KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
Form 10-Q
May 08, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2008

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

Commission file number 0-27231

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3818604**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4810 Eastgate Mall
San Diego, CA 92121
(858) 812-7300
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer o	Accelerated Filer ý	Non-Accelerated Filer o (Do not check if smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of April 30, 2008 79,696,237 shares of the registrant's common stock were outstanding.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 30, 2008

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except par value and number of shares)
(Unaudited)

	December 31, 2007	March 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 8.6	$ 11.0
Restricted cash		0.3
Accounts receivable, net	77.0	79.3
Income taxes receivable	1.0	0.3
Prepaid expenses	7.4	7.4
Notes receivable	2.6	0.4
Other current assets	8.7	5.1
Current assets of discontinued operations	1.6	0.9
Total current assets	106.9	104.7
Property and equipment, net	6.9	6.6
Goodwill	194.5	196.7
Other intangibles, net	19.9	18.7
Investments in unconsolidated affiliates	0.3	0.3
Other assets	6.7	7.0
Non current assets of discontinued operations	0.1	0.1
Total assets	$ 335.3	$ 334.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 22.7	$ 23.4
Accrued expenses	14.5	12.4
Accrued compensation	9.9	9.9
Billings in excess of costs and earnings on uncompleted contracts	10.9	9.8
Accrued contingent acquisition consideration	2.9	2.9
Income taxes payable	0.2	
Accrual for unused office space	1.0	1.0
Other current liabilities	13.4	13.6
Current portion of long-term debt	2.6	2.6
Current portion of capital lease	0.1	0.1
Current liabilities of discontinued operations	5.3	4.5
Total current liabilities	83.5	80.2
Long-term debt, net of current portion	72.9	74.9
Accrual for unused office space, net of current portion	1.4	1.1
Capital lease, net of current portion	1.1	1.2
Deferred tax liabilities	2.0	2.2
Other liabilities	4.5	5.2
Non current liabilities of discontinued operations	2.7	2.1
Total liabilities	168.1	166.9
Commitments and contingencies (Notes 5, 9 and 13)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized, Series B Convertible Preferred Stock, $.001 par value; 10,000 shares outstanding at December 31, 2007 and March 30, 2008 (liquidation preference		

	December 31, 2007	March 30, 2008
$5.0 million)		
Common Stock, $.001 par value, 195,000,000 shares authorized; 78,999,922 shares issued and outstanding at December 31, 2007 and March 30, 2008		
Additional paid-in capital	412.7	414.6
Accumulated deficit	(245.5)	(247.4)
Accumulated other comprehensive loss		
Total stockholders' equity	167.2	167.2
Total liabilities and stockholders' equity	$ 335.3	$ 334.1

See accompanying notes to unaudited consolidated financial statements.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

(Unaudited)

	Three months ended March 31, 2007	Three months ended March 30, 2008
Revenues	$ 49.0	$ 68.2
Cost of revenues	41.7	55.6
Gross profit	7.3	12.6
Selling, general and administrative expenses	9.1	11.9
Stock option investigation and related fees	1.5	
Operating income (loss)	(3.3)	0.7
Other income (expense), net:		
Interest expense, net		(2.3)
Other income (expense), net	0.5	(0.4)
Total other income (expense), net	0.5	(2.7)
Loss before provision for income taxes	(2.8)	(2.0)
Provision for income taxes	0.2	0.5
Loss from continuing operations	(3.0)	(2.5)
Income (loss) from discontinued operations	(17.1)	0.6
Net loss	$ (20.1)	$ (1.9)
Basic loss per common share:		
Loss from continuing operations	$ (0.04)	$ (0.03)
Income (loss) from discontinued operations	(0.23)	0.01
Net loss	$ (0.27)	$ (0.02)
Diluted earnings (loss) per common share:		
Loss from continuing operations	$ (0.04)	$ (0.03)
Income (loss) from discontinued operations	(0.23)	0.01
Net loss	$ (0.27)	$ (0.02)
Weighted average common shares outstanding:		
Basic	73.9	79.0
Diluted	73.9	79.0

See accompanying notes to unaudited consolidated financial statements.

4

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Three months ended March 31, 2007
Operating activities:	
Net loss	$
Less income (loss) from discontinued operations	
Loss from continuing operations	
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities from continuing operations:	
Depreciation and amortization	
Deferred income taxes	
Asset impairment charges and net loss on disposition of fixed assets	
Stock-based compensation	
Changes in assets and liabilities, net of acquisitions and divestitures:	
Accounts receivable	

	Three months ended March 31, 2007
Prepaid expenses	
Other assets	
Accounts payable	
Accrued expenses	
Accrued compensation	
Accrued contingent acquisition consideration	
Accrual for unused office space	
Billings in excess of costs and earnings on uncompleted contracts	
Income tax payable	
Other liabilities	
Net cash provided by operating activities from continuing operations	
Investing activities:	
Cash paid for acquisition, net of cash required	
Increase in restricted cash	
Proceeds from the disposition of discontinued operations	
Capital expenditures	

	Three months ended March 31, 2007
Net cash provided by (used in) investing activities from continuing operations	
Financing activities:	
Borrowings under line of credit	
Repayment under line of credit	
Repayment/increase of capital lease obligations	
Net cash provided by (used in) financing activities from continuing operations	
Net cash flows of continuing operations	
Cash flows of discontinued operations	
Operating cash flows	
Investing cash flows	
Net cash flows of discontinued operations	
Net increase in cash and cash	

	Three months ended March 31, 2007
equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$

COMPENSATION OF NAMED EXECUTIVE OFFICERS AND DIRECTOR

Throughout this proxy statement, the persons who served during fiscal year 2008 as our principal executive office
principal financial officer (J. Ronald Hansen), as well as Alan E. Smith our Vice-President of Operations, are refe
officers.

12

	Three months ended March 31, 2007

Table of Contents

Compensation Discussion and Analysis

Principles and Objectives

In establishing executive compensation, the guiding principles and objectives of the Compensation Committee are

To provide a reasonable level of compensation sufficient to attract and retain executive personnel b and other relevant criteria for the company s management requirements;

To balance base compensation (non-contingent) and incentive compensation (contingent upon perfo motivating executive personnel; and

To determine the extent and method of aligning the financial interest of the company s executive p stockholders in the appreciation of their investment.

The Compensation Committee considers various measures of company and industry performance when determini compensation, including revenue, net income, earnings per share, total market value, average working capital, and described further below, the Compensation Committee also compares our executive compensation programs with comparably sized companies both in our industry and in our geographic region.

Our executive compensation program is designed to reward our executive officers for company and individual per current and long-term stockholder value. We describe the company and individual performance measures that the takes into account in determining cash and equity incentive awards for our named executive officers under the hea Compensation on page 15 and Long-Term Equity Incentive Compensation on page 16.

Role of the Compensation Committee

Our Compensation Committee designs and implements compensation programs that further the intent and purpose compensation principles and objectives. Our Compensation Committee is responsible for setting appropriate comp executive officers, and determining base salary, incentive cash awards and equity-based awards for each of our na

Our Compensation Committee is currently comprised of five members of our board of directors, each of whom is independence standards of the American Stock Exchange. The current members of the Compensation Committee (Chairman), Berkeley, Bidlack, Lemcke and Van Rees. The chairman of the Compensation Committee is responsi each committee meeting and for ensuring that meetings are conducted in an efficient manner.

The Compensation Committee annually conducts a performance evaluation of its operation and function and recor to our Board of Directors for approval.

The duties and responsibilities of the Compensation Committee are set forth in its charter, as adopted by our boar 2006. The charter of the Compensation Committee is available on our website at www.graham-mfg.com under the Governance. We have included additional information about the Compensation Committee under the heading C page 10.

	Three months ended March 31, 2007

Components of Compensation

The total compensation package for our named executive officers consists of the following components:

- annual base salary;
- annual cash incentive compensation based on operating and individual performance;
- long-term equity incentive compensation through the granting of stock options and restricted stock;
- perquisites and other personal benefits; and
- retirement benefits.

Our compensation program is comprised of short-term compensation in the form of salary and annual cash incenti long-term compensation in the form of stock options and restricted stock. We believe providing combined grants c stock effectively focuses the named executives on delivering long-term value to our stockholders. We do not have allocation of compensation

	Three months ended March 31, 2007

between short-term and long-term compensation or cash and equity compensation, as the allocation of these items
compensation information and company performance.

We generally do not consider gains realized from prior compensation, such as stock option exercises and restricted elements of compensation. We believe that reducing or limiting current stock option grants or restricted stock awa realized by an executive officer would unfairly penalize the officer for high past performance and reduce the moti achievement. Similarly, our severance and change-in-control arrangements, which we discuss in detail under the h upon Termination or Change in Control on page 27, do not affect our decision regarding other elements of comp serve specific purposes that are unrelated to the determination of a named executive officer s compensation for a

Our Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value (referred to i Incentive Plan), which was approved by our stockholders at the 2006 annual meeting, is a comprehensive exec provides for the grant of stock options, restricted stock, and other stock-related awards, as well as other awards th other property. All equity awards under the Incentive Plan are made at the market price of our common stock at th March 31, 2008, all of our named executive officers then employed by us participated in the Incentive Plan.

Utilization of Outside Consultants by the Compensation Committee

Our Compensation Committee also periodically retains an independent compensation consulting firm to assist the its evaluation of our executive compensation programs, its considerations regarding compensation alternatives and compensation of our named executive officers.

Our Compensation Committee has previously engaged the Hay Group, a global management consulting firm, to a consultant. In the course of its engagement, the Hay Group provided to the Compensation Committee market data compensation pay packages, reviewed the elements of our existing compensation programs and advised the Comp existing and proposed compensation alternatives. During fiscal year 2008, the Compensation Committee did not u Group or any other compensation consultant.

Role of Named Executive Officers in Compensation Decisions

Our principal executive officer annually reviews the performance of the other named executive officers and prese to the Compensation Committee. The Compensation Committee annually reviews the performance of our principa Committee considers such performance information in determining each element of compensation for the named

On an annual basis our principal executive officer approves and recommends to the Compensation Committee the other named executive officers in connection with the cash incentive awards under the Graham Annual Executive Chairman of our Board of Directors approves individual objectives for our principal executive officer. See Annu on page 15 for more information about this program.

