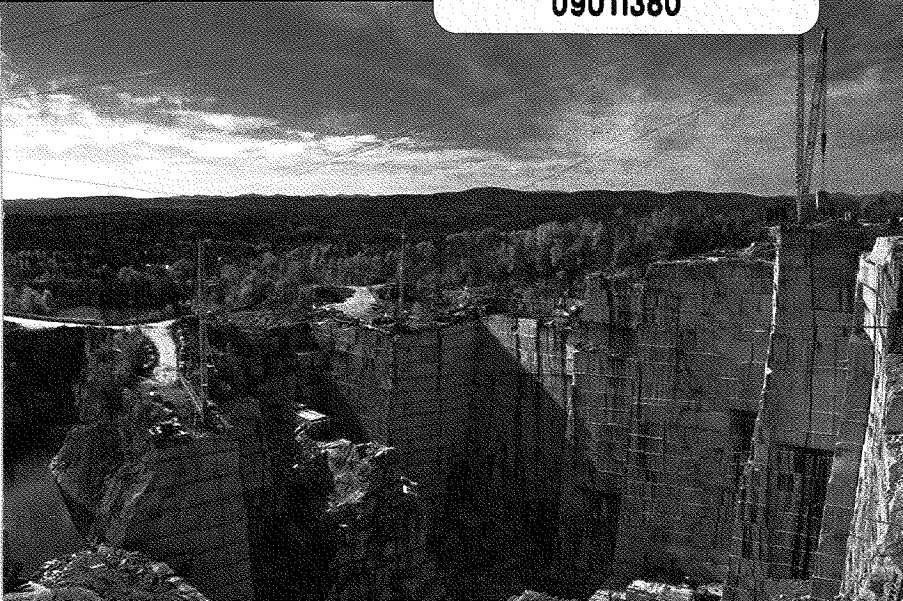


# 2008 ANNUAL REPORT



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*HONORING TRADITION ...*

*EMBRACING CHANGE*

Received SEC

MAY 20 2009

Washington, DC 20549



Rock of Ages Corporation | [www.rockofages.com](http://www.rockofages.com)

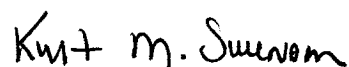
Dear Shareholders:

Since there were two CEO's for the year 2008, we decided that I would write about the first half of the year and pre-2008 items impacting 2008 results and Donald would write about the second half of the year. That allows me to take full responsibility for the losses in the first half of the year as well as the write down of the main office building and the second grade export block inventory. Of course we always do poorly in the first half of the year as a result of the seasonal nature of our business so that is nothing new, although at least we did better than prior years as a result of the sale of retail in 2008, the lower loss in retail and the resultant decreases in corporate overhead and interest.

We have always taken a very conservative approach to the valuation of our assets, and the write down of the second grade export block inventory was made timely and appropriate by the increased inland and ocean freight rates and the world wide economic decline. Our offshore customers are currently not as willing to take the manufacturing recovery risk on second grade blocks in the face of the higher delivery costs and the world's current economic situation. The sale of our retail operations resulted in a substantial reduction of management employees in our Barre, Vermont headquarters allowing us to consolidate offices and put our main office building up for sale or lease. Our investment to expand the building to accommodate the retail management team was a long term investment in what turned out to be a short term period ending at a point in time when the real estate market is slumping. Since these investments were made in years prior to 2008, it is appropriate that I take responsibility for the resulting losses which totaled \$5.3 million.

Now I can turn it over to Donald with a clear conscience so he can explain his considerable efforts in 2008 to offset the total 2008 loss he inherited from me.

Sincerely,

A handwritten signature in black ink that reads "Kurt M. Swenson". The signature is written in a cursive, slightly slanted style.

Kurt M. Swenson

**"Forget about style; worry about results."  
Bobby Orr**

For too many years, Rock of Ages' had not focused enough on the quarry and manufacturing divisions and had not been moving as quickly as we should have been.

With the decision in 2007 to sell our retail operations, our company set out on a new course. We started down a path of simplicity, efficiency, and superior customer service. To get where we wanted to get we had to spend \$3.2 million in capital expenditures in 2008 to consolidate our saw plant with our manufacturing plant in Barre and to make a major investment in acquiring and installing the most technologically advanced wire sawing equipment in our Barre saw plant and in all of our quarries. We also adjusted the size of our work force, looked and re-looked at our processes, reached out to our customers for their critical feedback and ideas, capitalized where we were undercapitalized and began building the employee team that will assure our success long into the future.

How are we doing? We believe the results for 2008 are undeniable proof that we are on the correct path. Despite significant, and unanticipated, increases in energy and freight costs, cash flow from operations was \$2.3m and our return on assets was 5.0%, calculated by excluding the loss from discontinued operations and the non-cash charges for the inventory write-down and impairment of the main office building. This compares to a 0% return on assets in 2007, on a comparable basis. Given that many of the initiatives put in place in 2008 did not get started until the third quarter, we feel we are well positioned to weather the economic storm we now find ourselves in.

Let's look at some details starting with our quarry operations. In 2008 we made the difficult but necessary decision to reduce the Vermont quarry staff by one-third as a way to address our declining sales of Barre Gray granite blocks and to reduce the large inventory we had built over the last few years. In addition, we introduced diamond wire sawing technology to the Bethel, Stanstead and North Carolina quarries, and enhanced the use of diamond wire saws in the Barre and Pennsylvania quarries. We abandoned the deep-hole quarry in Salisbury and began a drive-in operation adjacent to the abandoned site. Due to these changes, we recognized a significant increase in productivity in our Vermont and North Carolina quarries, and a return to profitability in Pennsylvania. Overall, quarry productivity, measured by production per paid man hour, was up 25% from the prior year.

Our quarry sales team returned to the trade show in Moscow, along with the traditional shows in China, Italy and UAE. We see the burgeoning construction business in Russia as an opportunity for us to enter new Asian markets. Thanks in large part to the architectural marketing campaign started in 2007 sales of our quarry products were strong in 2008 and we are optimistic about our quarry sales in 2009.

# ROCK OF AGES CORPORATION

## DIRECTORS

James L. Fox  
*President and Chief Executive Officer*  
*FundQuest, Inc.*

Richard C. Kimball  
*Vice Chairman & Secretary*

Pamela G. Sheiffer  
*President, P. Joyce Associates*

Kurt M. Swenson  
*Chairman*

Charles M. Waite  
*Managing Partner, Chowning Partners*

Frederick E. Webster, Jr.  
*Professor Emeritus,*  
*Amos Tuck School of Business*  
*Administration, Dartmouth College*

Donald Labonte  
*President and Chief Executive Officer*

## EXECUTIVE OFFICERS

Laura A. Plude  
*Vice President*  
*Chief Financial Officer, Treasurer*

Donald Labonte  
*President and Chief Executive Officer*

Kurt M. Swenson  
*Chairman of the Board of Directors*

Paul H. Hutchins  
*Vice President*  
*Administration*

## COMMON STOCK

The Company's Class A Common Stock (symbol ROAC) is traded on The NASDAQ Global Market

## AUDITORS

Grant Thornton LLP  
*Boston, Massachusetts*

## REGISTRAR AND TRANSFER AGENT

American Stock Transfer & Trust Company  
*59 Maiden Lane*  
*New York, NY 10038*

## COUNSEL

Michael B. Tule, Esq.  
*McLane, Graf, Raulerson & Middleton*  
*Manchester, NH*

## FORM 10-K

Copies of the Company's Annual Report on Form 10-K can be obtained from the SEC Website ([www.sec.gov](http://www.sec.gov)), from the Rock of Ages Website ([www.rockofages.com](http://www.rockofages.com)) or from Rock of Ages Corporation, without charge, upon written request to:

*Rock of Ages Corporation*  
*560 Graniteville Road*  
*Graniteville, VT 05654*  
*Attention: Investor Relations*

Turning to our manufacturing operations, the sale of the retail division early in the year turned 2008 into a year of adjustment for the manufacturing division. In addition, the downturn in the economy resulted in lower shipments of our private estate mausoleums. Despite these challenges, we had a good level of profitability and increased our North American distribution network by adding a number of successful monument retailers to our ever-increasing list of retail partners. In short, our pipeline for obtaining orders is much bigger than it has been.

The outlook for the manufacturing division for 2009 is more difficult to forecast with our precision products customers hard hit by the economic downturn, the uncertainty of pre-need mausoleum sales and the uncertainty as to whether the economic conditions will cause consumers to purchase lower quality lower priced memorials or delay the purchase. With our improvements to both our Barre and Canadian plants complete at this point, I am confident we are as efficient as anyone in North America in manufacturing memorials. But one thing I can assure you won't change is that we will continue to change. As President John F. Kennedy said, "Change is the law of life. Those who look only to the past or present are certain to miss the future". We don't intend to miss the future.

We will continue to search for and find the latest quarry and manufacturing technologies and implement them where they make sense. We will leverage our engineering and design resources to drive efficiencies and reduce cost. We will continue to train our managers, cross train our production staff and encourage and welcome creativity from all employees.

We will continually examine our investments to decide on those that will make us a dominant competitor in our marketplaces of choice, and those that will not. We will create an organizational and management structure that is lean, fast, flexible, focused and close to the customer. We will aggressively market our products and service our customers so that "every customer recommends Rock of Ages".

We are confident that our strategy of continual improvement will result in sustainable returns for the company and value for our shareholders. Having started with a quote from Bobby Orr who played defense for the Boston Bruins, let me end with one from the man who once coached the Bruins and was a hall-of-famer himself, Harry Sinden. For the benefit of people who are not ice hockey fans, Bobby Orr was one of the greatest defensemen ever in the game and Wayne Gretzky was one of the greatest forwards that ever played. Sinden said, "The only way you can check Gretzky is when he is standing still singing the national anthem." We will always strive to be "Gretzky" and not the guy standing still.

Sincerely,



Donald M. Labonte

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file Number: 000-29464

SEC  
Mail Processing  
Section

MAY 20 2009

**ROCK OF AGES CORPORATION**  
(Exact name of registrant as specified in its charter)

Washington, DC  
100

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**030153200**  
(I.R.S. Employer  
Identification No.)

**560 GRANITEVILLE ROAD**  
**GRANITEVILLE, VERMONT 05654**  
(Address of principal executive offices and zip code)  
**(802) 476-3121**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

**CLASS A COMMON STOCK, PAR VALUE \$0.01**  
(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

As of June 30, 2008, the aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was \$16,398,062. As of March 20, 2009, there were outstanding 4,677,467 shares of Class A Common Stock and 2,738,596 shares of Class B Common Stock.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of Rock of Ages Corporation ("Rock of Ages" or the "Company") and events to differ materially from those contained in such statements. All statements other than statements of historical fact could be deemed forward-looking statements, and may include projections of revenue, gross profit, expenses, earnings or losses from operations or other financial items; any statements of the plans, strategies and objectives of the Company or its management for future operations; any statements regarding future economic conditions or performance; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions may include material weaknesses in our internal controls over financial reporting, which may affect our ability to accurately report financial results; the challenge of successfully implementing our strategic plan intended to enhance our overall profitability; our ability to maintain compliance with our covenants in our credit facility; our ability to form and maintain strategic alliances with cemeteries, funeral homes and memorial retailers; uncertainties involving quarry yields and demand for Rock of Ages' dimension stone; and other risks and uncertainties described herein, including, but not limited to the items discussed in "Risk Factors That May Affect Future Results" in Item 1A of this report, and that are otherwise described from time to time in Rock of Ages' reports filed with the Securities and Exchange Commission after the date of filing of this report.*

*We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.*



## PART I

### ITEM 1. BUSINESS

#### GENERAL

Rock of Ages is a Delaware corporation founded in 1885 and is an integrated granite quarrier and manufacturer whose principal product is granite memorials used primarily in cemeteries. We own and operate nine active quarry properties and five manufacturing and sawing facilities in North America, principally in Vermont and the Province of Quebec. We sell memorials wholesale to approximately 115 independent authorized Rock of Ages retailers in the United States as well as approximately 116 independent retailers in Canada. We market and sell our memorials at various price points: *Square Seal*, *Round Seal* and *Signature*. Our memorials are offered in granites of various colors and are covered by a full perpetual or a limited perpetual warranty, depending on the particular granite and brand. We believe the *Rock of Ages* trademark is one of the oldest and best-known brand names in the granite memorialization industry, and we actively promote our brand name and place a seal bearing the brand name on each branded memorial. The Company also sells unbranded memorials.

*Rock of Ages*, *Signature*, *Sealmark*, *American Black*, *Barre Gray*, *Bethel White*, *Salisbury Pink*, *Gardenia White*, *Laurentian Pink* and *Galactic Blue* are trade names or trademarks of the Company. We rely on both registered and common-law trademarks in the United States and in other countries to protect the goodwill associated with these brands.

Until January 17, 2008, we were also engaged in the retail sale of memorials. We embarked upon our retail strategy soon after our initial public offering in 1997 and from 1997 to 2005 we acquired 28 retail monument companies with approximately 80 locations in 16 states. Early in the second quarter of 2006, we made significant changes in our retail operations. A more streamlined management structure was put into place and a "back to basics" philosophy was adopted by the new retail leadership. The new retail management team, led by Richard M. Urbach, succeeded in stabilizing our retail operations during the second half of 2006 and during 2007 was able to earn a modest profit.

However, with the continuing prospect of low growth in the retail division, and the still significant management infrastructure costs associated with our retail operations, beginning in early 2007 our Board of Directors, assisted by our financial advisors, began to explore available strategic alternatives with respect to the retail division, including, but not limited to, the possible sale of our retail operations. After engaging in an extended and robust process, the Board determined that it was in the best interests of the Company and its stockholders to exit the retail business, simplify and reduce the cost of the existing management infrastructure, and focus on our core quarrying and manufacturing business, including our wholesale memorial distribution system.

In December 2007, the Board authorized the sale of the retail division to PKDM Holdings, Inc. ("PKDM"), a company owned by Richard M. Urbach, the President and Chief Operating Officer of the retail division, and James Barnes, the financial manager of the retail division, for approximately \$8 million. The sale was completed on January 17, 2008. In connection with the sale of the retail division, we entered into an Authorized Retailer, Supply and License Agreement whereby PKDM was appointed an authorized Rock of Ages® retailer in the existing retail territories formerly serviced by our retail stores. PKDM also agreed to purchase \$3.5 million of product under the supply agreement during each year of the five-year term, subject to reduction in the event of the sale or closure of the retail locations covered by the supply agreement. Effective January 16, 2009, the supply agreement was amended to adjust the minimum purchase requirement due to the sale of some of the retail locations by PKDM. The minimum purchase for 2008 was reduced to \$1.7 million and the minimum purchase for 2009 and the remaining years of the term was reduced to \$1.2 million. In addition, the Company retained \$2,125,000 of inventory located at various retail locations and PKDM is responsible for purchasing the inventory, at its current book value, as it is sold, plus any inventory remaining after the tenth anniversary of the transaction. The balance of consigned inventory with PKDM at December 31, 2008 was \$2,075,000. Our retail operations were classified as discontinued operations as of December 31, 2007, and we recorded a write down in the carrying value of the retail division of approximately \$5.9 million as of that date.

VIKA Ltd. ("VIKA"), a quarry company in which we have held a 1/3 equity interest since 2002, experienced continuing operational difficulties leading to reductions in both the production and sale of Galactic Blue granite blocks. At the end of the fourth quarter of 2007 the Company decided that it would no longer advance any additional funds to VIKA and concluded its advances to VIKA should be fully reserved and determined that its investment in VIKA of \$386,000 had experienced an impairment in value that was other than temporary. Accordingly, a charge of \$1,361,000 was recognized in the fourth quarter of 2007.

During 2008, we had operations in two business segments: Quarry and Manufacturing. Included within the business segments are operations that are conducted through unincorporated divisions of Rock of Ages and other operations that are conducted by separately incorporated subsidiaries. Financial information by business segment and geographic area is incorporated herein by reference to note 14 of the Notes to Consolidated Financial Statements included in this report. In addition, information regarding the revenues of each business segment is incorporated herein by reference to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Risks attendant to foreign operations are also incorporated herein by reference to "Risk Factors that May Affect Future Results" in Item 1A. Additional information regarding each business segment and Rock of Ages in general is set forth herein.

## STRATEGY

We seek to enhance the overall profitability of the Company's businesses through a strategy which includes the following principal elements:

- *Direct sales of mausoleums and estate and civic memorials to cemeteries and consumers.* We expect to continue to expand sales of private mausoleums, and estate and civic memorials direct to the customer through our mausoleum and special features sales force based at our Barre, Vermont manufacturing plant.
- *Strategic alliances with cemeteries, funeral homes and memorial retailers to expand our wholesale distribution in North America.* We have formed and will continue to pursue strategic alliances with memorial retailers, funeral directors and cemetery owners to sell mausoleums, estate memorials, features and granite memorials in cooperation with them as authorized Rock of Ages retailers or other relationships, in order to increase both pre-need and at-need sales of granite memorials.
- *Enhancing quarry and manufacturing productivity.* We seek to substantially reduce our costs of quarrying and manufacturing and enhance our productivity through investments in equipment and technology and maintaining a flexible workforce.
- *Branding.* We believe the Rock of Ages brand is one of the best-known brand names in the memorial industry. We will continue to promote and support the Rock of Ages brand sold at independent authorized Rock of Ages retailers.
- *Acquisitions of quarries and distribution rights.* While we own or control many of the highest quality granite quarries in North America, we will continue to explore the possibility of acquiring selected granite quarries in North America and internationally to assure we will continue to have the colors and grades of granites sought by retail purchasers of granite memorials in North America, as well as exclusive granites for other uses. We will also continue to explore the acquisition of distribution rights to certain colors and grades of granites.
- *Personalization.* We intend to continue to expand and enhance our memorial product lines in color, design and style. Our objective is to provide a full range of memorials available at various price ranges.
- *Reducing unallocated corporate overhead and corporate infrastructure.* We consolidated our corporate headquarters in the manufacturing plant's existing administrative offices and decreased staff in conjunction with this move and the sale of the retail division. We continue to seek ways to streamline our operations and cut overhead costs.

## PRODUCTS

Our principal products may be classified into two general product lines: granite quarry products (with limited value added manufacturing performed) and manufactured granite products, primarily granite memorials. The principal raw material for both granite product lines is natural granite as it comes from the ground, with the primary difference between the product lines being the extent of the processing or manufacturing of the granite. For each of the last two years, 2008 and 2007, revenues derived from the sale of granite quarry products have accounted for 51% and 53%, respectively, of consolidated revenues; and revenues derived from the sale of manufactured granite products at wholesale have accounted for 49% and 47%, respectively, of consolidated revenues.

### Granite Quarry Products

Our principal quarry product is granite blocks, the raw material of the dimension granite industry. These blocks are extracted from quarries in various sizes through a drilling, blasting and wire sawing process in the quarry. The range of block sizes is large, but most manufacturers of granite memorials and other products generally require minimum dimensions of height, width and length to maximize the efficiency of their block sawing equipment in meeting the required dimensions of the finished product. Granite blocks are normally sold in heights from 2'6" to 5', widths of 3' to 5', and lengths from 7' to 10'. These blocks typically weigh between 20 and 30 tons. Our quarry revenues are also derived, to a lesser degree, from the sale of blocks purchased from other quarries for resale through our distribution system, and from the sale of rough or sawn slabs.

Granite differs from deposit to deposit by color, grade and/or quality. We quarry and sell blocks of (i) *Barre Gray* granite from our Barre, Vermont quarries and gray granite from our Stanstead, Quebec quarry, (ii) black granite from our *American Black* quarry in Pennsylvania, (iii) pink granites from our *Laurentian Pink* quarry in Quebec and our *Salisbury Pink* quarry in North Carolina, and (iv) white granites from our *Bethel White* quarry in Vermont and our *Gardenia White* quarry in North Carolina. We also sell black granite with prominent blue feldspar from the *Galactic Blue* quarry in the Ukraine under an exclusive world-wide sales agreement.

We sell granite blocks for memorial, building and other uses. While each of our quarries sells granite for memorial use and for building use, the output of the *Bethel White* quarry, the *Gardenia White* quarry, the *Salisbury Pink* quarry and the *Galactic Blue* quarry are primarily sold and used for building granite use (such as building cladding, tiles, pavers, steps, countertops and other building products) outside North America. The output of the other quarries is primarily for memorial use in North America.

A quarry sales force both in and outside North America sells our granite blocks. The quarry sales force markets and advertises our granite blocks in various trade publications and by attending trade shows worldwide. Outside of North America, our quarry sales force generally sells directly to manufacturing plants or to independent distributors who buy blocks and resell them.

Other quarry products include waste pieces not of a shape or size suitable for manufacturing, which are sold for erosion control for embankments, bridges or piers, and for other uses. In certain quarries, we have arrangements with crusher operators who operate on or near our quarries and sell crushed stone. The revenues and profits of these products are not material. We have no marketing and advertising programs for these other quarry products.

### **Manufactured Products**

The principal manufactured product of Rock of Ages is granite memorials, which are sold to retailers of granite memorials and substantially all of which are placed in cemeteries in remembrance of the life of a person. Our memorials encompass a wide range of granites, including granite blocks purchased from others, as well as a wide array of sizes, styles and shapes ranging from small, inexpensive markers set flush to the ground, to very elaborate and expensive personal mausoleums available at various price ranges. The broad classifications of granite memorials used by the industry are generally markers, hickies, slants, standard uprights, estate uprights, pre-assembled mausoleums and conventional mausoleums. We also sell public and civic memorials not placed in cemeteries, both on a wholesale basis and directly to the customer. From time to time, memorial retailers or others order granite products such as benches, steps and other products that may or may not be for cemetery use, but are classified as memorial sales.

Rock of Ages is widely recognized for the personalized granite memorials it produces and the very large memorials it can produce. We have made many large private and public memorials, including a full size granite replica of a Mercedes-Benz automobile and the massive Atlantic and Pacific arches of the World War II memorial in Washington DC.

Our granite memorials are sold to retailers by our memorial sales force that regularly speaks with customers by phone and makes personal visits to customers. Our mausoleums and special features group sells both to retailers and direct to the customer. We provide various point of sale materials to independent authorized Rock of Ages retailers, we advertise in trade publications and attend trade shows in the United States and Canada.

Rock of Ages also manufactures certain precision granite products which are made at our Barre, Vermont plant. These products include surface plates, machine bases, bases for coordinate measuring devices, press rolls and other products manufactured to exacting dimensions. These products are sold to the manufacturers of precision measuring devices or end users. A precision products sales force that phones or visits customers, sells these products. We also advertise our precision products in various trade publications, provide printed sales materials to prospective customers and attend industry conventions.

### **Retail Products**

During 2007 we owned and operated approximately 80 retail outlets in 16 states that marketed and sold granite, bronze and marble memorials primarily to consumers. The granite memorials sold at retail included a wide variety of sizes, styles and shapes, and were sourced from our own plants and a number of additional manufacturers in North America and elsewhere in the world. On January 17, 2008, we completed the sale of our retail operations to PKDM and exited the retail business entirely.

## **MANUFACTURING AND RAW MATERIALS**

Rock of Ages quarries and manufactures granite in the United States and Canada at the locations indicated in Item 2 "Properties." We also outsource the manufacturing of certain memorial products pursuant to supply agreements with other manufacturers. There were no plants acquired in 2008. We moved our saw plant operations in Barre, Vermont by closing and putting up for sale our old saw plant

and moving the equipment into a new addition to our manufacturing plant. The cost for the new saw plant facility with equipment was \$1.4 million and became operational in the fourth quarter of 2008. We believe our manufacturing and quarrying capacity, together with our manufacturing outsourcing arrangements, are generally sufficient to meet anticipated production requirements for the foreseeable future.

The most significant raw material we use in our manufacturing operations is granite blocks primarily from our quarries. We believe we have an adequate supply from our quarries to supply our manufacturing operations. We also purchase certain colors of granite, primarily red and black, from other quarriers. We believe there is an adequate supply of memorial granite available from our quarries and quarries owned by others for the foreseeable future.

Significant supplies used in our manufacturing operations include industrial diamond segments for saw blades and wires, drill steel, drill bits and abrasives. There are a number of sources for these supplies at competitive prices.

We had manufacturing backlogs of \$7.1 million and \$9.5 million as of December 31, 2008 and 2007, respectively. These backlogs occurred in the normal course of business. We do not have a material backlog in our quarrying operations. Of the backlog orders as of December 31, 2008, we expect 100% to be filled during the 2009 fiscal year.

We do not normally maintain a significant inventory of finished manufactured products in anticipation of future orders in our manufacturing operations. In connection with the sale of our retail operations to PKDM on January 17, 2008, we retained finished memorial inventory which is located at the various retail locations sold to PKDM and at December 31, 2008 has an aggregate book value of approximately \$2.1 million. This inventory has been consigned to PKDM for sale to customers. Any finished inventory not sold by PKDM within 10 years of the closing date will be purchased by PKDM at book value. Approximately 75% of our manufactured product orders are delivered within two to twelve weeks of the order date, as is customary in the granite memorial industry. The delivery time depends on the size and complexity of the memorial. Our quarry operations have inventories of granite blocks.

## **RESEARCH AND DEVELOPMENT**

We do not have a research and development department for any of our products. From time to time, we conduct market research, as well as research on new product designs and on equipment to improve the Company's technology. These activities are not separately accounted for as research, and we had no expenditures classified for financial reporting purposes as research in 2008 or 2007.

## **COMPETITION**

The dimension stone industry is highly competitive. We compete with other dimension stone quarriers, including quarriers of granite, marble, limestone, travertine and other natural stones. We also compete with manufacturers of so-called "engineered stone" as well as manufacturers of other building materials like concrete, aluminum, glass, wood and other materials. The competition with providers of these materials is based on price, availability of supply, end-user preference for certain colors, patterns or textures, and other factors.

The granite memorial industry is also highly competitive. We compete with other granite quarriers and manufacturers in the sale of granite blocks for memorial use, and finished memorials, on the basis of price, color, quality, geographic proximity, service, design, production capability, availability of supply and delivery options. All of our colors of granite are subject to competition from memorial grade granite blocks of similar color supplied by quarriers located throughout the world. There are approximately 130 manufacturers of granite memorials in North America with a majority of them being located in the Elberton, Georgia area.

Our quarrying and manufacturing competitors include both domestic and international companies, some of which may have greater financial, technical, manufacturing, marketing and other resources than we have. Foreign competitors may have access to lower cost labor and extensive commercial deposits of memorial and building grade granite, and may be subject to less restrictive regulatory requirements. For example, companies in South Africa, India, China and Portugal manufacture and export finished granite memorials into North America, which compete with our products.

## **PATENTS, TRADEMARKS AND LICENSES**

We hold a number of domestic and foreign patents, trademarks and copyrights, including the original registered trademark "Rock of Ages," which we first registered in 1913. We believe the loss of a single patent, trademark or copyright, other than the "Rock of Ages" trademark, would not have a material adverse effect on our business, financial condition or results of operations. See Item 1A - "Risk Factors That May Affect Future Results."

## **EMPLOYEES**

We had approximately 268 employees as of December 31, 2008. We had approximately 557 employees as of December 31, 2007 and 334 employees on January 18, 2008 after the sale of our retail operations.

