

WOODWARD GOVERNOR CO

Form DEF 14A

December 13, 2005

Table of Contents

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

WOODWARD GOVERNOR COMPANY

(Name of Registrant as Specified In Its Charter)

Woodward Governor Company

(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:
-

Table of Contents

Woodward Governor
Company
5001 North Second Street
P.O. Box 7001
Rockford, IL 61125-7001
USA
Tel: 815-877-7441
Fax: 815-639-6033

**WOODWARD GOVERNOR COMPANY
NOTICE OF 2005 ANNUAL MEETING OF SHAREHOLDERS
AND PROXY STATEMENT**

December 13, 2005

Dear Shareholder:

You are cordially invited to attend the Company's annual meeting at 10:00 a.m., local time, on Wednesday, January 25, 2006, in the Auditorium of Northern Illinois University Rockford located at 8500 East State Street, Rockford, Illinois. Registration for the meeting will be in the foyer of the facility. We invite you to join our directors and members of our management team for an informal social period from 9:00 a.m. to 9:45 a.m. The formal meeting will begin promptly at 10:00 a.m.

Parking is available on site. A map is located on the back of this proxy statement.

Please complete and return your proxy card, or vote via telephone or the Internet, as soon as possible regardless of whether you plan to attend.

Sincerely yours,

WOODWARD GOVERNOR COMPANY

John A. Halbrook

Chairman, Board of Directors

Table of Contents

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Wednesday, January 25, 2006

10:00 a.m.

NIU Rockford

8500 East State Street

Rockford, Illinois 61108

The purpose of our Annual Meeting is to:

1. Elect three directors to serve for a term of three years each;
2. Consider and act upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for the fiscal year ending September 30, 2006;
3. Consider and act upon a proposal to adopt the Woodward Governor Company 2006 Omnibus Incentive Plan to replace the Woodward Governor Company 2002 Stock Option Plan which will expire in 2006 and the Woodward Long-Term Management Incentive Compensation Plan;
4. Consider and act upon a proposal to amend Article Fourth of the Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 100,000,000 as well as to effect a three-for-one stock split of the Common Stock; and
5. Transact other business that properly comes before the meeting.

Shareholders who owned Woodward stock at the close of business on November 28, 2005, are entitled to vote at the meeting.

By Order of the Board of Directors,

WOODWARD GOVERNOR COMPANY

Carol J. Manning
Corporate Secretary

December 13, 2005

YOUR VOTE IS IMPORTANT

Even if you plan to attend the meeting in person, please date, sign, and return your proxy in the enclosed envelope, or vote via telephone or the Internet, as soon as possible. Prompt response is helpful and your cooperation will be appreciated.

Table of Contents

<u>About the Annual Meeting and Voting</u>	6
<u>Board of Directors</u>	8
<u>Proposal 1 Election of Directors</u>	8
<u>Independent Directors</u>	10
<u>Board Meetings and Committees</u>	11
<u>Shareholder Communications with the Board of Directors</u>	13
<u>Share Ownership of Management</u>	14
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	14
<u>Persons Owning More than Five Percent of Woodward Stock</u>	15
<u>Common Stock Performance</u>	15
<u>Compensation Committee Report on Executive Compensation</u>	16
<u>Executive Compensation</u>	18
<u>Stock Options</u>	19
<u>Long-Term Management Incentive Compensation Plan Awards</u>	20
<u>Audit Committee Report to Shareholders</u>	21
<u>Proposal 2 Ratification of Appointment of Independent Registered Public Accounting Firm</u>	22
<u>Proposal 3 Approval of the Woodward Governor Company 2006 Omnibus Incentive Plan</u>	22
<u>Proposal 4 Proposal to Amend Article Fourth of the Certificate of Incorporation</u>	24
<u>Shareholder Proposals</u>	25
<u>Other Matters</u>	25
<u>Exhibit A Section 2.8 of Bylaws</u>	27
<u>Exhibit B Charter of the Audit Committee of Woodward Governor Company</u>	28
<u>Exhibit C Woodward Governor Company 2006 Omnibus Incentive Plan</u>	30

Annual Report on Form 10-K

You may obtain a free copy of our Annual Report on Form 10-K for the year ended September 30, 2005, filed with the Securities and Exchange Commission. Please contact Carol Manning, Corporate Secretary, Woodward Governor Company, 5001 North Second Street, Rockford, Illinois 61111 or email investorrelations@woodward.com. This report is expected to be available at www.woodward.com by mid-December 2005.