In addition, our principal executive officer makes recommendations to the Compensation Committee with respect and equity-based compensation paid to the other named executive officers. The Compensation Committee uses its whether to accept, reject or modify any adjustments to awards that may be recommended by our principal executiv

Use of Benchmarking

	Three months ended March 31, 2007

In making compensation decisions, the Compensation Committee compares our executive compensation program
comparably sized companies both in our industry and our geographic region and examines national and regional c
Compensation Committee does not use a formal peer group.

The Compensation Committee has historically set annual base salaries for our named executive officers to be appr
similarly situated executive officers of companies in our industry and geographic region. The Compensation Com
non-cash compensation, in the form of stock options, below that offered by comparably sized companies in our ge

	Three months ended March 31, 2007

Table of Contents

Certain Tax and Accounting Implications

We periodically review accounting and tax laws, rules and regulations that may apply to our compensation progra
accounting considerations have not significantly impacted the compensation programs that we offer to our named

The Impact of Deductibility of Compensation. As part of its role, the Compensation Committee reviews and consi
executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not ded
$1,000,000 that is paid to certain individuals. The Compensation Committee reserves the ability to approve compe
requirements in order to ensure competitive levels of total compensation for its executive officers.

Accounting for Stock-Based Compensation. We account for stock-based employee compensation at fair value of t
recognize the related cost in our statements of operations and retained earnings in accordance with SFAS No. 123
which we adopted effective April 1, 2006 utilizing the modified prospective method. These stock-based payments
our Amended and Restated 2000 Incentive Plan to Increase Shareholder Value and our Outside Directors Long-T

Annual Base Salaries

The Compensation Committee reviews base salaries for each named executive officer at least annually. For fiscal
Committee set the base salaries for executive officers based on company and individual performance for the previ
market conditions (including the Compensation Committee s understanding of the base salaries received by simil
comparably sized companies in our industry and geographic region, as described under Use of Benchmarking c

In July 2007, Alan E. Smith joined us as our Vice President of Operations. His base salary was determined based
negotiations with Mr. Smith.

On January 28, 2008, James R. Lines was appointed to be our President and Chief Executive Officer. At the time
Compensation Committee, based on the above factors, approved an increase in Mr. Lines s base salary that const
his previous base salary.

In March 2008, based on the above factors, the Compensation Committee approved an increase in the base salary
Ronald Hansen and Alan E. Smith that constituted an increase of 3% from each such executive officer s previous

Base salaries paid to our named executive officers during fiscal year 2008 are shown in the Salary column of th
on page 20.

Annual Cash Incentive Compensation

On March 27, 2006, the Compensation Committee adopted the Graham Annual Executive Cash Bonus Program (r
statement as the Cash Bonus Program) that was effective for fiscal year 2008. The objective of the Cash Bonus
senior executive officers, including our named executive officers, for above-average performance through an annu
both to company and individual performance, with 70% and 20% of such award based on the attainment by the co
net income and average working capital, respectively, and 10% based on the attainment by the senior executive of
The average working capital objective is a percentage defined as gross inventory plus gross trade accounts receiva
divided by sales.

	Three months ended March 31, 2007

Company objectives for net income and average working capital are typically set during our annual budgeting pro
Board of Directors along with our annual budget immediately prior to the beginning of the relevant fiscal year. In
before the determination of the annual budget. The Chairman of our Board of Directors approves individual objec
officer. The individual objectives for our other named executive officers are approved by our principal executive
Compensation Committee.

During fiscal year 2008, the individual objectives for our named executive officers were as follows: Mr. Lines n
operating environment, developing and demonstrating leadership skills and achieving measurable progress in our
markets, among other things; Mr. Hansen implementation of a performance appraisal system, achievement of ol
implementation of Sarbanes-Oxley reporting requirements and achievement of information technology goals, amo

	Three months ended March 31, 2007

Table of Contents

achievement of measurable improvements in manufacturing costs, processes and reporting accuracy, among other

For fiscal year 2008, target bonus levels were set at 100% attainment of both company and individual objectives. level, Mr. Lines was eligible to receive a cash bonus equal to 50% of his base salary, which was increased to 60% our chief executive officer, and our other named executive officers are eligible to receive a cash bonus equal to 35

The Compensation Committee generally does not intend to pay any financial bonus to the named executive office 70% of budget for net income or greater than 110% of budget for average working capital percentage. For fiscal y capped at the attainment of 150% of the budget for the net income component and at the attainment of 75% of the capital percentage component. Individual objectives are not directly tied to the financial performance objectives. A achieve up to 10% of the bonus even if we do not reach the required targets for net income or average working ca

The Compensation Committee believes that company and individual objectives are set at levels that are attainable the Compensation Committee set the company objective for net income and average working capital percentage f $4,105,000 and 12.7%, respectively. For fiscal year 2008, net income equaled $15,034,000 and the average worki 10.3%. For fiscal year 2008, cash incentive compensation earned under the Cash Bonus Program reached 142% o our named executive officers.

Under the Cash Bonus Program, special awards may be made to any executive (including a named executive offic extraordinary contribution to the company during the fiscal year. Such awards are generally recommended in writ officer to the Chair of the Compensation Committee and approved by the Compensation Committee before grant. $5,000 special award during fiscal year 2008 for the successful establishment and maintenance of our internal con Alan E. Smith received a $12,064 special award during fiscal year 2008 for improvements made to our manufactu

The Compensation Committee also has the discretion to include or exclude extraordinary events that either positiv financial performance in the financial calculations regarding the achievement of company objectives. No such eve Compensation Committee during fiscal year 2008.

At its May 2008 meeting, the Compensation Committee reviewed each named executive officer s achievement o objectives during fiscal year 2008 and approved cash incentive compensation under the Cash Bonus Program. The earned by each named executive officer in fiscal year 2008 is set forth in the Non-Equity Incentive Plan Compe Compensation Table on page 20.

Long-Term Equity Incentive Compensation

On March 27, 2006, the Compensation Committee adopted the Annual Stock-Based Incentive Award Plan for Se this proxy statement as the Stock Bonus Plan) to be effective beginning in fiscal year 2007. The purpose of the our named executive officers to increase stockholder value by providing them with long-term stock-based awards performance.

The named executive officers currently employed by us are all eligible to participate in the Stock Bonus Plan. Aw Plan consist of nonqualified stock options and shares of restricted stock that will be subject to forfeiture in accord Stock options and restricted stock are issued under our Incentive Plan. Stock options and restricted stock, if grante Compensation Committee on an annual basis at a meeting after the fiscal year end.

	Three months ended March 31, 2007

Long-term incentive opportunities are intended to be competitive with the long-term incentive opportunities offere
companies in our geographic region. Therefore, we do not generally consider the amount of outstanding equity aw
executive officer when making awards of stock options and restricted stock.

Options. We utilize stock options as an element of compensation because we believe that stock options motivate
increase stockowner value. We believe that stock options motivate our named executive officers to increase stockh
options only have value to the extent the price of our common stock on the date of exercise exceeds the stock pric
compensation is realized only if the stock price increases over the term of the award. Stock options awarded under

16

	Three months ended March 31, 2007

Table of Contents

an exercise price equal to the fair market value of a share of our common stock on the date of grant, a term of ten
over four years beginning on the first anniversary of the date of grant. The number of options awarded to a named
the discretion of our Compensation Committee, but is generally determined by multiplying such officer s base sa
fiscal year by 20%, and then dividing the product by the value of such option (determined using the Black-Schole

On May 29, 2008, the Compensation Committee approved the grant of the following amount of options to the foll
officers: James R. Lines: 1,266, J. Ronald Hansen: 948 and Alan E. Smith: 557. Each stock option has an exercise

Restricted Stock. We utilize restricted stock as an element of compensation because we believe that restricted sto
our named executive officers by conditioning the grant of restricted stock upon the satisfaction of certain compan
named executive officers the opportunity to receive shares of our common stock on the date the restricted stock ve
be employed by the company. The number of shares of restricted stock to be awarded to our named executive offi
Plan is determined based on net income and working capital matrixes. Seventy-five percent of a named executive
is based on the company s attainment of a net income target and 25% is based on the company s attainment of a
fiscal year. Attainment of 100% of both targets would result in a restricted stock award valued at 15% of such offi
value may decrease to zero or increase to up to 150% of such target value based on our attainment of lower or hig
respective net income and working capital target amounts.

The net income portion of the restricted stock award is determined by multiplying the named executive officer s
year by 11.25%, further multiplied by the net income factor for the fiscal year, which is then divided by the closin
common stock on the last trading day prior to the date of grant, rounded to the nearest whole number. For fiscal y
was 1.5.

The working capital portion of the restricted stock award is determined by multiplying the named executive office
fiscal year by 3.75%, further multiplied by the by the working capital factor for the fiscal year, which is then divi
share of our common stock on the last trading day prior to the date of grant, rounded to the nearest whole number.
working capital factor was 1.36.

Shares of restricted stock awarded under the Stock Bonus Plan are valued at the fair market value of our common
vest as follows: (i) 10% on the first anniversary of the date of grant; (ii) 20% on the second anniversary of the dat
anniversary of the date of grant; and (iv) the final 40% on the fourth anniversary of the date of grant.

On May 29, 2008, the Compensation Committee approved the grants of the following amounts of restricted stock
executive officers: James Lines: 832, J. Ronald Hansen: 623 and Alan E. Smith: 366.

Perquisites and Other Personal Benefits

We provide perquisites to our named executive officers to provide health and welfare benefits as available to all e
perquisites and benefits are designed to attract, retain and reward named executive officers by providing an overal
those received by similarly situated executive officers at comparably sized companies in our industry and geograp

During fiscal year 2008, we made contributions to the 401(k) accounts of each of our named executive officers pu
Plan, and paid premiums for life insurance policies for the benefit of each of our named executive officers. In add
and Mr. Smith participate in our short-term disability program that is available to our managers and executive offi

	Three months ended March 31, 2007

our named executive officers health insurance and long-term disability programs that are available to our salaried

As part of our employment agreement with Mr. Smith, we agreed to reimburse him for the expenses he incurred in
York. We also reimbursed Mr. Smith, as we do all of our professional engineers, for his professional engineering

We chose this year to purchase unused vacation days of our named executive officers that were in excess of five w
Under this program, Mr. Hansen was reimbursed for one week of unused vacation.

