

GRAHAM CORP  
Form DEF 14A  
June 18, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to ss.240.14a-12

**GRAHAM CORPORATION**

**(Name of Registrant as Specified In Its Charter)**

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

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**GRAHAM CORPORATION**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD JULY 26, 2012**

The 2012 annual meeting of stockholders of Graham Corporation will be held on Thursday, July 26, 2012, at 11:00 a.m., Eastern Time, at the Hilton Garden Inn, Buffalo Airport, 4201 Genesee Street, Buffalo, New York 14225, for the following purposes, which are more fully described in the accompanying proxy statement:

to elect as Directors the three nominees named in the attached proxy statement;

to approve, on an advisory basis, the compensation of our named executive officers;

to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2013; and

to transact such other business as may properly come before the annual meeting or any adjournment of the annual meeting. Our Board of Directors has fixed the close of business on June 8, 2012 as the record date for determining the stockholders who are entitled to receive notice of and to vote at the annual meeting as well as at any adjournment of the annual meeting.

BY ORDER OF THE BOARD OF DIRECTORS

James R. Lines

*President and Chief Executive Officer*

Dated: June 18, 2012

**If you own shares through a broker, we encourage you to follow the instructions provided by your broker regarding how to vote. Your broker may not vote your shares for director nominees or on the advisory vote on executive compensation unless you provide your broker with voting instructions.**

**GRAHAM CORPORATION**

**PROXY STATEMENT**

We are furnishing this proxy statement to our stockholders in connection with the solicitation by our Board of Directors of proxies for use at the annual meeting of stockholders for our fiscal year ended March 31, 2012, which we refer to as fiscal year 2012, as well as for use at any adjournment of the annual meeting.

**Date and Location of Annual Meeting**

The annual meeting will be held on Thursday, July 26, 2012, at 11:00 a.m., Eastern Time, at the Hilton Garden Inn, Buffalo Airport, 4201 Genesee Street, Buffalo, New York 14225.

**Record Date and Shares Outstanding**

Owners of record of shares of our common stock having a par value of \$0.10, which we refer to as common stock, at the close of business on June 8, 2012, the record date for the annual meeting, are entitled to notice of and to vote at the annual meeting. As of the record date, there were 9,977,748 shares of our common stock issued and outstanding.

**Mail Date**

This proxy statement and the accompanying form of proxy are being first mailed to our stockholders on or about June 18, 2012.

**Proxy Cards and Voting**

Each owner of record of our common stock on June 8, 2012 is entitled to one vote for each share of common stock so held.

If we receive the enclosed proxy, properly executed and dated, in time to be voted at the annual meeting, the shares represented by the proxy will be voted in accordance with the instructions marked on the proxy. An executed proxy without instructions marked on it will be voted:

FOR each of the three nominees for election as Director;

FOR approval, on an advisory basis, of the compensation of our named executive officers; and

FOR the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2013.

The shares may also be voted by the named proxies for such other business as may properly come before the annual meeting or at any adjournment or postponement of the annual meeting.

Please note, if your shares are held of record by a broker, bank or other nominee, and you wish to vote in person at the annual meeting, you must bring to the annual meeting a letter from the broker, bank or other nominee confirming both (1) your beneficial ownership of the shares as of the record date, and (2) that the broker, bank or other nominee is not voting the shares at the annual meeting.

Stockholders may vote in person at the annual meeting. We will provide ballots to any stockholder who wishes to vote at the annual meeting.

## Quorum

A quorum is required for our stockholders to conduct business at the annual meeting. Pursuant to our amended and restated by-laws, the holders of record of a majority of the shares of our common stock present in person or by proxy and entitled to vote at the annual meeting will constitute a quorum.

## Vote Required

The table below shows the vote required to approve each of the proposals described in this proxy statement, assuming the presence of a quorum, in person or by proxy, at the annual meeting.

Proposal Number	Proposal Description	Vote Required
One	Election of three Directors	Plurality of the shares present, in person or by proxy, and entitled to vote
Two	Approval, on an advisory basis, of the compensation of our named executive officers	Majority of the shares present, in person or by proxy, and entitled to vote <sup>(1)</sup>
Three	Ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2013	Majority of the shares present, in person or by proxy, and entitled to vote <sup>(2)</sup>

<sup>(1)</sup> The result of Proposal Two is not binding upon our Board of Directors or the Compensation Committee. However, our Board of Directors and our Compensation Committee value the opinions of stockholders, and will consider the outcome of this vote when making future compensation decisions.

<sup>(2)</sup> The selection of Deloitte & Touche LLP is being presented to our stockholders for ratification. The Audit Committee of our Board of Directors will consider the outcome of this vote in its future discussions regarding the selection of our independent registered public accounting firm.

