, meeting with the independent auditors and financial management to review the scope of the audit and the audit procedures, reviewing annually the responsibilities of the Audit Committee and recommending to our Board of Directors any changes to these responsibilities, and establishing and reviewing internal controls. The Audit Committee held four meetings during fiscal 2016.

Our Board of Directors has determined that all members of the Audit Committee are “independent” as that term is used in Section 10A(m) of the Securities Exchange Act of 1934 and “Independent Directors” as that term is defined under the applicable listing standards of the NASDAQ Stock Market. Our Board of Directors has determined that Messrs. Wright, Faulconbridge and Skaar, and Ms. Schumacher, are “audit committee financial experts,” as the term is defined by regulations promulgated by the Securities and Exchange Commission (SEC).

The responsibilities of the Audit Committee are set forth in the Audit Committee Charter. A current copy of the charter is available on our website ([www.hawkinsinc.com](http://www.hawkinsinc.com)).

##### Compensation Committee

The Compensation Committee, which currently consists of James T. Thompson (Chair), Duane M. Jergenson, Mary J. Schumacher, Daryl I. Skaar, and Jeffrey L. Wright, is responsible for establishing compensation policies for our company and for reviewing and setting compensation for our executive officers. The Compensation Committee held four meetings during fiscal 2016.

Our Board of Directors has determined that all members of the Compensation Committee are “Independent Directors” as that term is defined under the applicable listing standards of the NASDAQ Stock Market, “non-employee directors” as that term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, and “outside directors” as that term is used in Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee retained independent compensation consultant McLagan to provide the Compensation Committee with independent advice regarding industry practices for fiscal 2016. No member of the Board of Directors or any executive officer has any affiliation with McLagan. McLagan provides no other services to the company, and reports directly to the chair of the Compensation Committee. The Compensation Committee has assessed the independence of McLagan in accordance with SEC rules and has concluded that no conflict of interest exists that will prevent them from being independent consultants to the Compensation Committee. McLagan advised the Compensation Committee on the principal aspects of our executive compensation components and best practices in

executive compensation and provided market information and analysis regarding the competitiveness of levels and components of total compensation for the company's named executive officers for fiscal 2016. In determining the competitiveness of such compensation, the Compensation Committee reviewed survey data. The company does not benchmark its compensation. The Compensation Committee reviews and considers the

information provided by McLagan to understand current compensation practices, levels and structures and to inform its compensation decisions, but not to establish specific compensation parameters based on such data.

The Compensation Committee also regularly consults with our Chief Executive Officer, who makes recommendations to the Compensation Committee regarding compensation of our executive officers other than the Chief Executive Officer. Additional information on the role of the compensation consultants and management in the Compensation Committee's processes and procedures can be found in the Compensation Discussion and Analysis section below.

The responsibilities of the Compensation Committee are set forth in the Compensation Committee Charter. A current copy of the charter is available on our website ([www.hawkinsinc.com](http://www.hawkinsinc.com)).

#### Governance and Nominating Committee

The Governance and Nominating Committee, which consists of James A. Faulconbridge (Chair), John S. McKeon, James T. Thompson and Jeffrey L. Wright, is responsible for identifying individuals qualified to become directors and recommending nominees to our Board of Directors for election at annual meetings of shareholders and to fill vacancies, monitoring developments in director compensation and, as appropriate, developing and recommending to our Board corporate governance principles applicable to us and overseeing public policy matters and compliance with our Code of Conduct. The Governance and Nominating Committee held four meetings during fiscal 2016. The Governance and Nominating Committee evaluated potential candidates for director nomination on the basis indicated below and recommended to the Board of Directors that the director nominees included in this Proxy Statement be submitted to the shareholders for election at the upcoming Annual Meeting of Shareholders.

The responsibilities of the Governance and Nominating Committee are set forth in the Governance and Nominating Committee Charter. A current copy of the charter is available on our website ([www.hawkinsinc.com](http://www.hawkinsinc.com)).

#### Nominating Process

In order to maintain flexibility in its consideration of candidates, our Board of Directors does not have a formal policy regarding the consideration of any director candidates recommended by shareholders. However, the Governance and Nominating Committee would consider for possible nomination qualified nominees recommended by shareholders in compliance with our By-Laws. To make a director nomination, a shareholder should send the director candidate's name, credentials and contact information, a signed statement consenting to his or her nomination and agreeing, if elected, to serve as a director, a completed director nominee questionnaire (available from our Secretary upon request) and the other information required by our By-Laws, to our Secretary no later than 90 days prior to the first anniversary of the preceding year's annual meeting. The proposing shareholder should also include his or her contact information and evidence that the person submitting the nomination is a shareholder of the company. The Governance and Nominating Committee will evaluate candidates (nominated by shareholders or otherwise) based on financial literacy, knowledge of our industry or other background relevant to our needs, status as a stakeholder in our company, "independence" for purposes of compliance with Internal Revenue Service and SEC rules and NASDAQ Stock Market listing standards, and willingness, ability and availability for service. The company does not have a formal policy with regard to the consideration of diversity in identifying director nominees, but the Governance and Nominating Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills, and expertise to oversee the company's businesses.