	Three months ended March 31, 2007

Table of Contents

Retirement Benefits

We provide retirement benefits to our named executive officers to provide welfare benefits as available to all emp
benefits are designed to attract, retain and reward named executive officers by providing an overall benefit packag
similarly situated executive officers at comparably sized companies in our industry and geographic region.

James R. Lines, J. Ronald Hansen and Mr. Smith are eligible to participate in our Retirement Income Plan, which
plan for the benefit of our domestic employees hired prior to January 1, 2003. Benefits are based on the employee
annual base salary for the five highest consecutive calendar years of compensation in the ten-year period precedin

We also make available to James R. Lines, J. Ronald Hansen and Mr. Smith our Supplemental Executive Retirem
provide eligible participants and their surviving spouses and beneficiaries with the amount of employer-provided r
Retirement Income Plan would provide but for the limitation on compensation that may be recognized under tax-q
section 401(a)(17) of the Internal Revenue Code and the limitations on benefits imposed by sections 415(b) and (e

We also maintain the Incentive Savings Plan, which is a 401(k) plan that provides for both employer and employe

We have provided more information about these retirement plans and the benefits payable to our named executive
under the heading Pension Benefits at March 31, 2008 on page 25.

Employment Agreements and Payments upon Termination or Change of Control

We have entered into employment agreements with James R. Lines, J. Ronald Hansen and Alan E. Smith. The dec
employment agreements and the terms of those agreements were based on our need to motivate and retain talent fo
material terms of the employment agreements with the named executive officers are described under the heading
beginning on page 22.

We have agreed to provide payments to each of our named executive officers in the event of a termination of emp
and early retirement, voluntary termination and termination for cause, involuntary termination, death and disability
will also receive payments in the event of termination following a change in control. These arrangements are desig
continuity of our named executive officers. Information on these arrangements for the named executive officers is
Potential Payments upon Termination or Change of Control on page 27.

Stock Ownership Objectives

In order to more closely align the interests of our senior executive officers (which include our named executive of
our stockholders, on March 27, 2006 the Compensation Committee established minimum stock ownership objecti
executive officers to work towards acquiring and maintaining specific levels of equity ownership interests in our c
time frames.

The stock ownership objectives for our named executive officers as established by the Compensation Committee a
on each named executive officer s position.

	Three months ended March 31, 2007
Principal executive officer	Common stock with a value equal to a base salary.
Other named executive officers	Common stock with a value equal to a base salary.

Our named executive officers must be in compliance with stock ownership guidelines within five years from the d adopted. Individuals who become senior executive officers must comply with the ownership guidelines within five such guidelines. The stock ownership guidelines also require our named executive officers to retain 65% of the ne when a restricted stock award vests or a stock option is exercised until such persons are in compliance with the gu

The Compensation Committee monitors the progress made by our named executive officers in achieving their stoc circumstances warrant, may modify the objectives and/or time frames for one or more of the named executive offi executive officer does not meet his ownership

18

	Three months ended March 31, 2007

Table of Contents

guidelines, this fact may be taken into consideration by the Compensation Committee when evaluating such execu

Compensation Committee Report[1]

The Compensation Committee, which is comprised entirely of independent directors, has reviewed and discussed Compensation Discussion and Analysis included in this proxy statement in accordance with Item 402(b) of Regula the Securities and Exchange Commission. Based on such review and discussion, the Committee recommended to Compensation Discussion and Analysis be included in the company s Annual Report on Form 10-K for the fiscal this proxy statement.

Compensation Committee:

James J. Malvaso, Chairman
Helen H. Berkeley
Jerald D. Bidlack
H. Russel Lemcke
Cornelius S. Van Rees

[1] The material in this report is not soliciting material, is not deemed to be filed with the Securities and Exchang incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Securities Exc amended, whether made before or after the date hereof and irrespective of any general incorporation language in a

Three months ended March 31, 2007

Table of Contents

2008 Summary Compensation Table

The following table shows information regarding the compensation of our President and Chief Executive Officer (
officer), our Vice President-Finance and Administration and Chief Financial Officer (our principal financial office
officer for services rendered to us in all capacities for fiscal years 2008 and 2007.

Name and Principal Position	Fiscal Year	Salary[1] ($)	Bonus[2] ($)	Stock Awards[3][4] ($)	Option Awards[5][6] ($)	Non-Equity Incentive Plan Compensation[2][7] ($)	Chang Pensi Value Nonqua Deferr Compens Earnin ($)
James R. Lines,	2008	$ 233,739	$	$ 1,577	$ 27,959	$ 172,574	$ 28,7
President and Chief Executive Officer (principal executive officer)	2007	202,639			15,573	63,188	10,0
J. Ronald Hansen,	2008	175,056		15,870	20,643	92,125	44,7
Vice President Finance and Administration and Chief Financial Officer (principal financial officer)	2007	169,957			11,563	40,450	24,3
Alan E. Smith[10]	2008	102,840			4,160	63,248	
Vice President of Operations							

(1) The amounts shown include cash compensation earned and paid, and cash compensation deferred at the ele
executive officer under our 401(k) plan that we refer to as our Incentive Savings Plan.

(2) Amounts earned under our Cash Bonus Program are reported in the Non-Equity Incentive Plan Compens
information regarding these cash awards, see Annual Cash Incentive Compensation in Compensation D
page 15.

(3) Restricted stock awards are issued under our Incentive Plan. The dollar values of restricted stock awards sh
equal to the compensation cost recognized during fiscal year 2008 for financial statement purposes in acco
Financial Accounting Standards No. 123 (revised), Share-Based Payment (referred to in this proxy stateme
except no estimates for forfeitures have been included. This valuation method values restricted stock grant
and previous years. A discussion of the assumptions used in calculating the compensation cost is set forth i

	Three months ended March 31, 2007

Compensation Plans) to the Consolidated Financial Statements in our annual report on Form 10-K for the f
2008. The amounts shown in these columns reflect our accounting expense for these awards and do not cor
that will be recognized by the named executive officer.

(4) Information regarding the shares of restricted stock granted to our named executive officers in fiscal year 2
Grant of Plan-Based Awards Table on page 21. The 2008 Grant of Plan-Based Awards Table also shows th
value of the shares of restricted stock granted during fiscal 2008 as determined in accordance with SFAS N

(5) Stock option awards are issued under our Incentive Plan. The dollar values of stock option awards shown i
the compensation cost recognized during fiscal year 2008 for financial statement purposes in accordance w
no estimates for forfeitures have been included. This valuation method values stock options granted during
previous years. A discussion of the assumptions used in calculating the compensation cost is set forth in N
Plans) to the Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ende
amounts shown in these columns reflect our accounting expense for these awards and do not correspond to
recognized by the named executive officer.

(6) Information regarding the stock options granted to our named executive officers in fiscal year 2008 is show
Plan-Based Awards Table on page 21. The 2008 Grants of Plan-Based Awards Table also shows the aggre
the stock options granted during fiscal year 2008 as determined in accordance with SFAS No. 123R.

Three months ended March 31, 2007

Table of Contents

(7) The amounts in this column reflect the cash payment made to the named executive under the Cash Bonus I
Awards under the Cash Bonus Program are made by the Board in a meeting shortly after the end of the fisc

(8) The amounts shown reflect the changes in the actuarial present values under our Retirement Income Plan a
Executive Retirement Plan. See Pension Benefits at March 31, 2008 on page 25 for more information o
and our Supplemental Executive Retirement Plan.

(9) All Other Compensation consists of the following

Named Executive Officer	Year	Insurance ($)	401(k) Plan Contributions ($)	Payment in Lieu of Vacation ($)	Professio Engineer Licens Fee ($)
James R. Lines	2008	4,429	4,500	0	
	2007	4,321	3,768	0	
J. Ronald Hansen	2008	3,908	4,500	3,367	
	2007	3,864	3,423	0	
Alan E. Smith	2008	843	763	0	7

(10) In July 2007, Alan E. Smith joined us as our Vice President of Operations.

2008 Grants of Plan-Based Awards

The following table shows information regarding the grants of annual incentive cash compensation, stock options
fiscal year 2008 to our named executive officers.

Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	A Ot Op Awa Nur o Secu Unde

Three months ended March 31, 2007

Name	Type of Award	Grant Date	Threshold ($)	Target ($)[1]	Maximum ($)	Threshold ($)	Target ($)[2]	Maximum ($)[2]	Opti
James R. Lines	Cash Bonus			121,360	175,972				
	Options	5/31/07							
	Restricted Stock						35,061	52,591	
J. Ronald Hansen	Cash Bonus			61,270	88,841				
	Options	5/31/07							
	Restricted Stock						26,258	39,388	
Alan E. Smith	Cash Bonus			44,478	64,493				
	Options	7/26/07							
	Restricted Stock						15,426	23,139	

(1) The amounts shown in this column reflect the incentive cash compensation amounts that potentially could fiscal year 2008 based upon the achievement of company and individual performance goals under our Casl amounts of actual cash awards earned in fiscal year 2008 by our named executive officers under our Cash determined in May 2008. Such amounts are set forth in the Non-Equity Incentive Compensation colum Compensation Table on page 20. For more information regarding annual incentive cash compensation und see Annual Incentive Cash Compensation in Compensation Discussion and Analysis on page 15.

(2) Our restrictive stock awards are denominated in dollars, but payable in stock. We determine the number of grant by dividing the dollar value of the award by the closing price of a share of our common stock on the information regarding restricted stock awards under our Stock Bonus Plan, see Restricted Stock in Com Analysis on page 17.

(3) These stock options were awarded pursuant to our Stock Bonus Plan, and issued under our Incentive Plan.

(4) The dollar values of stock options disclosed in this column are equal to the aggregate grant date fair value with SFAS No. 123R, except no estimates for forfeitures were included. A discussion of the assumptions u date fair values is set forth in Note 10 (Stock Compensation Plans) to the Consolidated Financial Statemen Form 10-K for the fiscal year ended March 31, 2008.