Abstentions are counted for the purpose of determining the presence of a quorum and the number of shares voting on a proposal. Abstentions will have the same effect as a vote against a proposal requiring the approval of a majority of the shares present, in person or by proxy, and entitled to vote.

## Effect of Not Casting Your Vote and Broker Non-Votes

If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of directors and the advisory vote on the compensation of our named executive officers. If you hold your shares in street name and do not indicate how you want your shares voted in the election of directors or the advisory vote on the compensation of our named executive officers, your bank or broker is not permitted to, and will not, vote your shares, which we refer to as broker non-votes, on these proposals on your behalf. Your bank or broker will, however, continue to have discretion to vote any non-instructed shares to ratify the selection of our independent registered public accounting firm.

Shares subject to broker non-votes are counted for the purpose of determining the presence or absence of a quorum but are not counted for the purpose of determining the number of shares voting in the election of directors or the advisory vote on the compensation of our named executive officers. Thus, broker non-votes will have no effect on the outcome of these proposals.

If you are a stockholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the annual meeting.

## Revocability of Proxies

Your presence at the annual meeting will not automatically revoke your proxy. However, you can revoke your proxy at any time before it is voted at the annual meeting by:

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delivering a written notice of revocation to our Corporate Secretary;

delivering a duly executed proxy bearing a later date to our Corporate Secretary; or

attending the annual meeting, filing a written notice of revocation with our Corporate Secretary, and voting in person.

Notices of revocation and revised proxies should be sent to our Corporate Secretary at the following address: Graham Corporation, Attention: Corporate Secretary, 20 Florence Avenue, Batavia, New York 14020.

## **Solicitation of Proxies**

This proxy solicitation is made by our Board of Directors on our behalf, and we will bear the cost of soliciting proxies. In addition to solicitation by mail, our Directors, officers and employees may solicit proxies personally or by telephone or other telecommunication. We will not compensate our Directors, officers or employees for making proxy solicitations on our behalf. We will provide persons holding shares in their name or in the names of nominees, which in either case are beneficially owned by others, proxy materials for delivery to those beneficial owners and will reimburse the record owners for their expenses in doing so.

## **Principal Executive Offices**

Our principal executive offices are located at 20 Florence Avenue, Batavia, New York 14020. Our telephone number is 585-343-2216.

## **Annual Report to Stockholders and Annual Report on Form 10-K**

We have enclosed our fiscal year 2012 annual report to stockholders with this proxy statement. Our annual report on Form 10-K for the fiscal year ended March 31, 2012, as filed with the Securities and Exchange Commission, is included in the fiscal year 2012 annual report. The fiscal year 2012 annual report includes our audited financial statements, along with other information about us, which we encourage you to read.

### **You can obtain, free of charge, an additional copy of our annual report on Form 10-K by:**

accessing our website at [www.graham-mfg.com/proxy](http://www.graham-mfg.com/proxy);

writing to us at: Graham Corporation, Attention: Annual Report Request, 20 Florence Avenue, Batavia, New York 14020; or

telephoning us at 585-343-2216.

You can also obtain a copy of our annual report on Form 10-K and all other reports and information that we file with, or furnish to, the Securities and Exchange Commission from the Securities and Exchange Commission's EDGAR database located at [www.sec.gov](http://www.sec.gov).

### **IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON JULY 26, 2012**

As required by the rules adopted by the Securities and Exchange Commission, we are making this proxy statement and our fiscal year 2012 annual report to stockholders available on the Internet at:

**[www.graham-mfg.com/proxy](http://www.graham-mfg.com/proxy)**

For directions on how to attend the annual meeting and vote in person, please review Proxy Cards and Voting and Revocability of Proxies above.



**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

Our Board of Directors currently consists of seven members. Our by-laws provide for a classified Board of Directors consisting of three classes of Directors, with each class serving a staggered three-year term. As a result, only a portion of our Board of Directors is elected each year. The term of three of our seven Directors, Helen H. Berkeley, Alan Fortier and James R. Lines will expire at the 2012 annual meeting.

The Nominating and Corporate Governance Committee of our Board of Directors has nominated Ms. Berkeley, Mr. Fortier and Mr. Lines for re-election as Directors. If re-elected, each of them will hold office for a three-year term expiring in 2015 or until his or her successor is duly elected and qualified. Our Board of Directors does not contemplate that any of the three nominees will be unable to serve as a Director, but if that contingency should occur before the proxies are voted, the persons named in the enclosed proxy reserve the right to vote for such substitute nominee(s) as they, in their discretion, determine.