The collective bargaining agreements with the Granite Cutters Association and the United Steelworkers of America, respectively, which together represent approximately 107 employees in our Vermont manufacturing and quarrying operations, expire on April 24, 2009. We expect to commence negotiations with union representatives shortly. See Item 1A – Risk Factors That May Affect Future Results. We also have collective bargaining agreements with two unions representing approximately 55 employees in our Canadian operations. These agreements expire on October 31, 2009 and January 31, 2010.

We believe our relations with our employees are generally good, and recognize that our employees are among our most important assets.

## **SEASONALITY**

Historically, our operations have experienced certain seasonal patterns. Generally, our net sales are highest in the second or third quarter and lowest in the first quarter of each year due primarily to weather. See Item 7 "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Seasonality."

## **REGULATION AND ENVIRONMENTAL COMPLIANCE**

Our quarry and manufacturing operations are subject to substantial regulation by federal, state and foreign governmental agencies and other authorities, including OSHA, the Mine Safety and Health Administration and similar state and Canadian authorities. Our operations are also subject to extensive laws and regulations administered by the United States Environmental Protection Agency and similar state and Canadian authorities for the protection of the environment, including those relating to air and water quality, noise levels, and solid and hazardous waste handling and disposal. These laws and regulations may require us to fund remedial action or to pay damages regardless of fault. Environmental laws and regulations may also impose liability with respect to divested or terminated operations even if the operations were divested or terminated many years ago. In addition, current and future environmental or occupational health and safety laws, regulations or regulatory interpretations may require significant expenditures for compliance which could require us to modify our operations. We cannot predict the effect of such laws, regulations or regulatory interpretations on our business, financial condition or results of operations.

## **AVAILABLE INFORMATION**

We maintain a website with the address [www.rockofages.com](http://www.rockofages.com). We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (in each case without exhibits), and amendments to these reports (without exhibits) filed as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission.

## **ITEM 1A. RISK FACTORS**

### **Risk Factors That May Affect Future Results**

*The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or which are currently deemed immaterial may also impair our business, financial condition and results of operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially adversely affected.*

**If we or our independent registered public accounting firm are unable to affirm the effectiveness of our internal control over financial reporting in future years, the market value of our common stock could be adversely affected.**

Our independent registered public accounting firm must audit and report on our internal controls over financial reporting as of December 31, 2009 and subsequent fiscal year end dates, respectively, and such report must be included in our Annual Report on Form 10-K for the year ending December 31, 2009, and in subsequent Annual Reports on Form 10-K for subsequent years, respectively. In 2007 we disclosed material weaknesses in our internal control over financial reporting in Item 9A(T) — Controls and Procedures of the Annual Report on Form 10-K. In 2008 we remediated the weaknesses and accordingly reported no material weaknesses in our internal control over financial reporting as of December 31, 2008. However, we cannot assure you that we or our independent registered public accounting firm will continue to be able to report that our internal control over financial reporting are effective as of December 31, 2009 and subsequent fiscal year end dates, respectively. In this event, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the market value of our Class A Common Stock.

Moreover, even though we believe we have corrected the material weaknesses reported in 2007, our internal controls may not prevent all potential errors, because any system of controls and procedures, regardless of its design, can provide only reasonable, and not absolute, assurance that the objectives of the control system will be achieved. There are inherent limitations to the effectiveness of any system of controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

**Our credit facility with CIT includes restrictions on our business operations that we must comply with, and financial tests that we must meet in order to continue to borrow under the facility to support our operations.**

The terms of our credit facility with CIT restrict our ability to, among other things, consummate asset sales, participate in mergers, incur additional debt, pay dividends, repurchase stock or make investments or guarantees without the prior consent of CIT. The terms also contain covenants that require us to meet financial tests, including a minimum Fixed Charge Coverage Ratio and a maximum Total Liabilities to Net Worth Ratio, in order to continue to borrow under the facility and avoid a default that might lead to an early termination of the facility. The restrictions in our credit facility may prevent us from taking actions that we believe would be in the best interest of the Company and its shareholders and make it difficult to execute our business strategy successfully. The terms of this credit facility, including these covenants, are generally described in Item 7 of this report under the caption "Liquidity and Capital Resources - Credit Facility."

As described under such caption, we were in violation of our credit facility because we sustained a net loss during 2008, and we failed to meet the Fixed Charge Coverage Ratio covenant for the four fiscal quarters ending December 31, 2008. These violations were primarily as a result of two non-cash charges taken during the fourth quarter of 2008. First, we took a \$3,930,000 charge for the write-down of second grade block inventory at three of our export quarries, and second, we took a \$1,348,000 charge for the write-down of our former headquarters building in Barre, Vermont, which was taken out of service when we consolidated our offices in Barre. We received a waiver from our lenders allowing us to be in compliance with our credit facility and our lenders agreed to allow us, in calculating the Fixed Charge Coverage Ratio, to add back the non-cash write-downs taken with respect to the second grade inventory and the vacated building for the first three quarters of 2009. After the third quarter of 2009, we expect to be in compliance with all existing covenants through the remaining term of the credit facility. However, we cannot provide assurances that we will be able to maintain compliance with the covenants in our credit facility. Moreover, if we fail to maintain compliance with such covenants we cannot provide assurances that we will continue to receive waivers of any non-compliance. If we are unable to comply with the financial or other covenants of our credit facility, and we could not obtain waivers of such non-compliance, we will likely be unable to borrow additional amounts under the facility and amounts owed under the facility could be accelerated and become due and payable immediately, which would materially impact our liquidity and financial conditions and could require us to cease operations or seek protection under state or federal insolvency or bankruptcy laws.

**Changes in the securities laws and regulations have increased, and are likely to continue to increase, our costs, and may also adversely affect our ability to attract and retain qualified directors.**

The Sarbanes-Oxley Act has required changes in some of our corporate governance, securities disclosure and compliance practices. Pursuant to the requirements of that Act, the SEC and the Nasdaq Stock Market have promulgated rules and listing standards covering a variety of subjects. Compliance with these new rules and listing standards has increased our legal costs, and significantly increased our accounting and auditing costs, and we expect these costs to continue to increase, and to materially impact our financial results. In particular, we have incurred and will continue to incur substantial expense in the on-going evaluation and testing of our internal control over financial reporting as we comply with Section 404 of the Sarbanes-Oxley Act. These changes in securities laws and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance. Likewise, these developments may make it more difficult for us to attract and retain qualified members of our board of directors, particularly independent directors, or qualified executive officers.

**The pension funding requirements may adversely affect our cash flow.**

Compliance with pension funding requirements could adversely affect our cash flow. We have a qualified defined benefit pension plan which covers eligible employees as of March 31, 2009. On January 5, 2009, the Company's Board of Directors approved actions to proceed with amendments to its defined benefit pension plan by freezing membership and future benefits in the plan. This action is effective as of March 31, 2009. At December 31, 2008, this plan is underfunded, which means that promised pension benefits could potentially exceed the funds available. In August 2006, the Pension Protection Act (the "Act") was signed into law in the U.S. Among other things, the Act is aimed at strengthening pension plans by requiring most pension plans to become fully funded over a seven-year period. The new law allows employers to deduct the cost of making additional contributions to fund the pension, provides strict funding guidelines, and imposes a 10% excise tax on companies that fail to correct their funding deficiencies. The recent significant worldwide decline in equity prices and in the value of other financial investments has significantly increased our pension liabilities. Without an increase in the value of the plan assets we could be required to fund the

plan with significant amounts of cash. Additionally, if we are unable to meet the funding targets imposed by the Act, we may incur significant penalties. See Item 7 of this report, *Management Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*.

**If we are unable to maintain our relationships with independent retailers, our sales may not grow and could decline.**

We have historically sold our granite memorials to consumers through independent retailers. We are dependent in part on our independent retailers for the successful distribution of our products to the ultimate customer. We have no control over the independent retailers' operations, including such matters as retail price, advertising and marketing. We cannot assure you we will be able to maintain our existing relationships or establish new relationships with independent retailers. Disruption in our relationships with independent retailers could impede our sales growth or cause sales to decline, which would adversely affect our business and financial results.

**Declining general economic, business, or industry conditions may cause reduced revenues and profitability.**

Recently, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. have contributed to increased volatility and diminished expectations for the global economy and expectations of slower global economic growth going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated a global recession. If the economic climate in the U.S. or abroad does not improve from its current condition or continues to deteriorate, our customers or potential customers could reduce or delay their purchases of our products, which would adversely impact both our quarrying and manufacturing business segments.

**Our international operations may expose us to a number of risks related to conducting business in foreign countries.**

We derived approximately 38% of total revenues in fiscal 2008 from sales to customers outside the United States, including approximately 17% from sales in Canada by our Canadian subsidiary. Foreign sales are subject to numerous risks, including currency conversion risks, limitations (including taxes) on the repatriation of earnings, slower and more difficult accounts receivable collection and greater complication and expense in complying with foreign laws. Our sales of granite blocks to foreign countries are primarily for building use and are subject to various cyclical factors in foreign countries, foreign exchange rate fluctuations, policies of foreign governments and numerous other factors over which we have no control.

In 2005, our sales of granite blocks into China declined significantly as a result of economic conditions in China. While we saw significant signs of recovery in our Chinese markets in 2007 and 2008 and we have taken and are continuing to take steps to develop sales to customers in other countries, we cannot assure you that sales of granite blocks to our Chinese and other Asian customers will recover and remain at historic levels.

We own a 1/3 equity interest in VIKA, Ltd., ("VIKA") a Ukrainian closed joint stock company that has a long-term license from the Ukraine government to quarry certain stone known as "Galactic Blue" on certain property located in Zhytomyr, Ukraine. We also have the exclusive worldwide rights to distribute Galactic Blue. Historically, political and governmental instability has been a feature in Ukraine, and the political and regulatory climate is subject to rapid change. Our investment in VIKA is subject to risks inherent in international operations, including adverse governmental actions, political risks, expropriation of assets and the risk of civil unrest and war. As the political and regulatory environment changes, we may face uncertainty about the interpretation of the agreements to which we are party and, in the event of dispute, we may have limited recourse within the legal and political system.

In addition, the financial viability of VIKA is uncertain. Since our initial investment in VIKA in 2002, the Galactic Blue quarry has failed to produce commercially significant quantities of saleable stone. We are a minority investor in VIKA, and we do not directly or indirectly operate the quarry. Therefore, we are heavily dependent on the efforts of our Ukraine partners, which hold the majority interest in VIKA, to improve quarry production. If VIKA is unable to produce and profitably sell commercially significant quantities of saleable stone in the near future, the financial viability of VIKA would be threatened and we may be unable to recover our investment in VIKA. Management concluded, with the approval of the audit committee of our Board of Directors that our investment in VIKA was impaired as of December 31, 2007, and we recorded an impairment charge related to our VIKA assets of approximately \$1,361,000. In 2008 there was very little change in the financial viability of VIKA. They continue to quarry very small amounts and we continue to sell all that is quarried.

**Employee strikes and other labor-related disruptions may adversely affect our operations.**

Our business is labor intensive, and our workforce includes, among other employees, highly skilled quarrying and manufacturing personnel such as stone cutters, sand blasters, sculptors and other skilled artisans. Approximately 60% of our workforce is unionized. Strikes or labor disputes with our unionized employees may adversely affect our ability to conduct our business.

Our collective bargaining agreements with the Granite Cutters Association and the United Steelworkers of America, which together represent approximately 107 employees in our Vermont manufacturing and quarrying operations, expire on April 24, 2009. We expect to commence negotiations with union representatives shortly. If we are unable to reach agreement with any of our unionized work groups in future negotiations regarding the terms of their collective bargaining agreements, or if additional segments of our workforce become unionized, we could be subject to work interruptions or stoppages in 2009 which could adversely affect our operations and our business.

**If we lose key personnel, or are unable to attract and retain additional qualified personnel, our business could suffer.**

Our operations and the implementation of our strategies to enhance overall Company profitability are management intensive. We are substantially dependent upon the abilities and continued efforts of our senior management. Our business is also dependent on our ability to continue to attract and retain a highly skilled quarry and manufacturing workforce, including stone cutters, sand blasters, sculptors and other skilled artisans. The loss of the services of our senior management or other highly skilled personnel could adversely affect our business and operating results.

**We face intense competition and, if we are unable to compete successfully, we may be unable to increase our sales, which would adversely affect our business and profitability.**

The dimension stone industry is highly competitive. We compete with other dimension stone quarriers, including quarriers of granite, marble, limestone, travertine and other natural stones. We also compete with manufacturers of so-called "engineered stone" as well as manufacturers of other building materials like concrete, aluminum, glass, wood and other materials. We compete with providers of these materials on the basis of price, availability of supply, end-user preference for certain colors, patterns or textures, and other factors.

The granite memorial industry is also highly competitive. We compete with other granite quarriers and manufacturers in the sale of granite blocks for memorial use on the basis of price, color, quality, geographic proximity, service, design availability, production capability, and delivery options. All of our colors of granite are subject to competition from memorial grade granite blocks of similar color supplied by quarriers located throughout the world. There are approximately 130 manufacturers of granite memorials in North America. There are also manufacturers of granite memorials in India, South Africa, China and Portugal that sell finished memorials in North America.

Our quarrying and manufacturing competitors include both domestic and international companies, some of which may have greater financial, technical, manufacturing, marketing and other resources. Foreign competitors may have access to lower cost labor and better commercial deposits of granite, and may be subject to less restrictive regulatory requirements.

We cannot assure you domestic or foreign competition will not adversely impact our business.

**The increasing trend toward cremation, and potential declines in memorialization for other reasons, may result in decreased sales of our products.**

There is an increasing trend toward cremation in the United States. The latest statistics from the Cremation Association of North America, or CANA, indicate cremation was used in approximately 33% of the deaths in the United States in 2006, compared to approximately 29% in 2003. To the extent increases in cremation rates result in decreases in memorialization rates, this decrease will result in a decline in our memorial sales, which will adversely affect our business and results of operations.

Our business is also subject to the risk that memorialization rates may decline over time for other reasons. Certain cemeteries have in the past and may in the future limit the use of granite memorials as a memorialization option. To the extent general memorialization rates or the willingness of cemeteries to accept granite memorials declines, this decline could adversely affect our business.

**Sales of our products are seasonal and may cause our quarterly operating results to fluctuate.**

Historically, our operations have experienced certain seasonal patterns. Generally, our net sales are highest in the second or third quarter and lowest in the first quarter of each year due primarily to weather. Cemeteries in northern regions generally do not accept granite memorials during winter months when the ground is frozen because they cannot be properly set. We typically close our Vermont and Canadian quarries from January to late March because of increased operating costs attributable to weather conditions. We have historically incurred an aggregate net loss during the first three months of each calendar year. Our operating results may vary materially from quarter to quarter due to, among other things, changes in product mix, shipping conditions and limitations on the timing of price increases, making quarterly year-to-year comparisons less meaningful.

**Our competitive position could be harmed if we are unable to protect our intellectual property rights.**



We believe our tradenames, trademarks, brands, designs and other intellectual property are of great value, and we rely on trademark, copyright and other proprietary rights laws to protect our rights to this valuable intellectual property. Third parties may, in the future, try to challenge our ownership of our intellectual property. In addition, our business is subject to the risk of third parties counterfeiting our products or infringing on our intellectual property rights. We may need to resort to litigation in the future to protect our intellectual property rights, which could result in substantial costs and diversion of resources. Our failure to protect our intellectual property rights, most notably the Rock of Ages trademark, could have a serious adverse effect on our business and competitive position.

**Our business is subject to a number of operating risks that are difficult to predict and manage.**

Our quarry and manufacturing operations are subject to numerous risks and hazards inherent in those industries, including among others, unanticipated surface or underground conditions, varying saleable granite recovery rates due to natural cracks and other imperfections in granite deposits, equipment failures, accidents and worker injuries, labor issues, weather conditions and events, unanticipated transportation costs and price fluctuations. As a result, actual costs and expenditures, production quantities and delivery dates, as well as revenues, may differ materially from those anticipated which could adversely affect our operating results.

**Sales of our ancillary products are cyclical, which may adversely affect our operating results.**

The markets for our industrial precision products, which include machine base and surface plates that are utilized in the automotive, aeronautic, computer, machine tool, optical, precision grinding and inspection industries, and granite press rolls used in the manufacture of paper, are subject to substantial cyclical variations. Sales of these products are subject to decline as a result of general economic downturns, or as a result of uncertainties regarding current and future economic conditions that generally affect such industries. We cannot assure you changes in the industries to which we sell our precision products will not adversely affect our operating results.

**Existing stockholders are able to exercise significant control over us.**

Kurt M. Swenson and his brother, Kevin C. Swenson, collectively have 66% of the total voting power of all outstanding shares of our common stock, and will therefore be in a position to control the outcome of most corporate actions requiring stockholder approval, including the election of directors and the approval of transactions involving a change in control of the Company.

**Our common stock is thinly traded; therefore, our stock price may fluctuate more than the stock market as a whole.**

Although our shares are traded on the Nasdaq Stock Market, our stock is thinly traded. As a result, its market price may fluctuate significantly more than the stock market as a whole or the stock prices of similar companies. Without a larger float, our common stock will be less liquid than the stock of companies with broader public ownership, and as a result, the trading prices for our common stock may be more volatile. Among other things, trading of a relatively small volume of common stock may have a greater impact on the trading price than would be the case if the public float were larger.

**We may incur substantial costs to comply with government regulations.**

Our quarry and manufacturing operations are subject to substantial regulation under federal, state and foreign governmental statutes and by federal, state and foreign governmental agencies, including the federal Occupational Safety and Health Act, the Mine Safety and Health Administration and similar state and Canadian authorities. Our operations are also subject to extensive laws and regulations administered by the United States Environmental Protection Agency and similar state and Canadian authorities, for the protection of the environment, including but not limited to those relating to air and water quality, and solid and hazardous waste handling and disposal. These laws and regulations may require parties to fund remedial action or to pay damages regardless of fault. Environmental laws and regulations may also impose liability with respect to divested or terminated operations even if the operations were divested or terminated many years ago. In addition, current and future environmental or occupational health and safety laws, regulations or regulatory interpretations may require significant expenditures for compliance, which could require us to modify or curtail our operations. We cannot predict the effect of such laws, regulations or regulatory interpretations on our business, financial condition or results of operations. Any material non-compliance could adversely affect our business and results of operations.

**Provisions of our corporate organizational documents and Delaware law could delay or prevent a change in control of the Company, even if it would be beneficial to our stockholders.**

Certain provisions contained in our Certificate of Incorporation and By-laws:

- grant ten votes per share to each share of Class B Common Stock;

- divide the Board of Directors into three classes, each of which will have a different three-year term;
- provide that stockholders may remove directors from office only for cause and by a supermajority vote;
- provide that special meetings of the stockholders may be called only by the Board of Directors or certain Company officers and not by stockholders;
- establish certain advance notice procedures for nomination of candidates for election as directors and for stockholder proposals to be considered at annual stockholders' meetings;
- authorize the issuance of preferred stock. Accordingly, the Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could materially adversely affect the voting power or other rights of, or be dilutive to, the holders of our Common Stock.

Certain of these provisions may have the effect of discouraging, delaying or preventing a change in control or unsolicited acquisition proposals a stockholder may consider favorable. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit or delay large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us.

### **Our Financing Requirements May Increase and We Could Have Limited Access to Capital Markets.**

The United States and worldwide capital and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. In addition, declining capital ratios of many lending institutions and the very weak commercial paper market have adversely impacted various lending institutions including our long-term lender CIT, which may adversely impact our ability to borrow under our existing lines of credit. While we believe that our current resources and access to capital markets are adequate to support operations over the near term and foreseeable future, we cannot assure you that these circumstances will remain unchanged. Our need for capital is dependent on operating results and may be greater than expected. Our ability to maintain our current sources of debt financing depends on our ability to remain in compliance with covenants contained in our financing agreements, including, among other requirements, maintaining a minimum total net worth and minimum cash flow and debt coverage ratios. If changes in capital markets restrict the availability of funds or increase the cost of funds, we may be required to modify, delay or abandon some of our planned expenditures, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

### **ITEM 2. PROPERTIES**

Rock of Ages owns the following quarry and manufacturing properties:

<b><u>PROPERTY</u></b>	<b><u>FUNCTION</u></b>
<b>VERMONT</b>	
Barre	
Quarry Properties	
E. L. Smith Quarry	Quarrying of dimensional Barre Gray granite blocks
Adam-Pirie Quarry	Quarrying of dimensional Barre Gray granite blocks
Manufacturing Properties	
Rock of Ages Manufacturing Plant	Manufacturing of memorials and precision products
Press Roll and Saw Plant	Manufacturing of granite press rolls and slabbing of granite blocks
Bethel	
Quarry Property	
Bethel Quarry	Quarrying of dimensional Bethel White granite blocks
<b>CANADA</b>	
Stanstead, Quebec	
Quarry Property	
Stanstead Quarry	Quarrying of dimensional Stanstead Gray granite blocks
Manufacturing Properties	
Rock of Ages Manufacturing Plant	Manufacturing of memorials
Adu Manufacturing Plant	Manufacturing of memorials
Guenette, Quebec	
Quarry Property	

Laurentian Quarry                      Quarrying of dimensional Laurentian Pink granite blocks

**PENNSYLVANIA**

St. Peters

Quarry Property

American Black Quarry                      Quarrying of dimensional American Black granite blocks

Manufacturing Property

Saw Plant                      Slabbing of granite blocks

**NORTH CAROLINA**

Salisbury

Quarry Property

Salisbury Pink Quarry                      Quarrying of dimensional Salisbury Pink granite blocks

Rockwell

Quarry Properties

Gardenia White Quarry                      Quarrying of dimensional Gardenia White granite blocks

In addition, until January 17, 2008 Rock of Ages owned or operated approximately 80 retail sales outlets and 4 associated sand blasting facilities in the states of Iowa, Illinois, Indiana, Minnesota, Connecticut, Massachusetts, Rhode Island, Nebraska, Pennsylvania, Ohio, South Dakota, Kentucky, Tennessee, Vermont, West Virginia and Wisconsin. In certain cases, we leased, under customary lease arrangements, the land or other real estate associated with these outlets and facilities. On January 17, 2008, we sold all of our retail operations to PKDM Holdings, Inc. and exited the retail business entirely

The following table sets forth certain information relating to our principal quarry properties. Each of the quarries listed below: (i) is an open-pit quarry; (ii) contains granite suitable for extraction as dimension granite for memorial or other use; (iii) is serviced by electricity provided by local utility companies; and (iv) has adequate and modern extraction and other equipment. We presently have no exploration plans. We own each of the quarries listed below. In the Rockwell quarry, we own part of the land comprising the quarry and we also lease an additional 14 acres on which we conduct quarry operations with 7 years remaining on the lease. We also own the Laurentian Pink quarry in Guenette, Quebec, which produces dark pink memorial grade granite. As described in Item 1 of this report, we also own a 1/3 interest in VIKA, Ltd., which owns the Galactic Blue quarry in Zhytomyr, Ukraine. However, while we consult from time to time on the development of the quarry, we do not directly or indirectly operate the quarry. The Galactic Blue quarry is currently under development and currently produces granite in small commercial quantities. We do not expect the quarry to achieve significant commercial production quantities in 2009. We do not consider the Laurentian Pink or Galactic Blue properties to be currently significant or material to our business.

QUARRY	APPROXIMATE DATE OF COMMENCEMENT OF OPERATIONS	PRIOR OWNER (DATE ACQUIRED)	MEANS OF ACCESS	ORIGINAL COST OF EACH PROPERTY	ESTIMATED NET SALEABLE RECOVERABLE RESERVES (1) (CUBIC FEET)	ESTIMATED NET SALEABLE RECOVERABLE RESERVES (2) YEARS
E.L. Smith	1880	E.L. Smith Quarry Co. (1948)	Paved road	\$7,562,676	2,459,534,000	4,916
Adam-Pirie	1880	J.K. Pirie Quarry (1955)	Paved road	\$4,211,363	984,886,000	6,557
Bethel	1900	Woodbury Granite Company, Inc. (1957)	Dirt road	\$ 174,024	76,529,000	271
Stanstead	1920	Brodies Limited and Stanstead Granite Company (1960)	Paved road	\$ 505,453	32,563,000	155
American Black	1973	Pennsylvania Granite Inc. (1997)	Paved road	\$2,900,000	14,615,000	137
Salisbury	1918	Pennsylvania Granite Inc. (1997)	Paved road	\$3,886,592	19,344,000	100
Gardenia White*	1995	J. Greg Faith Thomas E. Ebans, Sr. David S. Hooker William L. Comolli (1998)	Dirt road	\$4,633,000	2,602,000	16
Rockwell White*	1993	Rockwell Granite Company (2005)	Dirt road	\$1,930,000	5,950,000	78

\* The Gardenia White and Rockwell White quarries are side by side, produce the same type of granite and are being joined together. For operating purposes we report all granite extracted and sold from the properties as Gardenia White.

(1) Net saleable recoverable reserves are based on internal Company estimates, except for the reserves for the E.L. Smith, Adam-

Pirie and Bethel quarries, which are based on independent assessments by CA Rich Consultants, Inc in 1993; and for the Gardenia White quarry, which are based on an independent assessment by Geomapping Associates in 1997. The Rockwell White reserves are based on information contained in a report dated September 1993 by a geologist employed by The Marlin Group. It is impossible to know the exact percentage of recoverable reserves that will not be saleable as a result of natural cracks, seams, color variations, or other natural defects in the quarry that are not discoverable through random core drilling samples. Likewise, reductions in recovery rates of saleable stone can dramatically increase the cost of the saleable stone making the quarry not commercially viable. Accordingly, these quantities are purely estimates based on observable surface area size times commercially feasible depths for quarrying granite, adjusted for historic recovery rates. Thus, the actual quantities and years of net saleable reserves could vary materially from the estimates set forth in the table.

(2) See Note 1 above. Based on internal Company estimates using historical and current production levels.

The estimates of saleable reserves are based on historical quarry operations, workable reserves in the existing quarries and immediately adjacent areas, current work force sizes and current demand. While quarry operations decrease the granite deposits, the size of the granite deposits in which our quarries are located are large and extend well beyond existing working quarry perimeters. We have historically expanded quarry perimeters or opened other quarries in the deposit as necessary to utilize reserves and we believe we have adequate acreage for expansions as and when necessary. Currently, we have no reason to believe we will deplete our granite reserves more quickly than is shown in the table, assuming recovery rates and demand remain at current levels.

Dimension granite is not considered a valuable mineral or commodity such as gold, nor is it traded on any commodities exchange. The prices we charge to third parties for granite blocks depend on characteristics such as color of and costs to quarry each granite block, as well as market conditions. The price per cubic foot we currently charge for our granite blocks is generally comparable to other granite suppliers and typically does not exceed \$45.

### **ITEM 3. LEGAL PROCEEDINGS**

We are a party to legal proceedings that arise from time to time in the ordinary course of our business. While the outcome of these proceedings cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our business or financial condition.

We carry insurance with coverages we believe to be customary in our industry. Although there can be no assurance that such insurance will be sufficient to protect us against all contingencies, we believe our insurance protection is reasonable in view of the nature and scope of our operations.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of Rock of Ages' security holders, through solicitations of proxies or otherwise, during the fourth quarter covered by this Annual Report on Form 10-K.

