



**HARDINGE INC.**  
**PROXY STATEMENT and**  
**2008 ANNUAL REPORT to STOCKHOLDERS**

March 31, 2009

Dear Fellow Shareholders:

Hardinge, along with the rest of the manufacturing world, is in the middle of an unprecedented turbulent economic period. Economic cycles are nothing new for the machine tool industry, as we have had to manage through a number of up and down cycles during recent decades. However, what makes this down cycle different is not just the severity, but the sudden onset and rapid rate of decline.

During past down turns our business activity has trended downward at a measured pace; whereas, this current recessionary period seemed to appear overnight. The severe decline in fourth quarter order and sales activity eliminated what had been respectable year-to-date increases in orders and sales of 11% and 3%, respectively, at the end of our third quarter.

More importantly, the current economic environment has made it extraordinarily difficult for manufacturing companies to plan and manage for the future. With an inexhaustible supply of gloomy media reports, the mood of the manufacturing sector has turned, and remains, decidedly negative. Our experience has been that when this kind of uncertainty exists our customers do not spend money. This phenomenon tends to be even more severe for capital goods expenditures, which represent 80% of our volume. Industry research from the primary machine tool trade groups has estimated recent machine order activity in key industrialized countries as much as 75% below prior year's levels.

**Decisive Actions Taken to Date**

In light of what has clearly become the most challenging operating environment our industry has experienced in decades, we believe that it's important for investors to know that we understand the severity of the current global economic climate and that we have moved swiftly and decisively to take appropriate action. We started making adjustments to our workforce and cost structure late last summer when it became apparent that orders were slowing, and we have continued to make further adjustments to match projected global demand levels.

Additional actions have included idling our production facilities for periods of days or weeks. Overtime was discontinued at most of our facilities and a companywide hiring and salary freeze was initiated. All corporate officers, along with certain other employees, were subject to a 5% salary reduction. Worldwide, approximately 300 full-time positions have been eliminated.

These were difficult decisions which impacted the lives of our employees and their families along with the Company; however, they were necessary. It was appropriate and responsible to reduce our production levels and cost structure in order to generate positive cash flow from operations, enabling the Company to remain competitive for the long run.

Although these decisions were painful, and additional actions may be required, the consequences of inaction would have been more painful and could have had a more severe impact. We are actively monitoring economic conditions and the related effects on our business, ready to do what is necessary if it gets worse, while being poised to take advantage of any sustainable improvement.

While we believe that the steps taken to date have appropriately positioned the Company for the current economic environment, we continue to make adjustments, as necessary, to maximize cash flow and improve our competitive position. Our strong balance sheet still allows us to effectively compete and pursue strategic initiatives that are critical to our long-term success.

During past recessionary periods, the Company has generated significant cash flow from operations resulting from steps taken to contract our balance sheet, and I'm confident that we will be able to do so again. At the end of the year, our revolving debt net of cash was less than \$6 million, and based on our current cash flow projections, we believe that we will not have any amounts outstanding under our revolving credit facilities by the end of 2009.

In addition to the companywide workforce reductions, we have curtailed all non-essential sales, general and administrative spending by employing the same type of cost reduction strategy. Printing this report on plain paper, rather than on more costly, glossy paper, is one small example. Our cost reduction initiatives cut across all organizational functions, but with less of an impact on the Company's investment in engineering and product development, one of our primary competitive strengths. We believe that it's essential that we continue to invest in new product development and engineering to insure that we remain well positioned when the global economy rebounds.

### **Looking Ahead**

Despite the significant downturn that we experienced in orders and sales in the fourth quarter, we had a record year for shipments of Kellenberger, Hauser and Tschudin grinding products in 2008. We are fortunate to have ended 2008 with a solid backlog of \$90 million, which along with a steady sales rate for accessories and repair parts will help to mitigate expected lower machine order and sales volume through 2009.

During the second half of 2008 we completed a comprehensive strategic business review. Working through this process provided a more focused vision of what we want the Company to be and how we will get there as we come out of this global recession.

Our competitive strength has been as a manufacturer of machines and accessories that provide the best products for customers who require the ability to achieve very high accuracies on parts made from difficult to machine materials and parts requiring exceptional surface finishes. This has been the focus of our successful past and it will be our future.

We are working on new product introductions in 2009 for each of our grinding, turning, milling and workholding product lines that will provide our customers with the absolute best solution when they have a tough part to make. We remain committed to providing accessories, repair parts and service to our customers who are not yet ready to invest in the latest generation of Hardinge products. Most importantly, we will be here for them when the global economy turns upward.

### **Hardinge's Strengths**

Although the current global economic crisis continues to negatively impact our business, as it is affecting most manufacturing businesses, we are fortunate to have the products, the people and the balance sheet strength to weather this storm and emerge as an even better Company. The decisive actions taken over the past six months have made Hardinge a stronger, leaner and more focused Company.

Our brands have long represented the highest precision, longest lasting, and most reliable machine tools in the world. We believe that Hardinge will be most successful by providing solutions to the segments of the worldwide market where those attributes are required and valued, as we have to thousands of customers over the years. The global Hardinge team is enthusiastic about our clearly defined direction, and confident that it will provide opportunities to better serve our customers, as well as to improve our results. We are prepared for the continued volatility that appears likely over the near term; however we remain excited by the long-term prospects for profitable growth for our Company.

When talking to our employees, I provide the visual representation of our Company as a three legged stool with customers, employees and shareholders as the stabilizing legs. We are focused on the needs of each of these legs, recognizing that a weakness in focus on any one will jeopardize the strength of the whole.

We thank each of our customers for believing in our products, our people and our services as they make investments in their own businesses. We are committed to fulfilling our customers' needs for years to come.

We are fortunate to have a knowledgeable, experienced and committed workforce and it is through the hard work and intelligence of our employees that we will manage our way through these turbulent times. I thank the worldwide employees of the Hardinge Group for their efforts.

And we certainly realize that the current economic environment is as unsettling for investors as it is for the companies who are attempting to navigate through this period. We greatly appreciate the confidence and understanding you have displayed at this time. You can be certain we are looking ahead to a return to a more stable business environment that will enable us to grow our Company and your investment.

Yours truly,

A handwritten signature in black ink, appearing to read "Richard L. Simons". The signature is written in a cursive, flowing style.

Richard L. Simons  
President and Chief Executive Officer