Our amended and restated by-laws require mandatory retirement at age 75 for Directors who become members of our Board of Directors for the first time after October 30, 2002. No retirements pursuant to this provision occurred during fiscal year 2012.

The Securities and Exchange Commission's rules require us to discuss briefly the specific experience, qualifications, attributes or skills that led our Board of Directors to conclude that each Director or Director nominee should serve on our Board of Directors. We have provided this discussion in a separate paragraph immediately below the biographical information provided by each Director below.

**Board Recommendation**

Our Board of Directors unanimously recommends a vote **FOR** the election of each of Ms. Berkeley, Mr. Fortier and Mr. Lines as Directors for a three-year term expiring in 2015.

**Nominees Proposed for Election as Directors at the 2012 Annual Meeting**

**Name and Background**

**Helen H. Berkeley**, age 83, is a private investor.

**Director  
Since**

1998

As a long-term private investor in our company, Ms. Berkeley brings a unique perspective to our Board of Directors. During her 14-year tenure on our Board of Directors, Ms. Berkeley has acquired a deep understanding of our company and our markets.

**Alan Fortier**, age 55, has served as President of Fortier & Associates, Inc., a strategy and profit improvement consulting firm located in Fort Lee, New Jersey focused on petrochemicals and capital goods companies, since 1988. Mr. Fortier received his B.S. in Chemical Engineering from Cooper Union and his MBA from Harvard Business School.

**Director  
Since**

2008

Mr. Fortier brings to our Board of Directors more than 30 years of industrial experience as a strategy consultant, educator and manager. Our Board of Directors and management team benefits from his extensive background in our served markets and his extensive experience advising boards and senior executives of global capital goods businesses on business strategy, mergers and acquisitions, global growth, organizational development and management control.

**James R. Lines**, age 51, became our President and Chief Executive Officer in January 2008. Previously, Mr. Lines served as our President and Chief Operating Officer since June 2006. Mr. Lines has served us in various capacities since 1984, including Vice President and General Manager, Vice President of Engineering, and Vice President of Sales and Marketing. Prior to joining our management team, he served us as an application engineer and sales engineer as well as a product supervisor. Mr. Lines holds a B.S. in Aerospace Engineering from the State University of New York at Buffalo.

**Director  
Since**

2006

As our President and Chief Executive Officer, and as a result of his day-to-day leadership of the business, Mr. Lines provides our Board of Directors with valuable insight regarding the operations of our company and our management team and he performs a critical role in Board discussions regarding strategic planning and development. Our Board of Directors also benefits from his historical knowledge of our company and his broad and in-depth understanding of our markets and customers. Mr. Lines has served our company in various executive capacities for more than 19 years, and has more than 28 years of experience interacting with our customers, engineering contractors, competitors and similar companies serving the energy markets.

## Directors Whose Terms Do Not Expire at the 2012 Annual Meeting

### Name and Background

**Jerald D. Bidlack**, age 76, has served as President of Griffin Automation, Inc., a manufacturer of special automation machinery and systems located in West Seneca, New York, since 1992. Mr. Bidlack has served as Chairman of our Board of Directors since 1998.

**Director  
Since**

1985

**Term  
Expires**

2013

Mr. Bidlack is an experienced business leader and licensed professional engineer with the skills necessary to be the Chairman of our Board. As one of our Directors for more than 27 years and as our non-executive Chairman of our Board since 1998, he has a deep understanding of our company and our markets. Mr. Bidlack also provides our Board of Directors with critical insight, innovation and guidance based on his substantial engineering and financial background, and his experience in leading, managing and growing complex multi-national businesses for over 40 years. Mr. Bidlack also serves as a Trustee Emeritus of Keuka College.

**James J. Malvaso**, age 62, is a senior advisor to Toyota Material Handling Group, a distributor of Toyota material handling equipment. Until his retirement on March 31, 2012, he was the President and Chief Executive Officer of Toyota Material Handling North America and the Managing Officer of Toyota Industries Corporation, positions he held since April 2010. Previously, and since 1997, Mr. Malvaso served as the Chairman, President and Chief Executive Officer of The Raymond Corporation, a subsidiary of Toyota and the North American market leader in electric warehouse trucks, located in Greene, New York. Previously, from 1993 to 1996, Mr. Malvaso served as Chief Operating Officer and Vice President-Operations of The Raymond Corporation. Mr. Malvaso is a former President of the Industrial Truck Association and a current member of its Executive Committee and Board of Directors. Mr. Malvaso also serves as a Trustee of LeMoyne College.