Table of Contents

About the Annual Meeting and Voting

Our Board of Directors is soliciting your proxy to vote at our annual meeting of shareholders (or at any adjournment of the meeting). This proxy statement summarizes the information you need to know to vote at the meeting.

We began mailing this proxy statement and the enclosed proxy card on or about December 13, 2005, to all shareholders entitled to vote. The Woodward Governor Company Annual Report, which includes our financial statements, is being sent with this proxy statement. The financial statements contained in the Woodward Annual Report are not deemed material to the exercise of prudent judgment in regard to the matters to be acted upon at the annual meeting, and, therefore, are not incorporated by reference into this proxy statement.

Shareholders who owned Woodward Common Stock at the close of business on the record date, November 28, 2005, are entitled to vote at the meeting. As of the record date, there were 11,442,871 shares outstanding.

Each share of Woodward Common Stock that you own entitles you to one vote, except for the election of directors. Since three directors are standing for election, you will be entitled to three director votes for each share of stock you own. Of this total, you may choose how many votes you wish to cast for each director.

Woodward offers shareholders the opportunity to vote by mail, by telephone, or via the Internet. Instructions to use these methods are set forth on the enclosed proxy card.

If you vote by telephone or via the Internet, please have your proxy or voting instruction card available. A telephone or Internet vote authorizes the named proxies in the same manner as if you marked, signed, and returned the card by mail. Voting by telephone and via the Internet are valid proxy voting methods under the laws of Delaware (our state of incorporation) and Woodward Bylaws.

If you properly fill in your proxy card and send it to us in time to vote, one of the individuals named on your proxy card (your proxy) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxy will follow the Board's recommendations and vote your shares:

FOR the election of the Board's nominees to the Board of Directors;

FOR the proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm;

FOR the proposal to approve the Woodward Governor Company 2006 Omnibus Incentive Plan; and

FOR the proposal to amend Article Fourth of the Certificate of Incorporation to increase the number of authorized shares of Common Stock from 50,000,000 to 100,000,000 as well as to effect a three-for-one stock split of the Common Stock.

If any other matter is presented at the meeting, your proxy will vote in accordance with his or her best judgment. At the time this proxy statement went to press, we knew of no other matters to be acted on at the meeting.

You may revoke your proxy by:

sending in another signed proxy card with a later date,

notifying our Corporate Secretary in writing before the meeting that you have revoked your proxy, or

voting in person at the meeting.

If you want to give your written proxy to someone other than individuals named on the proxy card:

cross out the individuals named and insert the name of the individual you are authorizing to vote, or

provide a written authorization to the individual you are authorizing to vote along with your proxy card.

Table of Contents

About the Annual Meeting and Voting (continued)

Concerning the issues submitted to the shareholders, votes required for approval are as follows:

Proposal 1 Directors are elected by a plurality vote of shares present at the meeting, meaning that the three director nominees receiving the most votes will be elected.

Proposal 2 Ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm is by an affirmative vote of the majority of shares present at the meeting and entitled to vote.

Proposal 3 Approval of the Woodward Governor Company 2006 Omnibus Incentive Plan is by an affirmative vote of the majority of shares present at the meeting and entitled to vote.

Proposal 4 The affirmative vote by the holders of two-thirds of the outstanding shares of Common Stock as of the record date is required to amend Article Fourth of the Certificate of Incorporation to increase the number of authorized shares from 50,000,000 to 100,000,000 and to effect a three-for-one stock split of the Common Stock.

A quorum of shareholders is necessary to hold a valid meeting. The presence, in person or by proxy, at the meeting of holders of shares representing a majority of the votes of the Common Stock entitled to vote constitutes a quorum. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker votes on some matters on the proxy card but not on others because he or she is not permitted to vote on that item absent instruction from the beneficial owner of the shares and no instruction is given. Abstentions have the same effect as votes against a matter because they are considered present and entitled to vote, but are not voted. Broker non-votes will have no effect on the vote, except with respect to Proposal 4.