	Three months ended March 31, 2007

Table of Contents

Annual Base Salaries as a Percent of Total Compensation

Annual base salaries paid to our named executive officers for fiscal year 2008 are shown in the Summary Compen

For fiscal year 2008, the base salary paid to each of our named executive officers constituted the following percen compensation: Mr. Lines 49%; Mr. Hansen 49%; and Mr. Smith 44%.

Annual Cash Incentive Compensation

The non-equity incentive plan compensation set forth in the tables above reflects annual cash incentive compensat Plan. Annual cash incentive compensation is earned based upon the achievement of company and individual goals bonus based on the attainment by the company of objectives based on net income and average working capital, res the attainment by the senior executive officer of individual objectives. Annual cash compensation is payable as a p year 2008, target bonus levels were set at 100% attainment of both company and individual objectives. Upon mee Mr. Lines is eligible to receive a cash bonus equal to 60% of his base salary and our other named executive office bonus equal to 35% of their base salary.

Stock Options

We award stock options pursuant to our Stock Bonus Plan, and such awards are issued under our Incentive Plan. F have an exercise price equal to the fair market value of a share of our common stock on the date of grant, vest 25% beginning on the first anniversary of the date of grant, and have a term of ten years. The number of options award is determined by multiplying such officer s base salary in effect for the relevant fiscal year by 20%, and then divi such option (determined using the Black-Scholes valuation method). Pursuant to our employment agreements with upon the occurrence of any event deemed a termination under such agreements after a change in control of the options held by Mr. Lines or Mr. Hansen would accelerate and become immediately exercisable in full. Pursuant t the retirement, or retirement eligibility, of one of our named executive officers, all unvested stock options held by will accelerate and become immediately exercisable in full.

Restricted Stock

We award restricted stock pursuant to our Stock Bonus Plan, and such awards are issued under our Incentive Plan restricted stock vests 10% on the first anniversary of the date of grant; 20% on the second anniversary of the date anniversary of the date of grant; and the final 40% on the fourth anniversary of the date of grant. Seventy-five perc officer s restricted stock award is based on the company s attainment of a net income target and 25% is based on working capital target for the fiscal year. Attainment of 100% of both targets would result in a restricted stock awa officer s base salary. This target may decrease to zero or increase to up to 150% of such target value based on our percentages of the respective net income and working capital target amounts. Pursuant to our employment agreem occurrence of any event deemed a termination under such agreement after a change in control of the company, stock held by Mr. Lines will accelerate and become immediately vested in full. Pursuant to our Stock Bonus Plan, retirement eligibility, of one of our named executive officers, all unvested shares of restricted stock held by such n accelerate and become immediately vested in full.

	Three months ended March 31, 2007

Employment Agreements

During 2008 we were a party to employment agreements with each of our named executive officers. The followin
of our employment agreements with our President and Chief Executive Officer and our other named executive off

James R. Lines. On July 27, 2006, we entered into an employment agreement with Mr. Lines. The employment ag
employment agreements that we had with Mr. Lines.

The agreement, which has an effective date of August 1, 2006, provides that Mr. Lines will receive an annual min
other customary benefits. Mr. Lines is also eligible under the agreement to receive discretionary bonuses. The agr
such that it always has a one-year term remaining, unless Mr. Lines or we elect not to extend the term further, in w
the first anniversary of the date

22

	Three months ended March 31, 2007

Table of Contents

on which notice of such election not to extend is given. If not terminated sooner, the agreement will end on the las
Mr. Lines turns 65.

Pursuant to our employment agreement with Mr. Lines, if he resigns for reasons other than a material breach of th
from our employment without the approval of our Board of Directors, or is discharged for cause, he will be subjec
to compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone our confi

Our employment agreements with Mr. Lines also provide for us to make certain payments to him in the event we t
without cause or upon the occurrence of certain events relating to a change in control of the company, as describe
Involuntary Termination and Change in Control on page 28.

J. Ronald Hansen. We are a party to an employment agreement with Mr. Hansen, our Vice President-Finance and
Financial Officer, which we entered into in May 1993 and amended in September 1996. The agreement provides t
minimum annual base salary and customary benefits. Mr. Hansen is also eligible under the agreement to receive d
agreement automatically renews such that it always has a one-year term remaining, unless Mr. Hansen or we elect
in which case the term will end on the first anniversary of the date on which notice of such election not to extend i
sooner, the agreement will end on the last day of the month in which Mr. Hansen turns 65.

Pursuant to our employment agreement with Mr. Hansen, if he resigns for reasons other than a material breach of
from our employment without the approval of our Board of Directors, or is discharged for cause, he will be subjec
compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone confidentia

Our employment agreements with Mr. Hansen also provide for us to make certain payments to him in the event w
without cause or upon the occurrence of certain events relating to a change in control of the company, as describe
Involuntary Termination and Change in Control on page 28.

Alan E. Smith. On July 30, 2007, we entered into an employment agreement with Mr. Smith. The agreement prov
an annual minimum base salary as well as other customary benefits. Mr. Smith will also be reimbursed by us for e
connection with his relocation to Western New York. The agreement automatically renews such that it always has
unless Mr. Smith or we elect not to extend the term further, in which case the term will end on the first anniversar
such election not to extend is given. If not terminated sooner, the agreement will end on the last day of the month

Pursuant to our employment agreement with Mr. Smith, if his employment with us is terminated for any reason, h
18-month covenant not to compete with us, not to interfere in certain of our business relationships, and not to disc
information.

Our employment agreements with Mr. Smith also provide for us to make certain payments to such individual in th
employment without cause as described under the heading Involuntary Termination on page 28.

Salary Adjustments. During its review of base salaries for executive officers, the Compensation Committee adjus
executive officer s base salary for fiscal year 2008, as described under the heading Annual Base Salary on pag
for Mr. Lines, Mr. Hansen and Mr. Smith are $265,000, $180,307 and $157,075, respectively.

Additional Information

	Three months ended March 31, 2007

We have provided additional information regarding the compensation we pay to our named executive officers in C
Analysis beginning on page 13, and encourage you to read the above tables and their footnotes in conjunction wit

	Three months ended March 31, 2007

Table of Contents

Outstanding Equity Awards at March 31, 2008

The following table shows information regarding the number of unexercised stock options held by our named exe
2008.

	Option Awards			Sto
Name	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Equity Incentive P Awards: Number Unearned Shares, U or Other Rights Tha Have Not Vested (#)
James R. Lines	5,625[1]	15.95	6/1/2016	
	2,812[2]	13.68	7/27/2016	
	6,596[3]	13.80	5/31/2017	
				1,3
J. Ronald Hansen	5,625[1]	15.95	6/1/2016	
	5,532[3]	13.80	5/31/2017	
				5
Alan E. Smith	2,500[4]	21.68	7/26/2017	

(1) This grant of options vests in four equal installments on June 1, 2007, June 1, 2008, June 1, 2009 and June

(2) This grant of options vests in four equal installments on July 27, 2007, July 27, 2008, July 27, 2009 and Ju

(3) This grant of options vests in four equal installments on May 31, 2008, May 31, 2009, May 31, 2010 and M

(4) This grant of options vests in four equal installments on July 26, 2008, July 26, 2009, July 26, 2010 and Ju

(5) This grant of restricted stock vest 10% on May 31, 2008, 20% on May 31, 2009, 30% on May 31, 2010 an

2008 Option Exercises and Stock Vested

	Three months ended March 31, 2007

The following table shows information regarding the number and value realized of stock options exercised during
named executive officers.

	Option Awards		
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise[(1)] ($)	Number Acqu Ves (
James R. Lines	10,313	377,497	
J. Ronald Hansen	9,375	321,965	
Alan E. Smith			

(1) The value realized on the exercise of stock options is based on the difference between the exercise price an common stock on the date of exercise, multiplied by the number of shares acquired.

24

	Three months ended March 31, 2007

Table of Contents

Pension Benefits at March 31, 2008

The following table shows information as of March 31, 2008 regarding our Retirement Income Plan and our Supp
Plan.

Name	Plan Name	Number of Years Credited Service (#)	Pres of Ac Be
James R. Lines	Retirement Income Plan	24	
	Supplemental Executive Retirement Plan		
J. Ronald Hansen	Retirement Income Plan	15	
	Supplemental Executive Retirement Plan		
Alan E. Smith	Retirement Income Plan	15	
	Supplemental Executive Retirement Plan		

(1) The present value of accumulated benefits indicated in the table were calculated using a 6.48% discount ra
Table for males and an age 63 retirement age, which are the same assumptions used for financial reporting
indicated represent liabilities funded by the trust fund. Part of the accrued benefit will be provided by John
Company, through an annuity purchased in 1986.

Retirement Income Plan

Our Retirement Income Plan is a defined benefit pension plan for the benefit of our domestic employees hired pric
purpose of the Retirement Income Plan is to supplement Social Security benefits and to provide a reliable source c
participants or their survivors after retirement by the participant. During fiscal year 2008, each of our named exec
participate in the Retirement Income Plan.

Normal retirement under the Retirement Income Plan is the later of a participant s 65th birthday, or the 5th anniv
she became a participant. Early retirement under the Retirement Income Plan is available for a participant who is a
completed fifteen years or more of creditable service. The Retirement Income Plan also provides for a disability re

	Three months ended March 31, 2007

event of disability.

The Retirement Income Plan also provides for the payment of a retirement benefit in the event that a participant s
when the participant was not eligible for normal, early or disability retirement. Eligibility for such vested retirem
five years of service with the company. A participant who is entitled to a vested retirement allowance when his or
will ordinarily begin receiving payments after reaching normal retirement age. If the participant has completed at
service, he or she may elect to begin receiving payments on the first day of the month after he or she reaches age 5
after he or she reaches normal retirement age. The amount of a participant s monthly vested retirement payments
period of service and years of creditable service.

Benefits under the Retirement Income Plan are based on the employee s years of service and average annual base
consecutive calendar years of compensation in the ten-year period preceding retirement. Benefits under the Retire
to take into account a participant s social security benefits paid for by us.