## PART II

### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Class A Common Stock is traded on the Nasdaq Global Market under the symbol "ROAC." There is currently no established public trading market for the Class B Common Stock, however, the Class B Common Stock is convertible at any time into shares of Class A Common Stock. The table below sets forth the range of high and low per share sales prices for the Class A Common Stock as reported on the Nasdaq Global Market for the periods indicated.

	<b><u>HIGH</u></b>	<b><u>2008</u></b>	<b><u>LOW</u></b>
First Quarter.....	\$5.45		\$3.98
Second Quarter.....	4.33		3.27
Third Quarter.....	3.36		1.85
Fourth Quarter.....	3.39		1.29
		<b><u>2007</u></b>	
	<b><u>HIGH</u></b>	<b><u>LOW</u></b>	
First Quarter.....	\$5.70		\$4.05
Second Quarter.....	5.23		4.50
Third Quarter.....	8.00		4.95
Fourth Quarter.....	7.50		4.54

As of March 20, 2009, based upon information provided by our transfer agent, there were 203 record holders of Class A Common Stock and 26 record holders of Class B Common Stock, which numbers do not include stockholders who beneficially own shares held in street name by brokers.

Holders of the Common Stock are entitled to receive such dividends as may be legally declared by the Board of Directors and, in the event of dissolution and liquidation, to receive the net assets of Rock of Ages remaining after payment of all liabilities, in proportion to their respective holdings. No dividends were paid in 2008 or 2007. In October 2007, we renewed our credit facility with our lenders, which, in relevant part, prohibits the Company from paying dividends without their prior consent.

#### **RECENT SALES OF UNREGISTERED SECURITIES**

We made no sales of unregistered securities during fiscal 2008.

#### **ISSUER PURCHASES OF EQUITY SECURITIES**

Neither we nor our affiliates made any purchases of the Company's equity securities during fiscal 2008.

### **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the Consolidated Financial Statements, including the related Notes, contained elsewhere in this document.

## General

Rock of Ages is an integrated quarry and manufacturer of granite and products manufactured from granite. Until January 17, 2008, we were also engaged in the retail sale of memorials. On January 17, 2008, we sold all of our retail operations and exited the retail business entirely. The retail division was classified as discontinued operations as of December 31, 2007. Accordingly, during 2008, we had two business segments: quarry and manufacturing. The quarry division sells granite blocks to the manufacturing division and to outside manufacturers, as well as to customers outside North America. The manufacturing division's principal product is granite memorials and mausoleums used primarily in cemeteries, although it also manufactures some specialized granite products for industrial applications. The retail division primarily sold granite memorials directly to consumers.

In 2008, revenue from our quarry division was flat at \$29 million and divisional operating income decreased to \$1.2 million compared to \$3.3 million in 2007. The decrease in divisional operating income is solely due to the \$3.9 million inventory write-down taken in the fourth quarter of 2008 in our export quarries of Bethel, Salisbury and Gardenia. (See the discussion of the inventory write-down in this Item 7 at "*Results of Operations – Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 – Quarry Segment Analysis*" for a more complete discussion of the reasons for the inventory write-down). Excluding the effect of the inventory write-down, quarry divisional income would have been \$5.1 million, a 52% increase from the prior year.

During 2008, demand for our granites in export markets continued to rebound from the sharp decline we suffered in 2005, however, domestic demand for our Barre Gray granite continues to decline slowly. Following is a brief analysis of each of the individual quarries.

- We continue to see a slight decline in sales of Barre Gray granite which is mainly used for memorials. Due to cost cutting measures and production improvements, the gross margin percentage improved 4.1 percentage points, even though sales were down 4.4% from 2007 levels yielding higher gross margin dollars of \$244,000 or a 7.2% increase over 2007. We believe that imported granites, which generally are less expensive, are being substituted in the lower end of the memorials market and the color choices among granites in the memorial market has reduced the share of gray granite as a percentage of the market.
- The Bethel quarry had a good year with a 7.7% increase in sales. Due to the inventory write-down the gross profit was \$2.5 million or an 11% decrease from the prior year. Excluding the inventory write-down the quarry had an 18.9% or \$539,000 increase in gross margin dollars. Bethel White is popular for building purposes and demand for this granite is still strong with our international customers.
- The Salisbury Pink quarry in North Carolina saw a 12.4% decline in net sales to \$4.0 million and prior to the inventory write-down a \$108,000 decline in gross profit to \$529,000. After the inventory write-down this quarry had a gross loss of \$1.9 million. We continue to implement a number of measures in the Salisbury Pink quarry to increase productivity and reduce costs per cubic foot. We expect to see more of the benefit of these actions in 2009. This granite is also mainly used for building purposes.
- Our Gardenia and Rockwell White quarries had another difficult year as they continued to struggle with production recovery issues and continued to have negative gross margins, although due to aggressive cost cutting measures and production improvements the cost per cubic foot decreased \$1.67 or 5.7% in 2008 from the year before.
- The Pennsylvania Black quarry net revenue was up \$386,000 or 14.5% from 2007 and ended with a positive gross profit for the year for the first time in a number of years. We implemented changes in management and production methods in 2007 and 2008 and we saw improvements in both recovery and costs per cubic foot.
- Net sales from our Canadian quarries decreased by 19.2% or \$479,000 from 2007. The loss of a large customer during 2008 accounted for most of the decrease in sales. Gross profit was down \$150,000 or 23.9% because with the lower level of sales, fixed costs impacted our cost per cubic foot to a greater extent and we incurred more costs as we moved to a better area in the quarry. We are in a good position to decrease costs in 2009.
- Revenue and gross margin were both up in the Galactic Blue quarry in the Ukraine. The Galactic Blue quarry is owned by VIKA Ltd in the Ukraine, in which we own a one third interest. In addition, we have exclusive distribution rights to the Galactic Blue granite. This granite continues to generate interest and orders; however, production is still poor as VIKA continues to develop and open the quarry.

VIKA experienced continuing operational difficulties in 2008. As of December 31, 2007 the Company had determined that its investment in VIKA of \$386,000 had experienced an impairment in value that was other than temporary. Based on that assessment, the Company also concluded that its advances to VIKA should be fully reserved as of December 31, 2007. Accordingly, a charge of \$1,361,000 was recognized in the fourth quarter of 2007 and is separately presented in the accompanying statement of operations for the year ended December 31, 2007.

We will continue to aggressively market our granite blocks in the U.S. and abroad and make productivity improvements to control costs and recovery rates. We believe that most of the productivity challenges we encountered in 2008 have been addressed as we move

into 2009.

The manufacturing division's 2008 net revenue increased by \$930,000 compared to 2007. However, in 2007, sales to our retail division were excluded from net revenue, whereas 2008 net revenue includes approximately \$2.5 million in sales to the previously owned retail locations. If sales to our retail division were included in net revenue for 2007, then net revenue in 2008 would have decreased by \$1.6 million. In 2008, Mausoleum sales decreased by \$3 million; other monumental sales increased by \$1 million and sales of industrial products increased by \$400,000 in 2008 compared to 2007. Gross margins decreased in 2008 due to the decreased sales of the higher margin mausoleums. SG&A remained relatively flat. Demand for memorials remains steady but mausoleum sales were significantly affected by the continued downturn in the economy. Our backlog at December 31, 2008 is down \$2.4 million from year-end 2007 and the decrease in the mausoleum backlog is \$2.2 million of the decrease. We will continue to pursue a strategy of focusing on the mausoleum and large features market where our product is superior and margins are generally higher, as well as increasing our efforts to expand our wholesale distribution system to the cemetery, funeral home and traditional memorial retailers to grow our traditional monument business.

As of December 31, 2007 the retail division was classified as a discontinued operation. The \$5.2 million loss from discontinued operations in 2007 includes a \$5.9 million impairment charge to write the book value of the division to fair value and \$700,000 in income from operations, which is net of \$670,000 of interest expense allocated to the discontinued operations. Also see note 15 of the Notes to Consolidated Financial Statements included in this report.

### **Critical Accounting Policies**

#### **General**

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Management has discussed the development, selection and disclosure of these estimates with the Audit Committee and our independent auditor. Actual results may differ from these estimates.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements.

Our critical accounting policies are as follows: revenue recognition, impairment of long-lived assets and long-term investments, valuation of deferred tax assets, accounting for pensions and other post-employment benefits and excess inventory.

#### **Revenue Recognition**

##### *Quarry Division*

The granite we quarry is sold both to outside customers and used by our manufacturing group. Our quarry division recognizes revenue from sales of granite blocks to outside customers when the granite is shipped and invoiced from the quarry, except for cases noted below. We generally provide a 5% discount for domestic customers if payment is made within 30 days of purchase, except in the case of December terms described below. Sales to foreign customers are typically secured by a letter of credit.

At our Barre, Vermont quarries, we allow customers to purchase granite blocks and at their request we store the blocks for them. Many of our customers do not have adequate storage space at their facilities and want to ensure an adequate supply of blocks, especially when the Barre quarries are closed from mid-December through March because of weather. Our quarry division recognizes revenue in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition ("SAB 104"). Blocks are sold when: the customer selects and identifies the block at the quarry site, requests the block be stored and they have significant business reasons to do so. At that time, the block is removed from our inventory, the customer's name is printed on the block, and title and risk of loss pass to the buyer. The customer is invoiced and normal payment terms apply, except in the case of December terms described below. Granite blocks owned by customers remain on our property for varying periods of time after title passes to the buyer. We retain a delivery obligation using our trucks. However, we consider the earnings process substantially complete because the cost of delivery

service is inconsequential (less than 3%) in relation to the price. Further, under industry terms of trade, title passes and the payment obligation is established when the block is identified at the quarry.

Each December, we offer special payment terms to our Barre quarries' customers. As noted above, from approximately mid-December to approximately March, our Barre quarries are closed due to weather. During this time, manufacturing plants remain open and many customers prefer to ensure they own blocks of a size and quality selected by them prior to the quarries' closure. All blocks purchased in December are invoiced on or about December 31 and, at that time, the blocks are removed from inventory, the customer's name is printed on the blocks, and title and risk of loss pass to the buyer. Payment terms are one-third of the invoice amount on January 15, one-third on February 15, and one-third on March 15. The program provides essentially the normal 30-day payment terms during the months when the Barre quarries are closed notwithstanding the customer purchases a three-month supply in December and makes payments over 90 days. Customers need not use these special December terms and may buy from inventory during the closure period on a first-come, first-served basis with the normal 30-day payment terms.

### *Manufacturing Division*

We record revenue related to internally transferred granite only after the granite is manufactured into a finished product and sold to an outside customer. Manufacturing revenues related to outside customers are recorded when the finished product is shipped from our facilities or set in the cemetery, if we are responsible for the setting, which is when risk of ownership transfers, assuming the other criteria for revenue recognition (persuasive evidence of an arrangement exists and collectibility is reasonably assured) have been met. Revenues related to finished products transferred internally to our owned retail outlets were recorded as revenue by the retail division when ultimately sold to an outside customer.

### Impairment of long-lived assets

Our long-lived assets consist primarily of property and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of such an asset may not be recoverable in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment of Long-Lived Assets", ("SFAS No. 144"). Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or change in utilization of property and equipment.

Recoverability of the undepreciated cost of property and equipment is measured by comparison of the carrying amount to estimated future undiscounted net cash flows the assets are expected to generate. Those cash flows include an estimated terminal value based on a hypothetical sale at the end of the assets' depreciation period. Estimating these cash flows and terminal values requires management to make judgments about the growth in demand for our products, sustainability of gross margins, and our ability to achieve economies of scale. If assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

### Valuation of deferred tax assets

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not some portion or all of the current and deferred tax assets will not be realized. The ultimate realization of current and deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. This assessment is made each reporting period. At the end of the second quarter of 2005, based on the level of taxable income and projections for future taxable income, the Company believed it was no longer more likely than not that it would generate the required taxable income to fully realize the benefit of the net U.S. deferred tax assets. Therefore, we adjusted our valuation allowance against the deferred tax assets by recording a tax expense of \$9.2 million in the second quarter of 2005 to fully reserve for the entire net U.S. deferred tax asset. At the end of each of the subsequent periods we reached a similar conclusion, therefore we have continued to fully reserve for the entire net U.S. deferred tax asset. We will continue to assess the valuation allowance on a regular basis and may reduce the valuation allowance when the Company has taxable income from its U.S. operations in the future.

### Accounting for pensions and other post-employment benefits

We provide defined benefit pension and other post-employment benefit plans for certain employees. Accounting for these plans requires the use of actuarial assumptions including estimates on the expected long-term rate of return on assets, discount rates and, to a lesser extent, the rate of increase in health care costs (due to the small number of individuals receiving this benefit). The expected long-term rate of return has remained the same at 8% and reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In 2008, we kept the discount rate used to determine our liability in the pension plans at 6.3%, the same discount rate used at December 31, 2007. In both years this rate was determined



based on a bond matching model which uses data on individual high-quality corporate bonds and the timing and amount of the future benefit payments in our plan to develop a weighted discount rate specific to our plan. On January 5, 2009, the Company's Board of Directors approved actions to proceed with amendments to its defined benefit pension plan by freezing membership and future benefits in the plan. This action is effective as of March 31, 2009. In order to make informed assumptions, we rely on outside actuarial experts as well as public market data and general economic information. Any changes in one or more of these assumptions may materially affect certain amounts reported on our balance sheet. In particular, a decrease in the expected long-term rate of return on plan assets or a decrease in discount rate could result in an increase in our pension liability and a charge to equity as well as increases in pension expenses over time.

### Inventory

Inventories are valued at the lower of cost or market. Cost is determined using the specific annual average cost method for the quarry segment and the specific cost method for the manufacturing segment. Inventory is reviewed regularly for excess inventory based on an estimated forecast of product demand. Inventories that are in excess of future requirements are written down to their estimated value based upon projected demand. Demand for our products can be forecasted based on current orders, age of the inventory and discussions with customers. Although management makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand could have an impact on the level of excess material in our inventories and operating results could be affected accordingly.

### Results of Operations

The following table sets forth certain historical statement of operations data as a percentage of net revenues with the exception of quarry and manufacturing gross profit and SG&A, which are shown as a percentage of their respective divisions' revenues.

	<b>YEAR ENDED DECEMBER 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>STATEMENT OF OPERATIONS DATA:</b>		
Net revenues:		
Quarry	51.3%	52.7%
Manufacturing	48.7%	47.3%
Total net revenues	100.0%	100.0%
Cost of goods sold:		
Quarry	74.4%	78.1%
Quarry inventory write-down	13.7%	-
Manufacturing	72.5%	68.7%
Total cost of goods sold	80.5%	73.7%
Gross profit:		
Quarry	11.9%	21.9%
Manufacturing	27.5%	31.3%
Total gross profit	19.5%	26.3%
Selling, general and administrative expenses:		
Quarry	7.9%	10.5%
Manufacturing	27.5%	16.1%
Corporate overhead	6.5%	9.3%
Impairment of long lived asset	2.4%	-
Impairment of investment and advances	-	2.5%
Insurance recovery – quarry asset	-	(0.4%)
Foreign exchange loss	0.0%	0.2%
Other income, net	(0.8%)	(0.3%)
Total SG&A expenses	20.0%	24.4%
Income (loss) from continuing operations	(0.5%)	1.9%
Interest expense	(2.4%)	(3.3%)
Loss from continuing operations before income taxes	(2.9%)	(1.4%)

Provision for income taxes	0.7%	1.0%
Loss from continuing operations	(3.6%)	(2.4%)
Discontinued operations	(0.3%)	(9.4%)
Net loss	(3.9%)	(11.8%)

### **Year Ended December 31, 2008 Compared To Year Ended December 31, 2007**

On a consolidated basis for all segments for the year ended December 31, 2008 compared to the year ended December 31, 2007, revenue increased slightly, gross profit decreased due to the inventory write-down and total selling, general and administrative ("SG&A") expenses decreased 19% for reasons discussed in detail in the segment analysis below.

#### **Quarry Segment Analysis**

Revenues in our quarry operations for the year ended December 31, 2008 decreased 2% from 2007. Shipments in 2008 were higher than 2007 in our Bethel, Pennsylvania and Galactic Blue quarries. All of the other quarries saw decreases from 4% to 20%. See the discussion in this Item 7 – *Management Discussion and Analysis of Financial Condition and Results of Operations* - "General" for a detailed discussion of each quarry.

Gross profit decreased \$3.7 million solely due to the \$3.9 million inventory write-down taken in the fourth quarter of 2008 in our export quarries of Bethel, Salisbury and Gardenia. With the rapid increase in freight costs and changing economic conditions, we have seen a change in what our export customers will accept for inventory. In the past, a second grade or "B" block would be accepted if the price was right and the customer felt it would be worthwhile to take the block and try to trim off the imperfections. Now that the shipping costs can be up to 50% of the price of the block, fewer customers are willing to purchase "B" blocks and therefore we are selling fewer of them. We reevaluated the "B" block inventory and removed any blocks that we believe export customers would not buy. This resulted in a non-cash charge of \$3.9 million taken in the fourth quarter of 2008.

SG&A expenses in our quarry segment for 2008 decreased 26% or \$795,000 from 2007 primarily due to a \$300,000 decrease in administrative and sales salaries and benefits, a \$170,000 decrease in administrative office expenses due to the move from our former corporate headquarters, gain on the sale of non-productive quarry assets of \$200,000 and \$125,000 in decreased travel and related expenses.

#### **Manufacturing Segment Analysis**

The manufacturing division's 2008 net revenue increased by \$930,000 compared to 2007. However, in 2007, sales to our retail division were excluded from net revenue, whereas 2008 net revenue includes approximately \$2.5 million in sales to the previously owned retail locations. If sales to our retail division were included in net revenue for 2007, then net revenue in 2008 would have decreased by \$1.6 million. In 2008, mausoleum sales decreased by \$3 million; other monumental sales increased by \$1 million and sales of industrial products increased by \$400,000 in 2008 compared to 2007.

Gross profit dollars from the manufacturing group decreased 9% or \$749,000 and gross profit as a percentage of revenue decreased 4 percentage points for the year ended December 31, 2008 compared to 2007. The decrease in gross profit margin is due to the decreased sales of higher margin mausoleums. Demand for memorials remains steady, but mausoleum sales were significantly affected by the continued downturn in the economy.

SG&A expenses for the manufacturing group were up \$169,000 or 4% from the prior year primarily as a result of increased sales salaries, benefits and related expenses and bad debt expense offset by a decrease in commissions due to the decrease in mausoleum sales.

#### **Consolidated Items**

Unallocated corporate overhead decreased 30%, or \$1.5 million from the prior year. We consolidated our corporate headquarters in the manufacturing plant's existing administrative offices and decreased staff in conjunction with this move and the sale of the retail division. The majority of this decrease can be attributed to decreased salary and benefit costs of \$900,000; no Canadian withholding tax of \$150,000 in 2008; decreased professional service fees of \$200,000; decreased office supplies, postage, telephone, vehicles and related expenses due to decreased staff of \$200,000 and decreased investor relations costs of \$50,000.

Due to the consolidation of our corporate headquarters in the manufacturing plant's existing offices, the Company had a change in the use of its corporate headquarters building located at 772 Graniteville Road, which we concluded to be a triggering event under SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). We determined that the forecasted undiscounted cash flows related to the building and land was less than its carrying value. As a result, we recorded an impairment charge of \$1,348,000 to reduce the carrying value of the building and land to its estimated fair value. The estimated fair value was based on a discounted cash flow analysis and included consultation with an outside professional real estate appraiser. No assurance can be given that the underlying estimates and assumptions utilized in our determination of an asset's new carrying value will materialize as anticipated. At December 31, 2008, management had not made the decision to sell this building and continued to classify it as part of property, plant and equipment.

In 2007 a charge of \$1,361,000 was recognized in the fourth quarter due to our investment in VIKA experiencing an impairment in value that was other than temporary and fully reserving for advances to VIKA.

Late in 2005, an incident with a derrick in our Barre quarry resulted in significant damage to the derrick. We have received insurance recoveries totaling \$312,000 that restored the derrick to usefulness. These payments have been recognized in the period they were received and \$212,000 was received in 2007.

Foreign exchange gains in 2008 were \$27,000 compared to a loss in 2007 of \$120,000 resulting from the effect of the fluctuating value of the US dollar compared to the Canadian dollar on transactions that are originated in US dollars in our Canadian operations.

Total interest expense was approximately \$1.4 million in 2008 as compared to \$2.5 million in 2007. Total interest expense in 2007 is made up of \$1.8 million in continuing operations and \$674,000 in discontinued operations. Total interest expense decreased \$1.1 million or 45% from 2007 primarily as a result of the decrease in debt as well as lower interest rates in 2008. Interest expense from continuing operations decreased 26% from \$1.8 million to \$1.4 million in 2008.

The income tax expense for 2008 was \$395,000 compared with \$536,000 for 2007. The tax expense in both years reflects taxes at our Canadian subsidiary. At the end of the second quarter of 2005, based on the level of taxable income and projections for future taxable income, the Company determined it was no longer more likely than not that it would generate the required taxable income to fully realize the benefit of the net U.S. deferred tax asset. This resulted in a charge to tax expense of \$9.2 million in the second quarter of 2005. This action did not affect the cash taxes paid by the Company. In each subsequent quarter since then, we have reached a similar conclusion, therefore we have continued to fully reserve for the entire net U.S. deferred tax asset. We will continue to assess the valuation allowance on a regular basis and may reduce the valuation allowance when the Company has taxable income from U.S. operations in the future.

We had a loss from discontinued operations of \$142,000 in 2008 compared to \$5.2 million in 2007. The 2008 loss is made up of \$119,000 of operating losses and \$23,000 of allocated interest. The 2007 loss is made up of income from the discontinued retail operations of \$1,358,000; an impairment charge to write down the retail division to its fair market value of \$5.9 million and interest expense allocated to discontinued operations of \$674,000.

### **Liquidity and Capital Resources**

In light of the current economic situation, we have also evaluated our future liquidity needs, both from a short-term and long-term (>1 year) basis. We believe that cash on hand plus cash generated from operations along with cash available under credit lines are expected to be sufficient in 2009 to service debt, finance capital expenditures, fund operations and fund the pension plan, if necessary. To provide for long-term liquidity, we believe we can generate substantial positive cash flow, as well as obtain additional capital, if necessary, from the use of subordinated debt or equity. In the event that our current capital resources are not sufficient to fund requirements, we believe our access to additional capital resources would be sufficient to meet our needs, although the financing terms available could be significantly different than our current terms.

Historically, we have met our short-term liquidity requirements primarily from cash generated by operating activities and periodic borrowings under the commercial credit facilities described below. Our credit facility with our Lenders was renewed on October 27, 2007 for a term of five years.

In January 2008, we received \$7.6 million in net proceeds from the sale of the retail division. We applied \$4.5 million of these proceeds to the long-term debt and \$3.1 million to the revolving credit facility.

Due to the recent significant worldwide decline in equity prices and the value of other financial investments, the fair value of the assets held by our defined benefit pension plan decreased by \$5.4 million in 2008. As a result, the plan is significantly under-funded. We have historically contributed between \$750,000 and \$1.0 million per year to the plan. We contributed \$750,000 in 2008 and expect

to contribute \$390,000 for 2009 contributions. Due to the large decrease in our funded status we may be required to contribute an additional amount of between \$2.8 million and \$4.3 million, depending on the value of the plan assets as of the end of 2009. In August 2006, the Pension Protection Act was signed into law. Among other things, the Act is aimed at strengthening pension plans by requiring most pension plans to become fully funded over a seven-year period. The Worker, Retiree, and Employer Recovery Act of 2008 (H.R. 7327) was signed into law in late December 2008. The Company is studying the impact of this legislation on the funding requirements of the Act. We will continue the process of funding the unfunded liability which, we believe, we will be able to fund either from cash from operations or borrowing under our credit facilities. See Item 1A, Risk Factors and note 9 of the Notes to Consolidated Financial Statements.

Our primary need for capital will be to maintain and improve our quarrying and manufacturing facilities. We have approximately \$2.1 million budgeted for capital expenditures in 2009.

#### Cash Flow

At December 31, 2008, we had cash and cash equivalents of approximately \$888,000 and working capital of approximately \$21 million, compared to approximately \$2.0 million of cash and cash equivalents and working capital of approximately \$23.6 million at December 31, 2007. The decrease in working capital is mainly due to the decrease in inventory of \$4.8 million, of which \$3.9 million was related to the non-cash impairment charge. This decrease was offset by a \$1.7 million increase in accounts receivable due to very late in the year quarry sales. The decrease in current assets was offset by an \$8.2 million decrease in current borrowings, which is made up of \$7.6 million from the proceeds of the sale of the retail division plus an additional \$600,000 from operations.

*Cash from Operations.* Net cash provided by operating activities was \$2.3 million in 2008 compared to \$3.6 million in 2007. The \$2.2 million net loss in 2008 is adjusted by the non-cash impairment charges of \$5.3 million and depreciation of \$2.4 million and offset by a large increase in accounts receivable along with decreases in accounts payable, customer deposits and pension liabilities. The \$6.6 million 2007 net loss is adjusted by the non-cash impairment charge on the write-down of the retail division of \$5.9 million and the impairment charge on our VIKA related assets of \$1.4 million and depreciation of \$3.7 million. This was offset by a \$1.2 million increase in inventory coupled with decreases in accounts payable and accruals of \$900,000.

*Cash from Investing Activities.* Cash flows provided by investing activities were \$4.9 million in 2008 compared to cash flows used in investing activities of \$1.2 million in 2007. In 2008 our capital spending was \$3.1 million compared to \$1.3 million in 2007. In 2008, proceeds from the sale of the retail division totaled \$7.7 million and proceeds from sales of property, plant and equipment totaled \$473,000 compared to \$114,000 in 2007.

*Cash from Financing Activities.* Financing activities used \$8.0 million in 2008 compared to \$4.4 million in 2007. In 2008 our line of credit was reduced by \$3.1 million and \$5.0 million was paid on our long-term debt. This compares to a \$2.7 million decrease under our line of credit and \$1.6 million paid on our long-term debt in 2007. In 2007 we also had \$100,000 in cash provided from employees exercising stock options which was offset by increased debt issuance costs of \$161,000 associated with the renewal of our credit facility.

*Cash Flow from Discontinued Operations.* The cash flow from discontinued operations are included in the cash flow from continuing operations in the Consolidated Statements of Cash Flows. If stated separately, the net cash flow from discontinued operations was an increase of \$77,000 made up of \$2,932,000 provided by operations, \$43,000 provided by investing activities and \$2,898,000 used in financing activities in 2007. The absence of cash flows due to discontinued operations is not expected to significantly affect the Company's future liquidity or capital resources.