7

Table of Contents

Board of Directors

Structure

Our Board of Directors is divided into three classes for purposes of election. One class is elected at each annual meeting of shareholders to serve for a three-year term.

Each of the directors standing for election at the 2005 Annual Meeting of Shareholders has been nominated by the Board of Directors at the recommendation of the Nominating and Governance Committee to hold office for a three-year term expiring in 2009 or when his or her successor is elected. Other directors are not up for election at this meeting and will continue in office for the remainder of their terms.

If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the Nominating and Governance Committee.

PROPOSAL 1 ELECTION OF DIRECTORS

Directors Standing for Election at This Meeting for Terms Expiring in 2009:

Paul Donovan

Age: 58

Retired Executive Vice President and Chief Financial Officer of Wisconsin Energy Corporation, a holding company with subsidiaries in utility and non-utility businesses, including electric and natural gas energy services and real estate businesses. Other directorships: AMCORE Financial, Inc. and CLARCOR.

Mr. Donovan has been a director of the Company since 2000.

Thomas A. Gendron

Age: 44

President and Chief Executive Officer of the Company.

Mr. Gendron was elected a director of the Company by the Board of Directors effective July 1, 2005.

John A. Halbrook

Age: 60

Chairman of the Board of Directors of the Company. Other directorships: AMCORE Financial, Inc. and HNI Corporation.

Mr. Halbrook has been a director of the Company since 1991.

Your Board of Directors recommends a vote FOR the nominees presented in Proposal 1.

Table of Contents

Board of Directors (continued)

Directors Remaining in Office Until 2008:

Mary L. Petrovich

Age: 42

Chief Executive Officer of AxleTech International, a supplier of off-highway and specialty vehicle drivetrain systems and components.

Ms. Petrovich has been a director of the Company since 2002.

Larry E. Rittenberg

Age: 59

PhD, CIA, CPA, Ernst & Young Professor of Accounting & Information Systems at the University of Wisconsin.

Mr. Rittenberg has been a director of the Company since 2004.

Michael T. Yonker

Age: 63

Retired President and Chief Executive Officer of Portec, Inc., which had operations in the construction equipment, materials handling and railroad products industries. Other directorships: Modine Manufacturing Company, Inc., Emcor Group, Inc. and Transpro Inc.

Mr. Yonker has been a director of the Company since 1993.

Table of Contents

Board of Directors (continued)

Directors Remaining in Office Until 2007:

John D. Cohn

Age: 51

Senior Vice President, Strategic Development and Communications, of Rockwell Automation, Inc., a provider of global industrial automation power, control and information systems and solutions.

Mr. Cohn has been a director of the Company since 2002.

Michael H. Joyce

Age: 65

President and Chief Operating Officer of Twin Disc, Incorporated, a designer and manufacturer of heavy-duty transmission equipment. Other directorships: Twin Disc, Incorporated and The Oilgear Company.

Mr. Joyce has been a director of the Company since 2000.

James R. Rulseh

Age: 50

Group Vice President of Modine Manufacturing Company, a specialist in thermal management products, bringing heating and cooling technology to diversified markets. Other directorships: Proliance International, Inc.

Mr. Rulseh has been a director of the Company since 2002.

Independent Directors

The Board of Directors has determined that each member of the Board of Directors other than Mr. Halbrook and Mr. Gendron is independent under the criteria established by The Nasdaq Stock Market (Nasdaq) for independent board members. In addition, the Board of Directors has determined that the members of the Audit Committee meet the additional independence criteria required for audit committee membership.

Table of Contents

Board Meetings and Committees

The Board of Directors met five times in fiscal 2005; all incumbent directors attended more than 75 percent of the aggregate of the total meetings of the Board of Directors and all committees of the Board on which they served. Directors are invited, but are not required, to attend annual meetings of shareholders. All directors attended the Company's last annual meeting of shareholders.

All actions by committees are reported to the Board at the next scheduled meeting. No legal rights of third parties may be affected by Board revisions.

All Committee Charters are available on the Company's website at www.woodward.com.