The approximate years of creditable service as of March 31, 2008 of each of the named executive officers eligible
Income Plan are as follows: 15 years for Mr. Hansen; 24 years for Mr. Lines; and 14 years for Mr. Smith. We do n
years of service credit. Mr. Hansen is eligible to receive early retirement benefits under the Retirement Income Pla

	Three months ended March 31, 2007

Table of Contents

The form and amount of the payments made under the Retirement Income Plan depends upon the marital status w form of payment selected. The normal form of benefit for a married participant is a 50% joint and survivor annuity allowance in the form of reduced monthly payments that will continue for the rest of the participant s life. If the p person who was the participant s spouse when payments began, such spouse will receive survivor benefits equal t payments made to the participant during his or her lifetime. His or her spouse will be paid survivor benefits for his With the spouse s consent, a participant may elect to receive benefits in the form of a single life annuity, 100% jo 15, or 20 year certain annuity or a life annuity with a 10, 15, or 20 year guarantee.

Supplemental Executive Retirement Plan

In addition to the Retirement Income Plan, we maintain a Supplemental Executive Retirement Plan, referred to as deferred compensation plan and is intended to provide eligible participants and their surviving spouses and benefi employer-provided retirement benefits that the Retirement Income Plan would provide but for the limitation on co recognized under tax-qualified plans imposed by section 401(a)(17) of the Internal Revenue Code and the limitatio sections 415(b) and (e) of the Internal Revenue Code.

A participant who has completed a period of service of at least five years under the Retirement Income Plan and w above-referenced provisions of the Internal Revenue Code, are entitled to receive a monthly benefit from the Supp named executive officers as of the date of this proxy statement are eligible to participate in the Supplemental Plan named executive officer that currently has an accrued benefit under the Supplemental Plan.

The monthly benefit under the Supplemental Plan is determined by dividing the retirement benefits that would hav respect to the plan participant had the limitations imposed by the Internal Revenue Code not been applicable, by th to or with respect to the participant under the Retirement Income Plan.

A participant s retirement benefits under the Supplemental Plan will be paid to or with respect to the participant i time as the participant s retirement benefits under the Retirement Income Plan. The benefits under the Supplemen cessation of benefits to the participant or his beneficiary under the Retirement Income Plan.

In the event of a change in control of our company, each participant in the Supplemental Plan would become 10 have described the events that would constitute a change in control for the purposes of the Supplemental Plan u Payments Upon Termination or Change in Control, which begins on page 27.

Incentive Savings Plan

All of the named executive officers currently employed by us are also eligible to participate in our Incentive Savin plan), which is available to all of our employees. Pursuant to the Incentive Savings Plan, we match funds deferred up to a certain percentage, and we make profit sharing contributions to the accounts of participants.

With respect to the profit sharing contributions, eligible employees with at least one hour of service during the rel employed by us at the end of such year receive a contribution in an amount equal to 3.25% of eligible compensatio which contribution is paid on the first $210,000 of compensation. The amounts allocated to participants under the years of employment.

	Three months ended March 31, 2007

	Three months ended March 31, 2007

Table of Contents

Potential Payments upon Termination or Change in Control

The following information and table set forth the amount of payments to each of our named executives in the even employment as a result of normal and early retirement, voluntary termination and termination for cause, involunta and termination following a change in control.

Assumptions and General Principles

The following assumptions and general principles apply with respect to the following table and any termination of executive officer.

The amounts shown in the table assume that each named executive was terminated on March 31, 2008. A amounts earned as of March 31, 2008 and includes estimates of amounts that would be paid to the named occurrence of a termination. The actual amounts to be paid to a named executive can only be determined

Unless otherwise noted, the fair market values of stock-based compensation were calculated using the clo stock on the American Stock Exchange on March 31, 2008.

A named executive is entitled to receive certain amounts earned during his term of employment regardles named executive s employment is terminated. These amounts include base salary, unused vacation pay a compensation. These amounts are not shown in the table, except for potential prorated annual cash incent

A named executive officer may exercise any stock options that are exercisable prior to the date of termin receive unrestricted shares of common stock with respect to any restricted stock awards for which the ves to the date of termination. Any payments related to these stock options and restricted stock awards are no because they are not severance payments.

A named executive officer will be entitled to receive all amounts accrued and vested under our retiremen including our Incentive Plan and any pension plans in which the named executive officer participates. Th in the table because they are not severance payments. Information about the pension benefits payable to e officers as of March 31, 2008 is set forth under the heading Pension Benefits at March 31, 2008 on pag

Normal and Early Retirement

A named executive officer is eligible to elect normal retirement at age 65 and early retirement at age 55-64 with at respectively, of creditable service to the company, as discussed under the heading Pension Benefits at March 31,

As of March 31, 2008, none of the named executive officers employed by us were eligible for normal retirement, eligible for early retirement.

Pursuant to our Stock Bonus Plan, upon the retirement, or retirement eligibility, of a named executive officers, all stock and stock options held by such named executive officer will accelerate and become immediately vested and

Voluntary Termination and Termination for Cause

	Three months ended March 31, 2007

Pursuant to the employment agreements that we have with Mr. Lines, Mr. Hansen and Mr. Smith upon terminatio
legal fees and other expenses incurred by such executive officer if he in good faith contests the termination. The e
required to reimburse us for all such costs if a court of final adjudication were to determine that the executive did
such challenge.

A named executive officer is not entitled to receive any severance payments or other benefits upon his voluntary c
employment with us prior to being eligible for retirement or upon termination for cause.

	Three months ended March 31, 2007

Table of Contents

Involuntary Termination

Our employment agreements with Mr. Hansen and Mr. Lines each also provide that, upon termination without cau
resigns because of our material breach of his employment agreement, we will have the following obligations:

pay to the executive officer compensation due him through the date of termination, including any accrued

pay to the executive officer a lump sum payment equal to twelve months base salary for Mr. Hansen and,
continuation of his base salary for nine months and a lump sum payment equal to nine months base salary

provide the executive officer with continuing health care coverage for a period of thirty-six months and e
Mr. Hansen and Mr. Lines, respectively, following the effective date of termination of employment; and

pay for certain outplacement services for the executive officer.

Pursuant to our employment agreement with Mr. Lines, our obligation to make payments upon any termination wi
because of a material breach of the agreement by us is conditioned on his execution of an enforceable release of al
compliance with all provisions of the employment agreement.

Our employment agreement with Mr. Smith provides that, upon termination without cause, or if Mr. Smith resigns
of his employment agreement, we will pay to Mr. Smith compensation due him through the date of termination, in
and that we will pay to him, in regular monthly payments, his salary for twelve months following the effective dat
employment.

Death or Disability

Mr. Lines and Mr. Hansen participate in our life insurance plan, whereby the beneficiary of a named executive off
death benefit equal to three times such named executive officer s base salary.

In addition, we pay the premiums for life insurance policies for Mr. Lines and Mr. Hansen, whereby in the event o
executive officer, his beneficiary would be entitled to the payment of a death benefit equal to $1,700,000 and $1,0
provide Mr. Smith with $2,500 annually for the purpose of procuring a term life insurance policy.

Mr. Lines, Mr. Hansen and Mr. Smith also participate in our short-term disability program that is available to our
officers. Pursuant to such program, each such named executive officer would be entitled to payments equal to his
following such disability. Mr. Lines, Mr. Hansen and Mr. Smith also participate in our long-term disability plan th
salaried employees.

Change In Control

Our employment agreements with Mr. Lines and Mr. Hansen also require us to make payments to them upon the o
would be deemed an event of termination after a change in control of the company.

	Three months ended March 31, 2007

James R. Lines. Our employment agreement with Mr. Lines provides that, upon the occurrence of a triggering ev
event of termination within three years after a change in control of the company, Mr. Lines would be entitled to ce
among other things, a lump sum payment equal to one dollar less than three times his annualized tax-includable co
for the five most recent taxable years ending before the date of such change in control.

In addition, all unvested stock options or shares of restricted stock held by Mr. Lines would accelerate and becom
full, and we would be required to pay to Mr. Lines within six months of the triggering event a lump sum payment
excess, if any, of: (i) the present value of the aggregate benefits to which he would be entitled under any and all q
defined benefit pension plans maintained by us as if he were one hundred percent vested under such plans, over (i
benefits to which he is actually entitled under such defined benefit pension plans as of the date of his termination.
agreement contains certain limitations for these payments that relate to our ability to deduct such payments for fe

28

	Three months ended March 31, 2007

Table of Contents

Pursuant to our employment agreement with Mr. Lines, our obligation to make payments upon termination follow
conditioned on his execution of an enforceable release of all claims and his compliance with all provisions of the

For the purposes of the termination benefits payable to Mr. Lines, a change in control would include the following

if any person, party or group (other than the company, any subsidiary of the company or any employee be company or any subsidiary), directly or indirectly, becomes the beneficial owner of twenty-five percent o voting power of the outstanding securities of the company ordinarily having the right to vote at the electi

a change in the composition of our Board of Directors such that members of our Board as of August 200 majority of our Board (unless the election or nomination of any new directors was approved by a vote of directors comprising the Board of Directors as of August 2006);

the closing of a reorganization, merger or consolidation of the company, other than one with respect to w those persons who were the beneficial owners immediately prior to such event, of outstanding securities having the right to vote in the election of directors own, immediately after such transaction, more than th outstanding securities of the resulting corporation ordinarily having the right to vote in the election of dir

the closing of a sale or other disposition of all or substantially all of the assets of the company, other than company; or

the complete liquidation and dissolution of the company.

The triggering events that would be deemed events of termination include, among others, termination of Mr. Line death, disability or cause, or resignation of Mr. Lines under the following circumstances:

a change in the nature or scope of his authority from that prior to the change in control;

a reduction of his total compensation from that prior to the change in control;

a failure by the company to make any increase in compensation to which Mr. Lines may be entitled unde or action by the company to decrease his base salary;

a change requiring Mr. Lines to perform services other than in Batavia, New York or in any location mor from Rochester, New York, except for certain required travel on the company s business;

without his express written consent, the assignment to Mr. Lines of any duties inconsistent with his positi and status with the company immediately prior to the change in control;

a failure by the company to continue in effect any bonus plans or other benefit or compensation plan in w participating at the time of the change in control or the taking of any action by the company which would participation in or materially reduce his benefits under such plans; or

	Three months ended March 31, 2007

prior to a change in control of the company, the failure by the company to obtain the assumption of the ag
employment agreement by any successor company.

