

**GRAHAM CORPORATION**  
**CORPORATE GOVERNANCE GUIDELINES**

The Board of Directors of Graham Corporation has adopted the following Corporate Governance Guidelines to promote the effective functioning of the Board of Directors in its governance of Graham's business and corporate operations.

**I. BASIC RESPONSIBILITIES OF DIRECTORS.**

1) Responsibilities and Obligations. The fundamental responsibility of each Director is to promote the best interests of Graham and its stockholders by overseeing the management of Graham's business and corporate operations. In doing so, each Director shall act in accordance with Graham's Code of Business Conduct and Ethics, as such Code applies to Directors.

2) Applicable Law. The Board of Directors shall conduct its operations in accordance with all restrictions and obligations contained in applicable laws, rules and regulations, including but not limited to, the Delaware General Corporation Law, Graham's Certificate of Incorporation and By-laws, the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations of the NYSE AMEX LLC exchange (the "NYSE AMEX Rules"). In accordance with Graham's By-laws, the Board of Directors may exercise its authority through one or more committees.

**II. BOARD COMPOSITION**

1) Size and Classification of Board. Subject to Graham's By-laws, the optimal number of Directors shall be determined by the full Board of Directors from time to time.

2) Selection of New Directors. The Board of Directors is responsible for recommending Director candidates for election by Graham's stockholders and for electing Directors to fill vacancies or newly created Director positions. The Board has delegated the screening and evaluation process for Director candidates to its Corporate Governance and Nominating Committee, which among other things, is charged with identifying individuals qualified to become Directors.

3) Board Membership Criteria. Candidates nominated for election or reelection to the Board of Directors should possess the following qualifications:

- The highest level of personal and professional ethics, integrity and values;
- Knowledge of Graham's industry and markets;
- Experience with businesses and other organizations of comparable size;
- Skills, experience and demonstrated abilities that help meet the current needs of the Board of Directors;
- Practical wisdom, independent thinking and mature judgment;
- A willingness to devote the required time to carrying out the duties and responsibilities of membership on Graham's Board of Directors;

- A commitment to serve on Graham's Board of Directors for several years in order to develop an in-depth knowledge about Graham's business and operations;
- An ability to objectively appraise the performance of Graham's management; and
- Involvement only in activities or interests that do not conflict with the Director's responsibilities to Graham and its stockholders.

4) Independence. The Board of Directors shall have a majority of Directors that meet the applicable independence requirements of the Exchange Act and NYSE AMEX Rules. The Board of Directors shall affirmatively determine the independence of each Director on an annual basis. No director shall qualify as independent unless such Director has no material relationship with Graham (either directly or as a partner, shareholder or officer of an organization that has a relationship with Graham). The basis for any Board of Directors determination that a relationship is not material shall be disclosed in Graham's annual proxy statement.

5) Term Limits. There are no term limits for service on Graham's Board of Directors. The absence of term limits allows Graham to retain Directors who have been able to develop, over a period of time, increasing insight regarding Graham and its operations. Graham maintains a mandatory retirement at age 75 (except, as more particularly set forth in Graham's Bylaws, for Directors who were Directors on or before October 30, 2002).

6) Limit on Number of Other Directorships and Other Commitments. Service as an Graham Director is a significant commitment in terms of both time and responsibility. Accordingly, each Director is encouraged to reasonably limit the number of other public company boards on which he or she serves so that such other directorships do not interfere with his or her service as an effective and active member of the Graham's Board of Directors.

7) Voting for Directors. Any nominee for Director who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall tender his or her resignation for consideration by the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee shall recommend to the Board the action to be taken with respect to such resignation.

### **III. BOARD OPERATION**

1) Meetings. Meetings of the Board of Directors shall be held in accordance with Graham's By-laws.

2) Meeting Agenda. The agenda for each meeting of the Board of Directors shall be set by the Chairman of the Board or otherwise in accordance with Graham's By-laws. Each Director is free to suggest the inclusion of additional items on the agenda. Directors are also expected to attend Graham's Annual Meetings of Stockholders.

3) Meeting Attendance and Preparation. Directors are expected to attend all meetings of the Board of Directors and committees on which they serve, to spend the time needed to review all appropriate materials in advance of such meetings, to participate in such meetings, and to meet as frequently as necessary to properly discharge their responsibilities.

4) Access to Management. Each Director has complete and open access to any member of Graham's management. In addition, members of Graham's senior management routinely attend meetings of the Board of Directors and its committees and, together with other managers, brief the Board of Directors and its committees on particular topics.

5) Access to Independent Advisors. The Board of Directors and each committee, as may be set forth in greater detail in each committee's respective charter, has the authority to engage independent advisors and to approve the compensation and other retention terms regarding the engagement of such advisors.