#### Credit Facility

We have a credit facility with the CIT Group/Business Credit and Chittenden Trust Company ("Lenders") that is scheduled to expire in October 2012 and is secured by substantially all assets of the Company located in the United States. The facility consists of an acquisition term loan line of credit of up to \$30.0 million and a revolving credit facility of up to another \$20.0 million based on eligible accounts receivable, inventory and certain fixed assets. Amounts outstanding were \$7,428,085 and \$14,106,939 as of December 31, 2008 and \$10,478,260 and \$19,021,439 as of December 31, 2007, on the revolving credit facility and the term loan line of credit, respectively. Unused availability under the revolving credit facility was \$10,501,457 as of December 31, 2008. The weighted average interest rate was 4.7% and 7.6% on the revolving credit facility in 2008 and 2007, respectively. The credit facility loan agreement places restrictions on our ability to, among other things, sell assets, participate in mergers, incur debt, pay dividends, make capital expenditures, repurchase stock and make investments or guarantees, without pre-approval by the Lenders. The credit facility agreement also contains certain covenants for a Minimum Fixed Charge Coverage Ratio and a limit on the Total Liabilities to Net Worth Ratio of the Company.

**Minimum Fixed Charge Coverage Ratio.** The facility requires the ratio of the sum of earnings before interest, taxes, depreciation and amortization (EBITDA), to the sum of income taxes paid, capital expenditures, interest and scheduled debt repayments be at least 1.00 for any trailing twelve-month period at the end of a quarter through December 31, 2008 and 1.10 beginning with the first quarter of 2009. Primarily as a result of operating losses in 2006 and first quarter 2007, we were in violation of this covenant in the first quarter of 2007 and received a waiver of this covenant from the Lenders. Due to the non-cash impairment charges on the write-down of inventory and the corporate building we were in violation of the covenant at December 31, 2008. We received a waiver of this covenant from the Lenders and amended the agreement. As a result of the amendment the unused line fee went from .25% to .50% and the existing interest rate pricing grid was changed as follows:

	<u>Revolving Credit Facility</u>	<u>Term Loan</u>
Previous Rate Formula	Prime or Libor +2%	Prime + .25% or Libor +2.25%
Amended Rate Formula	Prime + 3% or Libor + 4%	Prime + 3.5% or Libor + 4.5%

**Total Liabilities to Net Worth Ratio.** Our credit facility also requires that the ratio of our total liabilities to net worth (the "Leverage Ratio") not exceed 2.0. The Leverage Ratio excludes from the calculation the change in tangible net worth directly resulting from the Company's compliance with SFAS No. 158 of up to \$6.0 million. In relevant part, SFAS No. 158 required us to place on our books certain unrecognized and unfunded retirement liabilities as of December 31, 2006. As of December 31, 2008, we were in compliance with the Leverage Ratio covenant.

**Interest Rates.** We have a multi-tiered interest rate structure on our outstanding debt with the Lenders. We can elect the interest rate structure under the credit facility based on the prime rate or LIBOR for both the revolving credit facility and the term loan. The incremental rate above or below prime and above LIBOR is based on our Funded Debt to Net Worth Ratio. Based on this ratio, our current rates are 25 basis points higher than the lowest incremental rates currently available to us.

The rates in effect as of December 31, 2008 were as follows:

	<u>Amount Outstanding</u>	<u>Formula</u>	<u>Effective Rate</u>
Revolving Credit Facility	\$ 7.4 million	Prime	3.25%
Term Loan A	14.1 million	Prime + .25 pts.	3.50%

#### Canadian Credit Facility

The Company's Canadian subsidiary has a line of credit agreement with the Royal Bank of Canada that is renewable annually. Under the terms of this agreement, a maximum of \$4.0 million CDN may be advanced based on eligible accounts receivable, eligible inventory, and tangible fixed assets. The line of credit bears interest at the U.S. prime rate. There was -0- and \$20,000 CDN outstanding as of December 31, 2008 and 2007, respectively.

#### Off-Balance Sheet Arrangements

With the exception of our operating leases, we do not have any off-balance sheet arrangements, and we do not have, nor do we engage in, transactions with any special purpose entities.

#### Seasonality

Historically, the Company's operations have experienced certain seasonal patterns. Generally, our net sales have been highest in the second or third quarter and lowest in the first quarter of each year due primarily to weather. Cemeteries in northern areas generally do not accept granite memorials during winter months when the ground is frozen because they cannot be properly set under those conditions. In addition, we typically close certain of our Vermont and Canadian quarries during these months because of increased operating costs attributable to adverse weather conditions. As a result, we have historically incurred a net loss during the first three months of each calendar year.

#### Recent Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", ("FSP 157-2") that amended SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized

or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. We are currently evaluating the effect, if any, that the adoption of FSP 157-2 may have on our financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115", ("SFAS No. 159"). This Statement permits entities to choose to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. This statement is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 had no effect on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations", ("SFAS No. 141(R)"). This Statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective for fiscal years beginning after December 15, 2008. SFAS No. 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent on acquisitions subsequent to that time.

In December 2007 the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". ("SFAS No. 160"). This Statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity; the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently as equity transactions and establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. This statement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effect, if any, that the adoption of SFAS No. 160 may have on our financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB No. 133". ("SFAS No. 161"). This statement amends SFAS No. 133 by requiring enhanced disclosures about an entity's derivative instruments and hedging activities, but does not change SFAS No. 133's scope or accounting. SFAS No. 161 requires increased qualitative, quantitative and credit-risk disclosures about the entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with earlier adoption permitted. We do not expect the adoption of this standard to have an effect on our financial position or results of operations.

In April 2008, the FASB issued FASB Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"), which amends the factors to be considered in renewal or extension assumptions used to determine the useful life of a recognized intangible asset. FSP FAS 142-3 is effective for interim periods and fiscal years beginning after December 15, 2008. The Company will adopt FSP FAS 142-3 effective January 1, 2009. The Company is currently assessing the impact of FSP FAS 142-3 on its financial statements.

In December 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 132(R)-1, "*Employer's Disclosures about Postretirement Benefit Plan Assets.*" This FSP amends SFAS No. 132(R), "*Employers' Disclosures about Pensions and Other Postretirement Benefits – An Amendment of FASB Statements No. 87, 88, and 106*" to require more detailed disclosures about plan assets of a defined benefit pension or other postretirement plan, including investment strategies; major categories of plan assets; concentrations of risk within plan assets; inputs and valuation techniques used to measure the fair value of plan assets; and the effect of fair-value measurements using significant unobservable inputs on changes in plan assets for the period. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009, with earlier application permitted. The adoption of this standard will only impact our financial statement disclosures.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required for this item is included in this Annual Report on Form 10-K on Pages i through xlii, inclusive, and is incorporated herein by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A(T). CONTROLS AND PROCEDURES**

### *Evaluation of Disclosure Controls and Procedures*

The Company, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2008. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have determined, that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management has concluded that the consolidated financial statements in this Form 10-K fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods and dates presented.

### *Management's Report on Internal Control Over Financial Reporting.*

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the framework in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on these criteria, management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting is effective.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

### *Material Weaknesses Reported in Prior Year*

In previous filings the Company reported material weaknesses in internal control over financial reporting and detailed the plans for remediating those weaknesses as follows:

- With the sale of the retail division in 2008, our remaining financial operations can be fully consolidated into our existing financial software program which will reduce the use of manual spreadsheets and, as a result, the burden on current employees responsible for financial reporting.
- We have implemented and will continue to consider additional monitoring procedures by corporate level accounting and finance personnel in our Barre, Vermont office to mitigate the segregation of duties weakness identified at Rock of Ages Canada.
- With the sale of our retail operations in January 2008 and the consolidation of our two Barre office locations in March 2008, we will continue to evaluate the structure of the existing accounting and finance group to determine whether additional personnel are needed or increased training on SEC reporting and US GAAP matters for employees responsible for financial reporting is required to ensure the completeness and accuracy of the Company's financial statements.

All of the remediation measures described above were implemented during 2008 and we believe these measures have been successful in the remediation of the material weaknesses previously identified and have further strengthened and enhanced our internal control over financial reporting. Management has tested the effectiveness of the newly implemented controls and found them to be operating effectively.

### *Changes in Internal Control over Financial Reporting*

The material weaknesses in our internal control over financial reporting that were previously reported have been entirely remediated during the quarter ended December 31, 2008. Other than these remediation changes there have been no other changes in the fourth quarter in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information concerning directors and executive officers of the Company is set forth below.

Unless otherwise indicated, none of the companies or organizations referred to below is a parent, subsidiary or affiliate of the Company.

### **NAMES OF DIRECTORS AND EXECUTIVE OFFICERS (1)**

### **AGE POSITIONS WITH THE COMPANY**

James L. Fox	57	Director
Paul H. Hutchins	53	Vice President/Administration
Richard C. Kimball	68	Director and Vice Chairman
Donald Labonte	47	President and Chief Executive Officer
Laura Plude	51	Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Pamela G. Sheiffer	62	Director
Kurt M. Swenson	64	Chairman of the Board of Directors
Charles M. Waite	76	Director
Frederick E. Webster Jr.	71	Director

(1) Each executive officer serves for a term of one year (and until his successor is chosen and qualified) at the discretion of the Board of Directors.

James L. Fox has been a director of the Company since October 1997. Since January 2007, he has been President and Chief Executive Officer, and from October 2005 to December 2006, he was Executive Vice President and Chief Operating Officer of FundQuest, Inc., a global provider of turnkey, open architecture wealth management programs and services for financial institutions and advisors. From September 2003 to October 2005, he was Executive Vice President and Chief Financial Officer of The BISYS Group, Inc. He was President of Fund Services Division of The BISYS Group, Inc. from April 2003 to September 2003. From August 2001 to April 2003, he was President and Chief Executive Officer of govOne Solutions, L.P., an electronic government payment service. From June 2000 to August 2001, he was Vice President-Corporate Development and Chief Financial Officer of Gomez, Inc., a research and consulting firm specializing in Internet quality measurement. Prior to joining Gomez, Mr. Fox had been Vice Chairman of PFPC Inc., a division of the PNC Financial Services Group, Inc. from December 1999 to June 2000. Before joining PFPC, Inc., Mr. Fox had an eleven year career with the Investor Services Group of First Data Corporation, a provider of processing and mutual fund and retirement services for mutual fund complexes, banks, insurance companies and advisory firms, including serving as President and Chief Executive Officer (1999) and Chief Operating Officer (1997-1999). Mr. Fox has also been a director of Pegasus Solutions, Inc. since June 2006. Mr. Fox's current term as a director of the Company will expire at the Company's 2010 Annual Meeting.

Richard C. Kimball has been a director of the Company since 1986, and Vice Chairman since 1993. From 1993 to January 2001, he was Chief Operating Officer – Memorials Division of the Company and from January 2001 to December 2004, he was Chief Strategic and Marketing Officer. Prior to joining the Company, Mr. Kimball served as a director, principal and President of The Bigelow Company, Inc., a strategic planning and investment banking firm from 1972 until 1993. Mr. Kimball retired as an employee of the Company on December 31, 2004 and served as a consultant to the Company during 2005 and 2006. He returned to The Bigelow Company, Inc. in 2006, where he has been a Senior Director. His current term as a director will expire at the Company's 2009 Annual Meeting.

Paul H. Hutchins has been Vice President/Administration since October 2004. From September 1993 to October 2004, he was Manager of Administration. Mr. Hutchins has held numerous other positions during his 27 year career at Rock of Ages, including Director of Information Services (June 1989 – September 1993), Production Manager (Rock of Ages Canada, Inc., October 1987 – June 1989), Purchasing and Transportation Manager (June 1984 – October 1987) and Staff Engineer (December 1981 – June 1984).

Donald Labonte has been President and Chief Executive Officer since July 2008 and was Chief Operating Officer from February 2008 to June 2008. He was President and Chief Operating Officer/Quarry Division from December 2007 to February 2008, and President and Chief Operating Officer/Manufacturing Division from August 2002 to February 2008. Mr. Labonte has been President of Rock of Ages Canada, Inc., a wholly owned subsidiary of the Company, since 1999. From January 2002 to July 2002, he was Vice President/Manufacturing of the Company. From 1998 to 1999, he was Vice President/General Manager of Rock of Ages Canada, Inc. From 1993 to 1998, Mr. Labonte was Director of Operations of Rock of Ages Canada, Inc. From 1980 to 1993, Mr. Labonte held various positions in the manufacturing plant at Rock of Ages Canada, Inc. At the Company's 2008 Annual Meeting Mr. Labonte was elected as a



director. His current term will expire at the Company's 2011 Annual Meeting.

Laura Plude has been Vice President and CFO since August 2007. She served briefly as Vice President/Finance from July 2007 to August 2007. Ms. Plude was Director of Finance of the Company from August 2004 to July 2007. She was a staff accountant at the Company from August 1999 to August 2004. Prior to joining the Company, Ms. Plude was a self-employed CPA.

Pamela G. Sheffer has been a director of the Company since June 2004. Since 1997, she has been President of P. Joyce Associates, Inc., a consulting firm specializing in retail and apparel sectors, plus providing services to the investment community. Prior to that, Ms. Sheffer held various senior management positions in the retail and apparel industry including Senior Vice President of May Department Stores. She has been a director of New York & Company (NYSE: NWY), a specialty retailer of fashion oriented, moderately priced women's apparel, since August 2006, and a Trustee of the American Management Association since June 2007. She is currently Vice Chairman of Learning Lenders, New York City's largest educational nonprofit with over 12,000 volunteers in New York City schools. Ms. Sheffer's current term as a director will expire at the Company's 2011 Annual Meeting.

Kurt M. Swenson has been Chairman of the Board of Directors of the Company since 1984. From 1984 to June 30, 2008 he also served as Chief Executive Officer and President of the Company. Prior to the Company's initial public offering in 1997, Mr. Swenson had been the Chief Executive Officer and a director of Swenson Granite Company, Inc. from 1974 to September of 1997. Mr. Swenson currently serves as non-executive Chairman of the Board of Swenson Granite Company, LLC, a Delaware limited liability company engaged in the granite curb and landscaping business. Swenson Granite Company, LLC may be deemed an affiliate of the Company. He is also a director of the National Building Granite Quarries Association, an industry association of United States-based dimension granite quarriers. Mr. Swenson's current term as a director will expire at the Company's 2009 Annual Meeting.

Charles M. Waite has been a director of the Company since 1985. Since 1989, Mr. Waite has been managing partner of Chowning Partners, a financial consulting firm that provides consulting services to New England companies. Mr. Waite's current term as a director will expire at the Company's 2010 Annual Meeting.

Frederick E. Webster Jr., Ph.D. has been a director of the Company since October 1997. He was a Professor of Management at the Amos Tuck School of Business Administration of Dartmouth College from 1965 until 2002, and is now the Charles Henry Jones Professor of Management Emeritus. He is also a management consultant and lecturer, and is the Jon Underwood Distinguished Research Fellow in Marketing at the Eller College of Management, University of Arizona. Mr. Webster's current term as a director will expire at the Company's 2011 Annual Meeting.

## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires directors, certain officers and beneficial owners of more than 10% of our Common Stock to file reports of initial beneficial ownership and changes in beneficial ownership of our Class A Common Stock with the Securities and Exchange Commission. Based solely upon a review of reports filed pursuant to Section 16(a) of the Exchange Act and written representations by directors and such officers, the Company believes that during 2008 such persons made all required filings, except that Mr. Fox filed a late Form 4 (Statement of Changes In Beneficial Ownership) reporting the acquisition of 3,965 shares of Class A Common Stock. The late report was the result of an inadvertent clerical error.

## **AUDIT COMMITTEE**

Rock of Ages has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are James L. Fox (Chairman), Charles M. Waite and Richard C. Kimball. The Board of Directors has determined that James L. Fox, Chairman of the Audit Committee is an audit committee financial expert as defined by Item 407(d)(5) of Regulation S-K of the Exchange Act, and is independent under Rule 10A-3(b)(1) under the Exchange Act and as independence is defined for audit committee members in the listing standards of The Nasdaq Stock Market, Inc.

## **CODE OF ETHICS**

On October 20, 2008, the Board of Directors adopted a revised code of business ethics for directors, officers (including Rock of Ages' principal executive officer and principal financial and accounting officer) and employees. The revised code of business ethics is available on Rock of Ages' website at [www.rockofages.com](http://www.rockofages.com). Stockholders can also request a free copy by making such request in writing to Rock of Ages Corporation, PO Box 482, Barre, Vermont 05641, attn: Vice President of Administration. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of our code of ethics that applies to our principal executive officer, principal financial officer, or principal accounting officer or controller by disclosing such information on our website in accordance with Item 5.05 of Form 8-K.

## **ITEM 11. EXECUTIVE COMPENSATION**

## SUMMARY COMPENSATION TABLE

The following table sets forth compensation information concerning the compensation of our Chief Executive Officer and our other two most highly compensated executive officers who served in such capacities during the year ended December 31, 2008 (the "Named Executive Officers").

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (1)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Kurt M. Swenson, Chairman, Former CEO*	2008	\$334,876 (2)	-	-	-	-	\$62,645 (3)	\$1,750 (4)	\$399,271
	2007	\$446,500 (2)	-	-	-	-	\$46,125 (3)	\$1,301 (4)	\$493,926
Donald Labonte, President/CEO	2008	\$253,800 (5)	\$40,000 (6)	-	\$7,947	-	-	\$33,537 (8)	\$335,284
	2007	\$253,800 (5)	\$10,300 (7)	-	-	\$29,700	-	\$33,538 (9)	\$327,338
Paul H. Hutchins, Vice President Administration	2008	\$125,004	\$10,000 (10)	-	\$467	-	-	\$1,385 (4)	\$136,856
	2007	\$125,004	\$5,000 (11)	-	-	-	-	\$1,525 (4)	\$131,529
Laura A. Plude, CFO Vice President Finance	2008	\$100,008	\$10,000 (10)	-	\$14,550	-	-	\$1,750 (4)	\$126,308
	2007	\$88,140	\$5,000 (11)	-	\$5,581	-	-	\$1,547 (4)	\$100,268

\* Mr. Swenson resigned as CEO on June 30, 2008 and retired on September 30, 2008.

- (1) Incentive payments under the 2008 Annual Incentive Plan were accrued in 2008 but paid in 2009.
- (2) For 2008 and 2007, includes \$100,000 of salary earned but deferred in each year at the election of Mr. Swenson pursuant to the Rock of Ages Key Employees Deferred Salary Plan (the "DS Plan").
- (3) Interest credited on deferred salary pursuant to the DS Plan in excess of 120% of the applicable federal long term rate for 2008 and 2007, respectively.
- (4) For 2008 and 2007, respectively, amount represents Company match on 401(k) deferrals.
- (5) For 2007 and 2008, Mr. Labonte was paid an annual base salary of \$253,800 (\$270,000 CDN). For the purposes of this table, to calculate his 2007 and 2008 annual base salary in U.S. dollars, we used a currency conversion rate of \$.94 U.S. to \$1.00 CDN, which represents the average of the exchange rates as of each month during fiscal 2007 and 2008, as published in the Wall Street Journal.
- (6) Discretionary bonus of \$40,000 (\$42,554 CDN) paid in 2009 for 2008 performance. To calculate the amounts paid in U.S. dollars, we used a currency conversion rate of \$.94 U.S. to \$1.00 CDN, which represents the average of the exchange rates as of the end of each month during fiscal 2008, as published in the Wall Street Journal.
- (7) Discretionary bonus of \$10,300 (\$10,958 CDN) paid in 2008 for 2007 performance. To calculate the amounts paid in U.S. dollars, we used a currency conversion rate of \$.94 U.S. to \$1.00 CDN, which represents the average of the exchange rates as of the end of each month during fiscal 2007, as published in the Wall Street Journal.
- (8) Includes \$19,740 (\$21,000 CDN) paid by the Company to Mr. Labonte's self-directed retirement account under the Retirement Plan for Salaried Employees of Rock of Ages Canada, Inc. and \$837 (\$890 CDN) paid for a life insurance policy on Mr. Labonte's life, payable to his heirs. Rock of Ages Canada paid \$12,960 (\$13,787 CDN) into the supplemental retirement plan for Mr. Labonte for 2008. For the purposes of this table, to calculate the amounts paid in 2008 for Mr. Labonte's retirement arrangements, we used a currency conversion rate of \$.94 USD to \$1.00 CDN, which represents the average of the exchange rates as of each month during fiscal 2008, as published in the Wall Street Journal. See "Narrative to Summary Compensation Table" and "PENSION AND POST-RETIREMENT BENEFITS – Canadian Retirement Plans" at page 35 of this report.
- (9) Includes \$18,800 USD (\$20,000 CDN) paid by the Company to Mr. Labonte's self-directed retirement account under the Retirement Plan for Salaried Employees of Rock of Ages Canada, Inc. and \$838 (\$891 CDN) paid for a life insurance policy on

Mr. Labonte's life, payable to his heirs. Effective during fiscal 2007, Rock of Ages Canada, Inc. established a supplemental retirement plan for Mr. Labonte, which is intended to take the place of the unfunded supplemental deferral account referred to in Note 9 to the Consolidated Financial Statements. Rock of Ages Canada has funded the supplemental retirement account with \$106,693 USD (\$113,503 CDN) which represents the amount of the unfunded liability of the supplemental deferral account. This amount was accrued over a number of years with deferred bonuses and salary increases. In addition, Rock of Ages Canada paid \$13,900 USD (\$14,787 CDN) into the supplemental retirement plan for Mr. Labonte for 2007. For the purposes of this table, to calculate the amounts paid in 2007 for Mr. Labonte's retirement arrangements, we used a currency conversion rate of \$.94 USD to \$1.00 CDN, which represents the average of the exchange rates as of each month during fiscal 2007, as published in the Wall Street Journal. See "Narrative to Summary Compensation Table" and "PENSION AND POST-RETIREMENT BENEFITS – Canadian Retirement Plans" at page 35 of this report.

- (10) Discretionary bonus paid in 2009 for 2008 performance.
- (11) Discretionary bonus paid in 2008 for 2007 performance.

**Narrative to Summary Compensation Table**

The Compensation Committee of the Board of Directors (the "Compensation Committee") is primarily responsible for reviewing, approving, and overseeing the Company's compensation plans and practices, and works with management to establish the Company's executive compensation programs. Our executive compensation program consists of four key components: base salary, annual bonus awards, equity based incentives in the form of stock options, and retirement benefits.

*Base Salary*

The Compensation Committee annually reviews the Chief Executive Officer's ("CEO") salary and the CEO's recommendations with regard to the base salaries of our other executive officers. The Compensation Committee did not increase the rate of base salaries for executive officers in 2008 and again decided that it would not increase base salaries for executive officers in 2009.

*Non-Equity Incentive Plans and Cash Bonuses*

Our executive officers, including the Named Executive Officers, participated in the 2008 Annual Incentive Plan, which was adopted by the Compensation Committee and set forth corporate and divisional performance measures for each participating employee, as well as target award values. Performance under the Incentive Plan is measured by the achievement of certain levels of earnings before interest and taxes ("EBIT"), net of incentive payments. The following named executive officer's EBIT targets are set at the corporate level only. The target award values for 2008 for the named executive officers under the Incentive Plan as a percentage of base salary are set forth below:

	Target Award Values (% of Base Salary)		
	Threshold	Target	Maximum
Kurt M. Swenson, Chairman (Former CEO)	10%	25%	50%
Donald M. Labonte, President and CEO	10%	25%	50%
Paul H. Hutchins, Vice President of Administration	10%	25%	50%
Laura A. Plude, CFO and Vice President of Finance	10%	25%	50%

The Compensation Committee may also pay discretionary bonuses to officers if, in the Compensation Committee's sole discretion, a participant has achieved corporate, divisional or personal goals worthy of reward. The Compensation Committee awarded discretionary bonuses for 2008 performance to Mr. Labonte, (\$40,000) the Company's Chief Executive Officer ("CEO"), Mr. Hutchins, (\$10,000) the Company's Vice President of Administration and Ms. Plude (\$10,000) the Company's Chief Financial Officer and Vice President of Finance.

*Stock Options*

Our 2005 Stock Plan was established to provide certain employees with an opportunity to share, along with our stockholders, in our long-term performance. Historically, we have granted stock options which vest based upon continued employment, typically over a three to five year period. All options are granted with maximum terms that expire ten years after the date of grant (or upon earlier termination of the option holder's employment). Typically, we have granted options to executive officers when they are first

appointed. In 2008, the Compensation Committee met and decided that various officers and other management personnel should be granted options. On August 7, 2008, 185,000 options were granted at a strike price of \$2.63. The options vest over five years and lapse in ten years. The specifics of option holdings among our Named Executive Officers are shown at page 33 of this report under the caption "OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END."

#### Retirement Benefits

We maintain a defined benefit plan (the "DB Plan") for non-union employees who were vested in the DB Plan on March 31, 2009. Due to the recent significant worldwide decline in equity prices and the value of other financial investments, the fair value of the assets held by the DB Plan decreased by \$5.4 million in 2008. As a result, the plan is significantly underfunded, and we decided to terminate participation in the DB Plan and the future accrual of benefits. We are evaluating alternatives to the DB Plan, including an enhanced match for our 401K plan. We have entered into salary continuation agreements (the "SC Agreements") with certain officers, including the Former CEO. We also have a deferred salary plan (the "DS Plan") for certain management and highly compensated employees. At the present time, there are no current employees participating in the DS Plan. Our CEO, who is a Canadian citizen, is not eligible to participate in these plans. Accordingly, we provide retirement benefits to our CEO and our Canadian employees through separate retirement plans sponsored by Rock of Ages Canada, Inc, our Canadian subsidiary. The specifics of our retirement programs are shown at page 33 of this report under the caption "PENSION AND POST-RETIREMENT BENEFITS."

#### Employment Agreements

The CEO is the only Named Executive Officer that currently has an employment agreement with the Company. This agreement generally provides for the payment of base salary, severance, and change in control payments. The Former CEO also had an employment agreement with the Company, which was terminated in connection with his retirement from the Company during 2008. The employment agreements with the Named Executive Officers are described in greater detail at page 36 of this report under the caption "EMPLOYMENT AGREEMENTS AND CHANGE IN CONTROL ARRANGEMENTS."

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth information concerning options to purchase Class A Common Stock held by the Named Executive Officers at December 31, 2008.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercisable Options	Equity Incentive Plan Awards: Number of Underlying Unexercised Unearned Options	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Kurt M. Swenson	-	-	-	-	-	-	-	-	-
Donald M. Labonte	15,000	-	-	\$5.98	2/8/2012	-	-	-	-
	-	85,000	-	\$2.63	8/7/2018	-	-	-	-
Paul H. Hutchins	15,000	-	-	\$5.98	2/8/2012	-	-	-	-
	-	5,000	-	\$2.63	8/7/2018	-	-	-	-
Laura A. Plude	5,000	20,000	-	\$5.93	8/14/2017	-	-	-	-

### OPTION EXERCISES AND STOCK VESTED

During 2008 none of the Named Executive Officers exercised any stock options or became vested in any restricted stock.

### PENSION AND POST-RETIREMENT BENEFITS

#### Defined Benefit Pension Plan

We maintain a qualified defined benefit pension plan (the "DB Plan") for non-union employees of Rock of Ages Corporation as of March 31, 2009. The DB Plan is noncontributory and provides benefits based upon a formula calculated by reference to length of

service and final average earnings. As of December 31, 2008, the DB Plan provides an annual life annuity at age 65 equal to 1.8% per year of a participant's highest consecutive five year average compensation (excluding bonus) during the last ten years of employment" ("Final Average Compensation"), plus 0.4% per year of a participant's Final Average Compensation in excess of social security covered compensation times the years of service, up to a maximum of 30 years. Participants who have attained the age of 55 and who have at least 10 years of service may elect to receive early retirement benefits under the DB Plan. In the case of early retirement, the amount of the monthly pension benefit will be equal to the monthly accrued pension benefit, determined as of the early retirement date, reduced actuarially for each month that the early retirement date precedes the normal retirement date. On January 5, 2009, the Company's Board of Directors approved actions to proceed with amendments to its defined benefit pension plan by freezing membership and future benefits in the plan. This action is effective as of March 31, 2009.