In addition, in the event of a change in control, if the company fails to increase the base salary for Mr. Lines by a s
salary is decreased, then he would be entitled to terminate his employment agreement and we would be obligated
payments to which he would be entitled upon the occurrence of an event of termination in connection with a chang

J. Ronald Hansen. Our Senior Executive Severance Agreement with Mr. Hansen (referred to as the Severance A
make payments to Mr. Hansen upon the occurrence of certain events that would be deemed events of termination
(i) within three years after a change in control of the company, (ii) during any period when the company has or sh
person has taken, or plans to take, steps reasonably calculated to effect a change in control, (iii) following the com
that ultimately result in the occurrence of a change in control or (iv) if undertaken at the instance or upon the sugg
prospective change in control or any agent or other person acting on behalf of or in conjunction with any such par
in control.

	Three months ended March 31, 2007

Table of Contents

Such payments would include a lump sum payment equal to one dollar less than three times Mr. Hansen s annual compensation (including bonus) for the five most recent taxable years ending before the date of such change in co he may receive such payment in the form of consecutive monthly cash payments in an aggregate amount equal to sum payment on the date of termination.

In addition, all unvested stock options held by Mr. Hansen would accelerate and become immediately exercisable required to pay to Mr. Hansen within six months of the occurrence of the event of termination a lump sum paymen excess, if any, of: (i) the present value of the aggregate benefits to which he would be entitled under any and all qu defined benefit pension plans maintained by us as if he were 100% vested under such plans, over (ii) the present v is actually entitled under such defined benefit pension plans as of the date of his termination.

If, following a change in control, for any taxable year Mr. Hansen is liable for the payment of an excise tax with re money or property made by us or other related parties to him or for his benefit, we will be responsible to pay to M excise tax.

The triggering events that would be deemed events of termination include, among others, termination of Mr. Hans death, disability or cause, or resignation of Mr. Hansen under the following circumstances:

a change in the nature or scope of his authority from that prior to the change in control;

a reduction of his total compensation from that prior to the change in control;

a failure by the company to make any increase in compensation to which Mr. Hansen may be entitled und agreement, or action by the company to decrease his base salary;

a change requiring Mr. Hansen to perform services other than in Batavia, New York or in any location mo from Rochester, New York, except for certain required travel on the company s business;

without his express written consent, the assignment to Mr. Hansen of any duties inconsistent with his pos and status with the company immediately prior to the change in control; or

a failure by the company to continue in effect any bonus plans or other benefit or compensation plan in w participating at the time of the change in control or the taking of any action by the company which would participation in or materially reduce his benefits under such plans.

For the purposes of the Severance Agreement, the following events would constitute a change in control:

a change in the composition of our Board of Directors as a result of, or in connection with, any cash tende consolidation, merger or other business combination, sale of assets or contested election, or any combinat that the persons who were Directors of the company before the transaction ceased to constitute a majority the Board of Directors of any successor corporation;

if any person, party or group (other than the company, any subsidiary of the company or any employee be company or any subsidiary), directly or indirectly, becomes the beneficial owner of twenty-five percent o

	Three months ended March 31, 2007

voting power of the outstanding securities of the company ordinarily having the right to vote at the electi
person; or

a change of control of the company that would be required to be reported in the proxy statement for the a
or on a Current Report on Form 8-K under the Securities Exchange Act of 1934.

In addition, pursuant to our employment agreement with Mr. Hansen, failure by us to increase Mr. Hansen s base
any decrease in his base salary, would trigger his right to receive the payments to which he would be entitled upo
connection with any of the following events:

the acquisition by any person or entity of twenty percent or more of the outstanding equity stock of the c
owner of twenty percent of the equity stock of the company prior to May 13, 1993; or

the acquisition by any person or entity of twenty percent or more of the assets of the company who was n
of the assets of the company prior to May 13, 1993.

30

	Three months ended March 31, 2007

Table of Contents

Pursuant to Mr. Hansen s employment agreement, in the event that he is party to any other contract providing for
company, any compensation or other benefits provided to him under such other contract shall be applied to offset
lump sum equal to twelve months salary (such as upon termination without cause). As a result, our obligation to
would be offset by any obligation of ours to make payments to Mr. Hansen that may be triggered upon his termina
change in control under the Severance Agreement.

We are also responsible under the Severance Agreement to indemnify Mr. Hansen for all reasonable attorneys fe
in connection with enforcement or interpretation of the Severance Agreement, notwithstanding any judgment adve
from any litigation or arbitration commenced by Mr. Hansen in connection with the agreement, provided that he a
commencing such proceeding. We have also agreed to pay prejudgment interest on any monetary judgment or awa
connection with the Severance Agreement.

Mr. Smith. Under Mr. Smith s employment agreement, he will not be entitled to any payments by us upon the oc
Rather, upon the occurrence of a change in control, Mr. Smith must continue to provide us with the services conte
agreement until three months after a change in control has occurred. For the purposes of the employment agreeme
constitute a change in control:

the acquisition by any person or entity of twenty-five percent or more of the outstanding equity stock of t
owner of twenty percent of the equity stock of the company;

a change in the composition of our Board of Directors such that members of our Board as of August 2007
majority of our Board (unless the election or nomination of any new directors was approved by a vote of
directors comprising the Board of Directors as of August 2007);

the closing of a reorganization, merger or consolidation of the company, other than one with respect to w
those persons who were the beneficial owners immediately prior to such event, of outstanding securities o
having the right to vote in the election of directors own, immediately after such transaction, more than thr
outstanding securities of the resulting corporation ordinarily having the right to vote in the election of dir

the closing of a sale or other disposition of all or substantially all of the assets of the company, other than
company; or

the complete liquidation and dissolution of the company.

General. In the event of any sale, merger or any form of business combination affecting us, our employment agre
Mr. Hansen require us to obtain the express written assumption of the agreement by the acquiring or surviving ent
entitle the executive officer to all payments and other benefits to be provided by us in the event of termination wit

Our Severance Agreement with Mr. Hansen also provides that our failure to obtain the agreement of any successo
Severance Agreement prior to the effectiveness of such succession would constitute a breach of the Severance Ag
Mr. Hansen to compensation in the same amount and on the same terms as he would be entitled in the event of a t
control.

	Three months ended March 31, 2007

In addition, pursuant to the Supplemental Plan, in the event of a change of control, each participant in our Supp
includes Mr. Lines, Mr. Hansen and Mr. Smith, would become one hundred percent vested in his benefits.

Three months ended March 31, 2007

Table of Contents

ESTIMATED PAYMENTS UPON TERMINATION OR CHANGE IN CONTR

Event		James R. Lines		J. Ronald
Normal and Early Retirement				
Prorated annual cash incentive compensation	$	172,574	$	
Total	$	172,574	$	
Voluntary Termination and Termination for Cause				
Prorated annual cash incentive compensation	$	172,574	$	
Total	$	172,574	$	
Involuntary Termination				
Prorated annual cash incentive compensation	$	172,574	$	
Continued salary		198,750		
Cash severance payment		198,750		
Healthcare coverage		14,802		
Outplacement services(1)		40,000		
Total	$	624,876	$	
Death				
Prorated annual cash incentive compensation	$	172,574	$	
Life insurance proceeds		2,495,000		1
Total	$	2,667,574	$	1
Disability				
Prorated annual cash incentive compensation	$	172,574	$	
Short-term disability payments		132,500		
Total	$	305,074	$	
Change in Control with Termination				
Prorated annual cash incentive compensation	$	172,574	$	
Accelerated stock options		316,102		
Cash severance payment		934,015		
Healthcare coverage				
Outplacement services				
Pension enhancement				
Excise tax				
SERP vesting				
Total	$	1,422,691(2)	$	1

	Three months ended March 31, 2007

(1) Pursuant to our employment agreement with Mr. Lines, reimbursement of outplacement services is limited $40,000. Mr. Hansen s employment agreements does not contain a monetary limitation with respect to rei services. We have assumed for the purposes of this table that such payments will similarly be limited to an

(2) Such amount takes into account limitations imposed by our employment agreement with Mr. Lines, wherel otherwise payable to Mr. Lines upon termination following a change in control may be reduced in connect deductibility by the company for federal income tax purposes imposed by Section 280G of the Internal Rev

32

	Three months ended March 31, 2007

Table of Contents

Director Compensation Programs

The Compensation Committee annually reviews and approves compensation for independent directors. Mr. Lines, Executive Officer, is not an independent director under applicable American Stock Exchange and Securities and E and, therefore, he does not receive any additional compensation for services as a director.

We use a combination of cash and equity-based compensation to attract and retain our independent directors. As d compensation consists of an annual cash retainer; an additional annual cash retainer for chairs of the Board of Dire the Board; committee meeting fees; share equivalent units; and stock options. We also reimburse our directors for in connection with their attendance at board and committee meetings. We do not provide retirement benefits to ou

Cash Compensation

Each of our non-employee Directors receives an annual fee of $15,000 for service on the Board of Directors. Addi Director receives a fee of $1,000 for each Board or committee meeting attended, except that if such meeting is hel or by unanimous written consent, the fee is reduced to $500. If the Board of Directors and/or one or more commit full meeting fee is paid for one meeting and one-half of the meeting fee is paid for each additional meeting attende

The Chairman of the Board of Directors and each of our Directors serving as chairman of committees of the Boar fees for such service. For fiscal year 2008, the Chairman of the Board of Directors received an additional annual f the Audit Committee received an additional annual fee of $6,000, the Chairman of the Compensation Committee r fee of $5,000, and the Chairman of the Employee Benefits Committee and the Chairman of the Nominating Comm additional annual fee of $3,000.