**Director  
Since**

2003

**Term  
Expires**

2013

Mr. Malvaso has proven business acumen, having successfully served as the chief executive officer of large, complex businesses with global operations. His experience with a major industrial equipment company is particularly helpful to our Board of Directors in understanding the challenges of global manufacturing, distribution and sales as it relates to the business and strategy of our company.

**James J. Barber, Ph.D.**, age 58, has been an independent consultant and the principal of Barber Advisors, LLC since September 2007. From January 2000 to May 2007, Dr. Barber was the President and CEO of Metabolix, Inc. (NASDAQ: MBLX), a bioscience company focused on plastics, chemicals and energy. He was responsible for transforming Metabolix from a research boutique into a leader in clean tech and industrial biotechnology. Dr. Barber is currently, and has been since November 2010, a Director of Agrivida, a developer of proprietary crops and processes designed to transform the economics of producing renewable chemicals, fuels, and bioproducts from non-food cellulosic biomass. Dr. Barber also presently serves as an advisor to Solazyme, Inc. (NASDAQ: SZYM), which specializes in renewable oil and bioproducts, as well as to other firms, and since May 2012, serves as a Director of Allylix Inc., a private renewable chemicals company that develops terpene products and their derivatives for the flavor and fragrance, food ingredient, pharmaceutical, agricultural and biofuel markets.

**Director  
Since**

2011

**Term  
Expires**

2014

Following his tenure at Metabolix, and from August 2008 through March 2009, Dr. Barber served as a Director of Codon Devices, a start up company focused on synthesizing DNA and other genetic material, which is no longer in business. From

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February 2008 through November 2010, Dr. Barber was a Director and on the Finance Committee of Bluewater Holdings Corp., a provider of sewage and water-treatment services, which filed for Chapter 11 bankruptcy protection in October 2010. Between June 2008 and August 2009, he served as the acting Executive Director of Diagnostics For All, a not-for-profit company which develops low-cost, easy-to-use, point-of-care diagnostic devices designed for use in resource-poor settings.

Prior to joining Metabolix, Dr. Barber served as Global Business Director for the Organometallics and Catalysts business of Albemarle Corporation, a specialty chemicals company. Prior to his tenure at Albemarle, Dr. Barber was Director of Business Development at Ethyl Corporation, a fuel additives company. He also previously served as President of Geltech, Inc., a precision molded micro optics company, and as Chief Operating Officer of Hyperion Catalysis International, a carbon developer and producer. From May through August 2007, Dr. Barber pursued personal interests.

Dr. Barber was awarded the American Chemical Society's Henry F. Whalen, Jr. award for Business Development in September 2003. He received his B.S. in Chemistry from Rensselaer Polytechnic Institute and a Ph.D. in Organic Chemistry from the Massachusetts Institute of Technology. He also currently serves on the Advancement Council of the College of Polymer Science and Polymer Engineering at the University of Akron.

Dr. Barber brings to our Board of Directors substantial executive level leadership experience and a deep understanding of product and business development in highly technical industries and alternative energy markets. Dr. Barber also has significant experience in structuring both joint venture and acquisition transactions and assists our Board of Directors in pursuing our business objectives.

**Gerard T. Mazurkiewicz**, age 65, has been a Tax Partner with Dopkins & Company, LLP, a regional accounting firm located in Buffalo, New York, since 2004. Prior to his tenure at Dopkins & Company, Mr. Mazurkiewicz spent more than 32 years with KPMG, LLP, and was the Partner in Charge of KPMG's upstate New York/Albany tax practice prior to his retirement in 2002. Mr. Mazurkiewicz also serves as a Director of Trebor, Inc., a distributor of tissue, pulp, paper and container board and as a Director of Robert James Sales, Inc., a distributor of corrosion resistant piping products. Mr. Mazurkiewicz previously served as a Director of Great Lakes Bancorp, Inc. until its merger with First Niagara Bank in 2008. Mr. Mazurkiewicz received his B.S. in Business Administration from the State University of New York at Buffalo School of Management, where he currently serves on the Dean's Advisory Council. He is a member of the American Institute of Certified Public Accountants and the Buffalo Chapter of the New York State Society of Certified Public Accountants. Mr. Mazurkiewicz also serves on numerous not-for-profit boards and foundations, including the Women's and Children's Hospital of Buffalo Foundation, the Kaleida Foundation, the Foundation of the Roman Catholic Diocese of Buffalo, the University of Buffalo Foundation and the Community Foundation for Greater Buffalo.

**Director  
Since**

2007

**Term  
Expires**

2014

Mr. Mazurkiewicz is well qualified to serve as a member of our Board of Directors. He is our Board's audit committee financial expert whose significant accounting and financial background, as well as his substantial leadership experience, position him well to understand and provide value related to finance, management, operations, and risk.