Committee Membership

Name	Audit	Compensation	Executive	Nominating and Governance
John D. Cohn				
Paul Donovan	*			
John A. Halbrook			*	
Michael H. Joyce				*
Mary L. Petrovich				
Larry E. Rittenberg				
James R. Rulseh				
Michael T. Yonker			*	

*chairman

Audit Committee

The Audit Committee oversees and monitors management's and the independent registered public accounting firm's participation in the financial reporting process. The Committee operates under a Charter that more fully describes the responsibilities of the Committee. Consistent with Nasdaq's independent director and Audit Committee listing standards, and in accordance with the Committee Charter, all members of the Audit Committee are independent directors. The Board of Directors has determined that all members of the Audit Committee are Audit Committee Financial Experts, as the Securities and Exchange Commission defines that term. The Committee held seven meetings in fiscal 2005.

Compensation Committee

The Compensation Committee recommends the base compensation of Woodward's officers and key personnel, and evaluates the performance of and reviews the results of the annual member evaluation for those individuals. The Committee administers the Company's Long-Term Management Incentive Compensation Plan and the 2002 Stock Option Plan, determining and taking all action, including granting of all incentives and/ or stock options to eligible worker members, in accordance with the terms of the Plans. The Committee held four meetings in fiscal 2005.

Executive Committee

The Executive Committee exercises all the powers and authority of the Board of Directors in the management of the business when the Board is not in session and when, in the opinion of the Chairman, the matter should not be postponed until the next scheduled Board meeting. The Committee may declare cash dividends. The Committee may not authorize certain major corporate actions such as amending the Certificate of Incorporation, amending the Bylaws, adopting an agreement of merger or consolidation, or recommending the sale, lease, or exchange of substantially all of Woodward's assets. The Committee held three meetings in fiscal 2005.

**Nominating and
Governance Committee**

The Nominating and Governance Committee recommends qualified individuals to fill any vacancies on the Board and develops and administers the Director Guidelines, the Company's corporate governance guidelines. In accordance with SEC guidelines and the Committee's Charter, all members of the Nominating and Governance Committee are independent directors. The Committee held two meetings in fiscal 2005.

**Director Nomination
Process**

The Nominating and Governance Committee considers candidates for Board membership as recommended by directors, management, or shareholders. The Committee uses the same criteria

Table of Contents

Board Meetings and Committees (continued)

to evaluate all candidates for Board membership and, as it deems necessary, may engage consultants or third-party search firms to assist in identifying and evaluating potential nominees.

Director candidates are expected to possess the highest levels of personal and professional ethics, integrity, values, and independence. Prospective directors should be committed to representing the long-term interests of the shareholders. A potential director must exhibit an inquisitive and objective perspective, an ability to think strategically, an ability to identify practical problems, and an ability to assess alternative courses of action that contribute to the long-term success of the business. The Committee is committed to exercising best practices of corporate governance and recognizes the importance of a Board that contains diverse experience at policy-making levels in business, public service, education and technology, as well as other relevant knowledge that contributes to the Company's global activities. Board members must have industry expertise and/or commit to understanding the Company's industry as a basis to address strategic and operational issues of importance to the Company.

Every effort is made to complement and supplement skills within the Board and strengthen identified areas of need. The Committee considers relevant factors, as it deems appropriate, including the current composition of the Board and the need for expertise in various Board committees. The Committee will consider the ability of candidates to meet independence and other requirements of the SEC or other regulatory bodies exercising authority over the Company. In assessing candidates, the Committee considers criteria such as education, experience, diversity, knowledge, and understanding of matters such as finance, manufacturing, technology, distribution, and other areas that are frequently encountered by a complex business. The Committee will make inquiries of prospective Board candidates about their ability to devote sufficient time to carry out their duties and responsibilities effectively, and whether they are committed to serve on the Board for a sufficient time to make significant contributions to the governance of the organization.

The Committee evaluation normally requires one or more members of the Committee, and others as appropriate, to interview prospective nominees in person or by telephone. Upon identification of a qualified candidate, the Nominating and Governance Committee will recommend a candidate for consideration by the full Board.

Nominations for Board membership may be provided to the Nominating and Governance Committee by submitting the candidate's name and qualifications to Woodward Governor Company, Attn: Corporate Secretary, 5001 North Second Street, Rockford, Illinois 61111. When submitting candidates for nomination, information must be provided in accordance with Woodward's Bylaws.

