

GRAHAM CORP  
Form DEF 14A  
June 13, 2016  
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**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 §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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**GRAHAM CORPORATION**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD JULY 28, 2016**

The 2016 annual meeting of stockholders of Graham Corporation will be held on Thursday, July 28, 2016, at 11:00 a.m., Eastern Time, at our principal executive offices located at 20 Florence Avenue, Batavia, New York 14020, for the following purposes, which are more fully described in the accompanying proxy statement:

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

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

to approve the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value;

to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2017; 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 3, 2016 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 13, 2016

**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.**

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**GRAHAM CORPORATION**

**PROXY STATEMENT**

We are providing 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, 2016, which we refer to as fiscal year 2016, 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 28, 2016, at 11:00 a.m., Eastern Time, at our principal executive offices located at 20 Florence Avenue, Batavia, New York 14020.

**Record Date and Shares Outstanding**

Each holder 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 3, 2016, the record date for the annual meeting, is entitled to notice of and to vote at the annual meeting. As of the record date, there were 9,713,640 shares of our common stock issued and outstanding.

**Notice and Access of Proxy Materials**

The Securities and Exchange Commission's e-proxy rules allow companies to post their proxy materials on the Internet and provide only a Notice of Internet Availability of Proxy Materials to stockholders as an alternative to mailing full sets of proxy materials except upon request. This year, we elected to use this notice and access model. Unless you previously indicated your preference to receive paper copies of our proxy statement and annual report to security holders, you should have received a Notice of Internet Availability of Proxy Materials, which we refer to as a Notice of Internet Availability. The Notice of Internet Availability includes the information on how to access our proxy materials on the Internet, how to vote and how to request a paper or email copy of such proxy materials at no extra charge this year or on an ongoing basis.

**Mail Date**

On or about June 13, 2016 we mailed the Notice of Internet Availability and made the proxy materials available to our stockholders.

**Proxy Cards and Voting**

Each holder of our common stock on June 3, 2016 is entitled to one vote for each share of common stock held.

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

FOR each of the two nominees identified in this proxy statement for election as Director;

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

FOR approval of the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value; and

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FOR the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2017.

An executed proxy without voting instructions marked on it 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.

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If you hold your shares in street name through a broker, bank or other nominee, please follow the voting instructions sent to you by such broker, bank or other nominee. Your shares will be voted as you indicate.

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

Please note, if you hold your shares in street name, and you wish to vote in person at the annual meeting, you must bring to the annual meeting a legal proxy from your broker, bank or other nominee that gives you the right to vote your shares in person.

**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.

| <b>Proposal Number</b> | <b>Proposal Description</b>   | <b>Vote Required</b>   |
|------------------------|---|--|
| One                    | Election of the two Director nominees identified in this proxy statement  | Plurality of the shares present, in person or by proxy, and entitled to vote at the annual meeting |
| 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 at the annual meeting  |
| Three                  | Approval of the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value   | Majority of the shares present, in person or by proxy, and entitled to vote at the annual meeting  |
| Four                   | Ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2017 | Majority of the shares present, in person or by proxy, and entitled to vote at the annual meeting  |

Our stockholders elect Directors by a plurality vote, which means that the Director nominees receiving the most votes will be elected. However, our Corporate Governance Guidelines provide that any nominee for Director who receives a greater number of votes withheld from his or her election than for such election must tender his or her resignation for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will recommend to the Board the action to be taken with respect to such resignation.

The advisory vote to approve the compensation of our named executive officers is not binding upon our Board of Directors or the Compensation Committee. However, our Board of Directors and our Compensation Committee will consider the outcome of this vote when making future compensation decisions.

We are presenting the selection of Deloitte & Touche LLP 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.

**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 with respect to Proposals One, Two and Three. If you hold your shares in street name and do not indicate how you want your shares voted on these proposals, your bank or broker is not permitted to, and will not, vote your shares on your behalf. This result is known as a broker non-vote. Your bank or broker has discretionary authority to vote any non-instructed shares on Proposal Four.

We count shares subject to broker non-votes in determining the presence of a quorum and the number of shares entitled to vote on Proposals Two and Three. Thus, broker non-votes will have the same effect as a vote against these proposals. Broker non-votes will have no effect on Proposal One.





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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.

## **Abstentions**

We count abstentions for the purpose of determining the presence of a quorum and the number of shares entitled to vote on a proposal. Abstentions have the same effect as a vote against Proposals Two, Three and Four, and will not affect the results of Proposal One.

## **Revocability of Proxies**

Your attendance 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:

voting again via the Internet or by telephone (only your latest Internet or telephone vote submitted prior to the annual meeting will be counted);

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 the attention of our Corporate Secretary at the following address: Graham Corporation, 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, soliciting 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**

Our fiscal year 2016 annual report to stockholders is available at <http://www.graham-mfg.com/annual-meeting-proxy-materials>. Our annual report on Form 10-K for the fiscal year ended March 31, 2016, as filed with the Securities and Exchange Commission, is included in the fiscal year 2016 annual report. The fiscal year 2016 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, a copy of our annual report on Form 10-K by:**

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accessing our website at <http://www.graham-mfg.com/annual-meeting-proxy-materials>;

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).

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**PROPOSAL ONE:  
ELECTION OF DIRECTORS**

Our Board of Directors currently consists of seven members. Our amended and restated 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, stockholders elect only a portion of our Board of Directors each year. The terms of two of our seven Directors, James J. Malvaso and Jonathan W. Painter will expire at the 2016 annual meeting.

The Nominating and Corporate Governance Committee of our Board of Directors has nominated James J. Malvaso and Jonathan W. Painter for re-election as Directors. If elected, each of Messrs. Malvaso and Painter will hold office for a three-year term expiring in 2019 or until his successor is duly elected and qualified. Our Board of Directors does not contemplate that either nominee will be unable to serve as a Director, but if that contingency should occur before the proxies are voted, the designated proxies reserve the right to vote for such substitute nominee(s) as they, in their discretion, determine. Our amended and restated by-laws do not permit re-election after a Director reaches the age of 75.

**Board Recommendation**

Our Board of Directors unanimously recommends a vote FOR the election of each of Messrs. Malvaso and Painter as a Director to serve for a three-year term expiring in 2019.

**Nominees Proposed for Election as Directors at the 2016 Annual Meeting**

**James J. Malvaso**

**Age:** 66

**Director Since:** 2003

Mr. Malvaso was a senior advisor to Toyota Material Handling Group, a distributor of Toyota material handling equipment through May 2013. 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. 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 Industrial Truck Standards Development Board. Mr. Malvaso has also served as a Trustee of LeMoyne College.

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.

**Jonathan W. Painter**

**Age:** 57

**Director Since:** 2014

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Mr. Painter is the President and Chief Executive Officer and a Director of Kadant Inc. (NYSE: KAI), a leading global supplier of components and engineered systems used in process industries, including the pulp and paper industry. Mr. Painter was named Chief Executive Officer and a Director of Kadant in January 2010 after being named President in September 2009. Prior to becoming President, Mr. Painter served as an Executive Vice President from 1997 to September 2009, with supervisory responsibility for Kadant's stock preparation and fiber-based products businesses from March 2007 to September 2009. He also served as the President of Kadant's composites building products business from 2001 until its sale in 2005. Mr. Painter received his B.A. in political science from Kenyon College and his J.D. from Boston College Law School.

Mr. Painter brings valuable experience to the Board of Directors and management as a current President and Chief Executive Officer of a public company that, similarly to us, is in the business of designing, manufacturing and marketing specialized, engineered equipment. The Board of Directors believes that Mr. Painter's diverse experience in operations, finance, mergers and acquisitions and corporate strategy enables him to provide critical insight to the Board and management that will help us to achieve our strategic goals.

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**Directors Whose Terms Do Not Expire at the 2016 Annual Meeting**

**James J. Barber, Ph.D.**

**Age:** 62

**Director Since:** 2011

**Term Expires:** 2017

Dr. Barber 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 Chief Executive Officer 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.

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.

Dr. Barber currently is a director of Itaconix Corporation, an advanced materials company, and of Nanocomp Technologies, Inc., a producer of carbon nanofiber products. He has also served as a Director of Agrivida, a private company, from first quarter 2011 through December 2014, of Allylix, a private company, from May 2012 through December 2014 and of Segetis, Inc., a private company, from July 2012 until February 2016. From 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.

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 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.

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**Gerard T. Mazurkiewicz**

**Age:** 69

**Director Since:** 2007

**Term Expires:** 2017

Mr. Mazurkiewicz 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. 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 has served on numerous not-for-profit boards and foundations, including the Women's and Children's Hospital of Buffalo Foundation, the Kaleida Foundation, the University of Buffalo Foundation and the Community Foundation for Greater Buffalo. Currently, he serves as a Trustee for the Ralph C. Wilson Jr. Foundation and also serves on the Board of the Erie Tobacco Asset Securitization Corporation.

Mr. Mazurkiewicz is well qualified to serve as a member of our Board of Directors. He is our Board's audit committee financial expert under applicable Securities and Exchange Commission rules. Mr. Mazurkiewicz's 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.

**Alan Fortier**

**Age:** 59

**Director Since:** 2008

**Term Expires:** 2018

Mr. Fortier 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. He is also a regular guest lecturer at Columbia Business School's MBA and Executive Education programs. Mr. Fortier received his B.S. in Chemical Engineering, summa cum laude, from Cooper Union and his MBA from Harvard Graduate School of Business.

Mr. Fortier brings to our Board of Directors more than 30 years of global industrial experience as a strategy consultant, educator and manager. Our Board of Directors and management team benefit from his extensive background in our served markets, including energy, petrochemicals, chemicals and large engineering firms, as well as 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.





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### **James R. Lines**

**Age:** 55

**Director Since:** 2006

**Term Expires:** 2018

Mr. Lines 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.

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 20 years and has more than 30 years of experience interacting with our customers, engineering contractors, competitors and similar companies serving the energy markets.

### **Lisa M. Schnorr**

**Age:** 50

**Director Since:** 2014

**Term Expires:** 2018

Ms. Schnorr has been Senior Vice President, Corporate Controller for Constellation Brands, Inc. (NYSE: STZ), a leading premium wine company and beer importer since July 2015. From January 2014 to July 2015, Ms. Schnorr served as Senior Vice President, Total Rewards, with global responsibility for designing and implementing Constellation Brands' compensation and benefits programs. Ms. Schnorr joined Constellation Brands in May 2004 as Director, Investor Relations, and has held a number of leadership positions since that time, including Chief Financial Officer of Constellation Wines Australia, a former division of Constellation Brands, from January 2009 to December 2009, Vice President, JV Business Development from January 2010 to April 2011 and Vice President, Compensation & HRIS from May 2011 to January 2014.

Prior to joining Constellation Brands, Ms. Schnorr was Director, Investor Relations at Choice One Communications, Inc. and held various positions with Bausch & Lomb Incorporated, including in investor relations, corporate accounting and reporting and financial planning and analysis. Ms. Schnorr began her career at Price Waterhouse, a predecessor to PricewaterhouseCoopers LLP. Ms. Schnorr received her B.S. in Accounting from the State University of New York at Oswego. Ms. Schnorr currently serves on the Board of Directors of the Oswego Alumni Association.

With her background in human resources, investor relations and finance with large public companies, Ms. Schnorr offers a global business and organizational perspective to our Board of Directors. The Board of Directors believes that Ms. Schnorr's background and expertise enables her to guide us through a continued period of organic and acquisition-related growth and allows her to provide insight and leadership to our

Compensation Committee.

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Our Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. We describe the function, composition and number of meetings of each of these committees held during fiscal year 2016 below. Our Board of Directors also maintains an Employee Benefits Committee.

**Director Independence**

Our Board of Directors has affirmatively determined that each of Directors Barber, Fortier, Malvaso, Mazurkiewicz, Painter and Schnorr is independent and has no material relationship with us as required by the independence standards of the New York Stock Exchange, which we refer to as the NYSE.

**Board Leadership Structure**

Mr. Malvaso, a non-executive independent Director, 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. Malvaso presides at all meetings of our Board of Directors and stockholders; presides during regularly held sessions with only the independent Directors; encourages and facilitates active participation of all Directors; develops the calendar of and agendas for Board meetings in consultation with our Chief Executive Officer and other members of our Board; determines, in consultation with our Chief Executive Officer, the information that should be provided to our Board in advance of meetings; and 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 and Nominating and Corporate Governance Committee are set forth in their respective charters and as described below. 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 committees of our Board of Directors, the chairpersons of each committee, the Directors who currently serve on them and the number of committee meetings held in fiscal year 2016.

| Name                         | Independent | Committee Membership |              |                                     |
|------------------------------|-------------|----------------------|--------------|-------------------------------------|
|                              |             | Audit                | Compensation | Nominating and Corporate Governance |
|                              |             | Committee            | Committee    | Committee                           |
| James J. Barber, Ph.D.       | Yes         | þ                    |              |                                     |
| Alan Fortier                 | Yes         | þ                    | þ            | Chairperson                         |
| James J. Malvaso             | Yes         | þ                    | þ            | þ                                   |
| Gerard T. Mazurkiewicz       | Yes         | Chairperson          |              |                                     |
| Jonathan W. Painter          | Yes         | þ                    | þ            | þ                                   |
| Lisa M. Schnorr              | Yes         |                      | Chairperson  |                                     |
| Meetings in Fiscal Year 2016 |             | 5                    | 7            | 3                                   |

During fiscal year 2016, 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.

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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 2015 annual meeting of stockholders.

The non-management Directors meet without members of management present during regularly scheduled executive sessions and at such other times as they deem necessary or appropriate. The Chairman of our Board presides over these executive sessions.

### ***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 of the NYSE applicable to audit committee members 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 assists 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.

In addition, the Audit Committee's responsibilities include reviewing and overseeing any transactions between us and any related person as defined by the Securities and Exchange Commission's rules and discussing our guidelines and policies with respect to risk assessment and risk management. The Audit Committee is also responsible for preparing the Audit Committee's report that the Securities and Exchange Commission's rules require to 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 appears under the heading Report of the Audit Committee.

### ***Compensation Committee***

The Compensation Committee annually reviews and approves the goals and objectives relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer's performance and either as a committee or with the other independent Directors of the Board determines and approves the Chief Executive Officer's compensation levels. The Compensation Committee also annually reviews and approves salaries, incentive cash awards and other forms of compensation paid to our other executive officers, approves recipients of equity-based awards 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 operates pursuant to its charter and may delegate its authority or responsibility to one or more subcommittees.



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The Compensation Committee also reviews and makes recommendations regarding 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 the Securities and Exchange Commission's rules require to be included in our annual proxy statement, preparing the Compensation Committee's report that the Securities and Exchange Commission's rules require to be included in our annual proxy statement and performing such other tasks that are consistent with its charter. The Compensation Committee's report appears under the heading **Compensation Committee Report**.

The Compensation Committee recognizes 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 engaged an independent compensation consultant in fiscal year 2016. For more information on the role of the Compensation Committee in determining executive compensation, including its use of an independent consultant, 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.

When identifying Director nominees, the Nominating and Corporate Governance Committee solicits suggestions from incumbent Directors, management and stockholders. 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.

Stockholders entitled to vote in the election of Directors at any annual meeting may recommend candidates for consideration by the Nominating and Corporate Governance Committee as potential nominees by submitting written recommendations to the attention of our Corporate Secretary at the following address: Graham Corporation, 20 Florence Avenue, Batavia, New York 14020. Stockholder recommendations must contain: (1) each candidate's name, age, business and residence addresses; (2) the candidate's principal occupation or employment and (3) a description of the candidate's qualifications to be a Director. 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 Nominating and Corporate Governance Committee will evaluate Director candidates proposed by stockholders using the same criteria, and in the same manner, as described above for other potential nominees.

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### **Corporate Governance Guidelines**

Our Board of Directors has adopted Corporate Governance Guidelines to promote the effective functioning of the Board in its governance of our business and corporate operations. The Corporate Governance Guidelines are 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 Board of Directors' Role in Risk Oversight**

Our Board of Directors oversees our risk profile and management's processes for managing risk, primarily through the Board's 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, strategic and information technology risks.

### **Communications from Stockholders and other Interested Parties**

Stockholders and other interested parties who wish to contact the Board of Directors or an individual Director, including the independent Chairman of our Board or independent Directors as a group, should send their communications to the attention of the Corporate Secretary, Graham Corporation, 20 Florence Avenue, Batavia, New York 14020. The Corporate Secretary will forward all such communications as directed.

## **EXECUTIVE OFFICERS**

As of March 31, 2016, we were served by the following executive officers, each of whom was appointed by our Board of Directors:

**James R. Lines**, age 55, 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 53, became our Vice President - Finance & Administration, and Chief Financial Officer in March 2009. Mr. Glajch also serves as our Corporate Secretary. 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 worked at Walt Disney World Company, Great Lakes Chemical Corporation and Air Products and Chemicals, Inc.

**Alan E. Smith**, age 49, became our Vice President and General Manager - Batavia in July 2015. Mr. Smith served as Vice President of Operations from July 2007 until July 2015. 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 51, became our Chief Accounting Officer in July 2008. She also serves as our Controller, a position she has held since 1994. Previously, 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.

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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

***Introduction***

This Compensation Discussion and Analysis, which we refer to as the CD&A, provides information about the compensation programs for our executive officers named in the Fiscal Year 2016 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, Chief Financial Officer and Corporate Secretary;

Alan E. Smith, our Vice President and General Manager - Batavia; and

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

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 2016.

***Executive Summary***

**Fiscal Year 2016 Results**

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.

During fiscal year 2016, despite challenging market conditions, our named executive officers continued to implement our strategic plan to diversify, increase productivity, improve processes and grow our market share in our existing businesses. The dramatic reduction and volatility in global crude oil prices has caused a significant slowdown in investment by our oil refining and chemical industry customers. Our financial results for fiscal year 2016 reflect the impact of this slowdown:

Net income was \$6.1 million in fiscal year 2016, compared to net income of \$14.7 million in fiscal year 2015;

New orders of \$84.0 million represented a decrease of 38% from a record level of new orders in fiscal year 2015 of \$136.5 million;

Cash and cash equivalents and short-term investments at March 31, 2016 were \$65.1 million compared with \$60.3 million as of March 31, 2015;

We continued to expand our engineering execution capacity and reduce engineering lead time; and



We ended the fiscal year with a strong balance sheet that was free of bank debt, providing us substantial financial flexibility. The Compensation Committee believes that in fiscal year 2016 our named executive officers performed well in furtherance of our strategic plan given the challenging market conditions. In line with our pay-for-performance philosophy, in fiscal year 2016, our named executive officers realized the following compensation based on our fiscal year 2016 financial performance and their individual performance:

As described more fully under the heading *Annual Cash Incentive Compensation* in this CD&A, for fiscal year 2016, the Compensation Committee set challenging targets for two key financial metrics: net income and contribution of executable backlog. Our performance did not meet the threshold levels for the net income and contribution of executable backlog metrics. These levels of company performance, as well as our named executive officers' achievement against their individual goals, resulted in the payment of annual cash incentive compensation below target levels. We report the annual cash incentive compensation earned by each of the named executive officers during fiscal year 2016 in the *Non-Equity Incentive Plan Compensation* column of the Fiscal Year 2016 Summary Compensation Table.

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The performance-vested restricted stock granted to our named executive officers in fiscal year 2014 vested at 0% of target levels, based on company results below target levels for both the net revenue and EBITDA Margin<sup>1</sup> metrics. These shares previously were shown at the target level in the All Other Stock Awards column of the Fiscal Year 2014 Grants of Plan-Based Awards table in our proxy statement for the 2014 annual meeting.

| Named Executive Officer                   | Number of Shares of<br>Performance-Vested Restricted Stock |                  |
|---|--|------------------|
|   | Target<br>Grant<br>2014                                    | Realized in 2016 |
| James R. Lines                            | 2,834  | 0                |
| Jeffrey F. Glajch                         | 1,724  | 0                |
| Alan E. Smith                             | 1,470  | 0                |
| Jennifer R. Condame                       | 765  | 0                |
| <u>Our Pay for Performance Philosophy</u> |  |                  |

Our executive compensation programs contain key components and features that reinforce our pay for performance philosophy. For example:

A significant portion of our named executive officer's compensation is at-risk, and depends on either meeting performance-based criteria or continuing in service to the company. Both our short-term and long-term incentive compensation programs use goals that tie to our performance in key financial metrics. We pay 50% of our long-term incentive compensation in shares of performance-vested restricted stock. The shares of performance-vested restricted stock cliff vest on the third anniversary of the date of grant only upon the achievement of predetermined performance metrics. Our named executive officers receive the other 50% of long-term incentive compensation in restricted stock that time vests in equal installments of 33 1/3 % on each anniversary of the date of grant, subject to the executive officer's continued service at each such date.

We require all of our named executive officers to hold substantial amounts of our stock. We believe that our robust stock ownership guidelines drive an ownership culture, and enhance the connection between our management and our stockholders.

We do not reimburse or gross-up our named executive officers for any of the taxes associated with any of the compensation and benefits we provide to them.

We maintain double-triggered provisions in our agreements with our named executive officers under which payment is triggered only by certain terminations of employment subsequent to a change in control of our company.

The Compensation Committee incorporates tally sheets as an analytical tool as part of its annual executive compensation review to help ensure that compensation is consistent with performance goals.

We provide limited perquisites and personal benefits beyond those provided to all other employees.

We have a policy prohibiting executive officers and directors from engaging in any hedging or monetization transactions involving our securities.

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Our insider trading policy requires executive officers and directors to obtain the prior approval of our legal counsel prior to pledging our stock. As of the record date, none of our executive officers or directors had outstanding pledges of our stock.

<sup>1</sup> EBITDA Margin is a financial measure not prepared in accordance with generally accepted accounting principles in the United States ( GAAP ). For a reconciliation of EBITDA margin to the most directly comparable GAAP measure, see Appendix B to this proxy statement.

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### ***Principles and Objectives***

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

to provide market-competitive compensation that includes an appropriate balance of fixed and incentive elements which allows us to both attract and retain executive personnel best suited by training, ability and other relevant criteria for our management requirements;

to align our incentive compensation programs with superior business performance in order to maximize shareholder value; and

to avoid compensation incentives that create undue financial or business risk for our company.

The Compensation Committee reviews the market median and also considers measures of company and industry performance when determining named executive officer compensation, including revenue, net income, earnings per share, EBITDA margin, total market value, average working capital, performance relative to the market and total stockholder return. As described further below under the heading *Use of Peer Group Compensation Data and Tally Sheets*, from time to time, the Compensation Committee reviews data on the executive compensation programs of other comparably sized companies both within our industry and in our geographic region as part of the process of establishing and maintaining our executive compensation programs.

We designed our executive compensation programs to reward our named executive officers for company and individual performance that maximizes stockholder value. We describe the company and individual performance measures that the Compensation Committee takes into account in determining cash and equity-based incentive awards for our named executive officers below under the headings *Annual Cash Incentive Compensation* and *Long-Term Equity Incentive Compensation*, respectively.

### ***How We Make Compensation Decisions***

#### **Role of the Compensation Committee**

The Compensation Committee designs and implements compensation programs that further the intent and purpose of our fundamental compensation philosophy, principles and objectives. The Compensation Committee is responsible for setting appropriate compensation levels for our named executive officers, and determines base salary, as well as cash and equity-based incentive awards for each of our named executive officers. We provide additional information about the Compensation Committee under the heading *Corporate Governance*.