## CORPORATE GOVERNANCE

Our Board of Directors has an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, and an Employee Benefits Committee. The function, composition, and number of meetings of each of these committees held during fiscal year 2012 are described below.

### Director Independence

Our Board of Directors has affirmatively determined that Directors Barber, Berkeley, Bidlack, Fortier, Malvaso and Mazurkiewicz are each independent under the independence standards of the NYSE MKT.

### Board Leadership Structure

We have a non-executive, independent Director, Mr. Bidlack, who serves as Chairman of our Board of Directors. Our Board of Directors believes that its leadership structure, with a non-executive chairman position separate from our President and Chief Executive Officer, provides appropriate, independent oversight of management. As Chairman of our Board of Directors, Mr. Bidlack: (1) presides at all meetings of our Board of Directors and stockholders; (2) presides during regularly held sessions with only the independent Directors; (3) encourages and facilitates active participation of all Directors; (4) develops the calendar of and agendas for Board meetings in consultation with our Chief Executive Officer and other members of our Board; (5) determines, in consultation with our Chief Executive Officer, the information that should be provided to our Board in advance of meetings; and (6) performs any other duties requested by our Board from time to time.

### Committees and Meetings of the Board; Meeting Attendance

The duties and responsibilities of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Employee Benefits Committee are set forth in their respective charters. The current charter of each Board committee is available on our website at [www.graham-mfg.com](http://www.graham-mfg.com) under the heading **Investor Relations** and the subheading **Corporate Governance**. The information contained on our website is not a part of this proxy statement.

The following table lists the four committees of our Board of Directors, the chairs of each committee, the Directors who currently serve on them and the number of committee meetings held in fiscal year 2012.

Name	Independent	Committee Membership			
		Audit Committee	Compensation Committee	Corporate Governance Committee	Employee Benefits Committee
<b>Dr. Barber</b>	Yes	X			X
<b>Ms. Berkeley</b>	Yes		X		C
<b>Mr. Bidlack</b>	Yes	X	X	X	X
<b>Mr. Fortier</b>	Yes	X	X	C	
<b>Mr. Malvaso</b>	Yes	X	C	X	
<b>Mr. Mazurkiewicz</b>	Yes	C			X
<b>Meetings in</b>					
<b>Fiscal Year 2012</b>		5	4	2	1

**C = Chairperson**

#### **X = Member**

During fiscal year 2012, our Board of Directors held a total of six meetings. Each Director attended at least 75% of the aggregate of (1) the total number of meetings of our Board of Directors, and (2) the total number of meetings of all committees of our Board of Directors on which he or she served.

Our policy requires that each Director attend our annual meeting of stockholders or provide the Chairman of our Board with advance notice of the reason for not attending. All of our Directors attended our 2011 annual meeting of stockholders.



Audit Committee

We have a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Our Board of Directors has affirmatively determined that each member of the Audit Committee satisfies the independence standards applicable to audit committee members specified in Section 803 of the listing standards of the NYSE MKT and applicable Securities and Exchange Commission rules. Our Board of Directors has also determined that Mr. Mazurkiewicz qualifies as an audit committee financial expert in accordance with applicable Securities and Exchange Commission rules based on his professional work experience as described in his biography under Proposal One: Election of Directors.

The Audit Committee reviews with Deloitte & Touche LLP, our independent registered public accounting firm, our financial statements and internal control over financial reporting, Deloitte & Touche LLP's auditing procedures and fees, and the possible effects of professional services upon the independence of Deloitte & Touche LLP.

The Audit Committee works closely with our Board of Directors, our executive management team, and our independent registered public accounting firm to assist our Board in overseeing our accounting and financial reporting processes and financial statement audits. In furtherance of these responsibilities, the Audit Committee is charged with assisting our Board of Directors in its oversight of:

the integrity of our financial statements and internal controls;

our compliance with legal and regulatory requirements;

the qualifications and independence of our independent registered public accounting firm;

the performance of our independent registered public accounting firm; and

the planning for and performance of our internal audit function.

The Audit Committee is also responsible for preparing the Audit Committee's report that Securities and Exchange Commission rules require be included in our annual proxy statement, and performing such other tasks that are consistent with the Audit Committee's charter. The Audit Committee's report relating to fiscal year 2012 appears under the heading Report of the Audit Committee.

Compensation Committee

The Compensation Committee reviews and determines annually salaries, incentive cash awards and other forms of compensation paid to our executive officers and management, approves recipients of awards of stock options and restricted stock and establishes the number of shares and other terms applicable to such awards. The Compensation Committee also construes the provisions of and generally administers the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, which we refer to as the Incentive Plan. The Compensation Committee is not authorized to delegate its authority or responsibility to another person or subcommittee.