Lead Director

Mr. Yonker serves as Lead Director. The Lead Director chairs a separate meeting of the outside directors following each regularly scheduled Board meeting. Topics

discussed are at the discretion of the outside directors. The Lead Director then meets with the Chief Executive Officer to review items discussed at the meeting.

Director Qualifications

The Company's Bylaws provide that:

each director shall retire on September 30th following his or her seventieth birthday unless approved otherwise by the Board,

no person may serve as a director unless he or she agrees to be guided by the philosophy and concepts expressed in Woodward's Constitution, and

Woodward must receive adequate notice regarding nominees for directors. A copy of the notice requirement in Section 2.8 is attached as Exhibit A.

Director Compensation

We do not pay directors who are also Woodward officers additional compensation for their service as directors. In fiscal 2005, the following compensation was provided to non-employee directors:

a monthly retainer of \$2,000,

Board and committee members received \$1,500 for each meeting attended or \$500 for participation in each single issue telephonic meeting,

Table of Contents

Board Meetings and Committees (continued)

committee chairmen received \$2,500 for each committee meeting attended or \$1,000 for participation in each single issue telephonic meeting,

the Audit Committee chairman received an additional monthly retainer of \$750,

reimbursed expenses of attending Board and committee meetings, and

received award of options in November 2005 to purchase 1,500 shares of Woodward Common Stock at the market price on the date of grant; options vest after one year. Pursuant to an Outside Director Stock Purchase Agreement entered into prior to July 2002, Woodward sold shares of Common Stock at the closing price on the date of purchase to Mr. Rulseh. In payment of the purchase price, a non-interest bearing note was signed and is being repaid by application of his monthly retainer. The largest amount of indebtedness outstanding during the year was \$61,963 and the amount outstanding at November 28, 2005, was \$33,963.

Shareholder Communications with the Board of Directors

Shareholders may send communications to the Board of Directors by submitting a letter addressed to: Woodward Governor Company, Attn: Corporate Secretary, 5001 North Second Street, Rockford, Illinois 61111.

The Board of Directors has instructed the Corporate Secretary to forward such communications to the Lead Director of the Board of Directors. The Board of Directors has also instructed the Corporate Secretary to review such correspondence and, at the Corporate Secretary's discretion, not to forward correspondence which is deemed of a commercial or frivolous nature or inappropriate for Board of Director consideration. The Corporate Secretary may also forward the shareholder communication within the Company to the President and Chief Executive Officer or another department to facilitate an appropriate response.

The Corporate Secretary will maintain a log of all communications from shareholders and the disposition of such communications for review by the Directors at least annually.

Table of Contents**Share Ownership of Management**

Directors and Executive Officers The following table shows how much Woodward Common Stock was owned, as of November 28, 2005, by each director, each executive officer named in the Summary Compensation Table, and all directors and executive officers as a group.

Ownership of Common Stock

Non-Employee Directors	Number of Shares	Percent
John D. Cohn	4,500(2)	.04%
Paul Donovan	5,502(2)	.05%
Michael H. Joyce	6,792(2)	.06%
Mary L. Petrovich	4,762(2)	.04%
Larry E. Rittenberg	795	.01%
James R. Rulseh	3,692(2)	.03%
Michael T. Yonker	10,036(2)	.09%
Named Executive Officers		
Stephen P. Carter	125,149(1)	1.09%
Thomas A. Gendron	84,550(1)	.74%
John A. Halbrook	390,272(1)	3.41%
Robert F. Weber, Jr.		.00%
All directors and executive officers as a group	644,733(1)(2)	5.63%

(1) Includes the maximum number of shares which might be deemed to be beneficially owned under rules of the SEC. Includes exercisable options to purchase shares of Common Stock as follows: Mr. Carter 118,960; Mr. Gendron 79,662; and Mr. Halbrook 373,825. Also includes shares (does not include fractional shares) allocated to participant accounts of executive officers under the Woodward Governor Company Retirement Savings Plan. The Plan directs the Trustee to vote the shares allocated to participant accounts under the Woodward Stock Plan portion of the Plan as directed by such participants and to vote all allocated shares for which no timely instructions are received in the same proportion as the allocated shares for which instructions are received.