#### **Role of Named Executive Officers in Compensation Decisions**

Within the framework of the executive compensation programs approved by the Compensation Committee and based on management's review of market competitive positions, our Chief Executive Officer annually reviews the performance of our other named executive officers and presents such performance information to the Compensation Committee. In addition, our Chief Executive Officer makes recommendations to the Compensation Committee with respect to the salary, cash incentive and equity-based incentive compensation paid to our other named executive officers. The Compensation Committee considers such performance information in determining each element of compensation for the other named executive officers. The Compensation Committee uses its discretion to determine whether to accept, reject or modify any adjustments to awards that may be recommended by our Chief Executive Officer. The Compensation Committee annually reviews the performance of our Chief Executive Officer. Our Chief Executive Officer does not play any role with respect to any matter affecting his own compensation.

On an annual basis, our Chief Executive Officer also approves and recommends to the Compensation Committee the individual objectives for our other named executive officers under the Stock Bonus Plan and Cash Bonus Program. The Chairperson of our Compensation Committee, in consultation with the Chairman of our Board of Directors, approves individual objectives for our Chief Executive Officer.

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Use of Outside Consultants by the Compensation Committee

The Compensation Committee believes that it benefits from external advice and assistance to help meet its objectives and fulfill its responsibilities. The Compensation Committee periodically engages outside consultants to educate and inform Committee members with regard to compensation matters, including the advantages and disadvantages of existing and proposed compensation programs, and keeps the Compensation Committee abreast of current and emerging compensation trends both within our industry and for companies of similar size and stature. These consultants also may advise the Compensation Committee with respect to various compensation alternatives, provide the Committee with relevant market compensation data and assist the Committee in analyzing such data when making compensation decisions.

The Compensation Committee typically engages a compensation consultant every few years. During fiscal year 2016, the Compensation Committee engaged Frederic W. Cook & Co., Inc. to assist the Compensation Committee in updating our peer group and analyzing the competitiveness of the target compensation levels for our named executive officers. We will discuss the decisions we made based on this analysis in our proxy statement for the 2017 annual meeting of stockholders.

Use of Peer Group Compensation Data and Tally Sheets

**Peer Group Compensation Data.** When making compensation decisions, the Compensation Committee may consider executive compensation programs and individual elements of compensation paid to other named executive officers at a group of comparably-sized companies both within our industry and in our geographic region or which we otherwise consider to be our peers. When selecting our peer group shown below, the Compensation Committee considered the companies' revenue, market capitalization, number of employees and industry classification.

|                                 |                    |                      |
|---------------------------------|--------------------|----------------------|
| Allied Motion Technologies Inc. | CECO Environmental | Maxwell Technologies |
| American Science & Engineering  | CUI Global         | Natural Gas Services |
| Ampco-Pittsburgh                | Dynamic Materials  | OmegaFlex            |
| Aspen Aerogels                  | Gorman Rupp        | Sun Hydraulics       |
| Badger Meter                    | Hurco Companies    | The Eastern Co.      |
| Breeze-Eastern <sup>(1)</sup>   | Key Technology     |                      |

<sup>(1)</sup> This company was acquired in fiscal year 2016 and will not be included in future years.

The Compensation Committee may use peer group compensation data to provide an informational perspective on our compensation practices, levels of base salary and the design of annual cash and long-term equity incentive compensation programs and the overall competitiveness of our compensation program. The Compensation Committee did not make any changes with respect to fiscal year 2016 compensation based on a review of peer group companies. During fiscal year 2016, the Compensation Committee reviewed a competitive analysis provided by its compensation consultant, Frederic W. Cook & Co., Inc. to inform pay decisions with respect to future fiscal years. This competitive analysis compared our named executive officers' total target compensation, including base salary, target annual cash incentive and target long-term incentives to the same compensation elements paid to named executive officers in comparable positions with our peer group companies listed above. Our compensation consultant's analysis demonstrated that, on average, our named executive officers' fiscal year 2016 total target direct compensation was positioned below the 25<sup>th</sup> percentile for named executive officers in our peer group. We will discuss the compensation decisions that our Compensation Committee made with respect to future fiscal years based on this competitive analysis in greater detail in our proxy statement for the 2017 annual meeting of stockholders.

**Tally Sheets.** The Compensation Committee analyzes tally sheets prepared for each named executive officer as part of its responsibilities for our executive compensation programs. Tally sheets present the dollar amount of each component of compensation for each named executive officer. The purpose of tally sheets is to bring together, in summary form, all of the elements of total direct compensation for our named executive officers, so that the Compensation Committee may analyze both the individual elements of compensation (including the weighting of each element as compared to each other element) and the aggregate amount of total direct compensation. During fiscal year 2016, the Compensation Committee regularly used tally sheets to assist in its review of the compensation of our named executive officers. No compensation changes were made with respect to fiscal year 2016 compensation based on those reviews.

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***Executive Compensation Components***

As discussed in greater detail below, our compensation philosophy focuses on aligning the total direct compensation of our named executive officers with the interests of our stockholders by rewarding performance that enhances the objective of increasing both current and long-term stockholder value. We use the term **total direct compensation** to refer to the sum of base salary, annual incentive compensation and long-term incentive compensation.

$$\begin{array}{ccccccc}
 \textbf{Total Direct} & & \textbf{Base} & & \textbf{Annual} & & \textbf{Long-Term} \\
 \textbf{Compensation} & = & \textbf{Salary} & + & \textbf{Incentive} & + & \textbf{Incentive} \\
 & & & & \textbf{Compensation} & & \textbf{Compensation}
 \end{array}$$

The components of total direct compensation granted during fiscal year 2016 were:

|   |   |
|---|---|
| Not performance based   | Not performance based   |
| Net income, contribution of executable backlog and individual officer goals linked to individual objectives     | Net income, contribution of executable backlog and individual officer goals linked to individual objectives     |
| Equal weighting of our EBITDA margin <sup>2</sup> achieved for fiscal year 2018 as compared to fiscal year 2017 | Equal weighting of our EBITDA margin <sup>2</sup> achieved for fiscal year 2018 as compared to fiscal year 2017 |
| Not performance based   | Not performance based   |

The Compensation Committee seeks to align our annual and long-term compensation elements to our strategic plan. We strive to strike a balance between establishing incentives that motivate our named executive officers to achieve meaningful results, while ensuring that we sufficiently recognize our named executive officers for achieving results that are within their control. The Compensation Committee believes that the diversity of the selected forms of compensation and the applicable performance metrics help to manage the pay for performance challenges presented by the cyclical nature of our business while creating the proper focus among our named executive officers to facilitate our growth.

We establish each element comprising target total direct compensation for the named executive officers annually. We do not have a specific policy for the allocation of compensation between short-term and long-term compensation or cash and equity compensation, as the allocation of these items is primarily driven by market compensation information and company performance and goals.

We generally do not consider gains realized from prior compensation, such as stock option exercises and restricted stock vesting, in setting other elements of compensation. We believe that reducing or limiting restricted stock awards because of prior gains realized by a named executive officer would unfairly penalize the officer for outstanding past performance and reduce the motivation for continued outstanding achievement. Similarly, our severance and change-in-control arrangements, which we discuss in detail under the heading **Potential Payments**

<sup>2</sup> EBITDA margin is a non-GAAP financial measure. For a reconciliation of EBITDA margin to the most directly comparable GAAP measure, see Appendix B to this proxy statement.

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upon Termination or Change in Control, do not affect our decisions regarding other elements of compensation. Those arrangements serve specific purposes that are unrelated to the determination of a named executive officer’s compensation for a specific year.

In support of our pay for performance philosophy, our executive compensation is heavily weighted toward incentive (variable) compensation, and the proportion of variable, or at risk, compensation increases as the level of responsibility increases. As shown below, in fiscal year 2016, we provided 50% of our Chief Executive Officer’s target compensation through annual and long-term incentive compensation, and, on average, we provide 39% of our other named executive officers’ target compensation through annual and long-term incentive compensation.

**2016 Total Target Compensation**

We also provide compensation and benefits to our named executive officers through the following programs:

| <b>Compensation Element</b>                     | <b>Form of Compensation</b>   | <b>Purpose</b>   |
|---|---|--|
| Health and welfare plans                        | Eligibility to receive health and other welfare benefits paid for by the company, including life insurance, short-and long-term disability insurance and a comprehensive medical and dental plan  | Provide a competitive employee benefits program  |
| Retirement benefits                             | Named executive officers hired prior to January 1, 2003 (Mr. Lines, Mr. Smith and Ms. Condame) participate in a qualified defined benefit pension plan, a qualified defined contribution plan and a non-qualified supplemental retirement plan. Named executive officers hired on or after January 1, 2003 (Mr. Glajch) participate only in the qualified defined contribution plan, and receive an additional company contribution under such plan in lieu of their participation in the defined benefit pension plan. | Provide an incentive for long-term retention of our named executive officers   |
| Limited perquisites and other personal benefits | A \$5,000 allowance for our Chief Executive Officer (\$2,500 for our other named executive officers) to purchase term life insurance and an additional amount necessary to purchase a personal umbrella insurance policy  | Provide a competitive compensation package, facilitate strong, focused performance and better enable us to attract and retain superior employees for key positions |

**Table of Contents*****Stockholder Advisory Vote on Executive Compensation***

At our 2015 annual meeting of stockholders, our stockholders approved by 78.6% of the votes represented in person or by proxy, on an advisory basis, the compensation of our named executive officers as disclosed in our 2015 proxy statement, referred to as a "say-on-pay" vote. Without taking into account broker non-votes, we received approval of 97.0%. At our 2011 annual meeting of stockholders, our stockholders expressed a preference that the "say-on-pay" vote take place on the annual basis recommended by our Board of Directors. This preference was subsequently adopted by our Board of Directors, and so we are providing our stockholders with a "say-on-pay" vote this year.

The Compensation Committee evaluated the positive results of the 2015 "say-on-pay" vote as well as the other factors discussed in this CD&A. While each of these factors informed the Compensation Committee's decisions regarding our executive compensation programs, the Compensation Committee did not implement changes to our executive compensation programs as a result of the 2015 "say-on-pay" vote.

***Annual Base Salaries***

The Compensation Committee reviews base salaries for each of our named executive officers at least annually. In general, the Compensation Committee sets base salaries based on the following factors:

company performance;

individual performance;

job responsibilities;

internal pay equity; and

base salary levels of similar positions in our peer group.

Consistent with past practice, the Compensation Committee approved 3% increases to the base salaries of each of our named executive officers, effective in the first pay period following March 31, 2015. These increases reflect merit-based increases implemented on a company-wide basis.

| <b>Named Executive Officer</b> | <b>Fiscal year 2015<br/>Base Salary</b> | <b>Fiscal year 2016<br/>Base Salary</b> |
|--------------------------------|---|---|
| James R. Lines                 | \$ 360,706                              | \$ 371,527                              |
| Jeffrey F. Glajch              | \$ 254,616                              | \$ 262,254                              |
| Alan E. Smith                  | \$ 217,485                              | \$ 224,010                              |
| Jennifer R. Condame            | \$ 159,135                              | \$ 163,909                              |

Effective August 1, 2015, the Compensation Committee approved a \$10,000 increase to Mr. Smith's base salary to \$234,010 in connection with his promotion to Vice President and General Manager - Batavia.

***Annual Cash Incentive Compensation***

Our Annual Executive Cash Bonus Program, which we refer to as the Cash Bonus Program, is designed to compensate our named executive officers for above-average performance through an annual cash incentive award related both to company and individual performance. We instituted the Cash Bonus Program to effectively align short-term individual performance with company performance.

The Compensation Committee designed the Cash Bonus Program to provide a clear link between the named executive officers' goals and our performance and business objectives. In fiscal year 2016, the Compensation Committee used a combination of net income, contribution of



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executable backlog and personal goals as the performance metrics to evaluate our named executive officers' performance under the Cash Bonus Program. The net income performance metric is based on 2016 fiscal year-end results. Contribution of executable backlog is defined as contribution dollars planned for major orders in backlog at March 31, 2016 to be executed in fiscal year 2017. Planned contribution dollars equals estimated revenue less direct material and direct labor costs. The Compensation Committee selected net income and contribution of executable backlog as the quantitative measures of short-term performance because it believes that these metrics capture our annual profitability and growth. The Compensation Committee believes the contribution of executable backlog metric motivates our named executive officers to increase productivity and profitability by entering orders into backlog for execution in the near-term, while at the same time focusing on the quality or profitability of such orders.

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For fiscal year 2016, the Compensation Committee established personal goals for our named executive officers, which included the following:

Mr. Lines - strengthen existing business's financial performance and capacity for growth by executing on our strategic plan. Specific goals include increasing backlog at our subsidiary, Energy Steel; hiring for key positions; pursuit of joint ventures and acquisitions; and further development of our strategic plan to create long-term stockholder value.

Mr. Glajch - Reduce risk in the company's defined benefit pension plan; pursue joint ventures and acquisitions; and increase our public company brand awareness through investor feedback and increased analyst coverage.

Mr. Smith - develop and implement enhanced supply chain management in furtherance of our strategic plan; further develop our organizational structure; and develop a corporate operations strategy in cooperation with our Chief Executive Officer.

Ms. Condamine - improve and upgrade current payroll systems; improve the credit approval and monitoring process at our subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd.; and ensure readiness with new revenue recognition accounting standard.

The Compensation Committee assigned the weightings applicable to the three metrics to align our named executive officers' goals with our current business objectives as follows:

| Metric                             | Weighting |
|------------------------------------|-----------|
| Net income                         | 40%       |
| Contribution of executable backlog | 40%       |
| Personal goals                     | 20%       |

The Compensation Committee typically establishes the goals for the Cash Bonus Program during our annual budgeting process following the commencement of the fiscal year. The Compensation Committee typically approves such goals during our first quarter, subject to the ratification of our Board of Directors. The Chairperson of our Compensation Committee, in consultation with the Chairman of our Board, approves personal goals for our Chief Executive Officer. Our Chief Executive Officer develops the personal goals for our other named executive officers in alignment with our corporate strategy and recommends these goals to our Compensation Committee Chairperson for approval.

For fiscal year 2016, the Compensation Committee set target bonus levels at 100% attainment of both company and individual objectives as follows: Mr. Lines - 60% of base salary; Mr. Glajch - 35% of base salary; Mr. Smith - 35% of base salary; and Ms. Condamine - 25% of base salary. The Compensation Committee uses an "above target" level and a stretch maximum payout level to better incentivize and reward above target performance. Each named executive officer may receive anywhere from 0% to 200% of his or her target bonus level depending on the attainment of objectives, as follows:

| Target Level    | Payout as Percentage of Target Bonus |
|-----------------|--------------------------------------|
| Below Threshold | 0%                                   |
| Threshold       | 50%                                  |
| Target          | 100%                                 |
| Above Target    | 150%                                 |
| Maximum         | 200%                                 |

We may use linear interpolation to determine the percentage of the target bonus payable based on performance in between threshold and target, target and above target or above target and maximum. The Compensation Committee may consider extraordinary events that either positively or negatively affect financial performance, and may in its discretion include or exclude the impact of these events in approving awards under the Cash Bonus Program. The Compensation Committee did not exercise this discretion during fiscal year 2016.



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For fiscal year 2016, threshold, target, above target, maximum and actual quantitative performance metrics used under the Cash Bonus Program were as follows (millions of dollars):

| <b>Performance Measure</b>         | <b>Threshold</b> | <b>Target</b> | <b>Above Target</b> | <b>Maximum</b> | <b>Actual</b> |
|------------------------------------|------------------|---------------|---------------------|----------------|---------------|
| Net Income                         | \$9.5            | \$10.5        | \$12.6              | \$14.0         | \$6.1         |
| Contribution of Executable Backlog | \$29.2           | \$35.5        | \$38.0              | \$40.0         | \$26.4        |

The Compensation Committee may consider extraordinary events that either positively or negatively affect financial performance, and may in its discretion, include or exclude the impact of these events in approving awards under the Cash Bonus Program. The Compensation Committee did not exercise this discretion during fiscal year 2016.

At its May 24, 2016 meeting, the Compensation Committee reviewed each named executive officer's achievement of company and individual objectives during fiscal year 2016 and approved the award of cash incentive compensation under the Cash Bonus Program. Based on our performance during fiscal year 2016, the Compensation Committee determined that our named executive officers did not meet the threshold levels under the net income and contribution of executable backlog components of their respective awards under the Cash Bonus Program. The Compensation Committee determined that each of our named executive officers achieved the following percentages of their respective target personal goals: Mr. Lines - 85%; Mr. Glajch - 100%; Mr. Smith - 130% and Ms. Condame - 80%. Based on these results, the cash incentive compensation earned under the Cash Bonus Program for our named executive officers for fiscal year 2016 was as follows:

| <b>Named Executive Officer</b> | <b>Bonus Award</b> | <b>Percent of Target Bonus</b> | <b>Percent of Maximum Available Bonus</b> |
|--------------------------------|--------------------|--------------------------------|---|
| James R. Lines                 | \$ 37,896          | 17%                            | 9%  |
| Jeffrey F. Glajch              | \$ 18,358          | 20%                            | 10%                                       |
| Alan E. Smith                  | \$ 20,992          | 26%                            | 13%                                       |
| Jennifer R. Condame            | \$ 6,556           | 16%                            | 8%  |

The Compensation Committee sets what it believes are challenging goals for maximum bonus awards and expects that maximum bonus awards will be made only in extraordinary circumstances.

The amount of these cash awards earned by each named executive officer in fiscal year 2016 is shown in the Non-Equity Incentive Plan Compensation column of the Fiscal Year 2016 Summary Compensation Table.

Under the Cash Bonus Program, special awards may be made to a named executive officer who has made an extraordinary contribution to us during the fiscal year. Such awards are generally recommended in writing by our Chief Executive Officer to the Chairperson of the Compensation Committee and approved by the Compensation Committee before grant. The Compensation Committee did not approve any such awards in fiscal year 2016.

**Long-Term Equity Incentive Compensation**

The Compensation Committee designed our Annual Stock-Based Long-Term Incentive Award Plan for Senior Executives, which we refer to as the Stock Bonus Plan, to motivate our named executive officers to increase stockholder value by providing them with long-term stock-based awards for above-average company performance. Our long-term incentive opportunities are intended to be competitive with the long-term incentive opportunities offered by the companies constituting our peer group. We issue shares of restricted stock pursuant to our Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, which we refer to as the Incentive Plan, a comprehensive executive compensation plan that provides for the grant of stock options, restricted stock and other stock-related awards, as well as other awards that may be settled in cash or other property. All of our named executive officers are eligible to participate in the Incentive Plan. The Incentive Plan in effect during fiscal year 2016 will expire by its terms on July 28, 2016. Our Board of Directors has approved an amended and restated Incentive Plan that will become effective upon approval by our stockholders

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at the annual meeting. The terms of the amended and restated version of the Incentive Plan are described in Proposal Three: Approval of the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value in this proxy statement.

The Compensation Committee designed the Stock Bonus Plan to create a tight link between the named executive officers' goals and the company's performance and business objectives. In fiscal year 2016, the Compensation Committee granted one half of the restricted stock awards in time-vested restricted stock and the other half in performance-vested restricted stock. The Compensation Committee chose these forms of awards in consideration of the company's current approach to risk and the traditional cyclical nature of the company's business.

***Time-Vested Restricted Stock.*** We grant time-vested restricted stock because we believe that time-vested restricted stock helps us retain our named executive officers by offering our named executive officers the opportunity to receive shares of our common stock if they continue to be employed by us on the date the time-vested restricted stock vests. The Compensation Committee determines the number of shares of time-vested restricted stock to award to our named executive officers under the Stock Bonus Plan based on a percentage of each named executive officer's annual base salary. Unless the Compensation Committee determines otherwise, shares granted vest in installments of one-third on each anniversary of grant.

***Performance-Vested Restricted Stock.*** We grant performance-vested restricted stock because we believe that performance-vested restricted stock helps us reward our named executive officers by conditioning the grant of restricted stock upon the satisfaction of predetermined company objectives. Unless the Compensation Committee determines otherwise, the shares of performance-vested restricted stock cliff vest on the third anniversary of the date of grant, subject to satisfaction of the performance metrics for the applicable three-year period. The Compensation Committee typically sets the metrics applicable to the performance-vested restricted stock just prior to the start of the fiscal year, and finalizes and approves such metrics and the other terms of the restricted stock grants during our first quarter.

For fiscal year 2016 grants, the performance metrics applicable to the performance-vested restricted stock consist of a relative metric (our EBITDA margin for fiscal year 2018 as compared to the Baird Industrial Company Composite for calendar year 2017) and an absolute metric (net revenue for fiscal year 2018). Once the Compensation Committee determines the achievement of the performance criteria for fiscal year 2018, it will adjust the actual number of shares to which each named executive officer is entitled accordingly. Any unearned shares are forfeited back to the company.

The Compensation Committee seeks to establish performance goals that are challenging but attainable based on our business and financial plan for the year. When establishing performance goals, the Compensation Committee reviews and discusses our business and financial plans for that year and the opportunity to generate stockholder value. The Compensation Committee establishes a range of performance goals for the year as well as individual payment thresholds, targets and maximums for each goal.

***Forfeitures.*** If the named executive officers terminate their employment for reasons other than death or disability prior to the vesting of restricted shares, they will forfeit those shares. Dividends paid on unvested shares of restricted stock are subject to forfeiture if the underlying shares are forfeited.

Additional information regarding the restricted stock awards granted to each named executive officer in fiscal year 2016 is set forth in the Fiscal Year 2016 Summary Compensation Table, the Fiscal Year 2016 Grants of Plan-Based Awards Table and in the narrative that follows the tables.

### ***Perquisites and Other Personal Benefits***

We provide limited perquisites and benefits to attract, retain and reward named executive officers by providing an overall benefit package similar to those received by similarly-situated executive officers at comparably-sized companies in our industry and geographic region.

During fiscal year 2016, we paid premiums for life insurance policies for the benefit of each of our named executive officers. In addition, all of our named executive officers participate in our short-term disability program that is available to our managers and executive officers. We also make available to our named executive officers health insurance and long-term disability programs that are generally available to our salaried employees.

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Our named executive officers also receive up to \$2,500 for the purpose of purchasing term life insurance with a named beneficiary of each officer's choosing as well as an additional amount necessary for our named executive officers to purchase a personal umbrella insurance policy. Our Chief Executive Officer is entitled to up to \$5,000 for the purpose of purchasing term life insurance.

***Retirement Benefits***

We provide retirement benefits to our named executive officers to attract, retain and reward named executive officers by providing an overall benefit package similar to those received by similarly situated executive officers at comparably sized companies in our industry and geographic region.

Mr. Lines, Mr. Smith and Ms. Condamine are all eligible to participate in our Retirement Income Plan, which is a defined benefit pension plan for the benefit of our domestic employees hired prior to January 1, 2003. Benefits are based on the employee's years of service and average annual base salary for the five highest consecutive calendar years of compensation in the ten-year period preceding retirement, reduced to take into account a participant's Social Security benefits paid for by the company.

All of our named executive officers participate in our Incentive Savings Plan, which is a defined contribution plan that provides for both employer and employee contributions. The Incentive Savings Plan uses a "safe harbor" design that provides for a matching contribution of 100% of a participant's deferrals up to 3% of compensation plus 50% of deferrals in excess of 3% but not in excess of 5% of compensation (for a maximum 4% matching contribution). Additionally, eligible employees hired after January 1, 2003, which included Mr. Glajch, with at least one hour of service during the relevant plan year who are employed by us at the end of such year receive a contribution in an amount equal to 3.25% of eligible compensation received during such year, which contribution is paid on the first \$265,000 of compensation, as adjusted for cost-of-living increases, in accordance with Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. The amounts allocated to participants under the Incentive Savings Plan fully vest after four years of employment.