Equity Compensation

Share Equivalent Units. Non-employee Directors participate in the Outside Directors Long-Term Incentive Plan of our non-employee Directors with Share Equivalent Units, or SEUs for five fiscal years during the term of su attainment of certain performance objectives. Upon termination of a non-employee Director s service, but not bef each SEU for one share of our common stock or, alternatively and subject to our discretion, for the cash equivalen stock on the American Stock Exchange on the date of termination of service, subject to certain limitations which a

Under the LTIP, SEUs are credited to each non-employee Director s account for each of the first five fiscal years directors in office when we changed our fiscal year end in 1997) during such director s term in which we produce amount at least equal to the consolidated net income specified in our budget for each such fiscal year. Such detern Each SEU is valued at the market value of one share of our common stock on the valuation date, which is the last quarter following the end of a fiscal year for which SEUs are to be credited. The number of SEUs to be credited is value of one SEU into 10,000.

In the event that we elect under the LTIP to redeem a Director s SEUs for cash representing a commensurate num stock, the cash value will be determined by multiplying the number of SEUs held by such Director on the date of service multiplied by the closing price of our stock on the date of such termination. However, the cash value of ea greater of $6.40 per share or the price on the valuation date when initially credited to such Director s account.

	Three months ended March 31, 2007

In the event that we elect to redeem a Director s SEUs for a commensurate number of shares of our common stoc
to such Director shall be determined as follows:

if the fair market value is at or below the valuation date price, each SEU will be redeemed for one share c

if the fair market value is greater than the valuation date price but less than $6.40 per share, each SEU wi
of our common stock;

if the fair market value is greater than $6.40 per share and the valuation date price was less than or equal
number of shares constituting the redemption price of a Director s SEUs will be

	Three months ended March 31, 2007

Table of Contents

determined by multiplying the number of SEUs times $6.40 and dividing the product by the fair marke

if the fair market value is greater than the valuation date price and the valuation date price was greater tha number of shares constituting the redemption price of a Director s SEUs will be determined by multiplyi the valuation date price and dividing the product by the fair market value.

Outstanding SEUs accrue dividends at the rate of $.03 per quarter in accordance with our regular dividend policy Director s account after the end of each fiscal year.

Options. Our non-employee Directors are also eligible to participate in the Incentive Plan, pursuant to which they purchase shares of our common stock. On May 31, 2007 each of our non-employee Directors was granted an optio our common stock at its closing price on the American Stock Exchange on the date of grant ($13.80). In addition, non-employee Directors was granted an option to purchase 462 shares of our common stock at its closing price on on the date of grant ($61.75). Each such stock option vests 25% per year over four years and expires ten years fro of stock options awarded to our non-employee Directors, in aggregate, was equal to the number of stock options a officers. See Long-Term Equity Incentive Compensation on page 16 for more information regarding stock opti officers.

Stock Ownership Objectives

In order to more closely align the interests of our directors with the best interests of our stockholders, on March 27 Committee established minimum stock ownership objectives that require our directors to work towards acquiring of equity ownership interests in our common stock within specified time frames.

Pursuant to our stock ownership objectives, our directors are required to own not less than 4,000 shares of our com be in compliance with the stock ownership guidelines within five years from the date the guidelines were adopted directors must comply with the ownership guidelines within five years of becoming subject to such guidelines.

The Compensation Committee monitors the progress made by our directors in achieving their stock ownership obj may modify the objectives and/or time frames for some or all of the directors.

2008 Director Summary Compensation Table

The following table shows information regarding the compensation of our directors for fiscal year 2008.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards[(1)] ($)	C
Helen H. Berkeley	23,000	10,000	7,683	

	Three months ended March 31, 2007		
Jerald D. Bidlack	44,000		7,683
William C. Denninger[3]	16,000		4,624
H. Russel Lemcke[4]	30,500		7,683
James R. Lines[5]			
James J. Malvaso	30,250	10,000	7,683
Gerard T. Mazurkiewicz[6]	26,000	10,000	4,478
Cornelius S. Van Rees	30,750		7,683

(1) These stock option awards were granted under our Incentive Plan. The dollar values of the stock options sh calculated in accordance with SFAS No. 123R on the same basis as disclosed in footnote 5 to the Summary page 20. During fiscal year 2008, each independent director was granted an option to purchase 2,500 share grant date fair value computed in accordance with SFAS No. 123R for each such award, except for Mr. Ma $5.87. The grant date fair value computed in accordance with SFAS No. 123R for Mr. Mazurkiewicz s aw Mr. Mazurkiewicz received his award upon his appointment to the Board in August 2007.

34

	Three months ended March 31, 2007

Table of Contents

(2) These amounts include dividends earned on outstanding SEUs pursuant to our regular dividend policy duri

(3) On September 6, 2007, William C. Denninger resigned as a Director to pursue other opportunities.

(4) Mr. Lemcke is retiring from the Board after the annual meeting and, as such, he is not standing for electio meeting.

(5) Mr. Lines serves as our President and Chief Executive Officer and is not an independent director under ap Exchange and Securities and Exchange Commission rules. Therefore, Mr. Lines does not receive the comp Cash Compensation or Equity Compensation on page 33. All compensation earned by Mr. Lines in f Summary Compensation Table on page 20 and the 2008 Grants of Plan-Based Awards Table on page 21.

(6) Mr. Mazurkiewicz was appointed to the Board of Directors on August 15, 2007.

Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee during fiscal year 2008 were Directors Malvaso (Chairman), Berk Rees. Director Van Rees is our Corporate Secretary but receives no compensation for his service in such capacity. the Board of Directors deliberations regarding compensation of all of our compensated officers.

During fiscal year 2008, no member of our Compensation Committee, except for Mr. Van Rees: (1) was an office our subsidiaries; (2) was formerly an officer of ours or any of our subsidiaries; or (3) had any relationship requirin statement pursuant to Securities and Exchange Commission rules. In addition, no executive officer served: (1) as a committee (or other board committee performing equivalent functions or, in the absence of any such committee, t another entity, one of whose executive officers served on our Compensation Committee; (2) as a director of anoth executive officers served on our Compensation Committee; or (3) as a member of the compensation committee (o performing equivalent functions or, in the absence of any such committee, the entire board of directors) of anothe officers served on our board of directors.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Long-Term Stock Ownership Plan

At our annual meeting for our fiscal year ended March 31, 2000, our stockholders approved the Long-Term Stock Corporation (referred to as the Stock Ownership Plan). The purpose of the Stock Ownership Plan was to provid achieve corporate objectives, to attract and retain officers and directors of outstanding competence and to encoura broaden their equity ownership in the company. In connection with the Stock Ownership Plan, certain of our name Directors purchased shares of our common stock pursuant to loans from us. As a result, certain of our Directors a indebted to us for a balance due on the purchase of shares of our common stock at the closing price on the Americ of purchase, which was April 5, 2001.

The largest aggregate amount of indebtedness to us by each participating executive officer since the beginning of for Mr. Hansen. Mr. Hanson satisfied his indebtedness to us during fiscal 2008. The largest aggregate amount of i

	Three months ended March 31, 2007

fiscal year 2008 was $23,228 for Mr. Van Rees, who satisfied his indebtedness to us during fiscal year 2008.

As of June 1, 2008, none of our executive officers or Directors are indebted to us.

Each subscription agreement states that eighteen months after purchasing the shares of common stock, a participar
of his shares and that the participant agrees to hold the remainder of his shares until such time as he terminates em
as a Director ends. The terms of each note required the participant to repay the balance of the note in thirty-two eq
installments beginning on June 30, 2002.

The loans were interest-free during a participant s employment or service as Director. Interest on each note was i
participant at the applicable federal rate established by the Internal Revenue Service. Shares remain in our custody
in full, unless the participant sells his shares (when and

	Three months ended March 31, 2007

Table of Contents

to the extent permitted). Each note provided that until it is paid in full, any shares sold will be sold through a brok
proceeds, less expenses, to us to pay off all or a portion of such note. Each note also contained provisions that gra
purchased shares and any proceeds from any subsequent sale of the purchased shares. If a participant ceased to be
after eighteen months after purchase, the participant may sell all or a portion of his shares.

The Sarbanes-Oxley Act that became law on July 30, 2002 prohibits any further loans under the Long-Term Stock
prohibits renewal, or any material modification of the terms, of any of the loans outstanding under the plan.

Policies and Procedures for Review, Approval or Ratification of Related Person Transactions

Our Audit Committee reviews all relationships and transactions in which the company and our directors and exec
family members are participants in advance for review and approval. All existing related party transactions are rev
Audit Committee. Any director or officer with an interest in a related party transaction is expected to recuse hims
consideration of the matter.

Although the Audit Committee has not established a written policy regarding the approval of related party transac
transactions, the Audit Committee consider, among other factors:

- the nature of the related person s interest in the transaction;
- the material terms of the transaction, including the amount and type of transaction;
- the importance of the transaction to the related person and to the company;
- whether the transaction would impair the judgment of a director or executive officer to act in the best inte
- any other matters the committee deems appropriate.

In addition, to the extent that the transaction involves an independent director, consideration is also given, as appl
of the American Stock Exchange and other relevant rules related to independence.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below shows certain information, as of June 6, 2008, regarding the only person known to us to be the be
five percent of the outstanding shares of our common stock, with percentages based on shares issued and ou

Name and Address of Beneficial Owner	Number of Sha Beneficially Ow
Renaissance Technologies LLC(1)	352,800

	Three months ended March 31, 2007

800 Third Avenue
New York, New York 10022

(1) This information as to the beneficial ownership of shares of our common stock is based on the Schedule 13
filed with the Securities and Exchange Commission by Renaissance Technologies LLC (Renaissance) a
a control person of Renaissance. Renaissance, and Simons as its control person, report sole voting power w
such shares and sole dispositive power with respect to all of such shares. Certain funds and accounts mana
right to receive dividends and proceeds from the sale of our common stock held by Renaissance. RIEF Tra
more than five-percent of such shares.