6) Executive Sessions of Non-Management Directors. Non-management Directors shall meet without Graham management present at regularly scheduled executive sessions and at such other times as they may deem necessary or appropriate.

#### **IV. BOARD COMMITTEES**

1) Types and Responsibilities of Committees. The Board of Directors will at all times have an Audit Committee, a Compensation Committee, a Corporate Governance and Nominating Committee and an Employee Benefits Committee. The Board of Directors may, from time to time, establish or maintain additional committees as it deems necessary or appropriate. Each standing committee shall have a charter that sets forth the purpose and responsibilities of the committee, which charters shall define the roles, duties and responsibilities of each Committee in compliance with all applicable obligations and requirements contained in the Exchange Act and the NYSE AMEX Rules.

2) Assignment of Committee Members. The Board of Directors shall appoint committee members. In making its appointments, the Board of Directors will consider several factors, including:

- Each Director's desires, tenure and subject-matter expertise;
- The need for continuity; and
- Applicable restrictions and obligations which may be contained in Graham's Certificate of Incorporation or Bylaws, the Exchange Act, the NYSE AMEX Rules and other applicable laws, rules and regulations.

3) Independence and Qualification. Each member of the Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Employee Benefits Committee will meet the applicable independence and qualification requirements contained in the Exchange Act and the NYSE AMEX Rules.

#### **V. BOARD COMPENSATION**

1) Board Compensation. The Board of Directors, through the Compensation Committee, will from time to time review and establish the form and amount of compensation paid to non-management Directors, including compensation paid to such Directors for serving on committees. The Compensation Committee of the Board of Directors shall also from time to time review and set principles considered when setting Director compensation. Among the items to be considered when setting Director compensation are:

- The amount of time required by Directors to fulfill their duties;
- The number of meetings which Directors are required to attend;
- The compensation required to retain and recruit Directors of the highest caliber;
- The Board of Directors' performance; and
- Compensation received by directors at comparable companies.

Directors who are also employees of Graham shall receive no additional compensation for serving on the Board of Directors. The Board of Directors recognizes that Directors'

independence may be jeopardized if Directors' fees and other payments exceed what is customary, if Graham makes substantial charitable contributions to organizations with which a Director is affiliated, or if Graham enters into a material consulting arrangement with (or provides other indirect forms of compensation to) a Director or an organization with which a Director is affiliated. The Board of Directors shall critically evaluate each of these matters when determining both the form and amount of director compensation as well as Director independence.

## **VI. OTHER PRACTICES**

1) Management Succession. For business transition and continuity purposes, the Board of Directors shall from time to time review and develop policies and principles regarding Chief Executive Officer and senior executive officer succession planning, which review shall include policies and principles for Chief Executive Officer and senior executive officer selection and performance, as well as policies regarding Chief Executive Officer and senior executive officer succession in the event of emergencies or retirements.

2) Chief Executive Officer's Performance Review. At least annually, the independent Directors shall, in conjunction with the Compensation Committee, review the performance of Graham's Chief Executive Officer.

3) Stock Ownership of Directors. The Board believes that Graham stock ownership by Directors further aligns their interests with the interests of Graham's stockholders. Accordingly, the Board of Directors strongly encourages Director ownership of Graham stock.

4) Orientation of New Directors and Continuing Education. Each new Director shall participate in an orientation program for new Directors. The orientation process will include a comprehensive review of Graham's business and financial performance, as well as the policies, procedures and responsibilities of the Board of Directors and each committee. New Directors shall also meet with Graham management and have the opportunity to visit Graham's facilities. Continuing Directors shall participate in such continuing Director education programs that Graham may facilitate from time to time.

5) Annual Performance Evaluation. The Board of Directors shall review its performance at least annually, to determine whether the Board of Directors is functioning effectively. As part of such review, the Board of Directors as a whole, and the Corporate Governance and Nominating Committee specifically, shall review the adequacy of these Corporate Governance Guidelines (and make revisions where determined to be required) as well as the structure and operations of each committee in order to determine whether such committees are functioning effectively.

6) Develop and Maintain Risk Management Policies. The Board of Directors shall periodically review, either at the Board level or at the appropriate Committee level, Graham's risk management policies and practices.

7) Code of Business Conduct and Ethics. Graham shall maintain a Code of Business Conduct and Ethics. Such Code of Business Conduct and Ethics shall be applicable, as set forth therein, to Directors, officers and employees of Graham. Graham's Code of Business Conduct and Ethics shall be periodically reviewed and revised by the Board of Directors, based on recommendations made by the Audit Committee and/or Corporate Governance and Nominating Committee, to ensure compliance with all applicable laws, rules and regulations, including the Exchange Act and NYSE AMEX Rules and to ensure that Graham's Directors, officers and employees are held to the highest standards of business conduct and ethics.