We also make available to our named executive officers who participate in our Retirement Income Plan our Supplemental Executive Retirement Plan, which we refer to as the Supplemental Plan. The Supplemental Plan is intended to provide eligible participants and their surviving spouses and beneficiaries with the amount of employer-provided retirement benefits that the Retirement Income Plan would provide, but for the limitation on compensation that may be recognized under tax-qualified plans imposed by Section 401(a)(17) of the Code and the limitations on benefits imposed by Section 415 of the Code.

We have provided more information about our defined benefit retirement plans and the benefits payable to our named executive officers under such plans under the heading "Pension Benefits" at March 31, 2016.

***Employment Agreements and Potential Payments upon Termination or Change in Control***

We have employment agreements with each of our named executive officers. The decisions to enter into employment agreements and the terms of those agreements were based on our need to motivate and retain talent for our long-term growth. The material terms of the employment agreements with our named executive officers are described under the heading "Employment Agreements" in the Narrative to the Fiscal Year 2016 Summary Compensation Table and Fiscal Year 2016 Grants of Plan-Based Awards Table.

We have agreed to provide payments to each of our named executive officers in the event of a termination of employment as a result of normal and early retirement, involuntary termination, death and disability. Mr. Lines and Mr. Glajch are also eligible to receive additional payments in the event of termination following a change in control. We believe these arrangements promote stability and continuity of leadership to the benefit of our named executive officers and the company. See "Potential Payments upon Termination or Change in Control" for further information regarding these arrangements.

**Table of Contents*****Stock Ownership Guidelines***

In order to more closely align the interests of our named executive officers with the interests of our stockholders, the Compensation Committee has established minimum stock ownership guidelines that require our named executive officers to work towards acquiring and maintaining specific levels of equity ownership interests in our common stock within specified time frames. A summary of our current stock ownership guidelines for our named executive officers is as follows:

| <b>Position</b>                | <b>Stock Ownership Guideline</b>   |
|--------------------------------|--|
| Chief Executive Officer        | Common stock with a value equal to at least 3.00 times his annual base salary        |
| Other named executive officers | Common stock with a value equal to at least 1.00 times his or her annual base salary |

Our stock ownership guidelines also require our named executive officers to retain 50% of the net shares realized (after tax) when a restricted stock award vests or a stock option is exercised until they are in compliance with the guidelines, unless waived by the Chairperson of the Compensation Committee.

The Compensation Committee monitors the progress made by our named executive officers in achieving their stock ownership guidelines and, if circumstances warrant, may modify the guidelines and/or time frames for one or more of our named executive officers. Under the guidelines, our named executive officers are directed to be in compliance with their respective ownership objectives within five years of becoming a named executive officer. If a named executive officer does not meet his or her ownership guidelines, the Compensation Committee may take that fact into consideration when evaluating such executive's overall performance. As of the end of fiscal year 2016, all of our named executive officers were in compliance with our stock ownership guidelines, with the exception of Mr. Lines, whose stock ownership met approximately 91% of his stock ownership guideline.

***Certain Tax and Accounting Implications***

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

***The Impact of Deductibility of Compensation.*** As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code, which provides that we may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. The Compensation Committee reserves the ability to approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its named executive officers.

***Accounting for Stock-Based Compensation.*** We account for stock-based employee compensation at fair value of the awards on the grant date and recognize the related cost in our statements of operations and retained earnings in accordance with Financial Accounting Standards Board Accounting Standards Codification 718, Compensation-Stock Compensation, which we refer to as FASB ASC Topic 718, formerly SFAS No. 123(R), Share-Based Payment, which we adopted effective April 1, 2006 utilizing the modified prospective method. These stock-based payments include awards made under our Incentive Plan.

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**Compensation Committee Report**

The Compensation Committee, which consists entirely of independent Directors, has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement in accordance with Item 402(b) of Regulation S-K, as promulgated by the Securities and Exchange Commission. Based on such review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and our annual report on Form 10-K for the fiscal year ended March 31, 2016.

Compensation Committee:

Lisa M. Schnorr, Chairperson

Alan Fortier

James J. Malvaso

Jonathan W. Painter

**Risk Considerations in our Compensation Programs**

Each year, we undertake a company-wide analysis of our compensation programs to assess whether they create risks that are reasonably likely to have a material adverse effect on our business. In fiscal year 2016, the Compensation Committee conducted its own risk assessment for our compensation programs and plans. As part of that assessment, the Compensation Committee reviewed the intent, purposes and practices of our compensation programs and plans. The Compensation Committee conducted this review in connection with a review of our business and growth strategies. Based on these reviews, we have concluded that our compensation programs are appropriately tailored to encourage employees to grow our business without incentivizing them to do so in a way that is reasonably likely to have a material adverse effect on our company.

For example, our Cash Bonus Program and our Stock Bonus Plan, which are our two primary executive compensation programs, balance each other by providing compensation that rewards short-term (Cash Bonus Program) and long-term (Stock Bonus Plan) performance. The Cash Bonus Program balances risk by considering several performance metrics and capping the maximum payout a named executive officer can receive at 200% of target bonus level (target bonus level is between 60% and 25% of base salary for each of our named executive officers). In addition, our Stock Bonus Plan provides balanced incentives through equity-based compensation awards, which include time-vested restricted stock and performance-vested restricted stock. The Compensation Committee believes that this mix of incentives, together with our executive stock ownership guidelines encourages our named executive officers to achieve both short-term operating and long-term strategic objectives, including the long-term performance of our stock.



**Table of Contents****Fiscal Year 2016 Summary Compensation Table**

The following table shows information regarding the compensation of our named executive officers for services rendered to us in all capacities for the fiscal years ended March 31, 2016, 2015 and 2014.

|   |        |                       |       | Stock                    | Non-Equity<br>Incentive<br>Plan | Change in<br>Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation | All<br>Other                |           |
|---|--------|-----------------------|-------|--------------------------|---------------------------------|---|-----------------------------|-----------|
|   | Fiscal | Salary <sup>(1)</sup> | Bonus | Awards <sup>(2)(3)</sup> | Compensation <sup>(4)</sup>     | Earnings <sup>(5)</sup>   | Compensation <sup>(6)</sup> | Total     |
| Name and Principal Position   | Year   | (\$)                  | (\$)  | (\$)                     | (\$)                            | (\$)  | (\$)                        | (\$)      |
| James R. Lines,<br>President and Chief<br>Executive Officer<br>(principal executive officer)                                      | 2016   | 371,527               |       | 151,502                  | 37,896                          | 67,027  | 18,907                      | 646,859   |
|   | 2015   | 360,706               |       | 147,070                  | 306,023                         | 359,412   | 32,755                      | 1,205,966 |
|   | 2014   | 350,200               |       | 136,032                  | 191,629                         | 75,818  | 18,797                      | 772,476   |
| Jeffrey F. Glajch<br>Vice President - Finance<br>& Administration and<br>Chief Financial Officer<br>(principal financial officer) | 2016   | 262,254               |       | 89,097                   | 18,358                          |   | 24,682                      | 394,391   |
|   | 2015   | 254,616               |       | 86,502                   | 122,980                         |   | 23,735                      | 487,833   |
|   | 2014   | 247,200               |       | 82,752                   | 78,517                          |   | 23,243                      | 431,712   |
| Alan E. Smith<br>Vice President and General<br>Manager - Batavia  | 2016   | 230,677               |       | 76,098                   | 20,992                          | 43,482  | 15,316                      | 386,565   |
|   | 2015   | 217,485               |       | 73,902                   | 123,504                         | 147,323   | 14,976                      | 577,190   |
|   | 2014   | 211,150               |       | 70,560                   | 80,923                          | 34,439  | 14,731                      | 411,803   |
| Jennifer R. Condame<br>Controller and Chief<br>Accounting Officer   | 2016   | 163,909               |       | 39,784                   | 6,556                           | 27,761  | 15,313                      | 253,323   |
|   | 2015   | 159,135               |       | 38,646                   | 65,345                          | 122,581   | 12,289                      | 397,996   |
|   | 2014   | 154,500               |       | 36,720                   | 36,018                          | 25,093  | 16,185                      | 268,516   |

(1) The amounts shown in this column include cash compensation earned and paid, and cash compensation deferred at the election of each named executive officer under our Incentive Savings Plan (our 401(k) plan).

(2) Restricted stock awards are granted under our Incentive Plan. The dollar values of time-vested restricted stock awards shown in this column are equal to the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The grant date fair value of the performance-vested restricted stock awards shown in this column is computed based upon the probable outcome of the performance goals as of the grant date, in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The maximum value of the performance-vested restricted stock awards, assuming the highest level of performance conditions is achieved, is as follows for fiscal year 2016: Mr. Lines - \$151,502; Mr. Glajch - \$89,907; Mr. Smith - \$76,098; Ms. Condame - \$39,784. We discuss the assumptions used to calculate grant date fair value in Note 11 (Stock Compensation Plans) to the Consolidated Financial Statements in our annual reports on Form 10-K for the fiscal years ended March 31, 2016 and March 31, 2015 and in Note 12 (Stock Compensation Plans) to the Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ended March 31, 2014.

(3) Additional information regarding the performance-vested restricted stock granted to our named executive officers in fiscal year 2016 is shown in the Fiscal Year 2016 Grants of Plan-Based Awards table.

(4) The amounts shown in this column reflect the cash payment made to our named executive officers under the Cash Bonus Program in effect for fiscal year 2016. Payments under the Cash Bonus Program were determined by the Compensation Committee of our Board of Directors on May 24, 2016.

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(5) The amounts shown in this column reflect the changes in the actuarial present values under our Retirement Income Plan and our Supplemental Plan. See Pension Benefits at March 31, 2016 for more information on our Retirement Income Plan and our Supplemental Plan.

(6) All Other Compensation consists of the following:

|                                | <b>401(k) Plan</b> |                      | <b>401(k) Plan</b>   |              |
|--------------------------------|--------------------|----------------------|----------------------|--------------|
|                                | <b>Matching</b>    |                      | <b>Non-elective</b>  |              |
|                                | <b>Insurance</b>   | <b>Contributions</b> | <b>Contributions</b> | <b>Total</b> |
| <b>Named Executive Officer</b> | (\$)               | (\$)                 | (\$)                 | (\$)         |
| James R. Lines                 | 8,199              | 10,708               |                      | 18,907       |
| Jeffrey F. Glajch              | 5,545              | 10,676               | 8,461                | 24,682       |
| Alan E. Smith                  | 4,551              | 10,765               |                      | 15,316       |
| Jennifer R. Condame            | 4,665              | 10,648               |                      | 15,313       |

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**Table of Contents****Fiscal Year 2016 Grants of Plan-Based Awards**

The following table shows information regarding the grants of annual incentive cash compensation and restricted stock during fiscal year 2016 to our named executive officers.

| Name                | Type of Award                       | Grant Date | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup> |             |              | Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup> |             |              | All Other Stock Awards: Number of Shares of Stock or Units | Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup> |
|---------------------|-------------------------------------|------------|--|-------------|--------------|--|-------------|--------------|--|---|
|                     |                                     |            | Threshold (\$)   | Target (\$) | Maximum (\$) | Threshold (\$)   | Target (\$) | Maximum (\$) |  |   |
| James R. Lines      | Performance-Vested Restricted Stock | 5/28/15    |  |             |              | 37,875   | 75,751      | 151,502      |  | 75,751  |
|                     | Time-Vested Restricted Stock        | 5/28/15    |  |             |              |  |             |              | 3,275  | 75,751  |
|                     | Annual Incentive                    |            | 111,458  | 222,916     | 445,832      |  |             |              |  |   |
| Jeffrey F. Glajch   | Performance-Vested Restricted Stock | 5/28/15    |  |             |              | 22,274   | 44,548      | 89,097       |  | 44,548  |
|                     | Time-Vested Restricted Stock        | 5/28/15    |  |             |              |  |             |              | 1,926  | 44,548  |
|                     | Annual Incentive                    |            | 45,894   | 91,789      | 183,578      |  |             |              |  |   |
| Alan E. Smith       | Performance-Vested Restricted Stock | 5/28/15    |  |             |              | 19,025   | 38,049      | 76,098       |  | 38,049  |
|                     | Time-Vested Restricted Stock        | 5/28/15    |  |             |              |  |             |              | 1,645  | 38,049  |
|                     | Annual Incentive                    |            | 40,368   | 80,737      | 161,474      |  |             |              |  |   |
| Jennifer R. Condame | Performance-Vested Restricted Stock | 5/28/15    |  |             |              | 9,946  | 19,892      | 39,784       |  | 19,892  |
|                     | Time-Vested Restricted Stock        | 5/28/15    |  |             |              |  |             |              | 860  | 19,892  |
|                     | Annual Incentive                    |            | 20,489   | 40,977      | 81,955       |  |             |              |  |   |

(1) The amounts shown in these columns reflect the incentive cash compensation amounts that potentially could have been earned during fiscal year 2016 based upon the achievement of company and individual performance goals under our Cash Bonus Program. The amounts of actual cash awards earned in fiscal year 2016 by our named executive officers under our Cash Bonus Program are set forth in the Non-Equity Incentive Plan Compensation column in the Fiscal Year 2016 Summary Compensation Table. For more information regarding annual incentive cash compensation under our Cash Bonus Program, see Annual Cash Incentive Compensation in the CD&A.

(2) Our restricted stock awards are denominated in dollars, but payable in stock. We determine the number of shares of restricted stock to grant by dividing the dollar value of the award by the closing price of a share of our common stock on the date of grant. For more information regarding restricted stock awards under our Stock Bonus Plan, see Performance-Vested Restricted Stock under the heading Long-Term Equity Incentive Compensation in the CD&A and Awards Granted in Fiscal Year 2016 in the Narrative to the Fiscal Year 2016 Summary Compensation Table and Fiscal Year 2016 Grants of Plan-Based Awards Table.

(3) The dollar values of stock options and restricted stock disclosed in this column are equal to the aggregate grant date fair value computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures. The grant date fair value of the performance-vested restricted stock awards is computed based upon the probable outcome of the performance goals as of the grant date. A discussion of the assumptions used to calculate the grant date fair values is set forth in Note 11 (Stock Compensation Plans) to the Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ended March 31, 2016.

**Table of Contents****Narrative to the Fiscal Year 2016 Summary Compensation Table and Fiscal Year 2016 Grants of Plan-Based Awards Table*****Awards Granted in Fiscal Year 2016***

The Compensation Committee determines the number of shares of restricted stock to award to our named executive officers based on a percentage of each named executive officer's annual base salary. The Compensation Committee determined the number of shares of performance-vested restricted stock to award to our named executive officers by using each such officer's Long-Term Incentive Percentage, which we refer to as the L-T Percentage. For fiscal year 2016, the L-T Percentage in effect for each of our named executive officers was as follows: Mr. Lines - 42%; Mr. Glajch - 35%; Mr. Smith - 35%; and Ms. Condamine - 25%.

The number of shares of restricted stock was determined by multiplying 50% of each named executive officer's base salary then in effect by such officer's L-T Percentage, and then dividing the product by the closing price of our common stock on the date of grant.

The closing price of our common stock on May 28, 2015 was \$23.13 without adjusting for the payment of dividends. The number of shares of time-vested restricted stock and the number of shares of performance-vested restricted stock granted to our named executive officers in fiscal year 2016 are as follows:

| Named Executive Officer | Number of Shares of Restricted Stock Granted |                            |
|-------------------------|--|----------------------------|
|                         | Performance-Vested <sup>(1)(2)</sup>         | Time-Vested <sup>(1)</sup> |
| James R. Lines          | 3,275  | 3,275                      |
| Jeffrey F. Glajch       | 1,926  | 1,926                      |
| Alan E. Smith           | 1,645  | 1,645                      |
| Jennifer R. Condamine   | 860  | 860                        |

(1) In the event a named executive officer's employment terminates prior to the conclusion of the applicable vesting period for reasons other than death or disability, such officer's right to receive the restricted stock will be forfeited.

(2) The number of shares that will vest at the end of fiscal year 2018 is based upon our achievement of two performance criteria. Those performance criteria consist of a relative metric (our EBITDA margin for fiscal year 2018 as compared to the Baird Industrial Company Composite for calendar year 2017) and an absolute metric (net revenue for fiscal year 2018). Once achievement of the performance criteria is determined for fiscal year 2018, the actual number of shares to which each named executive officer is entitled will be adjusted accordingly, with any unearned shares being forfeited back to the company. The number of shares assumes achievement of the performance criteria for a target award.

***Vesting***

For fiscal year 2016, shares of time-vested restricted stock vest in installments of one-third on each anniversary of grant over three years. Prior to fiscal year 2015, 50% of the shares of time-vested restricted stock vest on the second anniversary of the date of grant and the remaining 50% of the shares vest on the fourth anniversary of the date of grant. The shares of performance-vested restricted stock cliff vest on the last day of the third fiscal year following the fiscal year of grant, subject to satisfaction of the performance metrics for the applicable three-year period.

We pay dividends on unvested restricted stock, but these dividends are subject to recovery if the applicable vesting conditions are not met.

***Option Grants***

Prior to fiscal year 2014, we granted stock options under the Incentive Plan. Our named executive officers only realize the compensation if our stock price increases over the term of the award, which aligned this element of compensation with our performance. Outstanding stock options vest over a three-year period, with 33 1/3% of the shares subject to such option vesting on each of the first, second and third anniversaries of the date of grant.



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***Employment Agreements***

During fiscal year 2016, we were a party to employment agreements with Mr. Lines, Mr. Glajch, Mr. Smith and Ms. Condame. The following is a summary of the key terms of each of these employment agreements.

***James R. Lines.*** On August 1, 2006, we entered into an employment agreement with Mr. Lines, as subsequently amended on December 31, 2008, which provides that Mr. Lines will receive an annual minimum base salary as well as other customary benefits. Mr. Lines is also eligible under the agreement to receive discretionary bonuses. The agreement automatically renews such that it always has a one-year term remaining, unless we or Mr. Lines elect not to extend the term further, in which case the term will end on the first anniversary of the date on which notice of such election not to extend is given. If not terminated sooner, the agreement will end on the last day of the month in which Mr. Lines turns 65.

Pursuant to our employment agreement with Mr. Lines, if he resigns for reasons other than a material breach of the agreement by us, departs from our employment without the approval of our Board of Directors, or is discharged for cause, he will be subject to an 18-month covenant not to compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone our confidential information.

Our employment agreement with Mr. Lines also provides for us to make certain payments to him in the event we terminate his employment without cause or upon the occurrence of certain events relating to a change in control of the company, as described under [Involuntary Termination](#) and [Termination Following a Change in Control](#) under the heading [Potential Payments Upon Termination or Change in Control](#).

Our employment agreement with Mr. Lines provides that we will indemnify him for all acts or omissions and for any suits brought against him which relate to duties he performed in good faith for us.

***Jeffrey F. Glajch.*** On March 2, 2009, we entered into an employment agreement with Mr. Glajch, as subsequently amended on July 29, 2010, to serve as our Vice President - Finance & Administration and Chief Financial Officer. The agreement provides that Mr. Glajch will receive an annual minimum base salary as well as other customary benefits. The agreement automatically renews such that it always has a one-year term remaining, unless we or Mr. Glajch elect not to extend the term further, in which case the term will end on the first anniversary of the date on which notice of such election not to extend is given. If not terminated sooner, the agreement will end on the last day of the month in which Mr. Glajch turns 65.

Pursuant to our employment agreement with Mr. Glajch, if his employment with us is terminated for any reason, he will be subject to an 18-month covenant not to compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone our confidential information.

Our employment agreement with Mr. Glajch also provides for us to make certain payments to him in the event we terminate his employment without cause or upon the occurrence of certain events relating to a change in control of the company, as described under [Involuntary Termination](#) and [Termination Following a Change in Control](#) under the heading [Potential Payments Upon Termination or Change in Control](#).

Our employment agreement with Mr. Glajch provides that we will indemnify him for all acts or omissions and for any suits brought against him which relate to duties he performed in good faith for us.

***Alan E. Smith.*** On July 30, 2007, we entered into an employment agreement with Mr. Smith, as subsequently amended on December 31, 2008. The agreement provides that Mr. Smith will receive an annual minimum base salary as well as other customary benefits. Mr. Smith's agreement automatically renews such that it always has a one-year term remaining, unless we or Mr. Smith elect not to extend the term further, in which case the term will end on the first anniversary of the date on which notice of such election not to extend is given. If not terminated sooner, the agreement will end on the last day of the month in which Mr. Smith turns 65.

Pursuant to our employment agreement with Mr. Smith, if his employment with us is terminated for any reason, he will be subject to an 18-month covenant not to compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone our confidential information.

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Our employment agreement with Mr. Smith also provides for us to make certain payments to him in the event we terminate his employment without cause as described below under **Involuntary Termination** under the heading **Potential Payments Upon Termination or Change in Control**.

Our employment agreement with Mr. Smith provides that we will indemnify him for all acts or omissions and for any suits brought against him which relate to duties he performed in good faith for us.

**Jennifer R. Condame**. On July 25, 2013, we entered into an employment agreement with Ms. Condame. The agreement provides that Ms. Condame will receive an annual minimum base salary as well as other customary benefits. Ms. Condame's agreement automatically renews such that it always has a one-year term remaining, unless we or Ms. Condame elect not to extend the term further, in which case the term will end on the first anniversary of the date on which notice of such election not to extend is given. If not terminated sooner, the agreement will end on the last day of the month in which Ms. Condame turns 65.

Pursuant to our employment agreement with Ms. Condame, if her employment with us is terminated for any reason, she will be subject to an 18-month covenant not to compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone our confidential information.

Our employment agreement with Ms. Condame also provides for us to make certain payments to her in the event we terminate her employment without cause as described below under **Involuntary Termination** under the heading **Potential Payments Upon Termination or Change in Control**.

Our employment agreement with Ms. Condame provides that we will indemnify her for all acts or omissions and for any suits brought against her which relate to duties she performed in good faith for us.

***Additional Information***

We have provided additional information regarding the compensation we pay to our named executive officers in the CD&A, and encourage you to read the above tables and their footnotes in conjunction with such information.