The Compensation Committee also determines the compensation paid to our Board of Directors, including fees paid for meeting attendance and equity-based awards. More information about the compensation of our Directors is set forth under the heading Director Compensation. The Compensation Committee annually conducts a performance evaluation of its operation and function and recommends any proposed changes to our Board of Directors for approval.

In addition, the Compensation Committee is responsible for reviewing and discussing with management the Compensation Discussion and Analysis that Securities and Exchange Commission rules require be included in our annual proxy statement, preparing the Compensation Committee's report that Securities and Exchange Commission rules require be included in our annual proxy statement, and performing such other tasks that are consistent with its charter. The Compensation Committee's report relating to fiscal year 2012 appears under the heading Compensation Committee Report.



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Our Board of Directors has affirmatively determined that each member of the Compensation Committee satisfies the independence standards specified in Section 803 of the listing standards of the NYSE MKT.

The Compensation Committee has for several years recognized the importance of using an independent consultant that provides services solely to the Committee and not to management or to our company. The Compensation Committee continued to utilize the services of the Hay Group, a nationally recognized compensation consulting firm, as its independent compensation consultant in fiscal year 2012. For more

information on the role of the Compensation Committee in determining executive compensation, see Compensation Discussion and Analysis under the heading Executive Compensation.

#### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee evaluates, interviews and nominates candidates for election to our Board of Directors and is responsible for oversight of our corporate governance practices. Our Board of Directors has affirmatively determined that each member of the Nominating and Corporate Governance Committee satisfies the independence standards specified in Section 803 of the listing standards of the NYSE MKT.

When identifying Director nominees, the Nominating and Corporate Governance Committee solicits suggestions from incumbent Directors, management, stockholders and others. In identifying and evaluating nominees, the Nominating and Corporate Governance Committee seeks candidates possessing the highest standards of personal and professional ethics and integrity; practical wisdom, independent thinking, maturity and the ability to exercise sound business judgment; skills, experience and demonstrated abilities that help meet the current needs of our Board of Directors; and a firm commitment to the interests of our stockholders. Although the Nominating and Corporate Governance Committee does not maintain a specific written diversity policy, it recognizes the value of diversity and seeks diverse candidates when possible and appropriate and considers diversity in its review of candidates. The Nominating and Corporate Governance Committee believes that diversity includes not only gender and ethnicity, but the various perspectives that come from having differing geographic and cultural backgrounds, viewpoints and life experiences.

In addition, the Nominating and Corporate Governance Committee takes into consideration such other factors as it deems appropriate. These factors may include knowledge of our industry and markets, experience with businesses and other organizations of comparable size, the interplay of the nominee's experience with the experience of other members of our Board of Directors, and the extent to which the candidate would be a desirable addition to our Board of Directors and any of its committees. The Nominating and Corporate Governance Committee may consider, among other factors, experience or expertise in our industry, global business, science and technology, competitive positioning, corporate governance, risk management, finance or economics, and public affairs.

Pursuant to our amended and restated by-laws, stockholders of record entitled to vote in the election of Directors at any annual meeting may recommend individuals for consideration by the Nominating and Corporate Governance Committee as potential nominees by submitting written recommendations to our Corporate Secretary so that they are delivered or received no earlier than 150 days and no later than 120 days prior to the one-year anniversary of the date of the mailing of proxy materials for our 2012 annual meeting (between January 19, 2013 and February 18, 2013 for the 2013 annual meeting of stockholders). Nominations should be mailed to the following address: Graham Corporation, Attention: Corporate Secretary, 20 Florence Avenue, Batavia, New York 14020. Stockholder recommendations must contain: (1) each nominee's name, age, business and residence addresses; (2) the nominee's principal occupation or employment; (3) the nominee's written consent to serve as a Director, if elected; and (4) such other information regarding the nominee as would be required to be included in a proxy statement filed pursuant to applicable rules of the Securities and Exchange Commission.

In addition, any stockholder submitting a recommendation must provide his or her own name and address as they appear on our books and records, as well as the class and number of our shares owned of record and the dates he or she acquired such shares. The stockholder also must describe all arrangements or understandings between the stockholder and the nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are made by the stockholder. Furthermore, the stockholder must (1) identify any person employed, retained, or to be compensated by the stockholder submitting the nomination or by the person nominated, or any person acting on his or her behalf, to make solicitations or recommendations to stockholders for the purpose of assisting in the election of such nominee, and (2) briefly describe the terms of such employment, retainer or arrangement for compensation.