(2) Includes exercisable options to purchase shares of Common Stock granted under the 2002 Stock Option Plan as follows: Mr. Cohn 2,000; Mr. Donovan 4,000; Mr. Joyce 4,000; Ms. Petrovich 2,000; Mr. Rulseh 2,000; and Mr. Yonker 4,000.

Share Ownership Guidelines The Board of Directors has established share ownership guidelines for executives and non-employee directors to align their interests and objectives with the Company's shareholders, based on level of compensation.

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of our records, all reports required to be filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) were filed

on a timely basis, except with respect to a Form 4 for Thomas A. Gendron relating to an acquisition.

Table of Contents**Persons Owning More than Five Percent of Woodward Stock**

The following table shows how much Woodward Common Stock was owned, as of November 18, 2005 (except as indicated in note (2)), by each person known to us to own more than five percent of our Common Stock.

Ownership of Common Stock

Principal Holders	Number of Shares	Percent
Woodward Governor Company Profit Sharing Trust 5001 North Second Street Rockford, Illinois 61111	1,494,818(1)	13.1%
Barclays Global Investors, NA 45 Fremont Street San Francisco, California 94105	584,804(2)	5.1%
Lord, Abbett & Co. LLC 90 Hudson Street Jersey City, New Jersey 07302	812,775(3)	7.1%
Royce & Associates, LLC 1414 Avenue of the Americas New York, New York 10019	1,156,126(4)	10.1%

- (1) Shares owned by the Woodward Governor Company Profit Sharing Trust are held in its Retirement Savings Plan (the Plan). Vanguard Fiduciary Trust serves as Trustee of the Profit Sharing Trust. All shares held in the Profit Sharing Trust are allocated to participant accounts. The Plan directs the Trustee to vote the shares allocated to participant accounts under the Woodward Stock Plan portion of the Plan as directed by such participants and to vote all allocated shares for which no timely instructions are received in the same proportion as the allocated shares for which instructions are received. In the event of a tender or exchange offer, participants have the right individually to decide whether to tender or exchange shares in their account. The Plan directs the Trustee to tender or exchange all allocated shares for which no timely instructions are received in the same proportion as the allocated shares with respect to which it does receive directions.
- (2) Shareholdings reported are in accordance with information contained in Barclays Global Investors, NA Form 13F filed with the SEC for the period ended September 30, 2005. Barclays has investment discretion on all shares with sole voting authority for 569,997 shares.

(3)

Lord, Abbett & Co. LLC has advised the Company that it has investment power for the entire holding and sole voting authority for 704,373 shares.

- (4) Royce & Associates, LLC has advised the Company that it has sole investment power and sole voting power for the entire holding.

Common Stock Performance

The following Performance Graph compares Woodward's cumulative total return on its Common Stock for a five-year period (years ended September 30, 2001 to September 30, 2005) with the cumulative total return of the S&P SmallCap 600 Index and the S&P Industrial Machinery Index.

15

Table of Contents

Common Stock Performance

The following Performance Graph compares Woodward's cumulative total return on its Common Stock for a five-year period (years ended September 30, 2001 to September 30, 2005) with the cumulative total return of the S&P SmallCap 600 Index and the S&P Industrial Machinery Index.

Total Return to Shareholders

The graph assumes that the value of the investment in Woodward's Common Stock and each index was \$100 on September 30, 2000 and that all dividends were reinvested.

Compensation Committee Report on Executive Compensation

The goal of the Compensation Committee (the Committee) is to establish and administer a compensation program that will (1) offer competitive compensation to attract, retain, and motivate a high-quality senior management team, and (2) link total annual cash compensation to Company and individual performance. The Committee believes proper administration of such a program will result in development of a management team that embraces the best long-term interests of Woodward and its shareholders.

To accomplish this goal, the Committee, comprised entirely of independent directors, structures total compensation packages comprised of base salary, short-term and long-term incentive compensation, and stock options.

Market-based compensation recognizes responsibilities and accountabilities for similarly situated positions within a representative comparative group. Guidance is provided by a professional compensation and benefits consulting firm. This process establishes base compensation and targets for incentive/variable compensation.