Table of Contents**Outstanding Equity Awards at March 31, 2016**

The following table shows information regarding the number of unexercised stock options and the number and value of unvested restricted stock awards held by our named executive officers at March 31, 2016.

| Name                  | Option Awards   |   |                     |                        | Stock Awards                                   |   |  |  |
|-----------------------|---|---|---------------------|------------------------|--|---|--|--|
|                       | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Exercised Options (#) | Exercise Price (\$) | Option Expiration Date | Number of Shares or Units That Have Not Vested | Market Value of Shares or Units That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Shares, Units or Other Rights that Have Not Vested | Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| James R. Lines        | 2,532   |   | 30.88               | 5/29/2018              |  |   |  |  |
|                       | 1,974   |   | 15.22               | 5/28/2019              |  |   |  |  |
|                       | 3,092   |   | 15.25               | 5/20/2020              |  |   |  |  |
|                       | 10,894  |   | 18.65               | 5/30/2022              |  |   |  |  |
|                       |   |   |                     |                        | 945 <sup>(1)</sup>                             | 18,815  |  |  |
|                       |   |   |                     |                        | 1,736 <sup>(2)</sup>                           | 34,564  |  |  |
|                       |   |   |                     |                        | 3,275 <sup>(3)</sup>                           | 65,205  |  |  |
|                       |   |   |                     |                        |  | 5,668 <sup>(5)</sup>                                      | 112,850  |  |
|                       |   |   |                     |                        |  | 5,206 <sup>(6)</sup>                                      | 103,651  |  |
|                       |   |   |                     |                        |  | 6,550 <sup>(7)</sup>                                      | 130,411  |  |
| Jeffrey F. Glajch     | 1,739   |   | 15.25               | 5/20/2020              |  |   |  |  |
|                       | 7,141   |   | 18.65               | 5/30/2022              |  |   |  |  |
|                       |   |   |                     |                        | 575 <sup>(1)</sup>                             | 11,448  |  |  |
|                       |   |   |                     |                        | 1,021 <sup>(2)</sup>                           | 20,328  |  |  |
|                       |   |   |                     |                        | 1,926 <sup>(3)</sup>                           | 38,347  |  |  |
|                       |   |   |                     |                        |  |   | 3,448 <sup>(4)</sup>   | 68,649   |
| Alan E. Smith         | 1,114   |   | 30.88               | 5/29/2018              |  |   |  |  |
|                       | 3,571   |   | 15.22               | 5/28/2019              |  |   |  |  |
|                       | 3,118   |   | 15.25               | 5/20/2020              |  |   |  |  |
|                       | 6,059   |   | 18.65               | 5/30/2022              |  |   |  |  |
|                       |   |   |                     |                        | 490 <sup>(1)</sup>                             | 9,756   |  |  |
|                       |   |   |                     |                        | 872 <sup>(2)</sup>                             | 17,362  |  |  |
|                       |   |   |                     | 1,645 <sup>(3)</sup>   | 32,752   |   |  |  |
|                       |   |   |                     |                        |  | 2,940 <sup>(4)</sup>                                      | 58,535   |  |
|                       |   |   |                     |                        |  | 2,616 <sup>(5)</sup>                                      | 52,085   |  |
|                       |   |   |                     |                        |  | 3,290 <sup>(6)</sup>                                      | 65,504   |  |
| Jennifer R. Condamine | 500   |   | 7.98                | 6/1/2016               |  |   |  |  |
|                       | 4,974   |   | 6.90                | 5/31/2017              |  |   |  |  |
|                       | 576   |   | 30.88               | 5/29/2018              |  |   |  |  |
|                       | 1,000   |   | 44.50               | 7/31/2018              |  |   |  |  |
|                       | 2,678   |   | 15.22               | 5/28/2019              |  |   |  |  |



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|       |       |           |                    |        |                      |
|-------|-------|-----------|--------------------|--------|----------------------|
| 1,609 | 15.25 | 5/20/2020 |                    |        |                      |
| 3,127 | 18.65 | 5/30/2022 |                    |        |                      |
|       |       |           | 255 <sup>(1)</sup> | 5,077  |                      |
|       |       |           | 456 <sup>(2)</sup> | 9,079  |                      |
|       |       |           | 860 <sup>(3)</sup> | 17.123 |                      |
|       |       |           |                    |        | 1,530 <sup>(4)</sup> |
|       |       |           |                    |        | 30,462               |
|       |       |           |                    |        | 1,368 <sup>(5)</sup> |
|       |       |           |                    |        | 27,237               |
|       |       |           |                    |        | 1,720 <sup>(6)</sup> |
|       |       |           |                    |        | 34,245               |

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- (1) One-third of this grant of time-vested restricted stock vests on May 30, 2014, May 30, 2015 and May 30, 2016.
- (2) One-third of this grant of time-vested restricted stock vests on May 29, 2015, May 29, 2016 and May 29, 2017.
- (3) One-third of this grant of time-vested restricted stock vests on May 28, 2016, May 28, 2017 and May 28, 2018.
- (4) This grant of performance-vested restricted stock vests on the date that the Compensation Committee ratifies the satisfaction of the performance metrics for the applicable three-year performance period ended March 31, 2016. This number reflects the maximum number of shares of restricted stock that may be earned if the maximum level of performance is achieved.
- (5) This grant of performance-vested restricted stock vests on the date that the Compensation Committee ratifies the satisfaction of the performance metrics for the applicable three-year performance period ending March 31, 2017. This number reflects the maximum number of shares of restricted stock that may be earned if the maximum level of performance is achieved.
- (6) This grant of performance-vested restricted stock vests on the date that the Compensation Committee ratifies the satisfaction of the performance metrics for the applicable three-year performance period ending March 31, 2018. This number reflects the maximum number of shares of restricted stock that may be earned if the maximum level of performance is achieved.

**Fiscal Year 2016 Option Exercises and Stock Vested**

The following table shows information regarding the number and value realized of stock options exercised and stock awards that vested during fiscal year 2016 for each of our named executive officers.

| Name                | Option Awards                         |                            | Stock Awards                         |  |
|---------------------|---------------------------------------|----------------------------|--------------------------------------|--|
|                     | Number of Shares Acquired on Exercise | Value Realized on Exercise | Number of Shares Acquired on Vesting | Value Realized on Vesting <sup>(1)</sup> |
|                     | (#)                                   | (\$)                       | (#)                                  | (\$)                                     |
| James R. Lines      |                                       |                            | 7,564                                | 173,168                                  |
| Jeffrey F. Glajch   |                                       |                            | 4,856                                | 111,240                                  |
| Alan E. Smith       |                                       |                            | 4,126                                | 94,514                                   |
| Jennifer R. Condame |                                       |                            | 2,135                                | 48,903                                   |

- (1) The value realized on the vesting of stock awards is the closing price of our common stock on the vesting date multiplied by the number of shares acquired.

**Pension Benefits at March 31, 2016**

The following table shows information at March 31, 2016 regarding our Retirement Income Plan and our Supplemental Executive Retirement Plan.

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| <b>Name</b>         | <b>Plan Name</b>                       | <b>Number of Years Credited Service (#)</b> | <b>Present Value of Accumulated Benefit<sup>(1)</sup> (\$)</b> | <b>Payments During Last Fiscal Year (\$)</b> |
|---------------------|--|---|--|--|
| James R. Lines      | Retirement Income Plan                 | 32  | 1,073,001  |  |
|                     | Supplemental Executive Retirement Plan |   | 572,898  |  |
| Jeffrey F. Glajch   | Retirement Income Plan                 |   |  |  |
|                     | Supplemental Executive Retirement Plan |   |  |  |
| Alan E. Smith       | Retirement Income Plan                 | 23  | 539,305  |  |
|                     | Supplemental Executive Retirement Plan |   |  |  |
| Jennifer R. Condame | Retirement Income Plan                 | 24  | 437,053  |  |
|                     | Supplemental Executive Retirement Plan |   |  |  |

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- (1) The present value of accumulated benefits indicated in the table were calculated using a 3.93% discount rate, the RP 2014 Mortality Table dataset projected to 2021 by scale MP2015 and an age 63 retirement age, which are the same assumptions used for financial reporting purposes. The amounts indicated represent liabilities funded by the trust fund. Part of the accrued benefit will be provided by John Hancock Insurance 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 prior to January 1, 2003. The purpose of the Retirement Income Plan is to supplement Social Security benefits and to provide a reliable source of regular income for participants or their survivors after retirement by the participant. During fiscal year 2016, Mr. Lines, Mr. Smith and Ms. Condamine were eligible to participate in the Retirement Income Plan.

Normal retirement under the Retirement Income Plan is generally the later of a participant's 65<sup>th</sup> birthday or the 5<sup>th</sup> anniversary of the date on which he or she became a participant. Early retirement under the Retirement Income Plan is available for a participant who is at least 55 years old and has completed fifteen years or more of creditable service. The Retirement Income Plan also provides for a disability retirement allowance in the event of disability.

The Retirement Income Plan also provides for the payment of a retirement benefit in the event that a participant's employment was terminated when the participant was not eligible for normal, early or disability retirement. Eligibility for such vested retirement requires the completion of five years of service with us. A participant who is entitled to a vested retirement allowance when his or her employment terminates will ordinarily begin receiving payments after reaching normal retirement age. If the participant has completed at least fifteen years of creditable service, he or she may elect to begin receiving payments on the first day of the month after he or she reaches age 55 and up to the first month after he or she reaches normal retirement age. The amount of a participant's monthly vested retirement payment will vary depending on age, service and time of commencement.

Benefits under the Retirement Income Plan are based on the employee's years of service and average annual base salary for the five highest consecutive calendar years of compensation in the ten-year period preceding retirement. Benefits under the Retirement Income Plan are reduced to take into account a participant's Social Security benefits paid for by the company.

The approximate years of creditable service as of March 31, 2015 of each of the named executive officers eligible to participate in the Retirement Income Plan are as follows: Mr. Lines - 32; Mr. Smith - 23; and Ms. Condamine - 24. We do not normally grant additional years of service credit.

The form and amount of the payments made under the Retirement Income Plan depends upon marital status when payment begins and the form of payment selected. The normal form of benefit for a married participant is a 100% joint and survivor annuity, which provides a retirement allowance in the form of reduced monthly payments that will continue for the rest of the participant's life. If the participant is survived by the person who was the participant's spouse when payments began, such spouse will receive survivor benefits equal to 100% of the amount of the payments made to the participant during his or her lifetime. His or her spouse will be paid survivor benefits for his or her remaining lifetime. Subject (in most cases) to the spouse's consent, a participant may elect to receive benefits in the form of a single life annuity, 50% joint and survivor annuity, a Social Security Level Income Option, a 10, 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 the Supplemental Plan that is a non-qualified deferred compensation plan and is intended to provide eligible participants and their surviving spouses and beneficiaries with the amount of employer-provided retirement benefits that the Retirement Income Plan would provide but for the limitation on compensation that may be recognized under tax-qualified plans imposed by Section 401(a)(17) of the Code and the limitations on benefits imposed by Section 415 of the Code.

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A participant who has completed a period of service of at least five years under the Retirement Income Plan and whose benefits are limited by the above-referenced provisions of the Code, is entitled to receive a monthly benefit from the Supplemental Plan. All of our named executive officers hired prior to January 1, 2003 are eligible to participate in the Supplemental Plan, but Mr. Lines is the only named executive officer that currently has an accrued benefit under the Supplemental Plan.

The monthly benefit under the Supplemental Plan is equal to the excess, if any, of the retirement benefits that would have been payable to or with respect to the plan participant under the Retirement Income Plan had the limitations imposed by the Code not been applicable over the retirement benefits payable to or with respect to the participant under the Retirement Income Plan. This formula was modified to provide that for calendar years through 2016, the calculation of average compensation for Mr. Lines only takes into account his base salary since August 1, 2012.

A participant's retirement benefits under the Supplemental Plan generally will be paid to or with respect to the participant in the same form and at the same time as the participant's retirement benefits under the Retirement Income Plan. The benefits under the Supplemental Plan will terminate upon cessation of benefits to the participant or his beneficiary under the Retirement Income Plan.

Upon a change in control of our company, each participant in the Supplemental Plan would automatically become 100% vested in his or her benefits. A change in control for the purposes of the Supplemental Plan is defined as:

the acquisition of the assets or a majority of the shares of the company by a person or group not controlled by the company;

a cash tender offer or exchange offer, consolidation or merger or other business combination, sale of assets or contested election as a result of which the members of our Board of Directors before the event cease to constitute a majority of our Board;

the acquisition of 25% or more of the shares of the company by a person or a group; or

the occurrence of any event that would be required to be reported in response to Item 6(e) of Schedule 14A or to Item 5.01 of Form 8-K.

### ***Incentive Savings Plan***

All of our named executive officers are also eligible to participate in our Incentive Savings Plan (our 401(k) savings plan), which is available to all of our employees. Pursuant to the Incentive Savings Plan, we match funds deferred at the election of participants, up to a certain percentage, and we make non-elective contributions to the accounts of eligible participants. Matching contributions under the Incentive Savings Plan always are fully vested. Additionally, eligible employees hired after January 1, 2003 with at least one hour of service during the relevant plan year who are employed by us at the end of such year receive a nonelective contribution as described above.

### **Potential Payments upon Termination or Change in Control**

The following information and the table entitled "Estimated Payments Upon Termination or a Change in Control" set forth the amount of payments to each of our named executives in the event of a termination of employment as a result of normal and early retirement, voluntary termination and termination for cause, involuntary termination, death, disability and termination following a change in control of the company.

### ***Assumptions and General Principles***

The following assumptions and general principles apply with respect to the table entitled "Estimated Payments Upon Termination or a Change in Control" and any termination of employment of a named executive officer:

The amounts shown in the table assume that each named executive officer was terminated on March 31, 2016. Accordingly, the table reflects amounts earned as of March 31, 2016 and includes estimates of



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amounts that would be paid to the named executive officer upon the occurrence of a termination. The actual amounts to be paid to a named executive officer can only be determined at the time of the termination.

Unless otherwise noted, the fair market values of stock-based compensation were calculated using the closing price of our common stock on March 31, 2016, the last trading day in fiscal year 2016 (\$19.91).

A named executive officer is entitled to receive certain amounts earned during his or her term of employment regardless of the manner in which the named executive officer's employment is terminated. These amounts include base salary, unused vacation pay and earned annual cash incentive compensation. These amounts are not shown in the table.

A named executive officer may exercise any stock options that are exercisable prior to the date of termination and will be entitled to receive unrestricted shares of common stock with respect to any restricted stock awards for which the vesting period has expired prior to the date of termination. Any payments related to these stock options and restricted stock awards are not included in the table as they are not payable upon the termination of a named executive officer's employment or upon a change in control of the company.

A named executive officer will be entitled to receive all amounts accrued and vested under our retirement and savings programs, including our Incentive Plan and any pension plans in which the named executive officer participates. These amounts are not included in the table as these amounts are disclosed under the heading "Pension Benefits at March 31, 2016" unless such amounts are accelerated or enhanced in the event of the termination of a named executive officer's employment or upon a change in control of the company.

### ***Normal and Early Retirement***

A named executive officer is eligible to elect normal retirement at age 65 and early retirement between ages 55 and 64 with at least five and fifteen years, respectively, of creditable service to the company, as discussed under the heading "Pension Benefits at March 31, 2016."

As of March 31, 2016, none of our named executive officers were eligible for early or normal retirement.

Unvested shares of performance-vested restricted stock held by the named executive officers that were granted prior to fiscal year 2014 will vest pro-rata based on the satisfaction of the applicable performance goals through the end of the quarter immediately preceding the date of retirement.

### ***Voluntary Termination and Termination for Cause***

Pursuant to our employment agreements with our named executive officers, cause exists if our Board of Directors determines that there has been willful misconduct by the named executive officers in connection with the performance of their duties or if the named executive officers have engaged in any other conduct that has been materially injurious to the company or have breached any of the representations and warranties in their employment agreements. Under the employment agreements with Mr. Lines, Mr. Smith and Ms. Condame, upon termination for cause, we would pay all legal fees and other expenses incurred by such named executive officers if they, in good faith, contest the termination. The named executive officers would be required to reimburse us for all such costs if a court of final adjudication were to determine that they did not act in good faith in bringing such challenge.

Our named executive officers are not entitled to receive any severance payments or other benefits upon their voluntary decision to terminate employment with the company prior to being eligible for retirement (other than compensation due through the date of termination) or upon termination for cause.

### ***Involuntary Termination***

Our employment agreement with Mr. Lines also provides that, upon termination without cause, or if he resigns because of our material breach of his employment agreement, we will have the following obligations: (1) pay to him compensation due him through the date of termination, including any accrued bonus; (2) continue





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his base salary for nine months following such termination; (3) pay to him a lump sum payment equal to nine months' base salary; (4) provide him with continuing health care coverage for a period of 18 months following the effective date of termination of his employment; and (5) pay for certain outplacement services.

Our employment agreements with Messrs. Glajch and Smith and Ms. Condamine provide that, upon termination without cause, or if any such officer resigns because of our material breach of his or her respective employment agreements, we will pay compensation due to them through the date of termination, including any accrued bonus; and that we will pay, in regular monthly payments, their respective salaries for 12 months following the effective date of their termination of employment.

Our obligation to make payments upon any termination of Messrs. Lines, Glajch or Smith or Ms. Condamine without cause or upon their resignation because of a material breach of their agreement by us is conditioned on their execution of an enforceable release of all claims against us and their compliance with all provisions of their employment agreement.

***Death or Disability***

Pursuant to our Stock Bonus Plan, upon the death or disability of a named executive officer, all unvested shares of time-vested restricted stock and stock options held by the named executive officer will become immediately vested and the stock options will become exercisable in full. All unvested shares of performance-vested restricted stock held by the named executive officer will vest pro-rata based on the satisfaction of the applicable performance goals through the end of the quarter immediately preceding the date of the named executive officer's death or disability.

All of our named executive officers participate in our life insurance plan, whereby his or her beneficiary would be entitled to a death benefit equal to three times base salary. We also provide each of our named executive officers with \$2,500 annually (except for Mr. Lines, who receives \$5,000 annually) for the purpose of procuring a term life insurance policy.

Each of our named executive officers also participates in our short-term disability program that is available to our managers and executive officers. Pursuant to such program, each named executive officer would be entitled to payments equal to his full base salary for six months following such disability. Each of our named executive officers also participates in our long-term disability plan that is generally available to all of our salaried employees.

***Termination Following a Change in Control***

Our employment agreements with Messrs. Lines, Glajch and Smith and Ms. Condamine require a termination of employment following a change in control of our company (commonly referred to as a "double trigger") in order to trigger certain payments. A "change in control" is defined in each of our employment agreements with Messrs. Lines, Glajch and Smith and Ms. Condamine to include the following events:

any person, party or group (other than the company, any subsidiary of the company or any employee benefit plan sponsored by the company or any subsidiary), directly or indirectly, acquires or has acquired during the 12-month period ending on the date of the most recent acquisition, 30% (except that the employment agreements with Mr. Smith and Ms. Condamine use a lower 25% standard and do not include the 12-month acquisition period) or more of the combined voting power of the outstanding securities of the company ordinarily having the right to vote in the election of directors;

a change in the composition of our Board of Directors such that members of our Board as of the effective date of the respective employment agreement cease to constitute at least a majority of our Board (unless the election or nomination of any new directors was approved by a vote of at least three-quarters of the Directors comprising our Board of Directors as of the effective date of the respective employment agreement);

the closing of a reorganization, merger or consolidation of the company, other than one with respect to which all or substantially all of those persons who were the beneficial owners immediately prior to such

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event, of outstanding securities of the company ordinarily having the right to vote in the election of directors own, immediately after such transaction, more than three-quarters of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors;

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

the complete liquidation and dissolution of the company.

**Mr. Lines.** Our employment agreement with Mr. Lines provides that, upon the occurrence of a triggering event that would be deemed an event of termination within two years after a change in control of the company, Mr. Lines would be entitled to certain payments, including, among other things, a lump sum payment equal to one dollar less than three times his annualized gross compensation (including bonus) for the five most recent taxable years ending before the date of such change in control.

In addition, all unvested stock options would become immediately vested and exercisable and any unvested shares of restricted stock would become immediately vested. We would also be required to pay to Mr. Lines six months after the triggering event a lump sum payment amount equal to the excess, if any, of (1) the present value of the aggregate benefits to which he would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by us as if he were 100% vested under such plans, over (2) the present value of the benefits to which he is actually entitled under such defined benefit pension plans as of the date of his termination. Mr. Lines' employment agreement contains certain limitations for these payments that relate to our ability to deduct such payments for federal income tax purposes.

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

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

a change in the nature or scope of his authority from his role and responsibilities immediately 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 under his employment agreement, 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 more than thirty miles distant 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 positions, duties, responsibilities 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 which Mr. Lines was participating at the time of the change in control or the taking of any action by the company which would adversely affect his participation in or materially reduce his benefits under such plans; or

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

**Mr. Glajch.** Our employment agreement with Mr. Glajch provides that, upon the occurrence of a triggering event that would be deemed an event of termination within two years after a change in control of the company, Mr. Glajch would be entitled to certain payments, including, among other things, a lump sum payment equal to one dollar less than three times his annualized gross compensation (including bonus) for the five most recent taxable years ending before the date of such change in control.

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In addition, all unvested stock options would become immediately vested and exercisable and any unvested shares of restricted stock would become immediately vested. We would also be required to pay to Mr. Glajch six months after the triggering event a lump sum payment amount equal to the excess, if any, of (1) the present value of the aggregate benefits to which he would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by us as if he were 100% vested under such plans, over (2) the present value of the benefits to which he is actually entitled under such defined benefit pension plans as of the date of his termination. Mr. Glajch's employment agreement contains certain limitations for these payments that relate to our ability to deduct such payments for federal income tax purposes.

Pursuant to our employment agreement with Mr. Glajch, our obligation to make payments upon termination following a change in control is conditioned on his execution of an enforceable release of all claims and his compliance with all provisions of the employment agreement.

The triggering events that would be deemed events of termination include, among others, termination of Mr. Glajch for any reason other than death, disability or cause, or resignation of Mr. Glajch under the following circumstances:

a change in the nature or scope of his authority from his role and responsibilities immediately 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. Glajch may be entitled under his employment agreement, or action by the company to decrease his base salary;

a change requiring Mr. Glajch to perform services other than in Batavia, New York or in any location more than thirty miles distant from Batavia, New York, except for certain required travel on the company's business;

without his express written consent, the assignment to Mr. Glajch of any duties inconsistent with his positions, duties, responsibilities 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 which Mr. Glajch was participating at the time of the change in control or the taking of any action by the company which would adversely affect his participation in or materially reduce his benefits under such plans; or

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

**Mr. Smith and Ms. Condamine.** Under their respective employment agreements, Mr. Smith and Ms. Condamine will not be entitled to any payments by us upon the occurrence of a change in control. Rather, upon the occurrence of a change in control, Mr. Smith and Ms. Condamine must continue to provide us with the services contemplated by the employment agreement until three months after a change in control has occurred. However, pursuant to our restricted stock award agreements, shares of unvested restricted stock will be subject to accelerated vesting in the event Mr. Smith or Ms. Condamine are terminated within 12 months of the change in control.

**General.** In the event of any sale, merger or any form of business combination affecting us, our employment agreements with Messrs. Lines, Glajch and Smith and Ms. Condamine require us to obtain the express written assumption of the agreement by the acquiring or surviving entity, and failure to do so would entitle the executive officer to all payments and other benefits to be provided by us in the event of termination without cause.

In addition, pursuant to the Supplemental Plan, in the event of a change in control, each participant in our Supplemental Plan, which currently includes Mr. Lines, Mr. Smith and Ms. Condamine, would become 100% vested in his or her benefits.