The following table shows the total estimated annual retirement benefits payable upon normal retirement under the DB Plan for the Named Executive Officers at the specified executive remuneration and years of continuous service.

Final Average Compensation	15 Years	20 Years	25 Years	30 Years	35 Years
\$125,000	\$37,852	\$50,470	\$63,087	\$75,705	\$75,705
\$150,000	\$46,102	\$61,470	\$76,837	\$92,205	\$92,205
\$175,000	\$54,352	\$72,470	\$90,587	\$108,705	\$108,705
\$200,000	\$62,602	\$83,470	\$104,337	\$125,205	\$125,205
\$225,000	\$70,852	\$94,470	\$118,087	\$141,705	\$141,705
\$250,000	\$79,102	\$105,470	\$131,837	\$158,205	\$158,205
\$275,000	\$87,352	\$116,470	\$145,587	\$174,705	\$174,705
\$300,000	\$95,602	\$127,470	\$159,337	\$191,205	\$191,205
\$325,000	\$103,852	\$138,470	\$173,087	\$207,705	\$207,705
\$350,000	\$112,102	\$149,470	\$186,837	\$224,205	\$224,205
\$375,000	\$120,352	\$160,470	\$200,587	\$240,705	\$240,705
\$400,000	\$128,602	\$171,470	\$214,337	\$257,205	\$257,205
\$425,000	\$136,852	\$182,470	\$228,087	\$273,705	\$273,705
\$450,000	\$145,102	\$193,470	\$241,837	\$290,205	\$290,205
\$475,000	\$153,352	\$204,470	\$255,587	\$306,705	\$306,705
\$500,000	\$161,602	\$215,470	\$269,337	\$323,205	\$323,205

The Former CEO, the Vice President of Administration and the CFO are the only named executive officers participating in the DB Plan. At the time of his retirement in 2008, the Former CEO had 34 years of service. The VP of Administration has 27 years of service and the CFO has 9 years of service. The current CEO, a Canadian citizen, is not eligible to participate in the DB Plan.

### Salary Continuation Agreements

In addition to the DB Plan, we have salary continuation agreements ("SC Agreements") which provide for supplemental pension benefits to certain current and former officers of the Company. The Former CEO is the only Named Executive Officer who is covered by an SC Agreement. Benefits became payable under that agreement upon the Former CEO's retirement in 2008. The Former CEO's SC Agreement provides a 100% joint and survivor annuity at age 65 equal to 1.1% of his highest annual base compensation times full years of service.

The following table sets forth the supplemental pension benefits for the Former CEO under the SC Agreement.

<u>Name</u>	<u>Highest Annual Base Compensation</u>	<u>Total Years of Service at Age 65</u>	<u>Annual Retirement Benefit at Age 65</u>
K. Swenson	\$481,000	26	131,172

### Deferred Salary Plan

We established the Rock of Ages Key Employees Deferred Salary Plan (the "DS Plan") for certain management and highly compensated employees. Participation in the DS Plan is limited to those employees designated by the Board of Directors in its sole discretion, and who satisfy the following criteria: (1) the employee has attained the age of 55; (2) the employee is an executive officer; (3) the employee has completed a minimum of ten years of continuous service with the Company; and (4) the employee's

annual base salary, fringe benefits and other non-cash compensation exceeds \$200,000 (subject to adjustment each year to reflect the average percentage change in the base salaries of all officers of the Company). The former CEO was the only executive officer that participated in the plan in 2008. Since his retirement, there are no executive officers that currently participate in the DS Plan.

Participants may make an irrevocable election to defer up to \$100,000 annually under the DS Plan. Any amounts deferred are reflected in deferred salary accounts created by the Company. Interest at the rate of 12% per annum is credited on a monthly basis to each Participant's deferred salary account. The aggregate account balances remain part of the general unrestricted assets of the Company. Participants do not have any right or claim to any specific assets of the Company, but only a claim against the Company as a general, unsecured creditor to the extent of the undistributed portion of their deferred salary account. Benefits under the DS Plan are paid upon the retirement, death or disability of the participant or other termination of participation, subject to certain procedures relating to distribution. Each year prior to making a deferral, participants must elect the method of distribution that will apply to that deferral upon retirement under the DS Plan. Participants have three distribution options: (i) Interest only on the undistributed account balance at 12% per annum, payable monthly, quarterly or annually for the life of the participant or his/her spouse, with distribution of the remaining account balance payable upon the death of the participant or his/her spouse, whichever is later; (ii) as provided in (i) above, but subject to a term certain of not less than 10 nor more than 20 years with respect to the payment of interest only; or (iii) level payment amortization of the participant's account balance as of the commencement of payments, plus interest on the undistributed account balance at 12% per annum, over any of the time periods available under (i) or (ii) above.

### **Canadian Retirement Plans**

Our Canadian subsidiary, Rock of Ages Canada, Inc. ("ROA Canada"), has a retirement plan for our Canadian employees, the Retirement Plan for Salaried Employees of Rock of Ages Canada, Inc. (the "Basic Canadian Retirement Plan") which is registered with the Province of Quebec and the Government of Canada. All salaried, non-union employees of ROA Canada are participants in the Basic Canadian Retirement Plan, including our CEO, Mr. Labonte. Pursuant to the Basic Canadian Retirement Plan, ROA Canada contributes 8% of a participant's monthly compensation each month to each participant's account. The investments in the account are self-directed by each participant with a range of investment options. ROA Canada may, in its discretion, make an additional contribution to a participant's account, up to a maximum aggregate amount of 13% of a participant's salary per year (including amounts previously contributed during the year). For 2008, Canadian law allowed a maximum contribution per individual to the Basic Canadian Retirement Plan of \$21,000 CDN.

In 2008, we contributed \$19,740 (the full \$21,000 CDN allowable under Canadian law) and in 2007, we contributed \$18,800 (the full \$20,000 CDN allowable under Canadian law) to Mr. Labonte's self-directed retirement account under the Basic Canadian Retirement Account. Effective in 2007 ROA Canada established a supplemental retirement plan for Mr. Labonte ("Canadian Supplemental Plan"). The Canadian Supplemental Plan is funded as a retirement compensation arrangement as defined in Article 248 of the Canadian Income Tax Act. In 2007 we made an initial contribution to the Canadian Supplemental Plan equal to \$106,693 USD (\$113,503 CDN), which was the amount accrued from prior years under the unfunded supplemental deferral account referred to above. The only participant in the Canadian Supplemental Retirement Plan is Mr. Labonte. Each year, ROA Canada may make a contribution to the Canadian Supplemental Plan equal to 13% of Mr. Labonte's base salary, less any amounts paid to the Basic Canadian Retirement Plan for Mr. Labonte. We made contributions to the Canadian Supplemental Plan equal to \$12,960 (\$13,787 CDN) and \$13,900 USD (\$14,787 CDN) in 2008 and 2007, respectively. We may make additional contributions to the Canadian Supplemental Retirement Plan at our discretion. Normal retirement age under the Canadian Supplemental Plan is 65 years however the participant may elect early retirement at age 55, or may elect to postpone normal retirement to not later than age 71. Upon early, normal or postponed retirement, Mr. Labonte is entitled to a lump sum equal to the value of the contributions made to the Canadian Supplemental Plan, plus accrued earnings of the Plan, or he may elect to be paid in installments over 5 years from the retirement date.

### **Post Employment Health Care Policy**

It is our policy to provide post-employment health care coverage to our executive officers and their spouses who retire at age 55 or older. The form and type of benefits to be provided is the coverage that is in effect for active employees from time to time, and the retiree pays his or her portion of the premium for such coverage, as the same may be set from time to time. We reserve the right, in our sole discretion, to change or amend such coverage, the retiree's share of the premium and/or such other terms of the coverage as we deem necessary or advisable, or to cease providing such coverage altogether. Coverage is provided to executive officers who retire at age 55 or older and to their spouses until they reach age 65, provided, however, that health care coverage for a spouse terminates when the executive officer reaches (or would have reached) age 68, regardless of whether the spouse has reached age 65.

## **EMPLOYMENT AGREEMENTS AND CHANGE IN CONTROL ARRANGEMENTS**

### ***Labonte Employment Agreement***

The Company has an employment agreement with the CEO, Mr. Labonte (the "Labonte Employment Agreement"), for retention of his services as President and Chief Executive Officer of the Company. The term of the Labonte Employment Agreement commenced on July 1, 2008, the date he began his duties as Chief Executive Officer, and continues until the fifth anniversary thereof unless extended or terminated. The Labonte Employment Agreement provides for continued payment of salary and benefits for an additional twelve months if Mr. Labonte's employment is terminated by the Company without Cause (as defined in the Labonte Employment Agreement). If Mr. Labonte's employment is terminated by the Company within twelve months after a Change in Control (as defined in the Labonte Employment Agreement) then the Company will pay Mr. Labonte a lump sum in cash within 15 days after the date of termination equal to one times the then current Annual Base Salary.

#### **Swenson Employment Agreement**

The Company had an employment agreement with the Former CEO, Mr. Swenson (the "Swenson Employment Agreement"), for retention of his services as President and Chief Executive Officer of the Company. The term of the Swenson Employment Agreement commenced on October 24, 1997, the date of consummation of the Company's initial public offering and was terminated on April 24, 2008 in connection with Mr. Swenson's retirement agreement. No severance or change in control arrangements were triggered by the termination of the Swenson Employment Agreement, and no such payments were made to Mr. Swenson in connection with the termination of the Swenson Employment Agreement. Mr. Swenson resigned as CEO on June 30, 2008, retired from employment with the Company on September 30, 2008 and continues to serve as the Company's Chairman.

#### **NON-EMPLOYEE DIRECTOR COMPENSATION**

For the 2008 fiscal year, directors who are not also officers of the Company were paid annual directors' retainers of \$30,000. Audit Committee members were paid an additional annual retainer fee of \$2,000 and members of other committees are paid additional annual retainers of \$1,000 for each committee. The non-executive Chairman receives an annual retainer that is at least \$20,000 higher than the highest paid non-employee director, or such other fee as determined by the Compensation Committee or the full board (excluding the Chairman) in its sole discretion. Directors are also eligible for grants under the 2005 Stock Plan. We reimburse our non-employee directors for travel and lodging expenses that they incur in connection with their attendance of directors' meetings and meetings of shareholders of the Company.

#### **Actual Fiscal 2008 Non-Employee Director Compensation**

The following table shows the compensation paid to our non-employee directors for the 2008 fiscal year:

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Non-qualified Deferred Compensation Earnings</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
James L. Fox	33,000	-	-	-	-	-	33,000
Richard C. Kimball	33,000	-	-	-	-	-	33,000
Pamela G. Sheiffer	32,000	-	-	-	-	-	32,000
Charles M. Waite	33,000	-	-	-	-	-	33,000
Frederick E. Webster, Jr.	32,000	-	-	-	-	-	32,000

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth, as of March 16, 2009, certain information with respect to the beneficial ownership of our Common Stock by each (i) director, (ii) Named Executive Officer (iii) beneficial owner of more than 5% of either class of the outstanding Common Stock known to us, based on Securities and Exchange Commission filings and other available information and (iv) by all directors and executive officers of the Company as a group. This information is based upon information received from or on behalf of the individuals or entities named below, except as otherwise noted. The Class B Common Stock is convertible on a share-for-share basis into Class A Common Stock. The Class B Common Stock is entitled to ten votes per share and the Class A Common Stock is entitled to one vote per share. Beneficial ownership has been determined in accordance with the rules of the Securities and Exchange Commission. Except as indicated in the footnotes below, we believe, based on the information furnished or otherwise available to us, the persons and entities named in the table below have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to applicable community property laws. Ownership percentages are based upon 4,812,342 shares of Class A Common Stock and 2,603,721 shares of Class B Common Stock outstanding as of March 20, 2009.

In computing the number of shares of Common Stock beneficially owned by a person and the percentage ownership of such person, shares of Class A Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of March 16, 2009 were deemed to be outstanding. Such shares were not deemed to be outstanding, however, for the purpose of computing the percentage ownership of any other person.

<u>NAME AND ADDRESS OF BENEFICIAL OWNER (1)</u>	<u>SHARES OF CLASS B COMMON STOCK BENEFICIALLY OWNED</u>		<u>SHARES OF CLASS A COMMON STOCK BENEFICIALLY OWNED</u>	
	<u>NUMBER</u>	<u>PERCENT OF CLASS</u>	<u>NUMBER (2)</u>	<u>PERCENT OF CLASS (2)</u>
North Star Investment Management Corp.(3) 20 North Wacker Drive, Suite 1416 Chicago, IL 60606	---	---	655,183	13.6%
Kuby Gottlieb Special Value Fund, LP(4) 20 North Wacker Drive, Suite 1416 Chicago, IL 60606	---	---	423,986	8.8%
Dimensional Fund Advisors, Inc (5) 1299 Ocean Avenue Santa Monica, CA 90401	---	---	318,728	6.6%
Kurt M. Swenson (6) **	1,005,000	38.6%	1,135,000	19.5%
Kevin C. Swenson (7) Willoughby Colby Rd. Warner, NH 03278	1,023,489	39.3%	1,023,489	17.5%
Robert Pope 46 Grand View Farm Road Barre, VT 05641-8335	144,875	5.3%	159,875	3.2%
Richard C. Kimball **	29,126	1.1%	102,126	2.1%
Charles M. Waite**	29,126	1.1%	45,000	*
James L. Fox**	---	---	5,000	*
Frederick E. Webster Jr.**	---	---	5,000	*
Donald Labonte (8)**	---	---	18,000	*
Pamela G. Sheffer**	---	---	5,000	*
Paul H. Hutchins(9)**	---	---	27,200	*
Laura A. Plude (10)	---	---	8,000	*
All directors and executive officers as a group (9 persons)	1,063,252	38.8%	1,350,326	23.0%

\*\* Named Executive Officer and/or Director

\* Less than 1%

- (1) The business address of each director and executive officer of the Company is c/o Rock of Ages Corporation, 560 Graniteville Road, Graniteville, Vermont 05654.
- (2) For each beneficial owner (and directors and executive officers as a group), (i) the number of shares of Class A Common Stock listed includes (or is comprised solely of) the number of Class A shares owned outright or under outstanding vested options and a number of shares equal to the number of shares of Class B Common Stock, if any, listed as beneficially owned by such beneficial owner(s) and (ii) the percentage of Class A Common Stock listed assumes the conversion on March 20, 2008 of all shares of Class B Common Stock, if any, listed as beneficially owned by such beneficial owner(s) into Class A Common Stock and also that no other shares of Class B Common Stock beneficially owned by others are so converted.
- (3) According to a Form 4 dated March 10, 2009, Northstar Investment Management Corp., in its capacity as an investment advisor or manager, may be deemed to be the beneficial owner of the listed shares.
- (4) According to a Schedule 13G dated January 8, 2009, Kuby Gottlieb Special Value Fund, LP in its capacity as an investment advisor or manager, may be deemed to be the beneficial owner of the listed shares that are held of record by certain investment companies, trusts or other accounts it advises or manages.
- (5) According to a Schedule 13G dated February 9, 2009, Dimensional Fund Advisors, Inc., in its capacity as an investment advisor or manager, may be deemed to be the beneficial owner of the listed shares that are held of record by certain investment companies, trusts or other accounts it advises or manages.
- (6) Kurt M. Swenson is the brother of Kevin C. Swenson. Includes 1,005,000 shares of Class B Common Stock and 130,000 shares



of Class A Common Stock held by the Kurt M. Swenson Revocable Trust of 2000. Kurt M. Swenson, as the sole trustee of the Kurt M. Swenson Revocable Trust of 2000, beneficially owns such shares.

- (7) Kevin C. Swenson is the brother of Kurt M. Swenson.
- (8) Includes 15,000 shares of Class A Common Stock subject to currently exercisable stock options.
- (9) Includes 15,000 shares of Class A Common Stock subject to currently exercisable options.
- (10) Includes 5,000 shares of Class A Common Stock subject to currently exercisable options.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information regarding the Company's equity compensation plan as of December 31, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders	324,000	\$4.06	323,333
Equity compensation plans not approved by security holders	None	None	None
Total	324,000	\$4.06	323,333

- (1) On June 22, 2005 at our Annual Meeting of Stockholders, the stockholders approved the Rock of Ages Corporation 2005 Stock Plan (the "2005 Plan"). The 2005 Plan permits awards of stock options (including both incentive stock options and nonqualified stock options) and restricted stock. A maximum of 550,000 shares of Class A Common Stock may be issued under the 2005 Plan. The 2005 Plan is administered by the Compensation Committee, which has the authority to determine the recipients of awards under the 2005 Plan and, subject to the 2005 Plan, the terms and condition of such awards. The 2005 Plan replaces the Rock of Ages Corporation 1994 Stock Plan (the "1994 Plan") which expired in November 2004. Although grants made under the 1994 Plan prior to its expiration remain outstanding, no further grants may be made under the 1994 Plan.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

***Transactions with Related Persons, Promoters and Certain Control Persons***

***Transactions With Related Persons***

In connection with and prior to its initial public offering in 1997, the Company effected a reorganization whereby, among other things, the Company's then parent corporation, Swenson Granite Company, Inc. ("Swenson Granite"), was merged with and into the Company, with the Company as the surviving corporation, and, immediately prior to such merger, Swenson Granite distributed its curb and landscaping business to its stockholders through a pro rata distribution of all of the member interests in a newly formed limited liability company named Swenson Granite Company LLC ("Swenson LLC"). Kurt M. Swenson, the Company's Chairman and Chief Executive Officer, and his brother Kevin C. Swenson, each own approximately 31% of Swenson Granite LLC. Certain other executive officers and directors of the Company collectively own approximately 9% of Swenson LLC. Kurt M. Swenson serves as a non-officer Chairman of the Board of Swenson LLC, but has no involvement with its day-to-day operations. Robert Pope, a holder of more than 5% of the Class B Common Stock, is Swenson LLC's President and Chief Executive Officer, and including shares owned by his wife and children, owns approximately 12% of Swenson LLC. Neither Kurt M. Swenson nor any other officer or director of the Company, receives salary, bonus, expenses or other compensation from Swenson LLC, except for any pro rata share of earnings attributable to their ownership interest in Swenson LLC.

Swenson LLC owns two granite quarries: one in Concord, New Hampshire and another in Woodbury, Vermont. Both have been owned by Swenson LLC (or its predecessor Swenson Granite) for more than 40 years. Because of the proximity of the Woodbury quarry to Barre, Vermont, the Company provides, and may continue to provide, certain maintenance services and parts to the Woodbury quarry and is reimbursed for the cost of such services. During 2008, the Company received approximately \$12,000 for such maintenance services and parts. Both the Company and Swenson LLC have the right to terminate these services at any time. The

Company also purchases Concord blocks and other products from Swenson LLC at market prices. The Company's purchases of granite provided by Swenson LLC in 2008 were approximately \$45,000. Swenson LLC also purchases granite blocks and slabs from the Company. Such purchases amounted to approximately \$19,000 in 2008. The Company believes these arrangements with Swenson LLC are not material and that they are on terms as favorable, or more favorable, to the Company than would be available from an unrelated party for comparable granite products. Both of Swenson LLC's quarries produce gray granite primarily for curb and landscape use. Although Rock of Ages' gray granite from its Barre and Stanstead quarries is used primarily for memorial use, it may be in competition with Swenson LLC in some markets, including the supply of its gray granites for other than memorial use. Swenson LLC has supplied its Woodbury granite to manufacturers of government grave markers made for the Veterans' Administration for many years and Rock of Ages has not been in the business of selling or manufacturing its gray granites for use in Veterans markers.

On January 17, 2008, we entered into a definitive stock purchase agreement with PKDM Holdings, Inc., a corporation owned by Richard M. Urbach, the President and Chief Operating Officer of our retail operations, and James Barnes, the financial manager of our retail operations. Pursuant to the stock purchase agreement, we sold all of our retail operations to PKDM for a purchase price of \$8 million, paid in cash at the closing, which was completed on January 17, 2008. We classified our retail operations as a discontinued operation as of December 31, 2007, and recorded a write down in the carrying value of the retail division of approximately \$5.9 million as of that date.

The determination to sell the retail operations was reached after our Board engaged in a lengthy process of fully exploring strategic alternatives with the assistance of Covington Associates, LLC, a Boston-based investment banking firm selected by a special committee of non-employee directors and retained by the Company in 2006. The sale to PKDM was recommended to the Board by this special committee following the solicitation of bids from interested parties, and Covington Associates delivered a favorable opinion to the Board with respect to the fairness to the Company, from a financial point of view, of the consideration to be received by the Company in the transaction.

In connection with the transaction, we entered into a five year supply agreement with PKDM and its operating subsidiary, North American Heritage Services, Inc. ("NAHS"), naming it as an authorized Rock of Ages retailer in the existing retail territories formerly serviced by its owned retail stores, and PKDM agreed to minimum annual memorial purchases from the Company of \$3.5 million during each year of the five year term, excluding private mausoleums. PKDM's minimum purchase obligation under the Supply Agreement is subject to reduction if PKDM permanently closes or sells stores that were operated by them on the date of the original Supply Agreement. Pursuant to the Supply Agreement, the amount of such reduction is equal to the three year average annual purchases of closed or sold stores. Due to the closure or sale of a number of locations by PKDM during 2008, effective January 16, 2009 the parties agreed to revise the minimum purchase requirements to \$1,780,000 for the year of the agreement ending on January 17, 2009 and to \$1,210,000 for each of the remaining years of the initial term and any renewal term.

Mr. Urbach and Mr. Barnes resigned from employment with the Company at the closing. Mr. Urbach entered into a resignation agreement with the Company at the closing, pursuant to which Mr. Urbach agreed to waive any severance or change in control payment that may have been due him pursuant to his employment agreement. The Company agreed to pay Mr. Urbach a performance bonus of \$25,000 for 2007 performance.

On April 24, 2008, we entered into a retirement agreement with Kurt M. Swenson (the "Swenson Retirement Agreement"), who was then our Chairman and CEO. Pursuant to the Swenson Retirement Agreement, Mr. Swenson agreed to retire as CEO on June 30, 2008. The Swenson Retirement Agreement provided that he would remain an employee of the Company until September 30, 2008, and during that time would assist in transition of a new CEO of the Company. We agreed to pay Mr. Swenson at his current salary until September 30, 2008. Upon his retirement, Mr. Swenson agreed to continue to serve as Chairman of the Board of Directors, and in light of his additional duties as Chairman, we agreed to pay Mr. Swenson an annual non-executive Chairman's fee that is at least \$20,000 higher than the next highest paid member of the Board of Directors.

#### ***Review, Approval or Ratification of Transactions with Related Persons***

Upon the recommendation of the Audit Committee, in March 2007 the Company's Board of Directors adopted a written policy under which related person transactions must be pre-approved by the Audit Committee. Under the policy, generally a related person transaction is any transaction, arrangement or relationship involving an amount exceeding \$75,000 between the Company and any executive officer, director or 5% stockholder (and their family members), or any entity in which any such person is an executive officer, director, general partner, managing member or person in a similar position, has a 5% or greater ownership interest, or of which such person is an employee who will receive a direct economic benefit from the transaction. Prior to the Company entering into a related person transaction, the Company's management must submit the proposed transaction to the Audit Committee for consideration at a meeting. The Audit Committee considers all of the relevant facts and circumstances available to it, including (if applicable) but not limited to: the benefits to the Company; the impact on a director's independence in the event the person in question is a director, an immediate family member of a director, or an entity in which a director is an equity holder or of which a director is an executive officer, general partner, managing partner or a person in a similar position; the availability of other sources for

comparable products or services; the terms of the proposed transaction; and the terms available to unrelated third parties or to employees generally. No member of the Audit Committee may participate in any review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person. The Audit Committee will approve only those related person transactions that are in, or not inconsistent with, the best interests of the Company and its stockholders. Approval by a majority of the members of the Audit Committee (or by the Chairman of the Audit Committee in the circumstances described below) will be sufficient to approve a related person transaction.

As described above, the written policy provides that proposed related person transactions would normally be considered by the Audit Committee at a meeting. However, the policy includes procedures to address situations when approvals need to be sought between scheduled Audit Committee meetings. The policy provides that in those instances in which the Company's general counsel, in consultation with the Company's Chief Executive Officer and the Chairman of the Audit Committee, determines that it is not practical or desirable for the Company to delay seeking approval of a related person transaction until the next scheduled Audit Committee, or until a special meeting of the Audit Committee can be convened, the management shall submit the proposed related person transaction to the Chairman of the Audit Committee, who will have delegated authority to consider and act on behalf of the Committee with respect to the proposed related person transaction. In that event, the Chairman of the Audit Committee will consider all of the relevant facts and circumstances available to the Chairman, including (if applicable) but not limited to those described above which would be considered by the Audit Committee at a meeting at which the proposed related person transaction was being considered. If a related person transaction is approved in this manner by the Chairman of the Audit Committee, such approval will be reported to the Audit Committee at its next meeting.

***Director Independence***

The Board of Directors has determined that each of our directors, other than Mr. Swenson, is independent under the listing standards of The Nasdaq Stock Market, Inc. Mr. Swenson serves as our Chairman, and until June 30, 2008, served as our CEO. Therefore, the Board of Directors determined that he is not independent under the listing standards of the Nasdaq Stock Market, Inc. In making its independence determinations, the Board of Directors reviewed transactions and relationships, if any, between the director or any member of his or her immediate family and us or one or more of our subsidiaries or affiliates based on information provided by the director, Company records and publicly available information.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table shows the fees paid by Rock of Ages for the audit and other services provided by Grant Thornton LLP and its affiliates for fiscal 2008 and 2007. The Audit Committee considered all of these services rendered by Grant Thornton LLP and its affiliates to be compatible with the maintenance of Grant Thornton LLP's and its affiliates' independence.

The Audit Committee did not utilize the de minimis exception to the pre-approval requirements to approve any services provided by Grant Thornton LLP and its affiliates during fiscal 2008.

	2008	2007
Audit Fees (1)	\$ 361,500	\$ 539,352
Tax Fees (2)	81,830	71,353
All Other Fees	—	—
Total	<u>\$ 443,330</u>	<u>\$ 610,705</u>

The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve audit-related and non-audit services not prohibited by law to be performed by Rock of Ages' independent auditors, provided the Chair shall report any decisions to pre-approve such audit-related or non-audit services and fees to the full Audit Committee at its next regular meeting and the Audit Committee ratifies the approval of such non-audit services by the Chair.

- (1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements and audit services provided in connection with other statutory or regulatory filings, including out of pocket expenses.
- (2) For 2008, tax fees included \$9,000 for tax consultations related to the filing of the IRS Form 338(h)(10) election which was an election to treat the stock sale of the retail division as an asset sale for tax purposes. For 2007 tax fees included solely tax compliance fees.