Compensation Structure and Components

Individuals are assigned to salary grade ranges based upon their position

base salary is set within the range based upon actual job responsibilities, performance, and experience in the job

annual incentive compensation targets of at least 10 percent, but not more than 70 percent, of base salary are established

incentive compensation targets are tied to salary grade

Base Salary

Base salary and annual rate adjustments are based on individual performance, experience, responsibilities, management and leadership abilities.

Annual Incentive Compensation

Annual cash incentives are based on overall financial performance of the Company or individual groups or operating units, achievement of short-term objectives, and direct individual performance. If certain minimum target results are not achieved, no annual

incentive is paid. If targeted levels are attained, annual incentive levels range from 10 percent to 70 percent of base salary. Participants

Table of Contents

Compensation Committee Report on Executive Compensation (continued)

have an opportunity to significantly increase their annual incentive compensation above targeted levels for outstanding performance, to a maximum of 200% target.

The Woodward Governor Company 2002 Stock Option Plan (the Stock Option Plan) was established to further Woodward's long-term growth and profitability by offering long-term incentives to certain key management worker members and directors who are not worker members. By providing an equity position in the Company, the Compensation Committee believes that participants' interests will be better aligned with those of the Company's shareholders.

The Stock Option Plan authorizes awards of both incentive and nonqualified stock options to worker members and nonqualified stock options to independent directors. Management makes recommendations to the Committee on the size of grant, if any, for each participant. The option price of the shares is determined at the date of the grant and will not be less than the fair market value as quoted on Nasdaq on that date.

In fiscal 2005, 34 worker members and 7 independent directors were granted options under the Stock Option Plan.

Long-Term Management Incentive Compensation Plan

In fiscal 2000, the Company established a long-term, performance-based compensation plan. Eligibility is limited to a few top-level executives, currently three individuals, as determined by the Compensation Committee. The Committee sets long-term performance goals and confirms attainment or lack thereof. The performance goals are established to encourage consistent, sustainable growth and are measured over three-year cycles.

Long-term cash award opportunities are determined at the beginning of each performance cycle and are based on goals associated with:

average annual growth in earnings per share

average annual return on invested assets

A target award is established for each eligible executive based upon salary grade ranging from 40 percent to 50 percent of base salary. A threshold level of performance is established below which the executive receives no incentive award. Once threshold performance is achieved, the executive receives a minimum award equal to 5 percent to 10 percent of the target award. Above threshold performance, the award increases proportionally until target performance is achieved. The award opportunity continues to increase for above-target performance to a practical maximum of 200 percent of the target award.

Compensation of the Chairman and Chief Executive Officer

Mr. Halbrook served as Chairman and Chief Executive Officer until June 30, 2005, at which time he relinquished the position of Chief Executive Officer. Mr. Halbrook's base salary of \$545,090 was determined in the same manner as for all other executive officers. For fiscal 2005, \$686,879 annual incentive compensation was awarded to

Mr. Halbrook.

Under the Stock Option Plan, Mr. Halbrook received no award of stock options.

Mr. Halbrook also participates in the Long-Term Management Incentive Compensation Plan. Mr. Halbrook did not receive an award for the three-year period ended September 30, 2005.

Mr. Gendron was elected as Chief Executive Officer as of July 1, 2005. As President and Chief Operating Officer, Mr. Gendron received base salary of \$350,000 through June 30, 2005. Effective July 2, 2005, Mr. Gendron's base salary was increased to \$500,000 in recognition of his increased responsibilities as Chief Executive Officer of the Company. For fiscal 2005, \$409,376 annual incentive compensation was awarded to Mr. Gendron.

Under the Stock Option Plan, Mr. Gendron was awarded options in fiscal year 2006 to purchase 20,000 shares of Woodward Common Stock.

Mr. Gendron also participates in the Long-Term Management Incentive Compensation Plan. Mr. Gendron did not receive an award for the three-year period ended September 30, 2005. The amount of future incentive awards will be determined at the end of each subsequent three-year period based on achievement of performance goals.

Table of Contents

Compensation Committee Report on Executive Compensation (continued)