#### Risk Oversight

The company's management is responsible for identifying the various risks facing the company, formulating risk management policies and procedures, and managing the company's risk exposures on a day-to-day basis. The Board of Directors is responsible for monitoring the company's risk management processes by informing itself concerning the company's material risks and evaluating whether management has reasonable controls in place to address the material risks. The Board is not responsible, however, for identifying or managing the company's various risks. The Audit Committee of the Board of Directors is primarily responsible for monitoring management's responsibility in the area of financial risk oversight, and financial risk management is a factor the Board and the Governance and Nominating Committee consider when determining which directors serve on the Audit Committee. Accordingly, management has reported to the Board of Directors and Audit Committee on various risk management matters during fiscal 2016. The Audit Committee, in turn, reports on the matters discussed at the committee level to the full Board of Directors. The Audit Committee and the Board of Directors focus on the material risks facing the company, including operational,

market, liquidity, legal and regulatory risks, to assess whether management has reasonable controls in place to address these risks. The Board believes this allocation of responsibility provides an effective and efficient approach for addressing risk management.

Communications with Directors

Shareholders can contact the full Board of Directors, the independent directors as a group or any of the individual directors by writing to our Secretary at 2381 Rosegate, Roseville, Minnesota 55113. All communications will be compiled by the Secretary and submitted to the addressees on a periodic basis.

7

---

## REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee has (i) reviewed and discussed our audited financial statements for fiscal 2016 with both our management and KPMG LLP (“KPMG”); (ii) discussed with KPMG the matters required to be discussed by the applicable Public Company Accounting Oversight Board standards regarding communications with audit committees; (iii) received from KPMG the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the Audit Committee concerning independence and discussed with KPMG its independence; and (iv) considered whether the non-audit services provided by KPMG are compatible with maintaining the independence of KPMG. Based on the review and discussions described above, the Audit Committee recommended to our Board of Directors that our audited financial statements be included in our Annual Report on Form 10-K for fiscal 2016 for filing with the SEC.

Jeffrey L. Wright (Chair)      James A. Faulconbridge      Mary J. Schumacher Daryl I. Skaar  
Audit Committee of the Board of Directors

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM’S FEES

The following table shows the aggregate fees charged to us by our independent registered public accounting firm, KPMG LLP, for services rendered during fiscal 2016 and fiscal 2015. The Audit Committee pre-approved all of the services described below.

Description of Fees	Fiscal 2016	Fiscal 2015
	Amount	Amount
Audit fees	\$ 563,900	\$ 279,000
Audit-related fees (a)	71,022	—
Total	\$ 634,922	\$ 279,000

(a) Includes amounts related to financial due diligence services related to the acquisition of Stauber Performance Ingredients as well as amounts related to SEC filings in connection with the transaction.

The Audit Committee’s current practice on pre-approval of services performed by our independent registered public accounting firm is to approve annually all audit services, as well as the nature and extent of specific types of audit-related, tax and other non-audit services to be provided by the independent registered public accounting firm during the year. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the auditors’ independence. As the need arises, other specific permitted services are pre-approved on a case-by-case basis during the year. The Audit Committee has delegated to its chair pre-approval authority between meetings of the Audit Committee. Any pre-approvals made by the chair must be reported to the Audit Committee.

## COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

### Compensation Discussion and Analysis

The following discussion and analysis describes our compensation objectives and policies and the compensation awarded to the following executive officers (our “named executive officers”) during fiscal 2016:

Patrick H. Hawkins, Chief Executive Officer and President;  
Kathleen P. Pepski, Vice President, Chief Financial Officer and Treasurer;  
Richard G. Erstad, Vice President, General Counsel and Secretary;  
John R. Sevenich, Vice President - Industrial Group; and  
Thomas J. Keller, Vice President - Water Treatment Group.

### Overview

Our executive compensation program is designed to attract and retain executives who will lead our company to achieve long-term success and growth in shareholder value. Consistent with that goal, our executive compensation is based on company, business unit and individual performance to align the interests of our executive officers with those of our shareholders and is used to encourage our executive officers to stay with the company. Our executive compensation program currently includes a mix of elements that rewards current results as well as motivates long-term performance through an appropriate balance of base pay and performance-based variable compensation. Our performance-based variable compensation consists of a short-term component that provides incentives relative to



superior current business results as well as personal performance, and a long-term incentive plan that motivates long-term performance and aligns business objectives with the

8

---

interests of our shareholders. During fiscal 2016, our compensation committee made no significant changes to its executive compensation policies or to the structure of our executive compensation program, having taken into account, among other things, the fact that the holders of over 95% of the shares voted at our 2015 annual meeting of shareholders approved, on an advisory basis, the compensation of our named executive officers as disclosed in the proxy statement for that annual meeting.