## PART IV

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) The following documents are filed as part of or are included in this Annual Report on Form 10-K and are incorporated herein by reference:
1. The financial statements listed in the Index to Consolidated Financial Statements and Financial Statement Schedule, filed as part of this Annual Report on Form 10-K.
  2. All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.
  3. The exhibits listed in the Exhibit Index filed as part of this Annual Report on Form 10- K.

### **EXHIBIT INDEX**

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
3.1	Form of Amended and Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
3.2	Amended and Restated By-laws of the Company (as amended through April 6, 1999) (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on November 16, 2007)
4.	Specimen Certificate representing the Class A Common Stock (incorporated herein by reference to Exhibit 4 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
10.1*	First Amendment and Restatement of Rock of Ages Corporation Key Employees Deferred Salary Plan dated April 6, 2006 (incorporated herein by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
10.2*	Rock of Ages 2005 Stock Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on June 23, 2005)
10.3*	Employment Agreement of Kurt M. Swenson (incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
10.4*	Employment Agreement of Douglas S. Goldsmith dated May 25, 2006 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on June 16, 2006)
10.5*	Employment Agreement of Michael B. Tule dated May 25, 2006 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on June 16, 2006)
10.6*	Amendment No. 1 to Employment Agreement of Kurt M. Swenson dated April 20, 2006 (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)

- 10.7\* Amendment to Salary Continuation Agreement of Kurt M. Swenson dated April 20, 2006 (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.8\* Retirement Agreement of Kurt M. Swenson dated April 28, 2008 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2008)
- 10.9\* Severance Agreement and General Release dated May 22, 2006 between Rudolph R. Wrabel and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 26, 2006)
- 10.10\* Severance Agreement and General Release dated May 22, 2006 between Caryn A. Crump and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 26, 2006)
- 10.11\* Form of Salary Continuation Agreement (incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 10.12 Form of Collective Bargaining Agreement dated as of April 29, 2006 by and between Rock of Ages Corporation and the Granite Cutter's Association (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.13 Form of Side Letter Agreement dated April 29, 2006 by and between the Granite Cutter's Association and Rock of Ages Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.14 Form of Collective Bargaining Agreement dated as of April 29, 2006 by and between Rock of Ages Corporation and the Granite Cutter's Association (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
- 10.15 Form of Side Letter Agreement dated April 29, 2006 by and between the Granite Cutter's Association and Rock of Ages Corporation (incorporated herein by reference to Exhibit 10.124 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
- 10.16 Credit Facility dated as of June 25, 1997 between Royal Bank of Canada and Rock of Ages Canada, Inc., Rock of Ages Quarries Inc. and Rock of Ages Canada Inc. (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 10.17 Twelfth Amendment and Consent to Financing Agreement dated as of October 30, 2006, by and between The CIT Group/Business Credit and Rock of Ages Corporation, Rock of Ages Kentucky Cemeteries, LLC, Carolina Quarries, Inc., Pennsylvania Granite Corporation, Rock of Ages Memorials, Inc. and Sioux Falls Monument Company (incorporated herein by reference to Exhibit 10.01 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on November 1, 2006)
- 10.18 Thirteenth Amendment and Consent to Financing Agreement dated as of March 29, 2007, by and between The CIT Group/Business Credit and Rock of Ages Corporation, Rock of Ages Kentucky Cemeteries, LLC, Carolina Quarries, Inc., Pennsylvania Granite Corporation, Rock of Ages Memorials, Inc. and Sioux Falls Monument Company (incorporated herein by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)

- 10.19 Supply Agreement dated as of January 11, 2002 by and between Rock of Ages Corporation and Adams Granite Co., Inc. (incorporated herein by reference to exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed with the Securities and Exchange Commission on April 1, 2002)
- 10.20 Amendment to Supply Agreement dated as of January 1, 2004 by and between Rock of Ages Corporation and Adams Granite Co., Inc. (Incorporated by reference to Exhibit 10.2 to the Company's annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed with the Commission on April 2, 2007)
- 10.21 Amendment No. 2 to Supply Agreement dated as of January 16, 2007 by and between Rock of Ages Corporation and Adams Granite Co., Inc. (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed with the Commission on April 2, 2007)
- 10.22 Purchase and Sale Agreement and related exhibits dated July 28, 2006 by and between Rock of Ages Corporation, Carolina Quarries, Inc. and New England Stone Industries, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q For the quarterly period ended September 30, 2006 and filed with the Securities and Exchange Commission on November 13, 2006)
- 10.23 Amendment No. 1 to Purchase and Sale Agreement and related exhibits dated October 19, 2006 by and between Rock of Ages Corporation, Carolina Quarries, Inc. and New England Stone Industries, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q For the quarterly period ended September 30, 2006 and filed with the Securities and Exchange Commission on November 13, 2006)
- 10.24 Stock Purchase Agreement dated as of January 17, 2008 by and between PKDM Holdings, Inc. and Rock of Ages Corporation. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on January 23, 2008)
- 10.25 Termination Agreement and General Release dated January 17, 2008 by and between Richard M. Urbach and the Company (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008)
- 10.26 Authorized Retailer Supply and License Agreement dated as of January 17, 2008 by and between the Company, PKDM Holdings, Inc., North American Heritage Services, Inc., Keith Monument Company, LLC, and Sioux Falls Monument Co., LLC (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008) †
- 10.27 Amendment No. 1 to Supply Agreement dated as of January 16, 2009 (executed and delivered March 10, 2009) by and between Rock of Ages Corporation and PKDM Holdings, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 11, 2009)
- 10.28 Amended and Restated Financing Agreement dated October 24, 2007 by and between The CIT Group/Business Credit, Inc. and Carolina Quarries, Inc., Pennsylvania Granite Corp., Keith Monument Company, LLC, Rock of Ages Memorials, Inc., Sioux Falls Monument Co., and the Company. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on October 25, 2007)
- 10.29 First Amendment to Amended and Restated Financing Agreement dated March 30, 2009 by and between The CIT Group/Business Credit, Inc. and Carolina Quarries, Inc., Pennsylvania Granite Corp., Keith Monument Company, LLC, Rock of Ages Memorials, Inc., Sioux Falls Monument Co., and the Company. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on March 31, 2009)
- 10.30 Letter from The CIT Group/Business Credit, Inc. to Carolina Quarries, Inc., Pennsylvania Granite Corp., Keith Monument Company, LLC, Rock of Ages Memorials, Inc., Sioux Falls Monument Co., and the Company consenting to sale of the Company's retail division (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008)
- 10.31 Supplemental Retirement Plan for Donald Labonté dated as of January 1, 2007 (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the

Commission on March 31, 2008)

- 10.32 Employment Agreement of Donald M. Labonte dated as of July 1, 2008 (executed and delivered on August 26, 2008) (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on August 28, 2008)
- 11. Statement re: computation of per share earnings (incorporated herein by reference to Note (1)(n) of the Company's consolidated financial statements (filed herewith))
- 21. Subsidiaries of the Company
- 23.1 Consent of Grant Thornton LLP
- 31.1 Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

\* This exhibit is a management contract or compensatory plan or arrangement.

† Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2008 and 2007

(With Report of Independent Registered Public Accounting Firm Thereon)



# ROCK OF AGES CORPORATION AND SUBSIDIARIES

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Rock of Ages Corporation:

We have audited the accompanying consolidated balance sheets of Rock of Ages Corporation (a Delaware Corporation) and subsidiaries (collectively, the "Company") as of December 31, 2008 and 2007 and the related statements of operations, stockholders' equity and comprehensive loss, and cash flows for the years then ended. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15 (a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rock of Ages Corporation and subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

Boston, Massachusetts  
March 31, 2009

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Consolidated Balance Sheets  
December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 888,099	\$ 1,960,512
Trade receivables, less allowance for doubtful accounts of \$227,920 in 2008 and \$131,825 in 2007	13,314,324	11,712,693
Inventories	16,839,448	21,679,833
Income taxes receivable	135,682	98,336
Other current assets	1,425,065	1,768,736
Assets held for sale	477,274	—
Current assets of discontinued operation	—	14,266,459
Total current assets	33,079,892	51,486,569
Property, plant and equipment:		
Granite reserves and development costs	16,300,376	16,098,666
Land	3,963,610	4,283,516
Buildings and improvements	10,950,292	13,155,111
Machinery and equipment	27,304,228	26,818,110
Furniture and fixtures	965,006	1,128,021
Construction-in-process	292,029	441,988
	59,775,541	61,925,412
Less accumulated depreciation, depletion and amortization	29,777,079	30,139,159
Net property, plant and equipment	29,998,462	31,786,253
Other assets:		
Cash surrender value of life insurance policies	132,184	186,454
Identified intangible assets, net	570,954	382,933
Goodwill	387,156	387,156
Debt issuance costs, net	143,381	155,823
Other long-term assets	130,833	259,512
Total other assets	1,364,508	1,371,878
Total assets	\$ 64,442,862	\$ 84,644,700

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Consolidated Balance Sheets  
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Borrowings under line of credit	\$ 7,428,085	\$ 10,498,386
Current maturities of long-term debt	39,839	5,191,044
Trade payables	1,334,125	1,793,503
Accrued expenses	2,225,986	2,303,048
Salary continuation and other post-employment liabilities	567,274	583,801
Customer deposits	453,595	746,608
Liabilities of discontinued operation	—	6,748,236
Total current liabilities	<u>12,048,904</u>	<u>27,864,626</u>
Long-term debt, net of current maturities	14,381,488	14,158,177
Salary continuation liabilities, net of current portion	5,381,913	5,530,678
Accrued pension cost	9,025,673	3,668,281
Accrued post-employment benefit cost	1,622,671	1,574,791
Other liabilities	1,523,338	1,322,474
Deferred tax liabilities	27,421	54,937
Total liabilities	<u>44,011,408</u>	<u>54,173,964</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - \$0.01 par value; 2,500,000 shares authorized; none issued	—	—
Common stock - Class A, \$0.01 par value; 30,000,000 shares authorized; 4,812,342 and 4,677,467 shares issued and outstanding as of December 31, 2008 and 2007, respectively	48,124	46,775
Common Stock - Class B, \$0.01 par value; 15,000,000 shares authorized; 2,603,721 and 2,738,596 shares issued and outstanding as of December 31, 2008 and 2007	26,037	27,386
Additional paid-in capital	65,688,524	65,656,658
Accumulated deficit	(35,547,869)	(33,352,380)
Accumulated other comprehensive loss	(9,783,362)	(1,907,703)
Total stockholders' equity	<u>20,431,454</u>	<u>30,470,736</u>
Total liabilities and stockholders' equity	<u>\$ 64,442,862</u>	<u>\$ 84,644,700</u>

See accompanying notes to consolidated financial statements

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Operations  
Years ended December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
Net revenues:		
Quarry	\$ 28,685,500	\$ 29,292,419
Manufacturing	27,183,365	26,253,337
Total net revenues	55,868,865	55,545,756
Cost of goods sold:		
Quarry	21,332,267	22,889,256
Quarry inventory write-down	3,929,686	—
Manufacturing	19,715,534	18,036,488
Total cost of goods sold	44,977,487	40,925,744
Gross profit:		
Quarry	3,423,547	6,403,163
Manufacturing	7,467,831	8,216,849
Total gross profit	10,891,378	14,620,012
Selling, general and administrative expenses:		
Quarry	2,266,873	3,061,465
Manufacturing	4,382,813	4,214,275
Corporate overhead	3,635,699	5,187,083
Impairment of long-lived assets	1,348,253	—
Impairment of investment in and advances to affiliate	—	1,361,329
Insurance recovery – quarry asset	—	(211,811)
Foreign exchange (loss) income	(27,071)	119,712
Other income, net	(424,555)	(159,017)
Total selling, general and administrative expenses	11,182,012	13,573,036
Income (loss) from operations	(290,634)	1,046,976
Interest expense, net	1,367,564	1,843,667
Loss from continuing operations before income taxes	(1,658,198)	(796,691)
Provision for income taxes	394,980	535,867
Loss from continuing operations	(2,053,178)	(1,332,558)
Discontinued operations, including impairment charge of \$5,908,509 in 2007	(142,311)	(5,223,924)
Net loss	\$ (2,195,489)	\$ (6,556,482)
Net loss per share – basic and diluted:		
Loss from continuing operations	\$ (0.28)	\$ (0.18)
Discontinued operations	(0.02)	(0.70)
Net loss per share	\$ (0.30)	\$ (0.88)
Weighted average number of common shares outstanding – basic and diluted	7,416,063	7,416,063

See accompanying notes to consolidated financial statements.

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity and Comprehensive Loss**  
**Years ended December 31, 2008 and 2007**

	<u>CLASS A COMMON STOCK</u>	<u>CLASS B COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>ACCUMULATED DEFICIT</u>	<u>ACCUMULATED OTHER COMPREHENSIVE LOSS</u>	<u>TOTAL STOCKHOLDERS' EQUITY</u>
Balance at December 31, 2006	\$ 46,608	\$ 27,386	\$ 65,550,908	\$ (26,795,898)	\$ (6,328,348)	\$ 32,500,656
Comprehensive loss:						
Net loss	—	—	—	(6,556,482)	—	(€ 556,482)
Cumulative translation adjustment	—	—	—	—	1,854,349	1,854,349
Net unrealized loss on securities available for sale	—	—	—	—	(111,800)	(111,800)
Pension liability adjustment, net	—	—	—	—	2,678,096	2,678,096
Total comprehensive loss	—	—	—	—	—	(2,135,837)
Stock compensation expense	—	—	5,581	—	—	5,581
Exercise of stock options	167	—	100,169	—	—	100,336
Balance at December 31, 2007	\$ 46,775	\$ 27,386	\$ 65,656,658	\$ (33,352,380)	\$ (1,907,703)	\$ 30,470,736
Comprehensive loss:						
Net loss	—	—	—	(2,195,489)	—	(2,195,489)
Cumulative translation adjustment	—	—	—	—	(2,020,538)	(2,020,538)
Net unrealized loss on securities available for sale	—	—	—	—	(94,600)	(94,600)
Pension liability adjustment, net	—	—	—	—	(5,760,521)	(5,760,521)
Total comprehensive loss	—	—	—	—	—	(10,071,148)
Stock compensation expense	—	—	31,866	—	—	31,866
Conversion of Common Stock	1,349	(1,349)	—	—	—	—
Balance at December 31, 2008	\$ 48,124	\$ 26,037	\$ 65,688,524	\$ (35,547,869)	\$ (9,783,362)	\$ 20,431,454

See accompanying notes to consolidated financial statements.

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Cash Flows  
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net loss	\$ (2,195,489)	\$ (6,556,482)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment of discontinued operations	—	5,908,509
Impairment of investment in and advances to affiliate	—	1,361,329
Impairment of long-lived asset	1,348,253	—
Write-down of inventory	3,929,686	—
Other than temporary impairment on investment	93,640	—
Loss (gain) on sale of assets	(197,061)	269,055
Depreciation, depletion and amortization	2,399,793	3,729,739
Deferred taxes	(21,327)	(9,770)
Stock compensation expense	31,866	5,581
Decrease (increase) in cash surrender value of life insurance policies	54,271	(18,486)
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	(1,942,652)	842,295
Decrease (increase) in inventories	11,623	(1,158,637)
Decrease (increase) in other current assets	106,555	(203,068)
Decrease (increase) in other assets	(88,203)	223,700
Increase (decrease) in trade payables and accrued expenses	(657,309)	(879,428)
Increase (decrease) in customer deposits	(293,014)	(117,124)
Increase (decrease) in salary continuation, pension and post-employment liabilities	(497,180)	16,100
Increase (decrease) in other liabilities	200,865	170,062
Net cash provided by operating activities	<u>2,284,317</u>	<u>3,583,375</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,088,531)	(1,279,061)
Purchase of intangible asset	(179,197)	—
Proceeds from sale of assets	473,032	114,385
Proceeds from sale of retail division	7,716,604	—
Net cash provided by (used in) investing activities	<u>4,921,908</u>	<u>(1,164,676)</u>
Cash flows from financing activities:		
Net repayments under line of credit	(3,070,301)	(2,719,226)
Principal payments on long-term debt	(4,923,910)	(1,628,252)
Stock options exercised	—	100,335
Debt issuance costs	(24,101)	(161,195)
Net cash used in financing activities	<u>(8,018,312)</u>	<u>(4,408,338)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(260,326)</u>	<u>605,056</u>
Net decrease in cash and cash equivalents	(1,072,413)	(1,384,583)
Cash and cash equivalents, beginning of year	<u>1,960,512</u>	<u>3,345,095</u>
Cash and cash equivalents, end of year	\$ <u>888,099</u>	\$ <u>1,960,512</u>

See accompanying notes to consolidated financial statements.

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**  
Consolidated Statements of Cash Flows, continued  
Years ended December 31, 2008 and 2007

	<u>2008</u>		<u>2007</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 1,405,359	\$	2,664,493
Income taxes	550,772		540,756

Supplemental non-cash investing and financing activities:

The Company recorded an adjustment due to a decrease in the funded status of the pension plans of \$5,760,520 in 2008. In 2007, the Company recorded an adjustment due to an increase in the funded status of the pension plans of \$2,678,096.

See accompanying notes to consolidated financial statements.



## ROCK OF AGES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In this report, the terms "Company," "we," "us," or "our" mean Rock of Ages Corporation and all subsidiaries included in our consolidated financial statements. Rock of Ages was founded in 1885 and is an integrated granite quarrier and manufacturer whose principal product is granite memorials used primarily in cemeteries. We own and operate nine active quarry properties and five manufacturing and sawing facilities in North America, principally in Vermont and the Province of Quebec. Until the retail division was sold on January 17, 2008, we marketed and distributed our memorials on a retail basis through approximately eighty Company-owned retail sales outlets in sixteen states. We sell memorials wholesale to approximately 115 independent authorized Rock of Ages retailers in the United States as well as approximately 116 retailers in Canada.

#### (a) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

#### (b) CASH AND CASH EQUIVALENTS

We consider financial instruments that are both readily convertible to cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates to be cash equivalents.

The Company had approximately \$873,000 and \$1,945,000 of cash and cash equivalents in foreign banks at December 31, 2008 and 2007, respectively.

#### (c) INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined using the specific annual average cost method for the quarry segment and the specific cost method for the manufacturing segment and former retail segment.

#### (d) PROPERTY, PLANT AND EQUIPMENT

The Company capitalizes significant purchases of items having expected useful lives in excess of one year. Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line and declining balance methods based upon the following estimated useful lives:

Buildings and improvements	10 to 40 years
Leasehold improvements	Shorter of the estimated useful life or lease term
Machinery and equipment	3 to 20 years
Furniture and fixtures	5 to 12 years

Depreciation expense amounted to \$2,117,274 and \$3,412,743 in 2008 and 2007, respectively.

Cost depletion and amortization of granite reserves and development costs are charged to operations based on cubic feet produced in relation to estimated reserves of the property. Cost depletion and amortization charged to operations amounted to \$126,124 and \$148,756 in 2008 and 2007, respectively.

#### (e) GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

Identified intangible assets (those intangible assets with definite estimated useful lives) are recorded at fair value at the date of acquisition and are amortized, using the straight-line method, over their estimated useful lives. Such intangible assets are reviewed for impairment as set forth in note 1 (l).

Goodwill is recorded when consideration paid for a business acquisition exceeds the fair value of the net tangible and identifiable intangible assets acquired. The Company accounts for goodwill and certain other identified intangible assets in accordance with Statement of Accounting Standards ("SFAS") No. 142, "Goodwill and other Intangible Assets" ("SFAS No. 142"). In accordance with SFAS No. 142 the Company tests goodwill for impairment annually and

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when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Goodwill is tested for impairment using a two-step process. The first step is to determine if there is an impairment based on the estimated fair value of the reporting units compared to the carrying value and the second step, if necessary, is to determine the amount of the impairment.

During the fourth quarter of 2008, based on a combination of factors, including a sustained decline in the Company's market capitalization, the Company concluded that there were sufficient indicators to require the Company to perform an interim goodwill impairment analysis as of December 31, 2008. Accordingly, the Company performed a step 1 impairment assessment of its goodwill by reporting unit and determined that the estimated fair value exceeded its carrying value and therefore passing step 1. The estimated fair value of the reporting unit was determined using a discounted cash flow as the best evidence of fair value. There can be no assurance that goodwill will not become impaired in future periods. The Company performs its annual impairment test in the first quarter. All of the Company's goodwill is assigned to the Quarry Segment.

### (f) DEBT ISSUANCE COSTS

The Company amortizes debt issuance costs using the straight-line method over the term of the related borrowing. Amortization expense was \$36,543 and \$68,210 in 2008 and 2007, respectively, and is reported with interest expense in the accompanying consolidated statements of operations.

### (g) FOREIGN CURRENCY TRANSLATION

The functional currency of the Company's Canadian subsidiary is the Canadian dollar. The Company translates the accounts of its foreign subsidiary in accordance with SFAS No. 52, "Foreign Currency Translation," under which all assets and liabilities are translated at the rate of exchange in effect at year-end. Revenue and expense accounts are translated using weighted average exchange rates in effect during the year. Gains or losses from foreign currency translation are included in accumulated other comprehensive loss, which is included in stockholders' equity in the accompanying consolidated financial statements. All realized and unrealized transaction gains and losses are separately reported in the statements of operations.

### (h) INCOME TAXES

The Company files its U.S. Federal income tax return on a consolidated basis. Rock of Ages Canada, Inc., a wholly owned subsidiary, is responsible for income taxes in Canada. Max Mining, a wholly owned subsidiary, is responsible for income taxes in Luxembourg.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. This assessment is made each reporting period.

The Company is allowed to claim percentage depletion for tax purposes under IRS Code Section 613 based upon income derived from quarrying operations.

In July 2006, the FASB issued FIN No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, Accounting for Income Taxes", ("FIN 48"). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective January 1, 2007. The implementation of this interpretation had no impact on our financial statements and we continue to have no unrecognized tax benefits or

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liabilities as a result of adopting FIN 48.

### (i) STOCK-BASED EMPLOYEE COMPENSATION

The Company adopted SFAS No. 123R "Share Based Payments" ("SFAS No. 123R"), in 2006, which had no impact on the financial statements as the vesting of all unvested options were accelerated prior to adoption. SFAS No. 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values.

### (j) PENSION AND OTHER POST-EMPLOYMENT PLANS

The Company maintains a defined benefit pension plan covering substantially all of its Vermont based non-union employees. The benefits are based on years of service and the employee's compensation. The Company's funding policy is to annually contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws plus such additional amounts, if any, as we may determine to be appropriate.

We have salary continuation plans that cover certain employees described in more detail in Note 9. We measure the cost of our obligations based on actuarial estimates and recognize net periodic costs as employees render the necessary services to earn the benefits.

The Company also sponsors a post-employment health care plan for certain early retirees and executive officers and post-employment group life insurance plans for all Vermont-based union and non-union employees. We measure the cost of our obligations based on actuarial estimates and recognize net periodic costs as employees render the services necessary to earn the post-employment benefits.

### (k) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change are the estimated useful lives of property, plant and equipment, the deferred tax asset valuation allowance, actuarial assumptions affecting pension and other post-employment plan accounting, inventory valuation, the allowance for doubtful accounts receivable and long-lived asset impairments.

### (l) IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by a comparison of the carrying amount of an asset to estimated, undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

### (m) REVENUE RECOGNITION

#### Quarry

The granite we quarry is sold to outside customers and used by our manufacturing group. Our quarry division recognizes revenue from sales of granite blocks to outside customers when the granite is shipped and invoiced from the quarry except for cases noted below. We generally provide a 5% discount for domestic customers if payment is made within 30 days of purchase, except in the case of December terms described below. Sales to foreign customers are typically secured by a letter of credit.

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At our Barre, Vermont quarries, we allow customers to purchase granite blocks and at their request we store the blocks for them. Many of our customers do not have adequate storage space at their facilities and want to ensure an adequate supply of blocks, especially when the Barre quarries are closed from mid-December through mid-March because of weather. Our quarry division recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"). Blocks are sold when the customer selects and identifies the block at the quarry site, requests the block be stored and they have significant business reasons to do so. At that time, the block is removed from inventory, the customer's name is printed on the block, and title and risk of ownership passes to the buyer. The customer is invoiced and normal payment terms apply, except in the case of December terms described below. Granite blocks owned by customers remain on our property for varying periods of time after title passes. We retain a delivery obligation using our trucks. However, we consider the earnings process substantially complete because the cost of delivery service is inconsequential (less than 3%) in relation to the selling price. Further, under industry terms of trade, title passes and the payment obligation is established when the block is identified at the quarry.

Each December, we offer special payment terms to customers of our Barre quarries. As noted above, from approximately mid-December to approximately mid-March, our Barre quarries are closed due to weather. During this time, manufacturing plants remain open and many customers prefer to ensure they own blocks of a size and quality selected by them prior to the quarries' closure. All blocks purchased in December are invoiced on or about December 31 and, at that time, the blocks are removed from inventory, the customer's name is printed on the blocks, and title and risk of ownership passes to the buyer. Payment terms are one-third of the invoice amount on January 15, one-third on February 15, and one-third on March 15. The program provides essentially the normal 30-day payment terms during the months when the Barre quarries are closed notwithstanding the customer purchases a three-month supply in December and makes payments over 90 days. Customers need not use these special December terms and may buy from inventory during the closure period on a first-come, first-served basis with the normal 30-day payment terms.

### Manufacturing

We record revenue related to internally transferred granite only after the granite is manufactured into a finished product and sold to an outside customer. Manufacturing revenues related to outside customers are recorded when the finished product is shipped from our facilities or set in a cemetery, if we are responsible for the setting, which is when risk of ownership transfers to the customer, persuasive evidence of an arrangement exists and collectibility is reasonably assured. Prior to the sale of the retail division in January 2008, manufacturing revenues related to internally transferred finished products to our former retail stores were recorded when ultimately sold to an outside customer.

### Retail

Until we sold the retail division on January 17, 2008, retail revenues were recorded when the finished monument was placed in a cemetery, which is when risk of ownership transfers to the customer, persuasive evidence of an arrangement exists and collectibility is reasonably assured.

### Freight

The Company accounts for freight in accordance with Emerging Issues Task Force Consensus No. 00-10, "Accounting for Shipping and Handling Fees and Costs". Amounts charged to customers for shipping product are included in revenues and the related costs are classified in cost of sales.

## (n) NET INCOME (LOSS) PER SHARE

Net income (loss) per share, or basic earnings (loss) per share, is computed by dividing earnings available for common shares by the weighted average number of common shares outstanding during each year. Net income (loss) per share - diluted, or diluted earnings (loss) per share, is computed by dividing earnings available for common shares by the weighted average number of common shares outstanding during each year, adjusted to include the additional number of common shares that would have been outstanding if the dilutive potential common shares under stock based compensation programs had been issued. Potential common shares are not included in the diluted income (loss) per share calculations when the effect of their inclusion would be antidilutive, such as when the Company incurs a net loss.

## (o) ACCUMULATED OTHER COMPREHENSIVE LOSS

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Other comprehensive loss consists of the following components, which are presented in the consolidated statements of stockholders' equity and comprehensive loss.