**Table of Contents****Estimated Payments Upon Termination Or Change In Control**

|   | James R. Lines           | Jeffrey F. Glajch        | Alan E. Smith | Jennifer R. Condame |
|---|--------------------------|--------------------------|---------------|---------------------|
| Event   | (\$)                     | (\$)                     | (\$)          | (\$)                |
| <b>Normal and Early Retirement <sup>(1)</sup></b>                                     |                          |                          |               |                     |
| Accelerated vesting of stock options  |                          |                          |               |                     |
| Accelerated vesting of time-vested and performance-vested restricted stock            |                          |                          |               |                     |
| <b>Total</b>  |                          |                          |               |                     |
| <b>Involuntary Termination without Cause or Voluntary Termination for Good Reason</b> |                          |                          |               |                     |
| Continued salary  | 278,645                  | 262,254                  | 234,010       | 163,909             |
| Cash severance payment  | 278,645                  |                          |               |                     |
| Healthcare coverage   | 13,792                   |                          |               |                     |
| Outplacement services   | 40,000 <sup>(2)</sup>    |                          |               |                     |
| <b>Total</b>  | 611,082                  | 262,254                  | 234,010       | 163,909             |
| <b>Death</b>  |                          |                          |               |                     |
| Life insurance proceeds   | 3,387,352                | 2,786,762                | 3,641,795     | 2,166,727           |
| Accelerated vesting of stock options  |                          |                          |               |                     |
| Accelerated vesting of time-vested and performance-vested restricted stock            | 235,615                  | 138,952                  | 118,664       | 62,020              |
| <b>Total</b>  | 3,622,967                | 2,925,714                | 3,760,459     | 2,228,747           |
| <b>Disability</b>   |                          |                          |               |                     |
| Short-term disability payments  | 185,764                  | 131,127                  | 117,005       | 81,955              |
| Accelerated vesting of stock options  |                          |                          |               |                     |
| Accelerated vesting of time-vested and performance-vested restricted stock            | 235,615                  | 138,952                  | 118,664       | 62,020              |
| <b>Total</b>  | 421,379                  | 270,079                  | 235,669       | 143,975             |
| <b>Termination Following Change in Control</b>  |                          |                          |               |                     |
| Accelerated vesting of stock options  |                          |                          |               |                     |
| Accelerated vesting of restricted stock   | 235,615                  | 138,952                  | 118,664       | 62,020              |
| Continued salary  |                          |                          | 234,010       | 163,909             |
| Cash severance payment  | 1,892,876                | 1,144,238                |               |                     |
| Healthcare coverage   | 13,792                   |                          |               |                     |
| Outplacement services   | 40,000 <sup>(2)</sup>    |                          |               |                     |
| Accelerated vesting of defined contribution pension contributions                     |                          |                          |               |                     |
| Pension enhancement   |                          |                          |               |                     |
| Accelerated vesting of SERP benefits  |                          |                          |               |                     |
| <b>Total</b>  | 2,142,283 <sup>(3)</sup> | 1,283,190 <sup>(3)</sup> | 352,674       | 225,929             |

(1) Beginning with grants made in fiscal year 2014, retirement does not trigger accelerated vesting of performance-vested restricted shares and time-vested restricted shares.

(2) Pursuant to our employment agreement with Mr. Lines, reimbursement of outplacement services is limited to a total amount of \$40,000.

(3)

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Such amount takes into account limitations imposed by our employment agreements with Mr. Lines and Mr. Glajch, whereby certain amounts otherwise payable to Mr. Lines and Mr. Glajch upon termination following a change in control may be reduced in connection with limitations on deductibility by the company for federal income tax purposes imposed by Section 280G of the Code.

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**DIRECTOR COMPENSATION**

**Director Compensation Programs**

The Compensation Committee annually reviews and approves compensation for our independent Directors. Mr. Lines, our President and Chief Executive Officer, is not an independent Director under applicable NYSE and Securities and Exchange Commission rules and, therefore, he does not receive any additional compensation for services as a Director. The compensation that we pay to Mr. Lines is disclosed in the Fiscal Year 2016 Summary Compensation Table.

We use a combination of cash and equity-based compensation to attract and retain our independent Directors. As described below, independent Director compensation consists of an annual cash retainer; an additional annual cash retainer for the Chairman of our Board of Directors and the chair of each committee of our Board; committee meeting fees; restricted stock awards; and stock options. We also reimburse our independent Directors for reasonable expenses incurred in connection with their attendance at Board and committee meetings. We do not provide retirement benefits to our independent Directors.

***Cash Compensation***

Each of our independent Directors receives an annual fee of \$15,000 for service on our Board of Directors. Additionally, each independent Director receives a fee of \$1,000 for each Board or committee meeting attended, except that if such meeting is held by telephone conference call or by unanimous written consent, the fee is reduced to \$500. If our Board of Directors and/or one or more committees meet on the same day, a full meeting fee is paid for one meeting and one-half of the meeting fee is paid for each additional meeting attended that day.

The Chairman of our Board of Directors and each of our independent Directors serving as a chairperson of committees of our Board of Directors receive additional fees for such service. For fiscal year 2016, the Chairman of our Board of Directors received an additional annual fee of \$15,000, the Chairman of the Audit Committee received an additional annual fee of \$6,000, the Chairman of the Compensation Committee received an additional annual fee of \$5,000 and the Chairman of the Nominating and Corporate Governance Committee received an additional annual fee of \$3,000.

***Equity-Based Compensation***

***Share Equivalent Units.*** Effective August 1, 2013, the Compensation Committee terminated the Outside Directors' Long-Term Incentive Plan, which we refer to as the LTIP. Independent Directors elected prior to May 2009 participated in the LTIP. The LTIP credited each of the participating independent Directors with Share Equivalent Units, or SEUs, for five fiscal years during the term of such independent Director's service, subject to our attainment of certain performance objectives. Upon termination of an independent Director's service, but not before, the independent Director could redeem each SEU for one share of our common stock or, alternatively and subject to our discretion, for the cash equivalent at the closing price of our stock on the date of termination of service, subject to certain limitations.

In connection with the termination, the final cash value of the SEUs was determined and the underlying SEUs were cancelled on August 1, 2013 pursuant to the terms of the LTIP. The participating Directors, Ms. Berkeley, Mr. Bidlack, Mr. Malvaso, Mr. Mazurkiewicz and Mr. Fortier received cash payments of \$72,431, \$80,128, \$49,911, \$49,272 and \$50,633, respectively, in two equal installments in September 2014 and May 2015.

***Options.*** Our independent Directors are also eligible to participate in the Incentive Plan, pursuant to which they may be granted options to purchase shares of our common stock. No options were granted to our independent Directors during fiscal year 2016.

***Restricted Stock.*** Equity compensation awards to independent Directors are made in the form of time-vested restricted stock awarded under the Incentive Plan. On May 28, 2015, the Compensation Committee awarded 1,081 shares of time-vested restricted stock, with a grant date fair market value of approximately \$25,000 to each of our independent Directors. The shares of restricted stock awarded to our independent Directors vest on the first anniversary of the date of grant.



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***Stock Ownership Guidelines***

In order to more closely align the interests of our independent Directors with the interests of our stockholders, the Compensation Committee established minimum stock ownership guidelines that require our independent Directors to work towards acquiring and maintaining specific levels of equity ownership interests in our common stock within specified time frames.

Under our stock ownership guidelines, our independent Directors are required to own shares of our common stock valued at least 3.0 times their annual retainer. New independent Directors are expected to achieve their ownership guidelines within five years of becoming subject to the guidelines. Our stock ownership guidelines also require our independent Directors to retain 50% of the net shares they realize (after tax) when a restricted stock award vests or a stock option is exercised until they are in compliance with the guidelines. The Compensation Committee monitors the progress made by independent Directors in achieving their stock ownership guidelines and, in its discretion, may modify the guidelines and/or time frames for some or all of our independent Directors. As of the end of fiscal year 2016, each of our independent Directors was in compliance with our stock ownership guidelines, with Mr. Painter and Ms. Schnorr making progress toward their total stock ownership requirements.

**Table of Contents****Fiscal Year 2016 Director Compensation Table**

The following table shows information regarding the compensation of our independent Directors serving for all or part of fiscal year 2016.

| Name                   | Fees Earned or | Stock                 | SEU                   | All Other                   | Total   |
|------------------------|----------------|-----------------------|-----------------------|-----------------------------|---------|
|                        | Paid in Cash   | Awards <sup>(1)</sup> | Awards <sup>(2)</sup> | Compensation <sup>(3)</sup> |         |
|                        | (\$)           | (\$)                  | (\$)                  | (\$)                        | (\$)    |
| James J. Barber        | 28,250         | 25,004                |                       |                             | 53,254  |
| Helen H. Berkeley      | 1,000          |                       | 36,216                | 24,500                      | 61,716  |
| Jerald D. Bidlack      | 1,500          |                       | 40,064                | 65,500                      | 107,064 |
| Alan Fortier           | 31,500         | 25,004                | 25,317                |                             | 81,821  |
| James J. Malvaso       | 43,500         | 25,004                | 24,955                |                             | 93,459  |
| Gerard T. Mazurkiewicz | 31,250         | 25,004                | 24,636                |                             | 80,890  |
| Lisa M. Schnorr        | 31,500         | 25,004                |                       |                             | 56,504  |
| Jonathan W. Painter    | 29,000         | 25,004                |                       |                             | 54,004  |

<sup>(1)</sup> The amounts shown in this column represent the estimated grant date fair value of the shares of restricted stock granted to each independent Director during fiscal year 2016. The value of each such restricted stock award is computed in accordance with FASB ASC Topic 718 on the same basis as disclosed at footnote (2) to the Fiscal Year 2016 Summary Compensation Table. Each independent Director was granted 1,081 shares of restricted stock during fiscal year 2016 under the Incentive Plan, with the exception of Ms. Berkeley and Mr. Bidlack who retired from the Board of Directors during fiscal year 2016.

<sup>(2)</sup> In connection with the termination of the Outside Directors LTIP, the final cash value of the SEUs was determined and the underlying SEUs were cancelled on August 1, 2013. The participating Directors, Ms. Berkeley and Messrs. Bidlack, Malvaso, Mazurkiewicz and Fortier received cash payments of \$72,431, \$80,128, \$49,911, \$49,272 and \$50,633, respectively, in two equal installments in September 2014 and May 2015. The amounts shown above represent the final installment paid in May 2015.

<sup>(3)</sup> The amounts shown in this column represent Director Emeritus awards paid in cash to Ms. Berkeley and Mr. Bidlack in connection with the cessation of their service to our Board of Directors.

The table below presents the aggregate number of unexercised stock option awards and unvested restricted stock awards outstanding for each of our independent Directors serving at March 31, 2016.

| Name                   | Stock Option Awards | Restricted Stock Awards |
|------------------------|---------------------|-------------------------|
| James J. Barber        |                     | 1,081                   |
| Helen H. Berkeley      | 924                 |                         |
| Jerald D. Bidlack      | 924                 | 1,081                   |
| Alan Fortier           | 924                 | 1,081                   |
| James J. Malvaso       | 924                 | 1,081                   |
| Gerard T. Mazurkiewicz | 5,924               | 1,081                   |
| Jonathan W. Painter    |                     | 1,081                   |
| Lisa M. Schnorr        |                     | 1,081                   |

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**PROPOSAL TWO:**

**ADVISORY VOTE ON OUR EXECUTIVE COMPENSATION**

Pursuant to Section 14A of the Exchange Act, we are providing our stockholders the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as described in the Compensation Discussion and Analysis, accompanying compensation tables and related narrative discussion contained in this proxy statement. We first provided our stockholders with the opportunity to approve, on an advisory basis, the compensation of our named executive officers at our 2011 annual meeting. At the 2011 annual meeting, our stockholders expressed an overwhelming preference for this vote to occur on the annual basis recommended by our Board of Directors. This preference was subsequently adopted by our Board of Directors and we are providing our stockholders with an advisory vote this year. The next advisory vote and the next advisory vote regarding frequency of such votes will take place at our 2017 annual meeting of stockholders.

We encourage stockholders to carefully review the Compensation Discussion and Analysis section of this proxy statement for additional details on our executive compensation programs, including our compensation philosophy and objectives, as well as the processes our Compensation Committee used to determine the structure and amounts of the compensation of our named executive officers during fiscal year 2016. For your convenience, we have provided an executive summary in the first few pages of the Compensation Discussion and Analysis section that highlights information that we believe is particularly important in helping you decide how to vote on this proposal. You should also carefully review the tables that immediately follow the Compensation Discussion and Analysis, together with the related narrative disclosure and footnotes.

We are asking you to indicate your support for the compensation of our named executive officers as described in this proxy statement. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement.

As an advisory vote, this proposal is not binding upon our Board of Directors or our Compensation Committee. However, the Compensation Committee and our Board value the opinions expressed by stockholders in their vote on this proposal, and will consider the outcome of the vote in deciding whether to take any action as a result of the vote and when making future compensation decisions for named executive officers.

**Board Recommendation**

Our Board of Directors unanimously recommends that stockholders vote **FOR** the following advisory resolution:

**RESOLVED, that the compensation paid to our named executive officers, as disclosed pursuant to the Securities and Exchange Commission's compensation disclosure rules, including the Compensation Discussion and Analysis, compensation tables and related narrative discussions set forth in this proxy statement, is hereby approved.**

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**PROPOSAL THREE:**  
**APPROVAL OF THE AMENDED AND RESTATED**  
**2000 INCENTIVE PLAN TO INCREASE SHAREHOLDER VALUE**

We are asking our stockholders to approve the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value.

**Background and Purpose**

On July 26, 2001, our stockholders approved the 2000 Graham Corporation Incentive Plan to Increase Shareholder Value. On July 27, 2006, our stockholders approved the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, which we refer to in this section as the Current Incentive Plan. The Current Incentive Plan expires on July 27, 2016.

On May 24, 2016, our Board of Directors approved the further amendment and restatement of the Current Incentive Plan, subject to stockholder approval, in order to allow the Compensation Committee to continue granting awards to the company's employees and non-employee directors. We refer to the Current Incentive Plan as amended and restated as the Amended Plan. If approved by our stockholders at the Annual Meeting, the Amended Plan will become effective as of July 28, 2016.

The purpose of the Amended Plan is to increase stockholder value by (i) promoting the growth and profitability of our company; (ii) providing officers and non-employee Directors with an incentive to achieve corporate objectives; (iii) attracting and retaining officers and non-employee Directors of outstanding ability; and (iv) providing such persons with an equity interest in our company in order to better align their interests with the interests of stockholders.

The Amended Plan does **NOT** increase the number of shares available for awards.

As of June 3, 2016, 309,451 shares remain available for future awards under the Amended Plan, of which 7,568 are available for the issuance of future awards other than stock options. If our stockholders approve the Amended Plan, 225,000 shares out of the 309,451 shares will be available for the issuance of future awards other than stock options.

**Board Recommendation**

Our Board of Directors unanimously recommends a vote **FOR** the approval of the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value.

**Highlights of the Amended Plan**

The Amended Plan includes several provisions to promote best practices and to reinforce the alignment of our equity compensation programs with stockholders' interests, including the following:

Minimum vesting requirements

Annual limits on awards to employees

Forfeiture/clawback provision

Annual limits on awards and cash fees for non-employee directors

No single-trigger change in control vesting or payment

No recycling of shares

No repricing of options

No reload options

No discounted options

No excise tax gross-ups

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**Key Amendments**

Below is a summary of the key amendments contained in the Amended Plan:

|   |   |
|---|---|
| <b>Types of Awards</b>                                      | In addition to stock options and stock awards, the Amended Plan adds the ability to grant restricted stock units.   |
| <b>Available Shares</b>                                     | <p>The Amended Plan also expressly allows for the grant of substitute awards in connection with an acquisition or combination with another company.</p> <p>Like the Current Incentive Plan, the Amended Plan allows up to 1,375,000 shares of stock to be used for awards. The 1,065,549 shares previously awarded under the Current Incentive Plan count against the number of shares remaining available under the Amended Plan. Therefore, 309,451 shares remain available for future issuance as of June 3, 2016.</p> <p>Of the 309,451 shares that remain available for future issuance, 225,000 may be used for future awards other than stock options, which represents an increase of 217,432 in the remaining shares that may be used for future awards other than stock options as of June 3, 2016. As we have not granted stock options as part of our executive compensation program since fiscal year 2013, we are increasing the number of shares available for other grants.</p> |
| <b>Expiration Date</b>                                      | The Amended Plan provides that incentive stock options, or ISOs, may not be granted after July 28, 2026.  |
|   | In addition to the existing best practice provisions under the Current Incentive Plan, the Amended Plan adds the following as a matter of good corporate governance:  |
| <b>Minimum Vesting Periods</b>                              | All awards under the Amended Plan will generally have a minimum vesting period of one year; only stock options were subject to a minimum vesting period under the Current Incentive Plan.   |
| <b>Limitations on Change in Control Treatment of Awards</b> | The Amended Plan only allows for acceleration of vesting of awards in connection with a change in control if the participant's employment or service also terminates (i.e., double trigger), or the acquirer does not agree to assume or substitute awards.   |
| <b>Recoupment/Forfeiture</b>                                | <p>In the event of accelerated vesting of performance awards in connection with a change in control, deemed satisfaction of performance objectives is limited to the level of actual achievement of the performance objectives and/or the period of time elapsed in the performance period.</p> <p>The Amended Plan expressly allows the company to recoup compensation paid under the Amended Plan in accordance with applicable law and stock exchange listing requirements.</p>  |
| <b>Limits on Non-Employee Director Compensation</b>         | The Amended Plan adds annual limits of \$50,000 on the fair value of shares awarded and \$100,000 for cash fees paid to a non-employee director.  |

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**Summary of the Amended Plan**

We qualify the below summary of the Amended Plan, in its entirety by reference to the text of the Amended Plan, a copy of which is attached as Appendix A to this proxy statement. We urge our stockholders to read the Amended Plan in its entirety.

**Eligible Participants** Employees and non-employee directors of the company and its subsidiaries are eligible to receive awards under the Amended Plan.

**Available Shares** 1,375,000 shares of stock are available for the grant of awards. No additional shares are being requested.

Of the 309,451 shares that remain available for future awards, no more than 225,000 shares may be used for future awards other than stock options. As we have not granted stock options as part of our executive compensation program since fiscal year 2013, we are increasing the number of shares available for other grants.

Shares underlying awards that are expired, forfeited, cancelled or otherwise terminated without the issuance of shares are available again for awards under the Amended Plan, but shares used to pay the exercise price of a stock option or to satisfy tax withholding obligations are not available again for awards.

**Types of Awards** Stock options, including ISOs and non-qualified stock options ( NQSOs ), stock awards and restricted stock units.

The Compensation Committee has the authority to grant and set the terms of awards, subject to the limitations of the Amended Plan.

**Award Limits** A maximum of 60,000 shares of stock may be granted to any participant during a calendar year.

No more than 3% of the company s authorized shares of stock may be granted to all participants during any 36-month period.

Awards to a non-employee director during any calendar year are limited to a fair value of \$50,000, and the cash fees paid to a non-employee director for services in any calendar year are limited to \$100,000.

**Minimum Vesting Periods** All awards will have a minimum vesting period of one year except:

Up to 5% of the shares of stock under the Amended Plan may be issued without a minimum vesting period.

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The Compensation Committee may provide different vesting periods for substitute awards, to match those of the awards replaced.

Stock awards to non-employee directors in lieu of cash fees.

Limited exceptions to the minimum vesting period may apply for death, disability, retirement, other terminations and certain corporate transactions.



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**Stock Options**

The Compensation Committee may grant stock options that are ISOs or NQSOs. Only employees may receive ISOs.

The exercise price per share of a stock option may not be less than the value of a share of our stock on the date of grant.

No stock option can be exercised more than ten years from the date of grant.

**Stock Awards**

The Compensation Committee may grant awards as stock or restricted shares of stock.

Unrestricted shares of stock may only be granted to non-employee directors in lieu of cash fees.

While a stock award is subject to restrictions, the Compensation Committee can limit the participant's rights under the award, including the right to vote and receive dividends.

**Restricted Stock Units**

The Compensation Committee may grant awards as restricted stock units, which are rights to receive shares of stock (or an equivalent cash payment) in the future.

The Compensation Committee may include with the grant of restricted stock units the right to receive dividend equivalents.

**Qualified Performance Awards**

The Compensation Committee may grant awards as qualified performance awards, which are intended to be deductible performance-based compensation for purposes of Section 162(m) of the Code.

Any type of award under the Amended Plan may be granted as a qualified performance award.

The performance objectives for qualified performance awards may be based on one or more of the following: specified levels of or increases in our return on equity, diluted earnings per share, total earnings, earnings growth, return on capital, return on assets, earnings before interest and taxes, pre-tax operating earnings adjusted for depreciation and amortization, sales, sales growth, gross margin return on investment, increase in the fair market value of common stock, share price (including growth measures and total stockholder return), net earnings, cash flow (including operating cash flow and free cash flow), cash flow return on investment, inventory turns, financial return ratios, total return to stockholders, market share, earnings measures/ratios, economic value added, balance sheet measurements such as receivable turnover, internal rate of return, increase in net present value or expense targets, working capital measurements, customer satisfaction surveys and productivity.

The Compensation Committee may provide that the performance objectives for a qualified performance award be adjusted to include or exclude the impact of items such as: realized investment gains and losses, extraordinary, unusual, non-recurring or infrequently recurring items, asset write-downs, effects of accounting changes, currency fluctuations, acquisitions, divestitures, reserve-strengthening and other non-operating items.

The Compensation Committee may grant awards that are earned or vest based on the achievement of performance objectives which are not qualified performance awards.

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|                                       |   |
|---------------------------------------|---|
| <b>Substitute Awards</b>              | Substitute awards may be granted in connection with an acquisition or combination with another company.<br><br>The terms of substitute awards can vary from the terms of the Amended Plan if the Compensation Committee deems it appropriate.   |
| <b>Change in Control</b>              | Acceleration of the exercisability, vesting, payment, lapse of restrictions or deemed satisfaction of performance objectives for an award related to a change in control is allowed only if (1) the change in control occurs and (2) either the employment or service of the participant is terminated (i.e., double-trigger ) or the acquirer does not assume or substitute outstanding awards.<br><br>For awards that are earned or vest based on the achievement of performance objectives, the amount deemed earned or vested in connection with the change in control may be based on the level of actual achievement of the performance objectives or the period of time elapsed in the performance period. |
| <b>Award Forfeiture Provision</b>     | The company may recoup compensation paid under the Amended Plan in accordance with applicable law and stock exchange listing requirements.  |
| <b>Dilution and Other Adjustments</b> | In the event of certain corporate transactions or changes in corporate capitalization, the Compensation Committee will make adjustments to the terms of the Amended Plan (e.g., the maximum number of shares available and individual limits) and outstanding awards.   |
| <b>Tax Withholding</b>                | The exercise or payment of awards and the issuance of shares of stock is conditioned on a participant making satisfactory arrangements for the satisfaction of any tax withholding liability.   |
| <b>Amendment/Termination</b>          | Subject to certain limitations, including with respect to repricing stock options (which generally requires the approval of our stockholders), our Board of Directors may, at any time, alter, amend, suspend, discontinue or terminate the Amended Plan.   |
| <b>Duration of the Amended Plan</b>   | ISOs may not be granted after July 28, 2026, but ISOs granted before that date may extend beyond that date.   |

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**Certain Federal Income Tax Consequences of Awards Under the Amended Plan**

The following discussion of the U.S. federal income tax consequences of awards under the Amended Plan is based on present federal tax laws and regulations and does not purport to be complete. Foreign, other federal, state and local taxes not described below may also apply.

***Incentive Stock Options***

If a stock option is an ISO, the employee does not realize income upon grant or exercise of the ISO, and no deduction is available to the company at such times, but the difference between the value of the shares of stock purchased on the exercise date and the exercise price paid is an item of tax preference for purposes of determining the employee's alternative minimum tax. If the shares of stock purchased upon the exercise of an ISO are held by the employee for at least two years from the date of the grant and for at least one year after exercise, any resulting gain is taxed at long-term capital gains rates.

If the shares are disposed of before the expiration of that period, any gain on the disposition, up to the difference between the fair market value of the shares at the time of exercise and the exercise price of the ISO, is taxed at ordinary rates as compensation paid to the employee, and the company is entitled to a deduction for an equivalent amount. Any additional gain recognized from the disposition in excess of the fair market value of the shares at the time of exercise is treated as short- or long-term capital gain depending on how long the shares have been held.

***Non-Qualified Stock Options***

If a stock option is a NQSO, the participant does not realize income at the time of grant of the NQSO, and no deduction is available to the company at such time. At the time of exercise, ordinary income is realized by the participant in an amount equal to the difference between the exercise price and the fair market value of the shares of stock on the exercise date, and the company is entitled to a deduction for such amount. Upon disposition, any appreciation or depreciation of the shares after the date of exercise will be treated as short- or long-term capital gain or loss depending on how long the shares have been held.