Our named executive officers received payouts of 97% of the targeted payout level for the corporate performance measure under our annual non-equity incentive compensation arrangement and earned 97% of the targeted number of restricted shares issuable in settlement of the performance-based restricted stock units granted for fiscal 2016 as described below. The corporate performance measure for fiscal 2016 for purposes of both the non-equity and equity-based incentive arrangements was income before income taxes, adjusted to exclude the impact of acquisitions completed during the fiscal year.

Gross profit for our Industrial segment was \$38.0 million for fiscal 2016, as compared to \$33.6 million for fiscal 2015. Gross profit for our Water Treatment segment was \$35.5 million for fiscal 2016, as compared to \$32.2 million for fiscal 2015. The Compensation Committee utilized an operational measure of business unit profitability, which includes gross profit as a component of that profitability measure, as the performance measure for the business unit performance portion of the non-equity incentive compensation arrangement. The actual performance against that operating measure was above target for the Industrial segment and below target for the Water Treatment segment. As a result, our Vice President - Industrial Group received an above-target payout, and our Vice President - Water Treatment Group received a below-target payout, under the business unit performance measures of our annual non-equity incentive compensation arrangement.

#### Determining Executive Compensation for Fiscal 2016

Our executive compensation program for the last fiscal year consisted of the following elements:

- base salary,
- annual non-equity incentive compensation,
- annual equity awards,
- contributions to long-term benefit plans, and
- other benefits.

The Compensation Committee does not benchmark the total compensation or any element of compensation for our executives. It also does not apply a mechanical formula or target a specific amount relative to comparative data for any individual nor does it target a specific amount or relative weight for any component of compensation. Rather, the Compensation Committee members reviewed and considered broad-based third-party survey data to understand current compensation practices, levels and structures and thereby inform its compensation decisions, but not to establish specific compensation parameters based on such data. The data was collected by independent compensation consultant McLagan, a compensation consulting firm, which also provided the Compensation Committee with independent advice on industry practices. McLagan provided no other services to the company in fiscal 2016. The Compensation Committee did not use the information provided to it by McLagan in a formulaic manner, but instead used the information to inform its judgment regarding the appropriate levels and components of total compensation for the company's executive officers. The Compensation Committee considered all elements of compensation together and utilized the members' experience and judgment in determining the total compensation opportunity and mix of compensation elements appropriate for each executive officer in light of our compensation objectives.

The Compensation Committee viewed the information provided by McLagan as one of a number of tools available to the Committee in assessing executive compensation. The Compensation Committee also regularly consults with our Chief Executive Officer, who makes recommendations to the Compensation Committee regarding compensation of our executive officers other than the Chief Executive Officer. Our Chief Executive Officer participates in some of the Compensation Committee's deliberations regarding compensation for our other executive officers, although all determinations are made by the Compensation Committee.

#### Elements of Executive Officer Compensation

##### Base Salary

We provide base salaries to our executive officers to compensate them for fulfilling their primary responsibilities and to provide financial stability. The Compensation Committee annually reviews, and adjusts as appropriate, base salaries for our executive officers. In May 2015, the Compensation Committee approved increases in the base salaries of the named executive officers of approximately 2 - 5% based on its evaluation of the competitive information available to it. The base salaries paid to our executive officers during the last three completed fiscal years are listed in the Summary Compensation Table below.

Annual Non-Equity Incentive Compensation

Annual non-equity incentive compensation is a key component of our executive compensation strategy. The purpose of annual incentive compensation is to provide cash compensation that is variable based on the achievement of performance goals established by the Compensation Committee. Our executive officers do not have a contractual right to receive a fixed incentive compensation payment for any fiscal year.

Our non-equity incentive arrangement (described below) provides for no payout to executive officers unless a specified portion of the target is achieved and allows for a significantly increased payout if the target is exceeded. The cash incentive payments are determined and paid following the completion of our annual audit.

For fiscal 2016, the Compensation Committee designated financial performance goals, including a corporate pre-tax income performance measure and, for each executive in charge of a business unit, an operational measure of business unit profitability, as well as individual objectives for determining whether a cash incentive payment would be paid under the arrangement and in what amount.

The annual cash incentive payment opportunities for our named executive officers were based on the following percentages of base salary for fiscal 2016:

Position	Threshold		Target		Maximum	
	Annual Cash	Incentive Payment	Annual Cash	Incentive Payment	Annual Cash	Incentive Payment
Chief Executive Officer	30	%	60	%	120	%
Chief Financial Officer	20	%	40			