	<u>Foreign Currency Translation</u>	<u>Unfunded Pension Liability</u>	<u>Investment Available For Sale</u>	<u>Accumulated Other Comprehensive Loss</u>
Balance at December 31, 2006	\$ 1,671,396	\$ (8,145,944)	\$ 146,200	\$ (6,328,348)
Other comprehensive income for the year	<u>1,854,349</u>	<u>2,678,096</u>	<u>(111,800)</u>	<u>4,420,645</u>
Balance at December 31, 2007	\$ 3,525,745	\$ (5,467,848)	\$ 34,400	\$ (1,907,703)
Other comprehensive loss for the year	<u>(2,020,538)</u>	<u>(5,760,521)</u>	<u>(94,600)</u>	<u>(7,875,659)</u>
Balance at December 31, 2008	\$ <u>1,505,207</u>	\$ <u>(11,228,369)</u>	\$ <u>(60,200)</u>	\$ <u>(9,783,362)</u>

Included in other comprehensive income/loss was a reclassification adjustment of \$86,000 in 2008 and \$0 in 2007 for the investment available for sale. Included in other comprehensive income/loss was a reclassification adjustment of \$172,000 and \$232,000 in 2008 and 2007, respectively for the unfunded pension liability.

**(p) INVESTMENTS**

Through its wholly owned subsidiary, Max Mining, the Company has a 1/3-equity interest in VIKA, Ltd., a Ukrainian closed stock company that owns the rights to quarry stone known as "Galactic Blue" on certain property located in the Ukraine. As of December 31, 2007, the Company wrote-off its investment in VIKA. See note 11 for additional discussion of this decision.

The Company owns common stock of a public company, representing an equity interest of less than 20%, where we do not exercise significant influence over the operating and financial policies of the investee. This investment is accounted for as available for sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and is carried at fair market value with unrecognized gain or loss recorded in accumulated other comprehensive loss. As of December 31, 2008 the Company determined that the stock had experienced an impairment in value that was other than temporary and as a result the Company recorded a loss of \$94,000.

**(q) ADVERTISING EXPENSES**

Advertising costs are expensed as incurred, and amounted to \$173,000 and \$272,000 in 2008 and 2007, respectively.

**(r) WARRANTY**

Our memorials are covered by a full perpetual or a limited perpetual warranty depending on the particular granite. The Company estimates probable warranty costs at the time revenue is recognized. The Company exercises judgment in determining its accrued warranty liability and considers factors that may affect warranty liability, including historical and anticipated rates of warranty claims. To date, warranty obligations have not been significant.

**(s) ASSET RETIREMENT OBLIGATIONS**

The Company accounts for its asset retirement obligations in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") and FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations," ("FIN No. 47") which is an interpretation of SFAS No. 143. These pronouncements relate to legal obligations associated with the retirement of tangible long-lived assets that result from acquisition, construction, development or normal operation of a long-lived asset. We performed an analysis of such obligations and determined they were not significant. Many of our permits to quarry, especially in Vermont and Canada, pre-date the current remediation regulations, therefore pre-date any retirement obligations related to these quarries.

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### (t) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables relate to amounts due from customers of each of our segments. The Company generally requires collateral in the form of a deposit, the amount of which depends upon the length of the relationship with the customer, past payment history of the customer and other factors. In the case of most foreign transactions, a letter of credit securing payment is required. To reduce credit risk, credit assessments are performed prior to accepting an initial order from most quarry and manufacturing customers. Trade accounts receivable are recorded at the invoiced amount and do not bear interest.

The estimated allowance for doubtful accounts receivable is based, in large part, upon judgments and estimates of inherent losses. The Company determines the allowance based on a specific evaluation of delinquent accounts and considers a number of factors, including the length of time trade accounts receivable are past due and previous loss experience. Accounts receivable determined to be losses are written off against the allowance; any recoveries of receivables previously written off are credited to the allowance when received.

### (u) FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements", for its financial assets and liabilities. SFAS No. 157 establishes a new framework for measuring fair value and expands disclosure requirements. SFAS No. 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

SFAS No. 157's valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1— Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable.
- Level 3 — Valuations derived from valuation techniques in which significant value drivers are unobservable.

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the short-term nature of these instruments. Investment securities are carried at fair value using level one inputs. The long-term and short-term debt instruments bear interest at variable rates, which at December 31, 2008 we estimated to be below market. If this debt was at market rates we estimate the carrying value would be approximately \$1.8 million more.

### (v) RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", ("FSP 157-2") that amended SFAS No. 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope. We are currently evaluating the effect, if any that the adoption of items deferred under FSP 157-2 may have on our financial statements. Items not deferred under FSP 157-2 did not have a material impact upon adoption.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115", ("SFAS No. 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for fiscal years beginning after November 15, 2007. The Company has not elected to account for any of its assets or liabilities using the fair value option under SFAS No. 159 and, accordingly, this statement had no effect on our financial statements.

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In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141(R)"). This statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. It establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective for fiscal years beginning after December 15, 2008. SFAS No. 141(R) will have an impact on accounting for business combinations once adopted, but the effect is dependent on acquisitions subsequent to that time.

In December 2007 the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51". ("SFAS No. 160"). This statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity; the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently as equity transactions and establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. This statement is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effect, if any, that the adoption of SFAS No. 160 may have on our financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB No. 133". ("SFAS No. 161"). This statement amends SFAS No. 133 by requiring enhanced disclosures about an entity's derivative instruments and hedging activities, but does not change SFAS No. 133's scope or accounting. SFAS No. 161 requires increased qualitative, quantitative and credit-risk disclosures about the entity's derivative instruments and hedging activities. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008, with earlier adoption permitted. We do not expect the adoption of this standard to have an effect on our financial position or results of operations.

In April 2008, the FASB issued FASB Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"), which amends the factors to be considered in renewal or extension assumptions used to determine the useful life of a recognized intangible asset. FSP FAS 142-3 is effective for interim periods and fiscal years beginning after December 15, 2008. The Company will adopt FSP FAS 142-3 effective January 1, 2009. The Company is currently assessing the impact of FSP FAS 142-3 on its financial statements.

In December 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 132(R)-1, *Employer's Disclosures about Postretirement Benefit Plan Assets.* This FSP amends SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits – An Amendment of FASB Statements No. 87, 88, and 106* to require more detailed disclosures about plan assets of a defined benefit pension or other postretirement plan, including investment strategies; major categories of plan assets; concentrations of risk within plan assets; inputs and valuation techniques used to measure the fair value of plan assets; and the effect of fair-value measurements using significant unobservable inputs on changes in plan assets for the period. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009, with earlier application permitted. We do not expect the adoption of this standard to have an effect on our financial position or results of operations.

### (2) OPERATING MATTERS AND LIQUIDITY

In recent years the Company has experienced significant net losses principally due to expansion and subsequent sale of its former retail operations, the valuation allowance established against deferred tax assets, an inventory write-down and impairment charges for a certain investment and long-lived asset. During the past four years, such losses totaled approximately \$30 million contributing to an accumulated deficit at December 31, 2008 of \$35.5 million. During this period, the Company had increased its borrowings over the first three years by \$6.2 million but decreased borrowings by \$8 million during 2008.

Beginning in the second half of 2005 through 2008, management has taken numerous actions to reduce expenses. Most

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significantly, the Company consummated the sale of its retail division in January 2008 at which time it received cash of approximately \$7.7 million which was partially used to reduce debt. See note 15 for additional discussion of this transaction.

With the disposition of its retail division and other cost cutting actions taken in its other operating segments, the Company achieved improved results in 2008. While its overall results improved in 2008, they were adversely affected by a non-cash impairment charge of the former main office building and an inventory write-down which totaled \$5.3 million. In the past two years we have had positive cash flow from operations and have been able to reduce debt by \$12.3 million while still investing \$4.4 million in purchases of property, plant and equipment.

As a result of the actions taken in prior years, management believes that the Company will operate at a profit in 2009, will generate positive cash flows and will remain in compliance with all financial covenants of its debt agreement.

**(3) GOODWILL AND IDENTIFIED INTANGIBLE ASSETS**

Goodwill and identified intangible assets consist of the following at December 31, 2008 and 2007:

	<u>ESTIMATED USEFUL LIFE</u>	<u>2008</u>	<u>2007</u>
Goodwill	Indefinite	\$ <u>387,156</u>	\$ <u>387,156</u>
Customer lists	5 -10 Years	\$ 617,875	\$ 310,000
Less accumulated amortization		<u>(176,567)</u>	<u>(89,125)</u>
Total customer lists		441,308	220,875
Covenants not to compete	5 Years	\$ 342,123	\$ 342,123
Less accumulated amortization		<u>(212,477)</u>	<u>(180,065)</u>
Total covenants not to compete		129,646	162,058
Total other identified intangible assets		\$ <u><u>570,954</u></u>	\$ <u><u>382,933</u></u>

Amortization expense was \$119,854 and \$100,029 in 2008 and 2007, respectively.

Estimated future amortization expense related to identified intangible assets is as follows:

<u>Year Ending December 31</u>	
2009	\$ 126,270
2010	126,270
2011	126,270
2012	126,270
2013	31,000
Thereafter	35,000

**(4) INVENTORIES**

Inventories consist of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Raw materials	\$ <u>11,610,189</u>	\$ <u>15,689,151</u>
Work-in-process	1,165,909	1,077,019
Finished goods and supplies	<u>4,063,350</u>	<u>4,913,663</u>
	\$ <u><u>16,839,448</u></u>	\$ <u><u>21,679,833</u></u>



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The finished goods and supplies inventory includes \$2,075,000 and \$2,125,000 of retail display inventory as of December 31, 2008 and December 31, 2007, respectively that is located at various retail locations and is consigned to PKDM Holdings Inc., ("PKDM") the owners of the Company's former retail division. PKDM is responsible for purchasing this inventory at the Company's book value as it is sold plus any inventory remaining after the tenth anniversary of the transaction.

During the fourth quarter of 2008, the Company reevaluated the current quantities of second grade or "B" block inventory at its export quarries, Bethel, Salisbury and Gardenia. Due to escalating freight costs, which now can account for up to 50% of the selling price of blocks, as well as the continued downturn in the global economy, fewer customers are willing to purchase "B" blocks. Based on these circumstances the Company has estimated that approximately \$3.9 million of this inventory to be excessive as of December 31, 2008 and, accordingly, recorded the write-down during the fourth quarter of 2008.

### (5) COMMITMENTS AND CONTINGENCIES

#### Leases

The Company has several non-cancelable operating leases for land, vehicles and office space. Rental expense for all operating leases, including leases in 2007 for former retail locations, was \$204,142 and \$1,117,739 in 2008 and 2007, respectively.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows:

<u>Year Ending December 31,</u>	
2009	\$ 200,003
2010	195,773
2011	185,307
2012	178,796
2013	165,545
Thereafter	130,477
	<u>\$ 1,055,901</u>

The Company also is the lessor of certain parcels of land and buildings. The leases expire at various times through 2028. Rental income was \$148,228 and \$173,137 in 2008 and 2007, respectively. Future minimum rentals to be received under non-cancelable leases are as follows:

<u>Year Ending December 31</u>	
2009	\$ 118,591
2010	112,282
2011	77,983
2012	64,142
2013	75,680
Thereafter	560,279
	<u>\$ 1,008,957</u>

#### Purchase Commitment

In connection with the sale of the Lawson manufacturing plant in Barre, Vermont ("Lawson") in 2001, the Company entered into a Supply Agreement with Adams Granite Co. ("Adams"). The Company agreed to purchase a minimum of \$3,000,000 of monuments from Adams each year for a term of seven years with various stipulations as to variations from the "minimum order" and pricing agreements. If orders over a two-year period were less than the "minimum order," then the Company would at its sole option, either place orders for monuments in the amount of the deficiency or pay Adams the gross margin that Adams would have realized had such orders been placed and filled. The gross margin used in this calculation would be Adams' average gross margin on sales of monuments to the Company over the prior two-year period.

The Supply Agreement with Adams was amended on January 1, 2004 reducing the minimum order obligation to \$2,250,000 per

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year, plus or minus 10%. The minimum order for each year will be measured separately and any variance in one year will not be added to or subtracted from the minimum order obligation in any subsequent year. The remedy for placing less than the minimum order remains the same.

The Supply Agreement with Adams was further amended on January 16, 2007 waiving the Company's failure to meet the minimum order required for 2006 and adding the \$225,000 shortfall from 2006 to the minimum order obligation for 2007. The minimum order obligation for 2008 remained the same as under the first amendment.

The third amendment to the Supply Agreement with Adams was entered into on June 11, 2008 waiving the Company's failure to meet the minimum order required for 2007. Under the new agreement each company agrees to extend the term of the supply agreement to include the period from January 11, 2009 to January 10, 2010. The minimum order obligation under the extended term is \$1,150,000 for 2008 and \$1,200,000 for the final year. The Company exceeded its minimum order obligation for 2008.

### Litigation

The Company is party to legal proceedings that arise from time to time in the ordinary course of its business. While the outcome of these proceedings cannot be predicted with certainty, management based on its discussions with legal counsel, does not expect these matters to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

### Other commitments

The Company has an employment agreement with one of its executive officers that includes a change in control provision. It provides for the lump-sum payment of an amount equal to one year's salary and certain other benefits in the event of a change in control of the Company.

## (6) CREDIT FACILITY

In October 2007, the Company entered into a new credit facility (the "Facility") with its existing lenders, the CIT Group/Business Credit and Chittenden Trust Company ("Lenders") that is scheduled to expire in October 2012 and is secured by substantially all assets of the Company located in the United States. The Facility consists of an acquisition term loan line of credit of up to \$30.0 million and a revolving credit facility of up to another \$20.0 million based on eligible accounts receivable, inventory and certain fixed assets less standby letters of credit. Amounts outstanding were \$7,428,085 and \$14,106,939 as of December 31, 2008 and \$10,478,260 and \$19,021,439 as of December 31, 2007, on the revolving credit facility and the term loan line of credit, respectively. Availability under the revolving credit facility was \$10,501,457 as of December 31, 2008. The weighted average interest rate was 4.72% and 7.56% on the revolving credit facility in 2008 and 2007, respectively. The Facility places restrictions on our ability to, among other things, sell assets, participate in mergers, incur debt, pay dividends, make capital expenditures, repurchase stock and make investments or guarantees, without pre-approval by the Lenders.

Prior to the completion of the sale of the retail division in January 2008, the Company sought and received all required approvals from the Lenders. In connection with this transaction, the Lenders required that the Company repay \$4.5 million of its term loan which was included with the current maturities of long-term debt in the accompanying balance sheet at December 31, 2007. The remainder of the proceeds were applied to the revolving credit facility.

*Minimum Fixed Charge Coverage Ratio.* The Facility requires the ratio of the sum of earnings before interest, taxes, depreciation and amortization (EBITDA), to the sum of income taxes paid, capital expenditures, interest and scheduled debt repayments be at least 1.00 for any trailing twelve-month period at the end of each quarter through December 31, 2008 and 1.10 beginning with the first quarter of 2009. Primarily as a result of operating losses in 2006 and first quarter 2007, we were in violation of this covenant in the first quarter of 2007 and received a waiver of this covenant from the Lenders. Due to the non-cash impairment charges on the write-down of inventory and the corporate building we were in violation of the covenant at December 31, 2008. We received a waiver of this covenant from the Lenders and amended the agreement. As a result of the amendment the unused line fee went from .25% to .50% and the existing interest rate pricing grid was changed as follows:

	<u>Revolving Credit Facility</u>	<u>Term Loan</u>
Previous Rate Formula	Prime or Libor + 2%	Prime + .25% or Libor + 2.25%
Amended Rate Formula	Prime + 3% or Libor + 4%	Prime + 3.5% or Libor + 4.5%

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*Total Liabilities to Net Worth Ratio.* Our Facility also requires that the ratio of our total liabilities to net worth (the "Leverage Ratio") not exceed 2.0. The Leverage Ratio excludes from the calculation the change in tangible net worth directly resulting from the Company's compliance with SFAS No. 158 of up to \$6 million. In relevant part, SFAS No. 158 required us to place on our books certain unrecognized and unfunded retirement liabilities beginning December 31, 2006. As of December 31, 2008, we were in compliance with the Leverage Ratio covenant.

*Interest Rates.* We have a multi-tiered interest rate structure on our outstanding debt with the Lenders. We can elect the interest rate structure under the credit facility based on the prime rate or LIBOR for both the revolving credit facility and the term loan. The incremental rate above or below prime and above LIBOR is based on our Funded Debt to Net Worth Ratio. Based on this ratio, our current rates are 25 basis points higher than the lowest incremental rates currently available to us.

The rates in effect as of December 31, 2008 were as follows:

	<u>Amount Outstanding</u>	<u>Formula</u>	<u>Effective Rate</u>
Revolving Credit Facility	\$ 7.4 million	Prime	3.25%
Term Loan	14.1 million	Prime + 0.25 pts.	3.50%

The Company's Canadian subsidiary has a line of credit agreement with the Royal Bank of Canada that is renewable annually. Under the terms of this agreement, a maximum of \$4.0 million CDN may be advanced based on eligible accounts receivable, eligible inventory, and tangible fixed assets. The line of credit bears interest at the U.S. prime rate. There was \$0 CDN and \$20,000 CDN outstanding as of December 31, 2008 and 2007, respectively.

**(7) LONG-TERM DEBT**

Long-term debt at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Term loan – interest at 3.50% at December 31, 2008 (see note 6), due October 2012, secured by substantially all assets of the Company	\$ 14,106,939	\$ 19,021,439
Note payable – Former employee, interest at 8%, payable in monthly payments of \$2,593, unsecured, due January 2021	239,546	250,995
Note payable – Vehicles, interest at 0.0%, monthly payments ranging from \$330 to \$800	74,842	76,787
	<hr/>	<hr/>
	14,421,327	19,349,221
Less current maturities	39,839	5,191,044
	<hr/>	<hr/>
Long-term debt, excluding current maturities	\$ 14,381,488	\$ 14,158,177

Scheduled maturities of long-term debt as of December 31, 2008 are as follows:

Year Ending December 31

2009	\$ 39,839
2010	40,868
2011	32,192
2012	14,125,004
Thereafter	183,424
	<hr/>
	\$ 14,421,327

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

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**(8) INCOME TAXES**

Income (loss) from continuing operations before income taxes, classified by source, for the years ended December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
U.S.	\$ (3,026,508)	\$ (1,147,255)
Foreign	1,368,310	350,564
Loss from continuing operations before income taxes	<u>\$ (1,658,198)</u>	<u>\$ (796,691)</u>

A summary of the significant components of the provision (benefit) for income taxes for the years ended December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Current:		
Federal	\$ —	\$ —
State	—	—
Foreign	416,307	545,637
	<u>416,307</u>	<u>545,637</u>
Deferred:		
Federal	—	—
State	—	—
Foreign	(21,327)	(9,770)
	<u>(21,327)</u>	<u>(9,770)</u>
Total provision for income taxes	<u>\$ 394,980</u>	<u>\$ 535,867</u>

There are no income taxes, current or deferred in discontinued operations or other comprehensive loss.

A reconciliation of differences between the statutory U.S. federal income tax rate on the loss from continuing operations before income taxes, discontinued operations and the Company's effective tax rate follows:

	<u>2008</u>	<u>2007</u>
U.S. statutory rate	(34.0%)	(34.0%)
Change in valuation allowance	588.8%	90.8%
Loss on sale of retail division	(560.1%)	—
Canadian repatriation	—	36.0
Impairment of foreign assets	—	56.3
Other, primarily tax depletion	29.1%	(81.8%)
Effective tax rate	<u>23.8%</u>	<u>67.3%</u>

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are presented below:

	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
Accrued pension, accrued postretirement benefit cost and deferred compensation	\$ 5,008,000	\$ 3,488,000
Allowance for doubtful accounts	63,000	152,000
Accrued expenses	93,000	59,000
Inventories	1,236,000	345,000
Deferred revenue	8,000	3,000
Names and reputations	280,000	2,478,000
Alternative minimum tax credits	2,932,000	2,932,000
Foreign tax credits	2,097,000	1,996,000
Charitable contribution limitation	67,000	87,000
State net operating loss carryforward	3,528,000	1,571,000
Federal net operating loss carryforward	12,784,000	3,835,000
Fixed assets	—	110,000
Impairment charges	375,000	1,583,000
Accrued warranty	19,000	23,000
Cash surrender value	25,000	40,000
Total gross deferred tax assets	28,515,000	18,702,000
Less valuation allowance	(28,155,000)	(18,391,000)
Total net deferred tax asset	360,000	311,000
Deferred tax liabilities:		
Quarry development	(268,000)	(280,000)
Other liabilities	(8,000)	(31,000)
Property and equipment	(111,421)	(54,937)
Total gross deferred tax liabilities	(387,421)	(365,937)
Net deferred tax liability	\$ (27,421)	\$ (54,937)

Deferred tax assets include significant alternative minimum tax credit carry-forwards, which have been fully reserved and may be carried forward indefinitely. Utilization of these alternative minimum tax credits is limited to future federal income tax in excess of the alternative minimum tax. Deferred tax assets also include federal and state net operating loss carry-forwards, which have been fully reserved due to uncertainties regarding sufficient future state taxable income to utilize carryovers.

During 2005, based on taxable income and projections for future taxable income, the Company believed it was not more likely than not that it would generate the required taxable income to fully realize the benefit of the net U.S. deferred tax assets. As such, we adjusted our valuation allowance against the deferred tax assets to fully reserve for the entire net U.S. deferred tax asset which resulted in a charge to tax expense of \$9,194,000 in 2005. Since 2005, we have continued to fully reserve for the entire net U.S. deferred tax asset. We continue to assess the valuation allowance on a regular basis and may reduce the valuation allowance if and/or when the Company has taxable income from its U.S. operations. U.S. gross deferred tax assets increased \$9,813,000 during 2008. The valuation allowance increased \$9,764,000 in order to maintain our fully reserved position. The net deferred tax liability of \$27,421 is related to temporary differences on the depreciation of property and equipment utilized by Rock of Ages Canada.

As of December 31, 2008, the Company has U.S. federal net operating loss carry-forwards of approximately \$64 million which will be available to offset future taxable income. If not used, these carry-forwards will expire in 2024 through 2028. The use of our federal net operating loss carry-forwards may be restricted if there is a change in control of the Company as defined by IRS Code Section 382.

Deferred taxes have, historically, not been provided on certain undistributed earnings of the Company's wholly owned Canadian subsidiary since the Company can control the distribution of such earnings and has determined such earnings will be reinvested indefinitely. Additional taxes could be due if these earnings were distributed. During 2007, the Company received a

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

\$3,000,000 cash distribution from the Canadian subsidiary. No incremental U.S. taxes were due on this distribution.

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", ("FIN 48") effective January 1, 2007. FIN 48 creates a single model to address accounting for uncertainty in income tax positions and requires application of a "more likely than not" threshold to the recognition and derecognition of income tax positions. It also provides guidance on classification, interest and penalties and interim period accounting. The Company recorded no unrecognized tax benefits or liabilities as a result of adopting FIN 48 and accordingly we recorded no accrued interest or penalties. The Company has determined that no reserve for FIN 48 is necessary at December 31, 2008. We do not have any accrued interest or penalties at December 31, 2008 but if they are incurred in the future, interest would be recognized as interest income or expense and penalties would be included in Selling, General and Administrative expenses. We do not anticipate a material change in our tax positions within the next twelve months. The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2003 or Canadian tax authorities for years before 2003.

**(9) PENSION AND OTHER BENEFIT PLANS**

The Company has a qualified defined benefit pension plan for eligible Vermont based non-union employees. The plan is noncontributory and provides benefits based upon a formula calculated by reference to length of service and final average earnings. On January 5, 2009, the Company's Board of Directors approved actions to proceed with amendments to its defined benefit pension plan by freezing membership and future benefits in the plan. This action is effective as of March 31, 2009. Management is working on a replacement for the plan which will most likely take the form of an increased contribution to the existing 401(k) plan.

The Company has entered into nonqualified salary continuation agreements with certain officers and former executives. These agreements provide for supplemental pension benefits to be paid beginning at age 55 and continuing through the life of the retired employee and his surviving spouse.

The Company provides other post-employment benefits. Post-employment health care is provided to executive officers who retire at age 55 or older and their spouses, and to a closed group of retirees selected by the Company. The form and type of benefit is the same coverage that is in effect for active employees, and the retiree pays his portion of the premium for such coverage. Generally benefits cease at age 65. The Company provides post-employment life insurance for all Vermont-based employees; the coverage is \$8,000.

The following tables set forth actuarial information, plan asset data, funded status and amounts recognized in the balance sheet for the Company's defined benefit pension plan, salary continuation plan and other post-employment benefits. The Company uses a measurement date of December 31 for these plans.

	NON-UNION PENSION BENEFITS		SALARY CONTINUATION BENEFITS		OTHER POST- EMPLOYMENT BENEFITS	
	2008	2007	2008	2007	2008	2007
<b>CHANGE IN BENEFIT OBLIGATION:</b>						
Benefit obligation at beginning of year	\$ 24,857,204	\$ 25,787,563	\$ 5,483,418	\$ 5,801,758	\$ 1,700,025	\$ 2,179,955
Service cost	315,204	514,984	—	—	6,111	22,050
Interest cost	1,508,876	1,444,978	322,457	314,223	108,103	121,538
Actuarial (gain)/ loss	(233,920)	(1,589,573)	60,740	(189,175)	86,200	(468,239)
Benefits paid	(1,344,240)	(1,300,748)	(453,455)	(443,388)	(152,534)	(155,279)
Benefit obligation at end of year	<u>\$ 25,103,124</u>	<u>\$ 24,857,204</u>	<u>\$ 5,413,160</u>	<u>\$ 5,483,418</u>	<u>\$ 1,747,905</u>	<u>\$ 1,700,025</u>
<b>CHANGE IN PLAN ASSETS:</b>						
Fair value of plan assets at beginning of year	\$ 21,188,923	\$ 20,241,955	\$ —	\$ —	\$ —	\$ —
Actual return on plan assets	(4,491,644)	1,482,190	—	—	—	—
Employer contribution	754,000	800,922	453,455	443,388	142,017	183,929
Expenses	(29,588)	(35,396)	—	—	—	—
Benefits paid	(1,344,240)	(1,300,748)	(453,455)	(443,388)	(142,017)	(183,929)
Fair value of plan assets at end of year	<u>\$ 16,077,451</u>	<u>\$ 21,188,923</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

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Funded status	\$	<u>(9,025,673)</u>	\$	<u>(3,668,281)</u>	\$	<u>(5,413,160)</u>	\$	<u>(5,483,418)</u>	\$	<u>(1,747,905)</u>	\$	<u>(1,700,025)</u>
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**Amounts recognized in accumulated other comprehensive loss consist of:**

Net actuarial loss	\$	9,931,652	\$	4,068,065	\$	1,394,071	\$	1,390,249	\$	289,388	\$	241,983
Prior service cost		126,848		267,371		—		—		326,696		335,519
Unrecognized transition obligation		—		—		—		—		24,737		29,685
Net amount recognized	\$	<u>10,058,500</u>	\$	<u>4,335,436</u>	\$	<u>1,394,071</u>	\$	<u>1,390,249</u>	\$	<u>640,821</u>	\$	<u>607,187</u>

**WEIGHTED-AVERAGE**

**ASSUMPTIONS AS OF DECEMBER 31:**

Discount rate	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%
Expected return on plan assets	8.00%	8.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%	N/A	N/A

In 2007 we increased the discount rate used to determine our liability in the pension plans from 5.6% to 6.3%. In 2008, we kept the discount rate at 6.3%, the same discount rate used at December 31, 2007. In both years the rate was based on a bond matching model which uses data on individual high-quality corporate bonds and the timing and amount of the future benefit payments in our plan to develop a weighted discount rate specific to our plan.