***Stock Awards***

Upon the grant of an award of shares of stock, the non-employee Director realizes ordinary income equal to the fair market value at the time (less the purchase price therefor, if any), and the company is entitled to a corresponding tax deduction at that time. Upon disposition, any appreciation or depreciation of the shares after the date of grant will be treated as short- or long-term capital gain or loss depending on how long the shares have been held.

Upon the grant of an award of restricted shares of stock, no income is realized by the participant (unless the participant makes an election under Section 83(b) of the Code), and the company is not allowed a deduction at that time. When the restricted shares vest, the participant realizes ordinary income in an amount equal to the fair market value of the restricted shares at the time of vesting, and, subject to the limitations of Section 162(m) of the Code, the company is entitled to a corresponding deduction at such time. Upon disposition, any appreciation or depreciation of the shares after the time of vesting will be treated as short- or long-term capital gain or loss depending on how long the shares have been held.

If a participant makes a timely election under Section 83(b) of the Code, then the participant recognizes ordinary income in an amount equal to the fair market value of the restricted shares at the time of grant, and, subject to the limitations of Section 162(m) of the Code, the company is entitled to a corresponding deduction at such time. Upon disposition, any appreciation or depreciation of the shares after the time of grant will be treated as short- or long-term capital gain or loss depending on how long the shares have been held.

***Restricted Stock Unit Awards***

Upon the grant of restricted stock units, no income is realized by the participant, and the company is not allowed a deduction at that time. When restricted stock units vest and are paid, the participant realizes ordinary income in an amount equal to the fair market value of the shares of stock received or the amount of cash paid at the time of payment, and, subject to the limitations of Section 162(m) of the Code, the company is entitled to a corresponding deduction at such time.

**Table of Contents****Equity Compensation Plan Information**

As of June 3, 2016, all of our employees and non-employee Directors, including four executive officers and six non-employee directors, are eligible to be considered for awards under the Amended Plan.

A total of 1,375,000 shares of stock are available for the grant of awards under the Amended Plan, of which 1,065,549 shares have previously been awarded under the Current Incentive Plan as of June 3, 2016, and 309,451 shares remain available for awards under the Amended Plan.

The following table summarizes, as of June 3, 2016, the number of shares subject to currently outstanding stock options, their weighted average exercise price, and the number of shares available for future grants under the Current Incentive Plan:

| Plan category   | (A)<br>Number of Securities to be<br>Issued Upon Exercise of<br>Outstanding Options, Warrants<br>and Rights | (B)<br>Weighted-Average Exercise<br>Price of Outstanding Options,<br>Warrants and Rights | (C)<br>Number of Securities<br>Remaining Available for<br>Future Issuance Under Equity<br>Compensation Plan (Excluding<br>Securities Reflected in Column<br>(A)) |
|---|---|--|--|
| Equity compensation plans approved<br>by stockholders     | 82,186  | \$19.10  | 309,451  |
| Equity compensation plans not<br>approved by stockholders |   |  |  |
| <b>TOTAL</b>  | <b>82,186</b>   | <b>\$19.10</b>   | <b>309,451</b>   |

**New Plan Benefits**

We cannot determine the benefits or amounts that participants will receive and/or the number of shares of common stock that will be granted under the Amended Plan because the Compensation Committee, in its discretion, will determine the amount and form of grants to eligible participants in any year.

**Stock Price**

The closing price of a share of our common stock as reported on the New York Stock Exchange on June 3, 2016 was \$18.41 per share.

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**PROPOSAL FOUR:**

**RATIFICATION OF THE SELECTION OF OUR**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP served as our independent registered public accounting firm in fiscal year 2016. The Audit Committee of our Board of Directors has selected Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2017, which we refer to as fiscal year 2017. This selection will be presented to our stockholders for ratification at the annual meeting. The Audit Committee will consider the outcome of this vote in its future discussions regarding the selection of our independent registered public accounting firm.

We have been advised by Deloitte & Touche LLP that a representative will be present at the annual meeting and that such representative will be available to respond to appropriate questions. Such representative will be given an opportunity to make a statement if he or she so desires.

**Board Recommendation**

Our Board of Directors unanimously recommends a vote **FOR** the proposal to ratify the selection of Deloitte & Touche LLP to serve as our independent registered public accounting firm for fiscal year 2017.

**Fees Paid to Deloitte & Touche LLP**

We paid the following fees to Deloitte & Touche LLP for fiscal year 2016 and for the fiscal year ended March 31, 2015, which we refer to as fiscal year 2015:

|                    | <b>Fiscal Year<br/>2016</b> | <b>Fiscal Year<br/>2015</b> |
|--------------------|-----------------------------|-----------------------------|
| Audit fees         | \$ 405,000                  | \$ 372,500                  |
| Audit-related fees | 8,674                       | 21,872                      |
| Tax fees           |                             |                             |
| All other fees     | 2,808                       | 2,808                       |
| <b>Total fees</b>  | <b>\$ 416,482</b>           | <b>\$ 397,180</b>           |

Audit fees for each of fiscal year 2016 and fiscal year 2015 included fees associated with audits of our financial statements, audits of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and reviews of financial statements included in our quarterly reports on Form 10-Q.

Audit-related fees for 2016 included out-of-pocket expenses. Audit-related fees for fiscal year 2015 included fees associated with the review of our response to a comment letter from the staff of the Securities and Exchange Commission and out-of-pocket expenses. All other fees for fiscal years 2016 and 2015 included the subscription fee for the Deloitte & Touche LLP Technical Library Research Tool.

The Audit Committee has determined that the provision of permitted non-audit services described above has not compromised the independence of Deloitte & Touche LLP.

The Audit Committee has adopted procedures for pre-approving all audit and permitted non-audit services provided by our independent registered public accounting firm. The Audit Committee annually pre-approves a list of specific services and categories of services, subject to a specified cost level. Part of this approval process includes making a determination as to whether permitted non-audit services are consistent with the Securities and Exchange Commission's rules on auditor independence. The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee, subject to reporting any such approvals at the next Audit Committee meeting.

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The Audit Committee monitors the services rendered and actual fees paid to our independent registered public accounting firm quarterly to ensure that such services are within the scope of approval. All audit and permitted non-audit services for which Deloitte & Touche LLP was engaged were pre-approved by the Chairman of the Audit Committee.

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**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee is currently comprised of Directors Mazurkiewicz (Chairman), Barber, Fortier, Malvaso and Painter, each of whom our Board of Directors has affirmatively determined is independent pursuant to the listing standards of the NYSE and applicable Securities and Exchange Commission rules. The duties and responsibilities of the Audit Committee are set forth in the Audit Committee's charter, as last amended and restated by our Board of Directors effective May 2, 2014.

The Audit Committee oversees the company's financial reporting process on behalf of our Board of Directors and has other duties and functions as described in its charter.

Management has the primary responsibility for the company's financial statements and the reporting process. The company's independent registered public accounting firm, Deloitte & Touche LLP, is responsible for auditing the company's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States.

The Audit Committee has:

reviewed and discussed the company's audited financial statements for the fiscal year ended March 31, 2016 with management and the independent registered public accounting firm;

discussed with the company's independent registered public accounting firm the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 16, Communications with Audit Committees;

received and discussed the written disclosures and the letter from the company's independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the audit committee concerning independence; and

discussed with the company's independent registered public accounting firm its independence.

When evaluating Deloitte & Touche LLP's independence, the Audit Committee discussed with Deloitte & Touche LLP any relationships that may impact such firm's objectivity and independence. The Audit Committee has also considered whether the provision of permitted non-audit services by Deloitte & Touche LLP is compatible with maintaining such firm's independence and has satisfied itself with respect to Deloitte & Touche LLP's independence from the company and its management.

The Audit Committee discussed with the personnel responsible for the internal audit function and the company's independent registered public accounting firm the overall scope and plans for their respective audits. The Audit Committee meets with the personnel responsible for overseeing the internal audit function and with the company's independent registered public accounting firm, with and without management present, to discuss the results of their examinations, the evaluations of the company's internal controls and the overall quality of the company's financial reporting.

Based on the reviews and discussions referred to above, the Audit Committee recommended to our Board of Directors (and our Board has approved) that the audited financial statements be included in the company's annual report on Form 10-K for the year ended March 31, 2016 for filing with the Securities and Exchange Commission. The Audit Committee has also selected the company's independent registered public accounting firm for the fiscal year ending March 31, 2017 and has submitted such selection for ratification by the stockholders at the company's annual meeting.

Audit Committee:

Gerard T. Mazurkiewicz, Chairman



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James J. Barber  
Alan Fortier  
James J. Malvaso  
Jonathan W. Painter

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**Compensation Committee Interlocks and Insider Participation**

The members of our Compensation Committee during fiscal year 2016 were Directors Schnorr (Chairperson), Fortier, Malvaso and Painter.

During fiscal year 2016, no member of our Compensation Committee: (1) was an officer or employee of ours or any of our subsidiaries; (2) was formerly an officer of ours or any of our subsidiaries; or (3) had any relationship requiring disclosure in this proxy statement pursuant to Securities and Exchange Commission rules. In addition, no executive officer served: (1) as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee; (2) as a director of another entity, one of whose executive officers served on our Compensation Committee; or (3) as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Board of Directors.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**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 executive officers or their immediate family members are participants in advance for review and approval. Any existing related person transactions are reviewed at least annually by the Audit Committee. Any Director or executive officer with an interest in a related person transaction is expected to recuse himself or herself from any consideration of the matter.

Although the Audit Committee has not established a written policy regarding the approval of related person transactions, when evaluating these transactions, the Audit Committee considers, 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 interest of the company; and

any other matters the Committee deems appropriate.

To the extent that the transaction involves an independent Director, consideration is also given, as applicable, to the listing standards of the NYSE and other relevant rules related to independence.

In addition, our Audit Committee also reviews all transactions between us and any entity with which an independent Director or executive officer is an affiliate, taking into account the factors listed above as well as all other factors deemed appropriate by the Committee.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The table below shows certain information, as of June 3, 2016, regarding the only persons known to us to be the beneficial owners of more than five percent of the outstanding shares of our common stock, with percentages based on 9,713,640 shares issued and outstanding.

| <b>Name and Address of Beneficial Owner</b>  | <b>Number of Shares Beneficially Owned</b> | <b>Percent of Class Beneficially Owned</b> |
|--|--|--|
| American Century Capital Portfolios, Inc., et al. <sup>(1)</sup><br>4500 Main Street, 9 <sup>th</sup> Floor<br>Kansas City, Missouri 64111 | 680,286                                    | 7.0%                                       |
| Lafitte Capital Management LP, et al. <sup>(2)</sup><br>701 Brazos, Suite 310<br>Austin, Texas 78701                                       | 669,390                                    | 6.9%                                       |
| BlackRock, Inc. <sup>(3)</sup><br>55 East 52 <sup>nd</sup> Street<br>New York, New York 10022  | 587,688                                    | 6.1%                                       |

<sup>(1)</sup> This information as to the beneficial ownership of shares of our common stock is based on the Schedule 13G filed with the Securities and Exchange Commission on February 11, 2016 by American Century Capital Portfolios, Inc. ( ACCP ), American Century Investment Management, Inc. ( ACIM ), American Century Companies, Inc. ( ACC ) and the Stowers Institute for Medical Research ( Stowers ). ACCP reports sole voting and sole dispositive power with respect to 540,000 shares. ACC, ACIM, and Stowers each report sole voting power with respect to 641,466 shares and sole dispositive power with respect to all 680,286 shares.

<sup>(2)</sup> This information as to the beneficial ownership of shares of our common stock is based on a Schedule 13G/A filed with the Securities and Exchange Commission on February 3, 2016 by Lafitte Capital Management LP, Lafitte Capital, LLC as the general partner of Lafitte Capital Management LP and Bryant Regan as the sole member of Lafitte Capital, LLC. The reporting persons report shared voting and shared dispositive power with respect to all of the shares.

<sup>(3)</sup> This information as to the beneficial ownership of shares of our common stock is based on the Schedule 13G/A filed with the Securities and Exchange Commission on January 26, 2016 by BlackRock, Inc. BlackRock, Inc. reports sole voting power with respect to 571,999 shares and sole dispositive power with respect to all 587,688 shares. As the parent holding company, BlackRock, Inc. reports beneficial ownership for securities acquired by the following of its subsidiaries: BlackRock Advisors, LLC; BlackRock Fund Advisors; BlackRock Institutional Trust Company, N.A.; and BlackRock Investment Management, LLC and Xulu, Inc.

**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT**

The table below shows certain information, as of June 3, 2016, regarding shares of our common stock held by (1) each of our Directors; (2) each of our named executive officers and (3) all Directors and executive officers as a group.

| Name of Beneficial Owner   | Number of Shares<br>Beneficially Owned <sup>(1)</sup> | Percent of Class<br>Beneficially Owned <sup>(1)(2)</sup> |
|--|---|--|
| <b>Directors</b>   |   |  |
| James J. Barber, Ph.D.   | 15,396 <sup>(3)</sup>                                 |  |
| Alan Fortier   | 20,585 <sup>(4)</sup>                                 |  |
| James J. Malvaso   | 18,901 <sup>(4)</sup>                                 |  |
| Gerard T. Mazurkiewicz   | 15,355 <sup>(5)</sup>                                 |  |
| Jonathan W. Painter  | 3,261 <sup>(3)</sup>                                  |  |
| Lisa M. Schnorr  | 3,261 <sup>(3)</sup>                                  |  |
| <b>Named Executive Officers</b>  |   |  |
| Jennifer R. Condame  | 34,431 <sup>(6)</sup>                                 |  |
| Jeffrey F. Glajch  | 66,969 <sup>(7)</sup>                                 |  |
| James R. Lines <sup>(8)</sup>  | 117,692 <sup>(9)</sup>                                |  |
| Alan E. Smith  | 45,680 <sup>(10)</sup>                                |  |
| All Directors and executive officers as a group (10 persons) <sup>(11)</sup> | 341,531 <sup>(11)</sup>                               | 3.5%   |

<sup>(1)</sup> As reported by such persons as of June 3, 2016 with percentages based on 9,713,640 shares issued and outstanding except where the person has the right to receive shares within the next 60 days (as indicated in the other footnotes to this table), which increases the number of shares owned by such person and the number of shares outstanding with respect to such person. Under the rules of the Securities and Exchange Commission, beneficial ownership is deemed to include shares for which an individual, directly or indirectly, has or shares voting or dispositive power, regardless of whether such shares are held for the individual's benefit, and includes shares that may be acquired within 60 days, including, but not limited to, the right to acquire shares by the exercise of options. Shares that may be acquired within 60 days are referred to in the footnotes to this table as presently exercisable options. Unless otherwise indicated in the other footnotes to this table, each stockholder named in the table has sole voting and investment power with respect to all of the shares shown as owned by the stockholder.

<sup>(2)</sup> We have omitted percentages of less than 1% from the table.

<sup>(3)</sup> The amount shown for Dr. Barber, Mr. Painter and Ms. Schnorr includes 1,351 shares of time-vested restricted stock.

<sup>(4)</sup> The amount shown for Messrs. Fortier and Malvaso includes 1,351 shares of time-vested restricted stock and a presently exercisable option to purchase 924 shares.

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- (5) The amount shown for Mr. Mazurkiewicz includes 1,351 shares of time-vested restricted stock and a presently exercisable option to purchase 5,924 shares.
- (6) The amount shown for Ms. Condame includes 2,855 shares of time-vested restricted stock and 7,194 shares of performance-vested restricted stock (assuming maximum achievement of performance criteria), presently exercisable options to purchase 13,964 shares, and 2,506 shares held by the Employee Stock Ownership Plan of Graham Corporation trustee and allocated to Ms. Condame's account, as to which Ms. Condame has sole voting power but no dispositive power, except in limited circumstances.
- (7) The amount shown for Mr. Glajch includes 6,540 shares of time-vested restricted stock and 16,404 shares of performance-vested restricted stock (assuming maximum achievement of performance criteria), and presently exercisable options to purchase 8,880 shares.

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- (8) Mr. Lines is also a Director.
- (9) The amount shown for Mr. Lines includes 13,633 shares of time-vested restricted stock and 32,918 shares of performance-vested restricted stock (assuming maximum achievement of performance criteria), presently exercisable options to purchase 18,492 shares, and 5,570 shares held by the Employee Stock Ownership Plan of Graham Corporation trustee and allocated to Mr. Lines account, as to which Mr. Lines has sole voting power but no dispositive power, except in limited circumstances.
- (10) The amount shown for Mr. Smith includes 5,767 shares of time-vested restricted stock and 14,374 shares of performance-vested restricted stock (assuming maximum achievement of performance criteria), and presently exercisable options to purchase 13,862 shares.
- (11) See the other footnotes to this table. The amount shown includes 28,795 shares of time-vested restricted stock, 70,890 shares of performance-vested restricted stock (assuming maximum achievement of performance criteria), presently exercisable options to purchase 62,970 shares, and 8,076 shares allocated to the executive officers under the Employee Stock Ownership Plan, as to which the executive officers may exercise voting power, but not dispositive power, except in limited circumstances.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our Directors and officers to file with the Securities and Exchange Commission reports of ownership and changes in ownership of our common stock. Based solely on the written representations of our Directors and officers and copies of the reports that they have filed with the Securities and Exchange Commission, we believe that during fiscal year 2016 all of our Directors and officers timely complied with the filing requirements of Section 16(a).

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**2017 ANNUAL MEETING OF STOCKHOLDERS**

**Proposals Submitted for Inclusion in Our Proxy Materials**

We will include in our proxy materials for our 2017 annual meeting of stockholders any stockholder proposals that comply with Rule 14a-8 under the Exchange Act. Among other things, Rule 14a-8 requires that we receive such proposals not less than 120 days prior to the one-year anniversary of this proxy statement, or February 13, 2017. If the proposal is in compliance with all of the requirements set forth in Rule 14a-8 under the Exchange Act, we will include the stockholder proposal in our proxy statement and place it on the form of proxy issued for the 2017 annual meeting. Stockholder proposals submitted for inclusion in our proxy materials should be mailed to the following address: Graham Corporation, Attention: Corporate Secretary, 20 Florence Avenue, Batavia, New York 14020.

**Stockholder Nominations of Directors**

Pursuant to our amended and restated by-laws, no nominations for Directors shall be acted upon at the annual meeting except for those made by the Nominating and Corporate Governance Committee and those made by stockholders of record upon timely notice in writing to the our Corporate Secretary. To be considered timely, notice must be received by us no earlier than 120 days and no later than 90 days prior to the one-year anniversary of the previous year's annual meeting. Thus, for the 2017 annual meeting of stockholders, we must receive the notice between March 30, 2017 and April 29, 2017. The notice must contain all information, including the completed questionnaire, provided for in our by-laws. Stockholder notice of nominations for Directors should be mailed to the following address: Graham Corporation, Attention: Corporate Secretary, 20 Florence Avenue, Batavia, New York 14020. You may obtain a copy of our by-laws by writing to the Corporate Secretary at the address above.

**Other Meeting Business**

Pursuant to our amended and restated by-laws, items of business that are proposed outside of the process pursuant to Rule 14a-8 under the Exchange Act as described above, may properly be brought before the 2017 annual meeting of stockholders only if we receive notice of such business no earlier than 120 days and no later than 90 days prior to the one-year anniversary of our 2016 annual meeting. Thus, for the 2017 annual meeting of stockholders, we must receive notice of business that is not submitted for inclusion in our proxy materials between March 30, 2017 and April 29, 2017. The notice must be in accordance with and contain all information provided for in the bylaws and such business must be a proper matter for stockholder action under the General Corporation Law of Delaware. We will not permit business that does not comply with the foregoing notice requirement to be brought before the 2017 annual meeting of stockholders. Stockholder business that is not submitted for inclusion in our proxy statement pursuant to Rule 14a-8 should be mailed to the following address: Graham Corporation, Attention: Corporate Secretary, 20 Florence Avenue, Batavia, New York 14020. You may obtain a copy of our by-laws by writing to the Corporate Secretary at the address above.

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**OTHER MATTERS**

Our Board of Directors does not know of any other matters that may be presented for action at the 2016 annual meeting. Should any other matters come before the annual meeting, however, the persons named as proxies will have discretionary authority to vote all proxies 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 13, 2016

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**APPENDIX A**  
**AMENDED AND RESTATED**  
**2000 GRAHAM CORPORATION INCENTIVE PLAN**  
**TO INCREASE SHAREHOLDER VALUE**

Effective July 28, 2016

**Section 1. Purpose.**

The purpose of the Plan is to increase stockholder value by promoting growth and profitability of the Corporation; to provide certain directors and key executives of the Corporation with an incentive to achieve corporate objectives; to attract and retain directors and key executives of outstanding competence; and to provide such directors and key executives with an equity interest in the Corporation.

**Section 2. Definitions.**

Unless the context clearly indicates otherwise, the following terms, when used in the Plan, shall have the meanings set forth in this Section 2:

- (a) Award shall mean any Option, Stock Award, Restricted Stock Units or Qualified Performance Award granted under the Plan to a Participant by the Committee pursuant to such terms, conditions, restrictions and/or limitations, if any, as the Committee may establish by the Award Agreement or otherwise.
- (b) Award Agreement shall mean the written document establishing the terms, conditions, restrictions and limitations of an Award in addition to those established by the Plan and by the Committee's exercise of its administrative powers.
- (c) Board shall mean the Board of Directors of the Corporation.
- (d) CEO shall mean the Chief Executive Officer of the Corporation.
- (e) Change in Control shall mean any of the following events:
  - (i) the reorganization, merger or consolidation of Graham Corporation with one or more other Persons, other than a transaction following which at least 51% of the ownership interests of the institution resulting from such transaction are owned by Persons who, immediately prior to such transaction, owned at least 51% of the outstanding voting share of Graham Corporation;
  - (ii) the acquisition of more than 25% of the voting shares of Graham Corporation by any Person or Persons acting in concert;

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- (iii) the acquisition of substantially all of the assets of Graham Corporation by any Person or Persons acting in concert; or
  
- (iv) the occurrence of any event if, immediately following such event, at least 50% of the members of the Board do not belong to any of the following groups:
  - (A) *individuals who were members of the Board on July 28, 2016; or*
  
  - (B) *individuals who first became members of the Board after July 28, 2016 either:*
    - (1) upon election to serve as a member of the Board by the affirmative vote of a majority of the members of the Board, or a nominating committee thereof, in office at the time of such first election; or
  
    - (2) upon election by the stockholders of Graham Corporation to serve as a member of the Board, but only if nominated for election by affirmative vote of a majority of the members of the Board, or a nominating committee thereof, in office at the time of such first nomination;

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provided, however, that no benefit conferred under the Plan, or under the terms of any Award granted under the Plan, solely as a result of the occurrence of a Change in Control of Graham Corporation shall be conferred upon any Person, or any member of the group of Persons, who makes an acquisition described in Section 2(e)(ii) and for purposes of this provision, the term Change in Control as applied to such a Person shall not include any acquisition made by such group of Persons of which he is a member.

With respect to any Award that constitutes a nonqualified deferred compensation plan within the meaning of Section 409A and provides for accelerated payment in connection with a change in control (whether or not in conjunction with a termination of employment), Change in Control for purposes of such accelerated payment shall mean a Change in Control as described above in this Section 2(e) that is also a change in the ownership of a corporation, a change in the effective control of a corporation or a change in the ownership of a substantial portion of a corporation within the meaning of Section 409A.