The Nominating and Corporate Governance Committee will evaluate Director nominees proposed by stockholders using the same criteria, and in the same manner, as described above for other nominees.

#### Employee Benefits Committee

The Employee Benefits Committee serves as the plan administrator of our employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended, including our Retirement Income

Plan, Incentive Savings Plan, Medical Plan, Life Insurance Plan, Long-Term Disability Plan, Employee Stock Ownership Plan and any other employee benefit plan we maintain for which a named fiduciary is designated. The Employee Benefits Committee oversees the operation, administration, investments and compliance of each of these plans.

### **The Board of Director s Role in Risk Oversight**

Our Board of Directors is responsible for overseeing our risk profile and management s processes for managing risk. This oversight is conducted primarily through our Board committees. Our Audit Committee focuses on financial risks, including those that could arise from our accounting and financial reporting processes. Additionally, our Audit Committee monitors and directs the formal risk management projects implemented by management. Our Nominating and Corporate Governance Committee focuses on the management of risks associated with board organization, membership and structure, corporate governance, and the recruitment and retention of talented board members. Our Compensation Committee focuses on the management of risks that could arise from our compensation policies and programs and, in particular, our executive compensation programs and policies.

As part of its risk oversight responsibilities, our Board of Directors and its committees review the policies and processes that senior management uses to manage our risk exposure. In doing so, our Board and its committees review our overall risk function and senior management s establishment of appropriate systems and processes for managing areas of material risk to our company, including, but not limited to, operational, financial, legal, regulatory and strategic risks.

### **Communications from Stockholders**

Stockholders may send communications to our Board of Directors, or to an individual member of our Board, to the attention of: Corporate Secretary, Graham Corporation, 20 Florence Avenue, Batavia, New York 14020. The Corporate Secretary will convey all such communications to our Board, or if addressed to an individual member of our Board, to that individual Director.

## **EXECUTIVE OFFICERS**

As of March 31, 2012, we were served by the following executive officers, each of whom was appointed by our Board of Directors:

**James R. Lines**, age 51, became our President and Chief Executive Officer in January 2008. Further information about Mr. Lines is set forth under Proposal One: Election of Directors.

**Jeffrey F. Glajch**, age 49, became our Vice President-Finance & Administration and Chief Financial Officer in March 2009. From October 2006 until February 2009, he served as the Chief Financial Officer of Nukote International, a privately held global re-manufacturer of printing and imaging products. Previously, and between June 2000 and May 2006, Mr. Glajch was the Chief Financial Officer of Fisher Scientific Canada, a global healthcare and laboratory equipment company. Mr. Glajch has also previously served as a Senior Manager of Finance and Business Planning/Analysis at Walt Disney World Company, as Director of Finance/Division Controller at Great Lakes Chemical Corporation and in various financial positions with Air Products and Chemicals, Inc.

**Alan E. Smith**, age 45, was appointed our Vice President of Operations in July 2007. Previously, from 2005 until July 2007, Mr. Smith served as Director of Operations for Lydall, Inc., a designer and manufacturer of specialty engineering products. Prior to that, he had been employed by us for fourteen years, progressing from Project Engineer to Engineering Manager.

**Jennifer R. Condame**, age 47, became our Chief Accounting Officer in July 2008. She also serves as our Controller, a position she has held since 1994. Previously, and from 1992 to 1994, she was our Manager of Accounting and Financial Reporting. Prior to joining us in 1992, Ms. Condame was employed as an Audit Manager by Price Waterhouse, a predecessor to PricewaterhouseCoopers LLP.

**Robert A. Platt**, age 57, was appointed our Vice President of Sales in October 2011. Previously, and from April 2009, Mr. Platt served as the President of API Basco, a manufacturer of shell and tube heat exchangers. From 2004 to 2009, he was employed by Textron Corporation (NYSE: TXT) as Vice President and General Manager of its Maag Systems Division in Charlotte, North Carolina, which supplies specialty equipment for the

polymer and petrochemical industries. Mr. Platt has also served as the founder and first President of Bornemann Pumps Inc. and, as a licensed engineer, has spent his entire career in various leadership positions with companies specializing in highly engineering capital equipment.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Introduction

This Compensation Discussion and Analysis, which we refer to as CD&A, provides information about the compensation programs for our executive officers named in the fiscal year 2012 Summary Compensation Table and referred to in this CD&A and in the subsequent tables as our named executive officers. These named executive officers are:

James R. Lines, our President and Chief Executive Officer;

Jeffrey F. Glajch, our Vice President-Finance & Administration and Chief Financial Officer;

Alan E. Smith, our Vice President of Operations;

Jennifer R. Condamine, our Chief Accounting Officer and Controller; and

Robert A. Platt, our Vice President of Sales.<sup>1</sup>

This CD&A includes the philosophy and objectives of the Compensation Committee of our Board of Directors, descriptions of each of the elements of our executive compensation programs and the basis for the compensation decisions we made during fiscal year 2012.