36

	Three months ended March 31, 2007

Table of Contents

SECURITY OWNERSHIP OF MANAGEMENT(1)

The table below shows certain information regarding shares of our common stock as of June 6, 2008 held by (1) e
our of named executive officers, as defined on page 12; and (3) all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares Beneficially Owned(2)
Helen H. Berkeley(3)	184,680(5
Jerald D. Bidlack(3)	41,875(6
J. Ronald Hansen(4)	26,242(7
H. Russel Lemcke(3)	49,820(8
James R. Lines(3)(4)	12,448(9
James J. Malvaso(3)	6,875(10
Gerard T. Mazurkiewicz(3)	
Alan E. Smith(4)	991(1
Cornelius S. Van Rees(3)	35,125(12
All directors and executive officers as a group (10 persons)(13)	358,056

(1) On March 27, 2006, we established stock ownership guidelines for our executive officers and Directors in interests with those of our stockholders. Under the stock ownership guidelines: (i) our principal executive common stock in an amount equal to 1.25 times his base salary; (ii) our other executive officers are requi an amount equal to 1.00 times their respective base salaries; and (iii) our Directors are required to own no common stock. Our current executive officers and Directors must be in compliance with the stock owners years from the date the guidelines were adopted. Individuals who become executive officers or Directors ownership guidelines within five years of becoming subject to such guidelines. The stock ownership guid officers to retain 65% of the net shares they realize (after tax) when a restricted stock award vests or a sto such persons are in compliance with the guidelines.

(2) As reported by such persons as of June 6, 2008, with percentages based on shares issued and outsta person has the right to receive shares within the next 60 days (as indicated in the other footnotes to this ta number of shares owned by such person and the number of shares outstanding. Under the rules of the Sec Commission, beneficial ownership is deemed to include shares for which an individual, directly or ind dispositive power, whether or not they are held for the individual s benefit, and includes shares that may including, but not limited to, the right to acquire shares by the exercise of options. Shares that may be acq referred to in the footnotes to this table as presently exercisable options. Unless otherwise indicated in each stockholder named in the table has sole voting and investment power with respect to the all of the sh stockholder. We have omitted percentages of less than 1% from the table.

	Three months ended March 31, 2007

(3) Director.

(4) Executive officer.

(5) The amount shown for Mrs. Berkeley includes presently exercisable options to purchase 21,250 shares.

(6) The amount shown for Mr. Bidlack includes presently exercisable options to purchase 11,875 shares, and security in connection with a margin loan.

(7) The amount shown for Mr. Hansen includes presently exercisable options to purchase 3,258 shares, 1,184 and 1,800 shares held by the Employee Stock Ownership Plan of Graham Corporation trustee and allocat to which Mr. Hansen has sole voting power but no dispositive power, except in limited circumstances.

(8) The amount shown for Mr. Lemcke includes presently exercisable options to purchase 1,250 shares

	Three months ended March 31, 2007

Table of Contents

(9) The amount shown for Mr. Lines includes presently exercisable options to purchase 4,461 shares, 2,202 s
2,785 shares held by the Employee Stock Ownership Plan of Graham Corporation trustee and allocated to
which Mr. Lines has sole voting power but no dispositive power, except in limited circumstances.

(10) The amount shown for Mr. Malvaso represents presently exercisable options.

(11) The amount shown for Mr. Smith includes 366 shares of restricted stock and a presently exercisable optio

(12) The amount shown for Mr. Van Rees includes presently exercisable options to purchase 22,500 shares.

(13) See footnotes 6 through 13 to this table. The amount shown includes presently exercisable options to purc
shares of restricted stock and 4,585 shares allocated to the executive officers under the ESOP, as to which
exercise voting power, but not dispositive power, except in limited circumstances.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and officers to file with
Commission reports of ownership and changes in ownership of our common stock. Based solely on the written rep
and officers and copies of the reports that they have filed with the Securities and Exchange Commission, we belie
all of our Directors and officers timely complied with the filing requirements of Section 16(a), except that each no
one late report disclosing one transaction, Director Van Rees also filed one additional late report disclosing one tra
and Hansen each filed one late report disclosing two transactions.

STOCKHOLDER PROPOSALS FOR 2008 ANNUAL MEETING

Proposals Submitted for Inclusion in Our Proxy Materials

In order for any stockholder proposal to be included in our proxy statement to be issued in connection with our an
for our fiscal year ending March 31, 2009, we must receive the proposal no later than February 13, 2009. If the pro
of the requirements set forth in Rule 14a-8 under the Securities Exchange Act of 1934 and, if the proposal pertains
criteria described under the heading Nominating Committee on page 11, we will include the stockholder propo
place it on the form of proxy issued for the 2009 annual meeting. Stockholder proposals submitted for inclusion in
mailed to the following address: Graham Corporation, Attention: Corporate Secretary, 20 Florence Avenue, Batav

Proposals Not Submitted for Inclusion in Our Proxy Materials

Pursuant to our by-laws, stockholder proposals that are not submitted for inclusion in our proxy materials pursuan
upon at the 2009 annual meeting only if written notice of the proposal complying with the requirements set forth i
received by our Corporate Secretary not later than the following dates: (i) 60 days in advance of the annual meetin
on a day which is within 30 days preceding the anniversary of the previous year s annual meeting or (ii) 90 days i
if such meeting is to be held on or after the anniversary of the previous year s annual meeting. If the annual meeti
than within such periods, then stockholder notices and proposals must be delivered to or received by our Corporat
business on the 10th day following the date on which notice of the annual meeting is first given to stockholders vi

	Three months ended March 31, 2007

that we publicly file with the Securities and Exchange Commission.

Assuming that the 2009 annual meeting of stockholders is held on July 31, 2009, stockholder proposals must be re
Stockholder proposals that do not comply with the foregoing requirements will be considered untimely and will no
annual meeting. Stockholder notices and proposals should be delivered to the following address: Graham Corpora
Secretary, 20 Florence Avenue, Batavia, New York 14020.

38

	Three months ended March 31, 2007

Table of Contents

OTHER MATTERS

The Board of Directors does not know of any other matters that may be presented for action at the 2008 annual me
matters come before the annual meeting, however, the persons named in the enclosed proxy will have discretionar
with respect to such matters in accordance with their judgment.

BY ORDER OF THE BOARD OF DIRECTORS

James R. Lines
President and Chief Executive Officer

Dated: June , 2008

	Three months ended March 31, 2007

Table of Contents

Appendix A

CERTIFICATE OF AMENDMENT
TO
THE CERTIFICATE OF INCORPORATION
OF
GRAHAM CORPORATION

Graham Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of
HEREBY CERTIFY:

FIRST: That the Board of Directors of said corporation, at a meeting duly convened and held on May 29, 2008, a
and declaring advisable the following amendment to the Certificate of Incorporation of said corporation:

RESOLVED, that the Certificate of Incorporation of Graham Corporation be amended by restating the Fourth Art
Article shall read as follows:

The total number of shares of all classes of stock which the corporation shall have authority to issue is 26,000,00
shares shall be shares of Preferred Stock having a par value of $1.00 each (hereafter called Preferred Stock) and 2
of Common Stock having a par value of $0.10 each (hereinafter called Common Stock).

SECOND: That such amendment has been duly adopted by the affirmative vote of the holders of a majority of the
annual meeting of stockholders in accordance with the provisions of the General Corporation Law of the State of

40

	Three months ended March 31, 2007

Table of Contents

IN WITNESS WHEREOF, the above mentioned corporation has caused this certificate to be signed by James R
Executive Officer, this day of August, 2008.

By:

James R. Lines, President and
Chief Executive Officer

Three months ended March 31, 2007

Table of Contents

THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, IT WILL BE VOTED FOR THE PROPOSALS LISTED BELOW.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

	FOR all nominees	WITHHOLD AUTHORITY for all nominees	F NO E (se
1. Election of Directors			
01 Gerard T. Mazurkiewicz to serve until 2011	o	o	
02 Comelius S. Van Rees to serve until 2011			

Instruction: To withhold authority to vote for any individual nominee(s), mark For All Nominees Except an space provided below.

2. Approval of the amendment to the Company s Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 6,000,000 to 25,500,000 and to increase the number of total authorized shares from 6,500,000 to 26,000,000. FO

3. Ratification of the selection of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2009. FO

4. In their discretion, to vote upon all other matters as may be properly brought before the meeting.

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockh this Proxy will be voted: (I) FOR the two director nominees; (II) FOR the amendment to the Compa Incorporation to increase the number of authorized shares of common stock to 25,500,000 and to increase 26,000,000; and (III) FOR the proposal to ratify the selection of Deloitte & Touche LLP as the Company s accounting firm for the fiscal year ending March 31, 2009.

	Three months ended March 31, 2007

o To help our preparation for the meeting, please check

Please sign exactly as name(s) appears on this proxy and return it
attend the meeting or not. If you do attend, you may, of course, v
may be used for any questions or comments you may have.

Signature **Signature** **D**

5 **FOLD AND DETACH HERE** 5

Choose **MLink**SM for fast, easy and secure 24/7 online access to your future proxy materials, in
statements, tax documents and more. Simply log on to **Investor Service**
www.bnymellon.com/shareowner/isd where step-by-step instructions will prompt you through e

	Three months ended March 31, 2007

PROXY 2008

GRAHAM CORPORATION

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE C
EACH MATTER TO BE VOTED ON AT THE ANNUAL MEETING HAS BEEN PROPO
BOARD OF DIRECTORS OF THE COMPANY

The undersigned hereby appoints Jerald D. Bidlack and James R. Lines, or either of them, each with p proxies to attend the Annual Meeting of Stockholders of Graham Corporation to be held at the Hampto Drive, Batavia, New York 14020, on July 31, 2008 at 11:00 a.m., Eastern Time, and any adjournmen accordance with the following instructions the number of shares the undersigned would be entitled to vot such meeting:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE: (I) FOR THE TWO DIRECTOR N THE AMENDMENT TO THE COMPANY S AMENDED CERTIFICATE OF INCORPORATIO NUMBER OF AUTHORIZED SHARES OF COMMON STOCK TO 25,500,000 AND TO INC AUTHORIZED SHARES TO 26,000,000; AND (III) FOR THE PROPOSAL TO RATIFY T DELOITTE & TOUCHE LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC FOR THE FISCAL YEAR ENDING MARCH 31, 2009.

Address Change/Comments (Mark the corresponding box on the reverse side)

5 **FOLD AND DETACH HERE** 5

You can now access your Graham Corporation account online.

Access your Graham Corporation stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for Graham Corporation, now makes it easy and convenient to get current information on your

View account status	View payment history for divi
View certificate history	Make address changes

	Three months ended March 31, 2007

View book-entry information Obtain a duplicate 1099 tax fo

Establish/change your PIN

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