- (f) Code shall mean the Internal Revenue Code of 1986, as it may be amended from time to time, including the regulations thereunder and any successor provisions and the regulations thereto.
- (g) Committee shall mean the Compensation Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan; provided that the Committee shall consist of not less than two Directors, and each member shall be a Non-Employee Director, an Outside Director, and a Director meeting the independence requirements for compensation committee members under the rules and regulations of the Exchange. The Committee shall be appointed by and serve at the pleasure of the Board.
- (h) Corporation shall mean Graham Corporation, a Delaware corporation.
- (i) Director shall mean a member of the Board. For purposes of qualifying as an Eligible Individual, Director shall also include a member of the board of directors of a Subsidiary.
- (j) Disability shall mean permanent and total disability as defined by Section 22(e)(3) of the Code. Notwithstanding the foregoing, to the extent required for exemption from or compliance with Section 409A, Disability shall have the meaning given such term by Section 409A, which generally provides that Disability of a Participant means either (i) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) the Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the employees of the Participant's employer.
- (k) Effective Date shall mean July 28, 2016.
- (l) Eligible Individual shall mean any individual who is an Employee or non-Employee Director of the Corporation or a Subsidiary.
- (m) Employee shall mean any person employed by the Corporation or its Subsidiaries on a full or part-time basis, including Directors who are otherwise employed by the Corporation or its Subsidiaries.
- (n) Exchange shall mean the New York Stock Exchange or such other principal securities market on which the Stock is traded.

- (o) Exchange Act shall mean the Securities Exchange Act of 1934, as it may be amended from time to time, including the rules thereunder and any successor provisions and the rules thereto.
  
- (p) Exercise Price shall mean the price per share at which Stock subject to an Option may be purchased upon exercise of the Option, determined in accordance with Section 6.

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- (q) Fair Market Value shall mean, with respect to a share of Stock on a specified date, for purposes of Section 6(b)(i), the per share closing price of the Stock reported by the Exchange on such date, or, if there is no such reported closing price on such date, then the per share closing price of the Stock reported by the Exchange on the last previous day on which such closing price was reported, or, if the Stock is not traded on an Exchange, the Fair Market Value determined by the Committee in accordance with applicable law. The Fair Market Value of a share of Stock for other purposes, and the Fair Market Value of property other than Stock, shall be the market value of such property as determined by the Committee using such methods or procedures as it shall establish from time to time.
  
- (r) ISO shall mean an Option granted pursuant to the Plan to purchase shares of Stock that is intended to qualify as an incentive stock option under Section 422 of the Code.
  
- (s) NQSO shall mean an Option granted pursuant to the Plan to purchase shares of Stock that is not intended to qualify as an ISO or that is granted to a non-Employee Director.
  
- (t) Non-Employee Director shall mean a Non-Employee Director within the meaning of Rule 16b-3 under the Exchange Act.
  
- (u) Options shall mean an award granted pursuant to Section 6 evidencing the right to acquire shares of Stock for the stated Exercise Price, and shall include both NQSOs and ISOs.
  
- (v) Outside Director shall mean an outside director within the meaning of Section 162(m) of the Code.
  
- (w) Participant shall mean any Eligible Individual who receives an Award under the Plan.
  
- (x) Performance Formula shall mean, for a Performance Period, the one or more objective formulas (expressed as a percentage or otherwise) applied against the relevant Performance Objective(s) to determine, with regards to the Qualified Performance Award of a particular Participant, whether all, some portion but less than all, or none of the Qualified Performance Award has been earned for the Performance Period.
  
- (y) Performance Objectives shall mean the performance objectives established by the Committee pursuant to the Plan for Qualified Performance Awards. Performance Objectives may be measured on an absolute or relative basis. Performance Objectives shall be limited to specified levels of or increases in the Corporation's or Subsidiary's return on equity, diluted earnings per share, total earnings, earnings growth, return on capital, return on assets, earnings before interest and taxes, pre-tax operating earnings adjusted for depreciation and amortization, sales, sales growth, gross margin return on investment, increase in the fair market value of the Stock, share price (including but not limited to, growth measures and total stockholder return), net earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on investment (which equals net cash flow divided by total capital), inventory turns, financial return ratios, total return to shareholders, market share, earnings measures/ratios, economic value added (EVA), balance sheet measurements such as receivable turnover, internal rate of return, increase in net present value or expense targets, working capital measurements (such as average working capital divided by sales), customer satisfaction surveys and productivity. The Committee may provide in an Award Agreement that the Performance Objectives for the Award be adjusted to include or exclude the impact of items such as realized investment gains and losses, extraordinary, unusual, non-recurring or infrequently recurring items, asset write-downs, effects of accounting changes, currency fluctuations, acquisitions, divestitures, reserve-strengthening and other non-operating items.
  
- (z)

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Performance Period shall mean the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Objectives will be measured for the purpose of determining a Participant's right to and the payment of a Qualified Performance Award.

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- (aa) Person shall mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization.
- (bb) Plan shall mean this Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, as set forth herein and as amended from time to time.
- (cc) Qualified Performance Award shall mean an award granted pursuant to Section 9.
- (dd) Restricted Stock Unit shall mean an award granted pursuant to Section 8 evidencing the right to receive shares of Stock (or a cash payment equal to the Fair Market Value of such shares of Stock) at some future date.
- (ee) Securities Act shall mean the Securities Act of 1933, as it may be amended from time to time, including the rules thereunder and any successor provisions and the rules thereto.
- (ff) Stock shall mean shares of the common stock of the Corporation, par value \$0.10 per share.
- (gg) Stock Award shall mean an award of shares of Stock or restricted shares of Stock granted pursuant to Section 7.
- (hh) Subsidiary shall mean any corporation, limited liability company, partnership, joint venture or similar entity in which the Corporation owns, directly or indirectly, an equity interest possessing more than 50% of the combined voting power of the total outstanding equity interests of such entity; provided that for an ISO, the term Subsidiary shall only mean a subsidiary corporation of the Corporation within the meaning of Section 424(f) of the Code.
- (ii) Substitute Awards shall mean Awards granted under the Plan in assumption of, or in substitution or exchange for, outstanding awards previously granted by a company acquired by the Corporation or any Subsidiary or with which the Corporation or any Subsidiary combines.
- (jj) Ten Percent Stockholder shall mean any person who, as of the date of grant of an ISO, owns (or is deemed to own within the meaning of Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power or value of all classes of stock of the Corporation or of any Subsidiary.

**Section 3. Shares of Stock Subject to the Plan.**

- (a) In General. The maximum number of shares of Stock which shall be available for the grant or issuance of Awards under the Plan (including ISOs) during its term shall not exceed 1,375,000; provided, however, that no more than 467,432 shares of Stock may be used for Awards other than Options. Such amounts shall be subject to adjustment as provided in Section 3(b). Any shares of Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares shall be available again for grant under the Plan. Except for expired, forfeited or cancelled shares, the Plan is intended to restrict the recycling of shares of Stock back into the Plan; this means that shares of Stock exchanged or withheld to pay the aggregate Exercise Price of an Option or to satisfy tax withholding obligations with respect to an Award count against the numerical limits of the Plan. The shares of Stock available for issuance under the Plan may be authorized and unissued shares or treasury shares, including shares purchased in open market or private

transactions.

- (b) Adjustment Upon Changes in Capitalization. In the event of any reclassification, recapitalization, merger, consolidation, reorganization, issuance of warrants, rights or debentures, stock dividend, stock split or reverse stock split, cash dividend, property dividend, combination or exchange of shares, repurchase of shares or any other change in corporate structure which in the judgment of the Committee materially affects the value of shares, then the Committee shall determine the substitutions or adjustments to the maximum number of shares available for the grant or

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issuance of Awards under the Plan pursuant to Section 3(a), the number and class of shares and the Exercise Price set forth in any Award theretofore granted, the limits in Section 5(c), or any other affected terms of an Award or the Plan as the Committee, in its sole discretion and without liability to any person, deems equitable or appropriate. In making an adjustment to an Award pursuant to this Section 3(b), unless the Committee determines another adjustment to be in the best interests of the Corporation or its Subsidiaries, the Committee shall attempt to make the adjustments as follows: (i) for an ISO, in a manner that would not cause the ISO to fail to qualify as an incentive stock option under Section 422 of the Code; (ii) for an NQSO, in a manner that would not be treated as a modification of the NQSO under Section 409A; (iii) for any Award, in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act for such Award; and (iv) for a Qualified Performance Award, in a manner that would not cause the Corporation to be denied a tax deduction for the income recognized by the Participant under such Qualified Performance Award on account of Section 162(m) of the Code.

- (c) Substitute Awards. The number of shares of Stock covered by a Substitute Award or to which a Substitute Award relates shall not be counted against the maximum number of shares of Stock available for the grant or issuance of Awards under the Plan.

**Section 4. Administration of the Plan.**

- (a) In General. The Committee shall have total and exclusive responsibility to control, operate, manage and administer the Plan in accordance with its terms. The Committee may act only by a majority of its members. Any determination of the Committee may be made, without a meeting, by a writing or writings signed by all of the members of the Committee. The decisions of the Committee and its actions with respect to the Plan shall be final, binding and conclusive upon all persons having or claiming to have any right or interest in or under the Plan.
- (b) Authority. The Committee shall have all the authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan. Without limiting the generality of the preceding sentence, the Committee shall have the exclusive right to:
  - (i) determine eligibility for participation in the Plan;
  - (ii) select the Eligible Individuals and determine the type of Awards to be made to Eligible Individuals, the number of shares of Stock subject to Awards and the terms, conditions, restrictions and limitations of the Awards, including, but not by way of limitation, restrictions on the transferability of Awards and conditions with respect to continued employment or performance criteria;
  - (iii) interpret the Plan or any Award Agreement;
  - (iv) construe any ambiguous provision, correct any default, supply any omission, and reconcile any inconsistency of the Plan or an Award Agreement;
  - (v) to the extent permitted under the Plan, grant waivers of Plan terms, conditions, restrictions and limitations;
  - (vi) promulgate rules and regulations regarding treatment of Awards of an Eligible Individual under the Plan in the event of such Participant's death, Disability, retirement, termination from the Corporation or breach of

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agreement by the Participant, or in the event of a Change in Control of the Corporation; provided that:

- (A) *any acceleration of the exercisability, vesting or payment of, or the lapse of restrictions or deemed satisfaction of any performance objective with respect to, an Award in connection with a Change in Control may occur only if (1) the*

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*Change in Control occurs and (2) either the employment or service of the Participant is terminated (i.e., double-trigger ) or the acquirer does not agree to the assumption or substitution of outstanding Awards; and*

- (B) *with respect to any Award that is earned or vests based upon achievement of one or more performance objectives, unless otherwise required by an employment agreement or other agreement, the amount deemed earned or vested in connection with the Change in Control or associated termination of employment or services shall be based upon the level of actual achievement of the performance objectives and/or the period of time elapsed in the performance period, each as of the applicable date;*
- (vii) subject to Section 4(d), grant Awards in replacement of Awards previously granted under the Plan or any other executive compensation plan of the Corporation;
- (viii) determine the terms and provisions of any Award Agreements entered into hereunder, including, a provision in an Award Agreement that requires, upon the occurrence of a Change in Control, the cancellation for cash of outstanding Awards or the issuance of comparable replacement Awards granted by the successor entity in such event; and
- (ix) take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan, including making factual determinations.
- (c) **Delegation.** Subject to applicable law, the Committee may allocate all or any portion of its responsibilities and powers under the Plan to any one or more of its members, the CEO or other senior members of management as the Committee deems appropriate and may delegate all or any part of its responsibilities and powers to any such person or persons, provided that any such allocation or delegation be in writing; provided, however, that only the Committee, or other committee consisting of two or more Non-Employee Directors may select and grant Awards to Eligible Individuals who are subject to Section 16 of the Exchange Act, and provided further, that only the Committee may grant Qualified Performance Awards. The Committee may revoke any such allocation or delegation at any time for any reason with or without prior notice.
- (d) **Repricing.** Notwithstanding any provision of the Plan, except for adjustments pursuant to Section 3(b), the Committee shall not reprice, adjust or amend the Exercise Price of Options previously awarded to any Participant, whether through amendment, cancellation and replacement grant, or any other means, unless such action is approved by the stockholders of the Corporation. For purposes of the Plan, the term reprice shall mean: (i) the reduction, directly or indirectly, in the Exercise Price of an outstanding Option by amendment, cancellation or substitution; (ii) any action that is treated as a repricing under United States generally accepted accounting principles; (iii) cancelling an Option in exchange for another Option or other equity security (unless the cancellation and exchange occurs in connection with a merger, acquisition, or similar transaction); and (iv) any other action that is treated as a repricing by the rules or regulations of the Exchange. In addition, notwithstanding any other provision in the Plan to the contrary, an Option may not be surrendered in consideration of or exchanged for cash, other Awards, or a new Option having an Exercise Price below that of the Option which was surrendered or exchanged, unless the exchange occurs in connection with a merger, acquisition, or similar transaction, or such action is approved by the stockholders of the Corporation. Any amendment or repeal of this Section 4(d) shall require the approval of the stockholders of the Corporation.

**Section 5. Awards.**

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- (a) Eligibility. All Employees and non-Employee Directors are eligible to participate in the Plan; provided, however, only Employees are eligible to receive ISOs. The Committee shall determine

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and designate from time to time those Employees and non-Employee Directors who are to be granted Awards, the type of each Award granted and the number of shares of Stock subject to each such Award.

- (b) In General. Awards may, at the Committee's sole discretion, be granted in the form of Options pursuant to Section 6, Stock Awards pursuant to Section 7, Restricted Stock Units pursuant to Section 8, Qualified Performance Awards pursuant to Section 9 or a combination thereof. Each Award shall be subject to the terms, conditions, restrictions and limitations of the Plan and the Award Agreement for such Award. Awards under a particular Section of the Plan need not be uniform and Awards under two or more Sections may be combined into a single Award Agreement. Any combination of Awards may be granted at one time and on more than one occasion to the same Eligible Individual.
- (c) Award Limitation. Subject to adjustment as provided by Section 3(b), and notwithstanding any provision contained in the Plan to the contrary:
- (i) the maximum number of shares of Stock for which Awards may be granted to any Participant during a calendar year is 60,000;
  - (ii) the maximum aggregate number of shares of Stock for which Awards may be granted to all Participants during any continuous 36-month period is 3% of the Corporation's total number of authorized shares of Stock as of the beginning of such period;
  - (iii) the maximum aggregate number of shares of Stock that may be issued under the Plan upon the exercise of ISOs is 1,375,000;
  - (iv) the aggregate Fair Market Value (determined at the time an ISO is granted) of the Stock with respect to which ISOs are exercisable for the first time by any Employee during any calendar year under all plans of the Corporation and any Subsidiary shall not exceed \$100,000;
  - (v) the maximum Qualified Performance Award payable to any one Participant under the Plan for a calendar year is 60,000 shares of Stock or, in the event the Qualified Performance Award is paid in cash, \$500,000; and
  - (vi) the aggregate grant date fair value of NQSOs, Stock Awards and Restricted Stock Units granted to a non-Employee Director during any calendar year shall not exceed \$50,000, and the total fees paid to a non-Employee Director in cash for services in any calendar year shall not exceed \$100,000.
- (d) Foreign Jurisdictions. With respect to Eligible Individuals who reside or work outside of the United States, the Committee may, in its sole and absolute discretion, amend the terms of the Plan or Awards with respect to such Eligible Individuals in order to conform such terms with the provisions of local law and practice or otherwise as deemed necessary or desirable by the Committee.
- (e) Exclusion from Minimum Vesting and Continued Employment Requirements. Awards granted under Section 6, Section 7 and Section 8 shall be subject to the minimum vesting period and continued employment or service requirement specified for the Award by such Section, as applicable, except that: (i) up to a maximum of five percent (5%) of the maximum number of shares of Stock that may be issued under the Plan pursuant to Section 3(a) may be issued pursuant to Awards granted under Section 6, Section 7 and Section 8 without regard for any minimum exercisability or vesting period

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requirements set forth in such Sections; and (ii) continued employment or service for exercisability or vesting shall not be required as (A) the Committee may determine or permit otherwise in the event of death, Disability, retirement or other termination of a Participant, or, subject to Section 4(b)(vi), in connection with a corporate transaction (which includes but is not limited to a divestiture, spin-off, split-off, asset transfer,

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outsourcing or joint venture formation) (each such event, a Defined Event ), and (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards.

- (f) **Recoupment.** Notwithstanding anything in the Plan or in any Award Agreement to the contrary, the Corporation will be entitled to the extent required by applicable law (including, without limitation, Section 10D of the Exchange Act and any rules promulgated with respect thereto) or Exchange listing conditions, in each case as in effect from time to time, to recoup compensation of whatever kind paid under the Plan by the Corporation at any time.

**Section 6. Stock Options.**

- (a) **In General.** Awards may be granted in the form of Options. Options granted under the Plan may be of two types: ISOs and NQSOs. The Committee shall have the authority and discretion to grant to an Eligible Individual either ISOs, NQSOs, or both, but shall clearly designate the nature of each Option at the time of grant. Only Employees may receive ISOs.
- (b) **Terms of Options.** Subject to the limits in Section 5, if applicable, an Option shall be exercisable in accordance with such terms and conditions and at such times and during such periods as may be determined by the Committee not inconsistent with the terms of the Plan. In addition to any such terms and conditions, the following terms and conditions shall apply to all Options granted under the Plan:
- (i) the Exercise Price of an Option shall be not less than 100% of the Fair Market Value of a share of the Stock on the date such Option is granted, provided, however, that the Exercise Price shall not be less than 110% of such Fair Market Value for any ISO granted to a Ten Percent Stockholder; provided that an Option that is a Substitute Award may be granted with an Exercise Price lower than the Fair Market Value of a share of Stock on the date such Option is granted if such Option is granted in a manner satisfying the provisions of Section 422 of the Code in the case of a Substitute Award for an option that is an ISO, or the provisions of Section 409A in the case of a Substitute Award for an option that is an NQSO;
- (ii) the term of each Option shall be determined by the Committee, provided that no Option shall be exercisable after more than ten years from the date such Option is granted, and provided further that no ISO granted to a Ten Percent Stockholder shall be exercisable after more than five years from the date of grant; and
- (iii) Options shall not vest for at least one year after the date of grant, except as (A) the Committee may determine or permit otherwise in the event of a Defined Event, or (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards.
- (c) **Exercise of Options.** Except as provided in Section 10: (i) no Option granted to an Employee shall be exercised unless at the time of such exercise the Participant is then an Employee; and (ii) no Option granted to a non-Employee Director shall be exercised unless at the time of such exercise the Participant is then a non-Employee Director. Upon exercise, the aggregate Exercise Price of an Option may be paid in cash, by directing the Corporation to withhold shares of Stock issuable pursuant to the exercise of the Option with a Fair Market Value sufficient to pay the aggregate Exercise Price or, to the extent permitted by the Committee, by tendering, by either actual delivery of shares or by attestation, shares of Stock, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting shares of Stock, whether restricted or unrestricted, and may impose such conditions as it deems appropriate on the use of shares of Stock to exercise an Option. Options granted under the Plan may also be exercised by way of a broker-assisted





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stock option exercise program, if any, provided such program is available at the time of the Participant's exercise. Notwithstanding the foregoing or the provision of any Award Agreement, a Participant may not pay the aggregate Exercise Price of an Option using shares of Stock if, in the opinion of counsel to the Corporation there is a substantial likelihood that the use of such form of payment would result in adverse accounting treatment to the Corporation.

**Section 7. Stock Awards.**

- (a) In General. Awards may be granted in the form of Stock Awards; provided, however, that the Committee may grant Stock Awards of unrestricted shares of Stock only to non-Employee Directors and only if made in lieu of cash fees. Subject to the terms of the Plan, Stock Awards shall be granted in such numbers, at such times and subject to such terms as the Committee shall determine.
- (b) Restrictions. Subject to the limits in Section 5, if applicable, the Committee may condition, restrict or limit the grant or vesting of a Stock Award on the achievement of enumerated performance objectives or, on the Employee's or non-Employee Director's continued employment or service to the Corporation or a Subsidiary through a specified period of time, not inconsistent with the terms of the Plan. Except as provided in Section 7(a) with respect to Awards of unrestricted shares of Stock to non-Employee Directors, Stock Awards shall not vest for at least one year after the date of grant, except as (A) the Committee may determine or permit otherwise in the event of a Defined Event, or (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards.
- (c) Performance-Based Stock Awards. In addition to any conditions, restrictions or limits imposed on the grant or vesting of a Stock Award under Section 7(b), the Committee may condition, restrict or limit the grant or vesting of a Stock Award upon the achievement of Performance Objectives established by the Committee in accordance with the applicable provisions of Section 9 regarding Qualified Performance Awards.
- (d) Rights as Stockholders. During the period in which any shares of Stock received pursuant to a Stock Award are subject to any restrictions, the Committee may, in its sole and absolute discretion, deny the Participant to whom such shares have been awarded all or any of the rights of a stockholder with respect to such shares, including, but not by way of limitation, limiting the right to vote such shares or the right to receive dividends on such shares.

**Section 8. Restricted Stock Units.**

- (a) In General. Awards may be granted in the form of Restricted Stock Units in such numbers, at such times and subject to such terms as the Committee shall determine not inconsistent with the terms of the Plan.
- (b) Vesting and Payment. Subject to the limits in Section 5, if applicable, the Committee may condition, restrict or limit the vesting or payment of Restricted Stock Units on the achievement of enumerated performance objectives or, on the Employee's or non-Employee Director's continued employment or service to the Corporation or a Subsidiary through a specified period of time consistent with the terms of the Plan. Restricted Stock Units shall not vest for at least one year after the date of grant, except as (A) the Committee may determine or permit otherwise in the event of a Defined Event, or (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards.
- (c) Performance-Based Restricted Stock Units. In addition to any conditions, restrictions or limits imposed on the vesting and payment of Restricted Stock Units under Section 8(b), the Committee may condition, restrict or limit the vesting or payment of Restricted Stock Units on the achievement of Performance Objectives established by the Committee in

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accordance with the applicable provisions of Section 9 regarding Qualified Performance Awards.

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- (d) **Rights of Holders of Restricted Stock Units.** A Participant receiving Restricted Stock Units shall not possess voting rights, nor the right to receive cash dividends, with respect to such Restricted Stock Units or the shares of Stock underlying such Restricted Stock Units unless and until the vesting of the Restricted Stock Units and the payment to the Participant of shares of Stock.
- (e) **Dividend Equivalents.** If a right to dividend equivalents for Restricted Stock Units is included in the Award Agreement, then dividend equivalents in an amount equal to any cash dividends declared and paid with respect to the shares of Stock shall be paid to the Participant at the time specified in the Award Agreement.