#### Executive Summary

The Compensation Committee's philosophy focuses on aligning the interests of our named executive officers with those of our stockholders by rewarding performance that enhances the objective of increasing both current and long-term stockholder value. Our executive compensation programs are designed to provide a strong link between the amounts earned by our named executive officers and company and individual performance.

Based on our fiscal year 2011 financial performance, along with the individual performance of our named executive officers, the Compensation Committee approved salary increases, effective April 1, 2011, to the base salaries of our named executive officers as part of a company-wide base salary increase. The base salary of each of our named executive officers (other than Mr. Platt, who was not hired until October 3, 2011) was increased by 3.0%, reflecting the same percentage increase as the company-wide salary increases.

Despite a difficult economic environment during fiscal year 2012, our named executive officers continued to take steps to contain costs, increase productivity, improve processes and grow our market share in our existing business. Our named executive officers adeptly managed our business during a difficult economic climate and delivered the following successes:

We ended the fiscal year with a record backlog of \$94.9 million;

We achieved a 16.6% operating margin on a 39% increase in sales;

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We effectively continued to manage the integration of Energy Steel & Supply Co. s business (a December 2010 acquisition) into the Graham organization; and

Our cash and investment holdings were \$41.7 million and we ended the fiscal year with an exceptionally strong balance sheet that was free of bank debt, providing us substantial financial flexibility.

<sup>1</sup> Mr. Platt commenced employment with us on October 3, 2011 and was designated an executive officer by our Board of Directors on October 27, 2011.

The Compensation Committee believes our named executive officers performed exceptionally well in a difficult and challenging business environment. The Compensation Committee believes that our company was able to seize both existing and unique business opportunities in a challenging economic market due to management's judgment to defend or advance market share during the harsh economic period of fiscal years 2010 and 2011. These decisions led to an improvement in net income for fiscal year 2012, but also had an adverse impact to working capital. The impact to working capital was manageable and was appropriate considering the resultant growth in earnings. These decisions resulted in stable growth through a tumultuous period, as summarized in the charts below.

**Graham has Maintained Growth and Stability  
in a Challenging Environment**

**Graham has Effectively Managed its  
Working Capital**

Moreover, historical operating performance for our company has improved dramatically when compared to past performance. The improvement in operating performance is, in our opinion, directly linked to stockholder benefit as evidenced by our total stockholder return of (9.5%) and 143.3% for the periods of fiscal year 2012 and fiscal year 2010 through fiscal year 2012, respectively. We calculate total stockholder return for this purpose as our stock price at the end of the relevant period minus the stock price at the beginning of the relevant period plus any dividends paid during such period divided by our stock price at the beginning of the relevant period.

Based on our fiscal year 2012 financial performance, along with the individual performance of our named executive officers, we took the following actions:

Effective April 1, 2012, the Compensation Committee approved salary increases to the base salaries of our named executive officers as part of a company-wide base salary increase. The base salary of each of our named executive officers was increased by 3.0%, reflecting the same percentage increase as the company-wide salary increases.

As described more fully under the heading "Annual Cash Incentive Compensation" in this CD&A, our Cash Bonus Program is strongly linked with company performance against key financial metrics, in addition to individual performance goals, in line with our "pay for performance" philosophy. For fiscal year 2012, the Compensation Committee set aggressive targets for the two key financial metrics used in evaluating company performance under our Cash Bonus Program, net income and average working capital as a percentage of sales. Our performance exceeded the maximum level for the net income metric and did not meet the threshold level for the average working capital metric. These levels of company performance, as well as achievement against individual goals, resulted in the payment of annual cash incentive compensation above target levels for our named executive officers. The annual cash incentive compensation earned by each of the named executive officers during fiscal year 2012 is shown in the Non-Equity Incentive Plan Compensation column of the 2012 Summary Compensation Table.

As described more fully under the heading "Long-Term Equity Incentive Compensation" in this CD&A, in May 2012, we awarded long-term incentive compensation under our Stock Bonus Plan in the form of stock options and performance-vested restricted stock. Due to the reporting rules of the Securities and Exchange Commission, the long-term incentive awards included in the Stock Awards column of the 2012 Summary Compensation Table reflect the time-vested restricted stock and performance-vested restricted stock awards that were granted in fiscal year 2012, and not the stock options and performance-vested restricted stock awards that were granted in fiscal year 2013.