**Section 9. Qualified Performance Awards.**

- (a) **In General.** Awards may be granted in the form of Qualified Performance Awards, which are intended to be qualified performance-based compensation within the meaning of Section 162(m) of the Code. A Qualified Performance Award granted under the Plan may be payable in cash or in shares of Stock (including, without limitation, restricted shares of Stock), as determined by the Committee not inconsistent with the terms of the Plan.
- (b) **Terms.** Qualified Performance Awards shall, to the extent required by Section 162(m) of the Code, be conditioned solely on the achievement of one or more objective Performance Objectives, and such Performance Objectives shall be established by the Committee within the first 90 days of a Performance Period (or, if longer, within the maximum period allowed under Section 162(m) of the Code), and shall otherwise comply with the requirements of Section 162(m) of the Code for qualified performance-based compensation. Subject to the terms of the Plan and the applicable Award Agreement, the Performance Objectives to be achieved during any Performance Period, the Performance Formula, the length of any Performance Period, the amount of any Qualified Performance Award granted, the amount of any payment or transfer to be made pursuant to any Qualified Performance Award and any other terms and conditions of any Qualified Performance Award shall be determined by the Committee and set forth in writing.
- (c) **Payment of Qualified Performance Awards.**
  - (i) ***Limitations.*** Unless otherwise provided in the relevant Award Agreement, a Participant must be employed by the Corporation on the last day of a Performance Period to be eligible for a Qualified Performance Award for such Performance Period. A Participant shall be eligible to receive a Qualified Performance Award for a Performance Period only to the extent that: (1) the Performance Objectives for such period are achieved; and (2) the Performance Formula as applied against such Performance Objectives determines that all or some portion of such Participant's Qualified Performance Award has been earned for the Performance Period.
  - (ii) ***Certification.*** Following the completion of a Performance Period, the Committee shall meet to review and certify in writing whether, and to what extent, the Performance Objectives for the Performance Period have been achieved and, if so, to also calculate and certify in writing the amount of the Qualified Performance Awards earned for the period based upon the Performance Formula. The Committee shall then determine the actual size of each Participant's Qualified Performance Award for the Performance Period and, in so doing, may apply negative discretion, if and when it deems appropriate.
  - (iii) ***Timing of Award Payments.*** Unless otherwise provided in the relevant Award Agreement, subject to the limits in Section 5 and subject to Section 12(j), Qualified Performance Awards for a Performance Period shall be paid to Participants following completion of the certifications required by Section 9(c)(ii), and before March 15 of the calendar year following the calendar year in which the Performance Period ends.



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**Section 10. Payment of Awards.**

- (a) **In General.** Absent a Plan or Award Agreement provision to the contrary, payment of Awards may, at the discretion of the Committee, be made in cash, Stock, a combination of cash and Stock, or any other form of property as the Committee shall determine. In addition, payment of Awards may include such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, in the case of Awards paid in the form of Stock, restrictions on transfer and forfeiture provisions; provided, however, such terms, conditions, restrictions and/or limitations are not inconsistent with the Plan.
- (b) **Withholding.** The Corporation shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the minimum amount of all applicable income and employment taxes required by law to be withheld (or such higher amount that would not have an adverse accounting effect) with respect to such payment or may require the Participant to pay to the Corporation such tax prior to and as a condition of the making of such payment. The Committee may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by withholding from any payment of shares of Stock due as a result of such Award, or by permitting the Participant to deliver to the Corporation, shares of Stock having a Fair Market Value equal to the minimum amount of such required withholding taxes (or such other amount that would not have an adverse accounting effect). Notwithstanding the foregoing or the provisions of any Award Agreement, a Participant may not pay the amount of taxes required by law to be withheld using shares of Stock if, in the opinion of counsel to the Corporation there is a substantial likelihood that the use of such form of payment would result in adverse accounting treatment to the Corporation.

**Section 11. Effect of Termination of Relationship with the Corporation.**

- (a) **Death.** Unless otherwise decided by the Committee and provided in an Award Agreement, and subject to Section 12(j), upon a Participant's death prior to the complete exercise or vesting of an Award granted to him or her under the Plan, then:
- (i) the vested portion of any remaining Options held by the Participant at the time of his or her death may be exercised in whole or in part within one year after the date of the Participant's death and then only:
- (A) *by the beneficiary designated by the Participant in a writing submitted to the Corporation prior to the Participant's death, or in the absence of same, by the Participant's estate or by or on behalf of such person or persons to whom the Participant's rights pass under his or her will or the laws of descent and distribution;*
- (B) *to the extent that the Participant would have been entitled to exercise the Option at the date of his or her death and subject to all of the conditions on exercise imposed by the Plan and the Award Agreement; and*
- (C) *prior to the expiration of the term of the Option.*
- (ii) any unvested restricted shares of a Stock Award and any unvested Restricted Stock Units held by the Participant at the time of his or her death shall be forfeited.

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- (b) **Disability.** Unless otherwise decided by the Committee and provided in an Award Agreement, and subject to Section 12(j), upon a Participant's termination of employment or service due to Disability prior to the complete exercise or vesting of an Award granted to him or her under the Plan, then:
- (i) the vested portion of any remaining Options held by the Participant at the time of his or her termination of employment or service due to Disability may be exercised in whole or in part within one year after the date of the Participant's termination of employment or service due to Disability and then only:
- (A) *by the Participant or his or her legal representative;*
- (B) *to the extent that the Participant would have been entitled to exercise the Option on the date of his or her termination of employment or service due to Disability, subject to all of the conditions on exercise imposed by the Plan and the Award Agreement; and*
- (C) *prior to the expiration of the term of the Option.*
- (ii) any unvested restricted shares of a Stock Award and any unvested Restricted Stock Units held by the Participant at the time of his or her termination of employment or service due to Disability shall be forfeited.
- (c) **Other Termination.** Unless otherwise decided by the Committee and provided in an Award Agreement, and subject to Section 12(j), upon the termination of a Participant's employment or term of directorship with the Corporation or a Subsidiary for a reason other than the Participant's death or termination of employment or service due to Disability and prior to the complete exercise or vesting of an Award granted to him or her under the Plan, then:
- (i) the vested portion of any remaining Options held by the Participant may be exercised in whole or in part within three months after the date of the Participant's termination and then only:
- (A) *by the Participant or his or her legal representative;*
- (B) *to the extent that the Participant would have been entitled to exercise the Option on the date of his or her termination, subject to all of the conditions on exercise imposed by the Plan and the Award Agreement; and*
- (C) *prior to the expiration of the term of the Option.*
- (ii) any unvested restricted shares of a Stock Award and any unvested Restricted Stock Units held by the Participant at the time of his or her other termination shall be forfeited.
- (d) **Treatment of Intra-Corporation Transfers.** In the case of an Employee, the transfer between the Corporation and any Subsidiary shall not be deemed to be a termination of employment or directorship for purposes of this Section 11.

**Section 12. General Provisions.**

- (a) Award Agreement. Each Award grant shall be evidenced by a written Award Agreement containing such terms and conditions, not inconsistent with the Plan, as the Committee shall approve. The terms and provisions of Award Agreements may vary among Participants and among different Awards granted to the same Participant. Any Stock Award granted under the Plan may be evidenced in such manner as the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates, with such restrictive legends and/or stop transfer instructions as the Committee deems appropriate.

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- (b) Substitute Awards. Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards for which they are granted in substitution.
  
- (c) No Right to Further Awards or Continued Service. The grant of an Award in any year shall not give the Participant any right to similar grants in future years or any right to continue such Participant's employment or other service relationship with the Corporation or its Subsidiaries. All Participants shall remain subject to discharge to the same extent as if the Plan were not in effect.
  
- (d) No Right, Title, or Interest in Corporation Assets. No Participant shall have any rights as a stockholder as a result of participation in the Plan until the date of issuance of a stock certificate in his or her name or the entry on his or her behalf of an uncertificated book position on the records of the Corporation's transfer agent and registrar for such Stock or other instrument of ownership, if any, and, in the case of restricted shares of Stock, such rights are granted to the Participant under the Plan. To the extent any person acquires a right to receive payments from the Corporation under the Plan, such rights shall be no greater than the rights of an unsecured creditor of the Corporation and the Participant shall not have any rights in or against any specific assets of the Corporation. All of the Awards granted under the Plan shall be unfunded and the Corporation shall not be required to establish any fund or make any other segregation of assets to assure the payment of any Award. Except as provided in Section 3(b), no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such book entry is made or a stock certificate or other instrument of ownership, if any, is issued.
  
- (e) Nonassignability. No Award or other right under the Plan shall be subject to anticipation, sale, assignment, pledge, encumbrance, or charge except by will or the laws of descent and distribution and an Award shall be exercisable during the Participant's lifetime only by the Participant.
  
- (f) Regulatory Approvals and Listings. Notwithstanding any other provision of the Plan or Award Agreements made pursuant thereto, the Corporation shall not be required to issue or deliver any certificate or certificates for shares of Stock, or make any entry on a Participant's behalf of an uncertificated book position on the records of the Corporation's transfer agent and registrar for the Stock or other instrument of ownership, if any, under the Plan prior to fulfillment of all of the following conditions:
  - (i) the listing, or approval for listing upon notice of issuance, of such shares on the Exchange;
  
  - (ii) any registration or other qualification of such shares under any state or federal law or regulation, or other qualification which the Board shall, in its absolute discretion and upon the advice of counsel, deem necessary or advisable;
  
  - (iii) the obtaining of any other consent approval or permit from any state or federal government agency which the Board shall, in its absolute discretion and upon the advice of counsel, determine to be necessary or advisable; and
  
  - (iv) the execution by the Participant (or the Participant's legal representative) of such written representation that the Committee may in its sole discretion deem necessary or advisable to the effect that the shares then being purchased are being purchased for investment with no present intention of reselling or otherwise disposing of such shares in any manner which may result in a violation of the Securities Act and the placement upon certificates for such shares of an appropriate legend in connection therewith.





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- (g) Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of New York, except as superseded by applicable federal law, without giving effect to its conflicts of law provisions.
  
- (h) Construction of Language. Whenever appropriate in the Plan, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a Section number shall refer to a Section of this Plan unless otherwise indicated.
  
- (i) Headings. The headings of Sections are included solely for convenience of reference. If there is any conflict between such headings and the text of the Plan, the text shall control.
  
- (j) Section 409A. The Awards granted under the Plan are intended to comply with or be exempt from the requirements of Section 409A of the Code, and the official guidance issued thereunder (collectively, Section 409A ), and the Plan and Award Agreements will be interpreted in a manner consistent with that intent. References to a Participant's termination of employment and similar terms used in the Plan or an Award Agreement mean, to the extent necessary to comply with or be exempt from the requirements of Section 409A, the date that the Participant first incurs a separation from service within the meaning of Section 409A. Notwithstanding anything in the Plan to the contrary, if at the time of a Participant's separation from service, the Participant is a specified employee for purposes of Section 409A, and the payment of an Award as a result of such separation from service is required to be delayed by six months pursuant to Section 409A, then the Corporation will make such payment on the date that is the first day of the seventh month following the Participant's separation from service. Notwithstanding the foregoing, the Corporation and its Subsidiaries make no representations that the Awards or the grant, vesting or payment thereof provided under the Plan or any award Agreement comply with or are exempt from Section 409A, and in no event shall the Corporation or its Subsidiaries be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by a Participant on account of non-compliance with Section 409A.
  
- (k) No Guarantee of Tax Consequences. No person connected with the Plan in any capacity, including, but not limited to, the Corporation and its directors, officers, agents and employees, makes any representation, commitment, or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to the tax treatment of any Award, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.
  
- (l) Amendment or Termination. Subject to the provisions of Section 4(d), the Board may, at any time, alter, amend, suspend, discontinue or terminate the Plan in whole or in part at any time; provided, however, that no such action shall adversely affect the rights of Participants to Awards previously granted hereunder and, provided further, however, that any stockholder approval necessary or desirable in order to comply with tax, securities, or other applicable laws or regulations, including, but not limited to, the listing requirements of the Exchange, shall be obtained in the manner required therein.

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- (m) Notices. Any communication required or permitted to be given under the Plan, including any notice, direction, designation, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

- (i) If to the Corporation:

Graham Corporation

20 Florence Avenue

Batavia, New York 14020

Attention: Chief Financial Officer

- (ii) If to a Participant, to the Participant's address as shown in the Corporation's personnel records.

- (n) Electronic Delivery and Signatures. Any reference in the Plan or an Award Agreement to a written document includes without limitation any document delivered electronically or posted on the Corporation's or a Subsidiary's intranet or other shared electronic medium controlled by the Corporation, a Subsidiary or any agent of the Corporation or a Subsidiary. The Committee and any Participant may use facsimile and PDF signatures in signing any Award Agreement, in exercising any Option, or in any other written document in connection with the Plan's administration. The Committee and each Participant are bound by facsimile and PDF signatures, and acknowledge that the other party relies on facsimile and PDF signatures.

- (o) Duration of Plan. The Plan (as amended and restated hereby) was approved by the Board on May 24, 2016, and will become effective on July 28, 2016, upon the date of the approval by the stockholders of the Corporation at the 2016 Annual Meeting of the Stockholders. ISOs may not be granted under the Plan after July 28, 2026, but ISOs theretofore granted may extend beyond that date.

\* \* \* \* \*

Table of Contents**APPENDIX B****EBITDA Reconciliation - Unaudited**

(amounts in thousands)

|                              | Year Ended<br>March 31, |               |
|------------------------------|-------------------------|---------------|
|                              | 2016                    | 2015          |
| <b>Net Income</b>            | \$ 6,131                | 14,735        |
| +Net interest income         | (251)                   | (178)         |
| +Income taxes                | 2,599                   | 7,017         |
| +Depreciation & amortization | 2,435                   | 2,308         |
| <b>EBITDA</b>                | <b>\$ 10,914</b>        | <b>23,882</b> |
| <i>EBITDA margin %</i>       | <i>12.1%</i>            | <i>17.7%</i>  |

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***GRAHAM CORPORATION***

***20 FLORENCE AVENUE***

***BATAVIA, NY 14020***

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time on Wednesday, July 27, 2016 (the day before meeting date). Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time on Wednesday, July 27, 2016 (the day before meeting date). Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

|   |                |                     |                       |  |
|---|----------------|---------------------|-----------------------|--|
| <b>GRAHAM CORPORATION</b>   | <b>For All</b> | <b>Withhold All</b> | <b>For All Except</b> | To withhold authority to vote for any individual nominee(s), mark <b>For All Except</b> and write the number(s) of the nominee(s) on the line below. |
| <b>The Board of Directors recommends you vote FOR both nominees listed.</b> |                |                     |                       |  |

|                          |    |    |    |
|--------------------------|----|----|----|
| 1. Election of Directors | .. | .. | .. |
|--------------------------|----|----|----|

**Nominees:**

- 01) James J. Malvaso
- 02) Jonathan W. Painter

|   |            |                |                |
|---|------------|----------------|----------------|
| <b>The Board of Directors recommends you vote FOR proposals 2, 3 and 4.</b> | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|---|------------|----------------|----------------|

|   |    |    |    |
|---|----|----|----|
| 2. To approve, on an advisory basis, the compensation of our named executive officers.  | .. | .. | .. |
| 3. To approve the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value.  | .. | .. | .. |
| 4. To ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2017. | .. | .. | .. |

**NOTE:** In their discretion, and in accordance with applicable law, the named proxies may vote upon such other matters that may properly come before the meeting or any adjournment or adjournments thereof.

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Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN Date  
WITHIN BOX]

Signature (Joint Owners)

Date

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**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on July 28, 2016:** The Notice and Proxy Statement and Annual Report with Form 10-K are available at

[www.proxyvote.com](http://www.proxyvote.com).

E11657-P80555

**GRAHAM CORPORATION**

**Annual Meeting of Stockholders**

**July 28, 2016 11:00 AM**

**This proxy is solicited by the Board of Directors and each matter to be voted on at the**

**Annual Meeting has been proposed by the Board of Directors of the Company.**

The undersigned hereby appoints James J. Malvaso and James R. Lines, or either of them, each with power of substitution, as proxies to attend the Annual Meeting of Stockholders of Graham Corporation to be held at the Company's principal executive offices located at 20 Florence Avenue, Batavia, New York 14020, on July 28, 2016 at 11:00 a.m., Eastern Time, and any adjournment thereof, and to vote as directed by the undersigned on the reverse side of this proxy, the number of shares the undersigned would be entitled to vote if personally present at such meeting.

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS MADE, IT WILL BE VOTED FOR THE TWO DIRECTOR NOMINEES AND FOR PROPOSALS 2, 3 AND 4.**



**Continued and to be signed on reverse side**

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*[GRAHAM LETTERHEAD]*

*GRAHAM CORPORATION EMPLOYEE BENEFITS COMMITTEE*

June 13, 2016

Dear Plan Accountholder:

The Employee Stock Ownership Plan of Graham Corporation (the *ESOP*) has a related trust (the *ESOP Trust*) which owns common stock of Graham Corporation (*Graham*). GreatBanc Trust Company, as trustee of the ESOP, is a stockholder of Graham and may vote on matters presented for stockholder action at Graham's 2016 Annual Meeting of Stockholders scheduled to be held on July 28, 2016, or at any adjournment of the meeting (the *Annual Meeting*).

The ESOP Trust provides that in casting its vote at the Annual Meeting, the ESOP trustee is to follow directions given by Graham's Employee Benefits Committee (the *Committee*). The Committee in turn follows instructions provided by participants, former participants and beneficiaries of deceased former participants with respect to the Graham common stock allocated to their accounts in the ESOP as of June 3, 2016.

The records for the ESOP indicate that you are among the individuals who may give voting instructions. You may give your instructions by completing and signing the enclosed Confidential Voting Instruction Card (the *Instruction Card*) and returning it in the envelope provided to the Burke Group Inc., which maintains the records for the ESOP. The Instruction Card allows you to give instructions for each matter expected to be presented for stockholder action at the Annual Meeting. The Committee expects the Burke Group Inc. to tabulate the instructions given on a confidential basis and to provide the Committee with only the final results of the tabulation. The final results will be used in directing the ESOP trustee.

The voting of the common stock held by the ESOP Trust is subject to legal requirements under the Employee Retirement Income Security Act of 1974, as amended. The Committee, in consultation with its legal advisors, considers these requirements in establishing voting instruction procedures and directing the ESOP trustee how to vote. The remainder of this letter describes the voting procedures that the Committee expects to follow for the Annual Meeting.

How your voting instructions count depends on whether it was anticipated that the matter being voted upon would be presented for stockholder action at the Annual Meeting; if you had an interest in the ESOP Trust on the record date for the Annual Meeting; and how large your interest was, as follows:

**Anticipated Proposals**

In general, the ESOP trustee will be directed to vote the number of shares of Graham common stock (if any) held by the ESOP Trust and allocated as of June 3, 2016 to your individual account under the ESOP according to the instructions specified on the reverse side of the Instruction Card. The Instruction Card shows the number of shares of Graham common stock allocated to your individual account under the ESOP Trust as of June 3, 2016. If you do not return the Instruction Card by July 21, 2016, the ESOP trustee will be directed to vote the shares allocated to your account in accordance with the percentage of shares voted FOR, AGAINST, ABSTAIN, or WITHHOLD, as the case may be, with respect to shares allocated to the accounts of others in the ESOP.

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**Unanticipated Proposals**

It is possible, although unlikely, that proposals other than those specified on the Instruction Card will be presented for stockholder action at the Annual Meeting. If this should happen, the ESOP trustee will be instructed to vote upon such matters in its discretion, or to cause such matters to be voted upon in the discretion of the individuals named in any proxies executed by it.

Your interest in the ESOP Trust offers you the opportunity to participate in decisions that affect Graham's future, and we encourage you to take advantage of such opportunity. To help you decide how to complete the Instruction Card, enclosed is a copy of the Notice of Annual Meeting and Proxy Statement and a copy of the Annual Report that are being made available or furnished to all holders of Graham common stock in connection with the Annual Meeting. Please complete, sign and return your Instruction Card today. Your instructions are important regardless of the size of your interest in the ESOP Trust.

If you have questions regarding the terms of the ESOP, or how to complete the Instruction Card, please call Jeffrey F. Glajch, Vice President - Finance & Administration and Chief Financial Officer at (585) 343-2216.

Sincerely,

*THE EMPLOYEE BENEFITS COMMITTEE OF*

*GRAHAM CORPORATION*

Enclosures

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GRAHAM CORPORATION

CONFIDENTIAL VOTING INSTRUCTION CARD

**This Instruction is solicited by the Employee Benefits Committee of Graham Corporation**

**as a named fiduciary for the**

**EMPLOYEE STOCK OWNERSHIP PLAN OF GRAHAM CORPORATION (the Plan )**

**for the Annual Meeting of Stockholders to be held on July 28, 2016**

The undersigned Participant, Former Participant or Beneficiary of a deceased Former Participant in the Plan (the Instructor ) hereby provides the voting instructions hereinafter specified to the Employee Benefits Committee of Graham Corporation (the Committee ), which instructions shall be taken into account in directing the Trustee of the Plan to vote, in person, by limited or general power of attorney, or by proxy, the shares and fractional shares of common stock (the Shares ) of Graham Corporation (the Corporation ) which are held by the Trustee of the Plan, in its capacity as Trustee, as of June 3, 2016 (the Record Date ) at the Annual Meeting of Stockholders of the Corporation (the Annual Meeting ) to be held at the at the Corporation s principal executive offices located at 20 Florence Avenue, Batavia, New York 14020, on July 28, 2016 at 11:00 a.m., Eastern Time, or at any adjournment thereof.

As to the nominees and proposals listed on the reverse side hereof and as more particularly described in the accompanying letter from the Committee dated June 13, 2016, the Committee will give voting directions to the Trustee of the Plan. Such directions will reflect the voting instructions provided by the Instructor on this Confidential Voting Instruction Card, in the manner described in such letter from the Committee.

As to other matters that may properly come before the Annual Meeting, the Trustee will be instructed to vote upon such matters in its discretion, or cause such matters to be voted upon in the discretion of the individuals named in any proxies executed by it.

The instructions set forth on the reverse side hereof will be taken into account as described above in directing the Trustee of the Plan how to vote the Shares of the Corporation held by it as of the Record Date in its capacity as Trustee, provided this card is received by the Burke Group Inc. by July 21, 2016.

**Please mark, sign and date this voting instruction card on the reverse side and return it in the enclosed envelope.**

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**If this Confidential Voting Instruction Card is signed but no direction is given, it will be deemed to instruct votes FOR the election of the two director nominees and FOR proposals 2, 3 and 4.**

ESOP COMMON (as of 6/3/16) PLEASE MARK YOUR CHOICE LIKE THIS x IN BLUE OR BLACK INK.

**The Board of Directors recommends a vote FOR the election of the two director nominees and FOR proposals 2, 3 and 4.**

- |   |   |
|---|---|
| <p><b>1. Election of Directors for a three-year term.</b></p> | <p><b>4. To ratify the selection of Deloitte &amp; Touche LLP as the Corporation's independent registered public accounting firm for the fiscal year ending March 31, 2017.</b></p> |
|---|---|

|                     |     |          |  |     |         |         |
|---------------------|-----|----------|--|-----|---------|---------|
|                     | FOR | WITHHOLD |  | FOR | AGAINST | ABSTAIN |
| James J. Malvaso    | ..  | ..       |  |     |         |         |
| Jonathan W. Painter | ..  | ..       |  | ..  | ..      | ..      |

- |  |  |
|--|--|
| <p><b>2. To approve, on an advisory basis, the compensation of the Corporation's named executive officers.</b></p> | <p><b>5. In its discretion, and in accordance with applicable law, the Trustee is authorized to vote upon such other business as may properly come before the Annual Meeting or any adjournment thereof.</b></p> |
|--|--|

|     |         |         |
|-----|---------|---------|
| FOR | AGAINST | ABSTAIN |
| ..  | ..      | ..      |

- 3. To approve the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value.**

|     |         |         |
|-----|---------|---------|
| FOR | AGAINST | ABSTAIN |
| ..  | ..      | ..      |

The undersigned hereby instructs the Committee to direct the Trustee of the Plan to vote in accordance with the voting instructions indicated above and hereby acknowledges receipt of the letter from the Committee dated June 13, 2016, the Notice of Annual Meeting of Stockholders of Graham Corporation and Proxy Statement for the Annual Meeting dated June 13, 2016.

Date

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on July 28, 2016:**

Signature

Signature

The proxy statement and annual report to stockholders are available at:

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

Please sign exactly as your name appears on this voting instruction card. Each owner of shares held jointly must sign this voting instruction card. If signing as attorney, executor, administrator, trustee or guardian, please include your full title. Corporate proxies must be signed by an authorized officer.