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 8.5% for 2009, 8% for 2010, 7.5% for 2011, 7% for 2012, 6% for 2013 and 5% for 2014 and thereafter. Assumed health care trends do not have a significant effect on the amounts reported for the health care plan. For example, a 1% increase in assumed trends would increase the benefit obligation \$19,461 and the service and interest costs \$1,253. A 1% decrease in assumed trends would decrease the benefit obligation \$18,150 and the service and interest costs \$1,158.

The following table sets forth the components of the net periodic benefit cost recognized in the statements of operations for the Company's defined benefit pension plan, salary continuation plan and other post-employment benefits for 2008 and 2007.

	NON-UNION PENSION BENEFITS		SALARY CONTINUATION BENEFITS		OTHER POST-EMPLOYMENT BENEFITS	
	2008	2007	2008	2007	2008	2007
<b>COMPONENTS OF NET PERIODIC BENEFIT COST:</b>						
Service cost	\$ 315,204	\$ 514,984	\$ —	\$ —	\$ 6,111	\$ 22,050
Interest cost	1,508,876	1,444,978	322,457	314,223	108,103	121,538
Expected return on plan assets	(1,681,796)	(1,601,894)	—	—	—	—
Amortization of prior service cost	140,523	140,523	—	1,506	26,749	26,749
Amortization of transition obligation	—	—	—	—	4,948	63,136
Recognized net actuarial loss	<u>105,521</u>	<u>292,199</u>	<u>56,918</u>	<u>79,597</u>	<u>10,352</u>	<u>12,655</u>
Net periodic benefit cost	<u>\$ 388,328</u>	<u>\$ 790,790</u>	<u>\$ 379,375</u>	<u>\$ 395,326</u>	<u>\$ 156,263</u>	<u>\$ 246,128</u>

**WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST FOR YEARS ENDED DECEMBER 31:**

Discount rate	6.30%	5.60%	6.30%	5.60%	6.30%	5.60%
Expected return on plan assets	8.00%	8.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

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**Amounts expected to be recognized in net periodic benefit costs in 2009**

	<u>Non-Union Pension</u>	<u>Salary Continuation</u>	<u>Other Post-Employment</u>
Service cost	\$ —	\$ —	\$ 4,964
Interest cost	1,420,753	335,917	105,268
Expected return on plan assets	(1,260,459)	—	—
Net amortization	437,439	111,773	47,727
Total pension expense	\$ <u>597,733</u>	\$ <u>447,690</u>	\$ <u>157,959</u>

Plan Assets

The fair value of plan assets for the defined benefit pension plan as of December 31, 2008 and 2007 was \$16.1 and \$21.2 million, respectively. The following table sets forth the actual asset allocation for the plan assets:

	<u>2008</u>	<u>2007</u>	<u>Target Range</u>
Equities	48%	48%	34% - 64%
Fixed income	51%	51%	25% - 45%
Cash equivalent	1%	1%	0 - 5%

The Company invests equity holdings primarily in mutual funds which are diversified among the spectrum of value and growth, large, medium and small cap, domestic and foreign securities, as appropriate, to achieve the objective of a balanced portfolio, which optimizes the expected returns and volatility in the various asset classes. In general, the majority of the equity investments are large cap domestic funds.

Fixed income holdings are in the form of mutual funds that hold a combination of short-duration, investment-grade fixed-income securities, inflation-indexed bonds of varying maturities issued by the U.S. and non-U.S. governments, and a diversified selection of investment-grade, fixed income securities, including corporate securities, mortgage-backed securities, U.S. government securities and U.S. dollar denomination bonds of foreign issuers.

Cash equivalents are held in money market funds.

The Company prohibits certain transactions in its plan including, but not limited to: short sales, commodities, transactions on margin, letter stock, unregistered or restricted stock, private placements, and derivative securities.

The Company determines its investment strategies based on the composition of the beneficiaries in its defined benefit plan and the relative time horizons that those beneficiaries receive payouts from the plan. In addition, the Company receives advice from our actuaries and plan administrator regarding market conditions, which, taken together with the characteristics of the plan, result in the investment strategy.

To develop the Company's expected long-term rate of return assumption on plan assets, the Company uses long-term historical return information for the targeted asset mix. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets.

Contributions

The Company was not required to make a contribution to the defined benefit pension plan in 2008. However, we contributed \$754,000 to this plan during 2008. In August 2006, the Pension Protection Act was signed into law. Among other things, the Act is aimed at strengthening pension plans by requiring most pension plans to become fully funded over a seven-year period. The Company was required to fully fund our pension plan by December 31, 2014. The Worker, Retiree, and Employer Recovery Act of 2008 (H.R. 7327) was signed into law in late December 2008. The Company is studying the impact of the legislation on the funding requirements of the Act.

Future Benefit Payments

Estimated future benefit payments are as follows:



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<u>Year Ending December 31,</u>	<u>NON-UNION PENSION BENEFITS</u>	<u>SALARY CONTINUATION BENEFITS</u>	<u>OTHER POST- EMPLOYMENT BENEFITS</u>
2009	\$ 1,345,434	\$ 541,642	\$ 153,981
2010	1,485,643	540,692	154,576
2011	1,506,844	539,609	154,151
2012	1,528,184	538,373	159,908
2013	1,538,478	528,752	159,176
2014-2018	8,354,117	2,092,773	662,315

### UNION PENSION BENEFITS

The Company's Vermont based union employees are participants in the Steelworkers Pension Trust, a multi-employer plan. The Company contributes amounts as required by the union contract. The amounts recognized in the accompanying consolidated statements of operations were \$359,410 and \$528,537 in 2008 and 2007, respectively.

### OTHER SALARY CONTINUATION BENEFITS

In addition to the benefits available under its salary continuation plan disclosed above, the Company has an agreement with a certain employee, who is a former stockholder of an acquired company. The present value of the future payments under this agreement was \$307,293 and \$373,080 as of December 31, 2008 and 2007, respectively. Total annual payments of \$84,000 begin in February 2008 and will continue through February 2012.

The Company also has a non-qualified, unfunded deferred compensation plan for the benefit of designated key employees whereby the employee may defer up to \$100,000 of their annual compensation for future distribution. Interest at the rate of 12% per annum is credited on a monthly basis to each participants account. Payments commence upon retirement of the participant with various methods of distribution, including interest only or interest and principal over ten to twenty years. At December 31, 2008 there are three participants and the total liability is \$1,523,338.

The Company's Canadian subsidiary has deferred compensation agreements with former employees. The present value of the future payments under these agreements was \$103,500 and \$132,747 as of December 31, 2008 and 2007. Total annual payments of \$30,040 begin and end at various dates through 2022.

### 401(k) BENEFITS

The Company maintains a 401(k) plan for all eligible, U.S. employees. Union employees are eligible to join on the first day of the quarter following their first full year of service. Non-union employees are eligible to join after six months of service. The Company makes matching contributions equal to a percentage of the employee's deferrals. The Company's contributions to the 401(k) plan, including amounts in 2007 for employees of the former retail business, were \$82,005 and \$267,498 in 2008 and 2007, respectively.

The Company's Canadian subsidiary sponsors a retirement plan for all of its salaried, non-union employees and contributes 13% of each participant's compensation to this plan. The investments in the account are self-directed by each participant with a range of investment options. Rock of Ages Canada may, at its discretion, make an additional annual contribution to a participant's account, up to a maximum aggregate amount of \$21,000 and \$20,000 CDN per year in 2008 and 2007, respectively (including amounts previously contributed during the year). The Company's contributions to this plan were \$158,659 and \$162,185 CDN in 2008 and 2007, respectively.

### CANADIAN SUPPLEMENTAL RETIREMENT PLAN

Effective in 2007 Rock of Ages Canada established a supplemental retirement plan for its President ("Canadian Supplemental Plan"). The Canadian Supplemental Plan is funded as a retirement compensation arrangement as defined in the Canadian Income Tax Act. In 2007 we made an initial contribution to the Canadian Supplemental Plan equal to \$106,693, (\$113,503 CDN) which was the amount accrued from prior years under an unfunded supplemental deferral account. This amount was accrued over a number of years from deferred bonuses and salary increases. Each year, Rock of Ages Canada may make a contribution to the Canadian Supplemental Plan equal to 13% of the President's base salary, less any amounts paid to the Basic

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Canadian Retirement Plan on his behalf. We made contributions to the Canadian Supplemental Plan equal to \$12,960 (\$13,787 CDN) and \$13,900 (\$14,787 CDN) in 2008 and 2007, respectively. We may make additional contributions to the Canadian Supplemental Retirement Plan at our discretion.

**(10) STOCK-BASED EMPLOYEE COMPENSATION**

In June 2005, the stockholders approved the Rock of Ages Corporation 2005 Stock Plan (the "2005 Plan"). The 2005 Plan permits awards of stock options (including both incentive stock options and nonqualified stock options) and restricted stock. A maximum of 550,000 shares of Class A common stock may be issued under the 2005 Plan. The 2005 Plan is administered by the Compensation Committee of the Board of Directors, which has the authority to determine the recipients of awards under the 2005 Plan and, subject to the 2005 Plan, the terms and conditions of such awards. The 2005 Plan replaces the Rock of Ages Corporation 1994 Stock Plan (the "1994 Plan") which expired in November 2004. Although grants made under the 1994 Plan prior to its expiration remain outstanding, no further grants may be made under the 1994 Plan.

Under the terms of the 1994 Plan, 1,500,000 options were reserved for issuance to key employees and directors to purchase equivalent shares of common stock. The options granted in 2002, 2007 and 2008 have a 10 year term and vest at 20% per year after the first year.

The following tables set forth stock option activity for the years ended December 31, 2008 and 2007 and information on outstanding and exercisable options at December 31, 2008:

	<u>NUMBER OF OPTIONS</u>		<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
Outstanding, December 31, 2006	271,000	\$	6.08
Granted	25,000		5.93
Exercised	(16,667)		6.02
Surrendered	<u>(83,333)</u>		6.18
Outstanding, December 31, 2007	196,000	\$	6.11
Granted	185,000		2.63
Exercised	—		—
Surrendered	<u>(57,000)</u>		6.45
Outstanding, December 31, 2008	<u>324,000</u>	\$	4.06
Exercisable, December 31, 2008	<u>119,000</u>	\$	5.98
Weighted average remaining contractual life	7.2 years		

<u>EXERCISE PRICE</u>	<u>NUMBER OF OPTIONS OUTSTANDING</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>	<u>REMAINING CONTRACTUAL LIFE</u>	<u>NUMBER OF OPTIONS EXERCISABLE</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE</u>
\$ 5.98	114,000	\$ 5.98	3.1 Years	114,000	\$ 5.98
\$ 5.93	25,000	\$ 5.93	8.6 Years	5,000	\$ 5.93
\$ 2.63	<u>185,000</u>	\$ 2.63	9.6 Years	—	
	<u>324,000</u>			<u>119,000</u>	

The fair value of each options grant is estimated on the date of the grant. The per share weighted average fair value of stock options granted during 2008 was \$1.22 on the date of grant using the Black-Scholes option-pricing model with the following

## ROCK OF AGES CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2008 and 2007

weighted average assumptions: risk-free interest rate of 3.5%, dividend yield of 0.00%; expected volatility of 40.60%; expected life of 6.5 years and contractual term of ten (10) years. The per share weighted average fair value of stock options granted during 2007 was \$2.91 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 4.6%, dividend yield of 0.00%; expected volatility of 41.08%; expected life of 6.5 years and contractual term of ten (10) years. The fair value of stock options awards granted subsequent to January 1, 2006 are amortized on a straight line basis over the requisite service periods of the award, which are generally the vesting period. Because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single value of its options and may not be representative of the future stock price of the Company.

The Company selected the assumptions used in the Black-Scholes pricing model using the following criteria:

- Risk-free interest rate – The Company bases the risk-free interest rate on implied yield available on a U.S. Treasury note with a maturity term equal to or approximating the expected term of the underlying award.
- Dividend yield – the Company does not intend to pay dividends on its common stock for the foreseeable future and, accordingly, uses a dividend yield of zero.
- Volatility – the expected volatility of the Company's shares was estimated based upon the historical volatility of the Company's share price with consideration given to the expected life of the award.
- Expected life – The average expected term was determined by the "SEC shortcut approach", as described in SAB 107, "Disclosures about Fair Value of Financial Instruments", which is the mid-point between the vesting date and the end of the contractual term.

As of December 31, 2008 the total unrecognized compensation cost related to the stock options granted during 2008 and 2007 was \$208,000 and \$53,000, respectively which is expected to be amortized over the next 4.5 years and 3.5 years respectively.

During 2008 and 2007 the average market value was less than the current strike price of all vested options, therefore for vested options during 2008 and 2007 there was no intrinsic value. No options were exercised during 2008. For options exercised during 2007 the intrinsic value of those options was \$4,200.

#### (11) RELATED PARTY TRANSACTIONS

The Company is related through common ownership with several companies. Kurt M. Swenson, the Company's Chairman, and his brother Kevin C. Swenson, each own approximately 31% of Swenson Granite LLC ("Swenson LLC"). Certain other officers and directors of the Company collectively own approximately 9% of Swenson LLC. Kurt M. Swenson serves as a non-officer Chairman of the Board of Swenson LLC, but has no involvement with its day-to-day operations. Robert Pope, a holder of more than 5% of the Class B Common Stock of the Company, is the President and Chief Executive Officer of Swenson LLC, and including shares owned by his wife and children, owns 12% of Swenson LLC. Neither Kurt M. Swenson nor any other officer or director of the Company, receives salary, bonus, expenses or other compensation from Swenson LLC, except for any pro rata share of earnings attributable to their ownership interest in Swenson LLC. Swenson LLC owns two granite quarries, one in Concord, New Hampshire and another in Woodbury, Vermont. Both have been owned by Swenson LLC (or its predecessor Swenson Granite) for more than 40 years. Because of the proximity of the Woodbury quarry to Barre, Vermont, the Company provides certain maintenance services and parts to the Woodbury quarry and is reimbursed for the cost of such services. The Company also purchases blocks from the Swenson's Concord quarry and other products from Swenson LLC at market prices. Swenson LLC also purchases granite blocks and slabs from the Company.

The transactions with related parties, included in the consolidated statements of operations, are as follows for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Sales of inventory, equipment and services to Swenson LLC	\$ 92,114	\$ 22,796
Purchases from Swenson LLC	\$ 44,525	\$ 4,415
Purchases from VIKA, Ltd.	406,527	251,475
Total purchases from related parties	<u>\$ 451,052</u>	<u>\$ 255,890</u>

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

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Amounts due from/(to) related parties as of December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Due from Swenson LLC	\$ 13,182	\$ 6,558

**(12) UNAUDITED QUARTERLY SUMMARY INFORMATION**

The following is a summary of unaudited quarterly summary information for the years ended December 31, 2008 and 2007 (in thousands, except per share data):

	<u>NET REVENUES</u>	<u>GROSS PROFIT</u>	<u>NET INCOME (LOSS)</u>	<u>NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED</u>
2008 Quarters:				
First (3)	\$ 8,390	\$ (133)	\$ (3,305)	\$ (0.45)
Second	14,326	3,773	727	0.10
Third	16,593	5,934	3,059	0.41
Fourth (1) (2)	16,560	1,317	(2,676)	(0.34)
Total	<u>\$ 55,869</u>	<u>\$ 10,891</u>	<u>\$ (2,195)</u>	<u>\$ (0.28)</u>
2007 Quarters:				
First	\$ 7,947	\$ (378)	\$ (6,552)	\$ (0.89)
Second	16,450	5,292	3,942	0.53
Third	13,357	4,672	1,541	0.21
Fourth (3)(4)	17,792	5,034	(5,487)	(0.73)
Total	<u>\$ 55,546</u>	<u>\$ 14,620</u>	<u>\$ (6,556)</u>	<u>\$ (0.88)</u>

NOTE: The Company has historically experienced certain seasonal patterns, primarily due to weather conditions affecting operations in Vermont and Canada and the setting of memorials in cemeteries located in northern regions.

- (1) The Company consolidated its headquarters into the manufacturing plant's existing offices and therefore had a change in the use of its corporate headquarters building. Based on our analysis the Company determined that the carrying value of the building exceeded the net present value which indicated the building was impaired. We recognized an impairment charge on the asset of \$1,348,000 to reduce the asset to the fair market value during the fourth quarter of the year ended December 31, 2008. See note 16.
- (2) The Company wrote down second grade or "B" block inventory in our Bethel, Salisbury and Gardenia quarries during the fourth quarter of 2008. This impairment charge totaled \$3,930,000 and is discussed further in note 16.
- (3) The retail division was classified as a discontinued operation in December 2007 and, accordingly, the revenue and gross profits reported in the tables above for 2007 have been adjusted to reflect such classification. Based on the terms of this division's January 2008 sale, an impairment charge of \$5,908,000 was recognized in the fourth quarter of 2007. The loss from discontinued operations during the first quarter of 2008 totaled \$142,000. See note 15.
- (4) VIKA, a quarry company in which we have a 1/3 equity interest since 2002, experienced continuing operational difficulties in 2007 leading to reductions in both the production and sale of Galactic Blue granite blocks. Based on our analysis the Company determined that its investment in VIKA of \$386,000 had experienced an impairment in value that was other than temporary and concluded that its advances to VIKA should be fully reserved as of December 31, 2007. Accordingly, a charge of \$1,361,000 was recorded in the fourth quarter of the year ended December 31, 2007.

**(13) COMMON STOCK**

The Company has two classes of common stock outstanding, Class A and Class B. The shares of Class A common stock and Class B common stock differ with respect to voting rights and certain conversion rights, as described below:

*Voting Rights* - Each share of Class A common stock entitles the holder to one vote on each matter submitted to a vote of the

## ROCK OF AGES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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Company's stockholders and each share of Class B common stock entitles the holder to ten votes on each such matter, in each case including the election of directors. Neither the Class A common stock nor the Class B common stock has cumulative voting rights.

*Conversion* - Class A common stock has no conversion rights. Class B common stock is convertible into Class A common stock, in whole or in part, at any time and from time to time at the option of the holder on the basis of one share of Class A common stock for each share of Class B common stock converted. Each share of Class B common stock will also automatically convert into one share of Class A common stock upon transfer to any person or entity other than a Permitted Transferee, as defined in the Company's Amended and Restated Certificate of Incorporation.

### (14) SEGMENT INFORMATION

The Company is organized based on the products and services it offers. Until the time of the sale of the retail division in January 2008, Rock of Ages had three business segments: quarry, manufacturing and retail. As of December 31, 2007 the retail division was classified as a discontinued operation and, accordingly, the Company currently operates in two segments: quarry and manufacturing.

The quarry segment extracts granite from the ground and sells it to the manufacturing segment and to outside manufacturers, as well as to distributors in Europe and China. There were two quarry customers that represented approximately 46.1% and 32.8% of accounts receivable at December 31, 2008 and 2007, respectively. These receivables were backed by irrevocable letters of credit. These same two customers were also our largest customers and represented approximately 13.4% and 9.3% of total revenue in 2008 and 2007, respectively.

The manufacturing segment's principal product is granite memorials and mausoleums used primarily in cemeteries and, to a lesser extent, specialized granite products for industrial applications.

The other segment includes unallocated corporate overhead.

Inter-segment revenues are accounted for as if the sales were to third parties.

The following tables present segment data as of or for the years ended December 31, 2008 and 2007 (in thousands):

	QUARRY	MANUFACTURING	OTHER	TOTAL
<b>2008</b>				
Total net revenues	\$ 31,685	\$ 30,104	\$ —	\$ 61,789
Inter-segment net revenues	(2,999)	(2,921)	—	(5,920)
Net revenues	28,686	27,183	—	55,869
Total gross profit	4,346	6,545	—	10,891
Inter-segment gross profit	(923)	923	—	—
Gross profit	3,423	7,468	—	10,891
Selling, general and administrative expenses	2,267	4,383	3,636	10,286
Impairments	—	—	1,348	1,348
Foreign exchange loss	—	—	(27)	(27)
Other income, net	—	—	(425)	(425)
Income (loss) from operations	\$ 1,156	\$ 3,085	\$ (4,532)	\$ (291)
<b>2007</b>				
Total net revenues	\$ 31,784	\$ 33,717	\$ —	\$ 65,501
Inter-segment net revenues	(2,491)	(7,464)	—	(9,955)
Net revenues	29,293	26,253	—	55,546
Total gross profit	7,056	7,673	—	14,729
Inter-segment gross profit	(653)	544	—	(109)
Gross profit	6,403	8,217	—	14,620

**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Selling, general and administrative expenses	3,061	4,214	5,187	12,462
Insurance recovery	(211)	—	—	(211)
Impairment of long-term assets	1,361	—	—	1,361
Foreign exchange income	—	—	120	120
Other Income, net	—	—	(159)	(159)
Income (loss) from operations	<u>\$ 2,192</u>	<u>\$ 4,003</u>	<u>\$ (5,148)</u>	<u>\$ 1,047</u>

**Total Assets by Segment**

		QUARRY		MANUFACTURING		DISCONTINUED OPERATIONS		OTHER		TOTAL
2008	\$	39,657	\$	20,488	\$	—	\$	4,298	\$	64,443
2007	\$	43,496	\$	19,399	\$	14,266	\$	7,484	\$	84,645

**Capital Expenditures, Amortization, Depletion and Depreciation by Segment**

		QUARRY		MANUFACTURING		DISCONTINUED OPERATIONS		OTHER		TOTAL
<b>2008</b>										
Capital expenditures	\$	1,062	\$	2,025	\$	—	\$	2	\$	3,089
Depreciation, depletion and amortization		1,261		918		—		221		2,400
<b>2007</b>										
Capital expenditures	\$	919	\$	220	\$	115	\$	25	\$	1,279
Depreciation, depletion and amortization		1,416		978		1,025		311		3,730

Net revenues by geographic area, attributed to countries based on where the product is shipped, for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Net revenues:		
China	\$ 10,160	\$ 10,748
Italy	1,137	974
Other foreign countries (excluding Canada)	323	183
Total Foreign Revenue (excluding Canada)	<u>11,620</u>	<u>11,905</u>
United States and Canada	44,249	43,641
Total net revenues	<u>\$ 55,869</u>	<u>\$ 55,546</u>

Property, plant and equipment by geographic area as of December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Property, plant and equipment:		
United States	\$ 27,144	\$ 28,560
Canada	2,854	3,226
Total property, plant and equipment	<u>\$ 29,998</u>	<u>\$ 31,786</u>

## ROCK OF AGES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### (15) DISCONTINUED OPERATIONS

During 2006, the Company began to consider strategic alternatives with respect to its retail division and on December 7, 2007 the Board of Directors instructed management to enter into negotiations with PKDM, a company owned by Richard M. Urbach, the President and Chief Operating Officer of the retail division, and James Barnes, the financial manager of the retail division, to sell this division. Negotiations were completed and the sale of the retail division closed on January 17, 2008. The Company evaluated its plan to sell its retail division and in accordance with SFAS No. 144, classified the division's assets and liabilities as "held for sale" as of December 31, 2007.

Under SFAS No. 144, the results of operations for this division have been classified as discontinued operations in all periods presented. The income (loss) from operations for the retail division was approximately (\$142,000) and \$684,000 for the years ended December 31, 2008 and 2007, respectively, including allocated interest expense of \$23,000 and \$674,000 in 2008 and 2007, respectively.

Operating results of retail division for the years ended December 31, 2008 and 2007 were as follows (in thousands):

	<u>2008</u>	<u>2007</u>
<u>Retail Division</u>		
Net sales	\$ —	\$ 29,635
Cost of goods sold	—	13,113
Gross profit	—	16,522
Selling, general and administrative expenses	<u>(119)</u>	<u>15,164</u>
Income (loss) from operations	(119)	1,358
Impairment charge	—	(5,908)
Interest allocated	<u>(23)</u>	<u>(674)</u>
Net loss	<u>\$ (142)</u>	<u>\$ (5,224)</u>

The assets and liabilities of the retail division were as follows at December 31, 2007 (in thousands):

Assets:	
Cash	\$ 1,007
Accounts receivable, net	1,570
Inventory	5,009
Other current assets	270
Property, plant and equipment (net)	12,288
Other long-term assets	30
Asset impairment	<u>(5,908)</u>
Total assets	<u>\$ 14,266</u>
Liabilities:	
Accounts payable	201
Accrued expenses	545
Customer deposits	<u>6,002</u>
Total liabilities	<u>\$ 6,748</u>

### (16) IMPAIRMENT CHARGES

VIKA Ltd. ("VIKA"), a quarry company in which we have held a 1/3 equity interest since 2002, experienced continuing operational difficulties leading to reductions in both the production and sale of Galactic Blue granite blocks. At the end of the fourth quarter of 2007 the Company decided that it would no longer advance any additional funds to VIKA. In connection with our assessment of our investment in VIKA, the Company also analyzed VIKA's current financial condition and prospects for the foreseeable future. In addition, senior management made a site visit to the Ukraine in late February 2008. Based on our analysis of financial data provided by VIKA, the decision to no longer fund VIKA's cash needs, limited access to third party

## ROCK OF AGES CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

funding by VIKA and the results of the recent site visit, including discussions with local management, the Company determined that its investment in VIKA of \$386,000 had experienced an impairment in value that was other than temporary. Based on that assessment, the Company also concluded that its advances to VIKA should be fully reserved as of December 31, 2007. Accordingly, a charge of \$1,361,000 was recognized in the fourth quarter of 2007 and is separately presented in the accompanying statement of operations for the year ended December 31, 2007. During 2008, the Company recognized a partial recovery on its advances to VIKA of \$121,000 which is included in quarry income.

Due to the consolidation of our corporate headquarters with the manufacturing plant's existing offices in 2008, the Company had a change in the use of its corporate headquarters building located at 772 Graniteville Road, which we concluded to be a triggering event under SFAS No. 144. We determined that the forecasted undiscounted cash flows related to the building and land was less than its carrying value. As a result, we recorded an impairment charge of \$1,348,000 to reduce the carrying value of the building and land to its estimated fair value. The estimated fair value was determined using a discounted cash flow analysis and included consultation with an outside professional real estate appraiser. No assurance can be given that the underlying estimates and assumptions utilized in our determination of an asset's new carrying value will materialize as anticipated. At December 31, 2008 management had no specific intention to sell this building and continued to classify it as part of property, plant and equipment.

### (17) ASSETS HELD FOR SALE

In December 2008, the Company decided to sell various unproductive assets totaling \$477,000. Accordingly, these assets have been classified as current assets held for sale. The estimated sales prices for the assets are expected to exceed the carrying values therefore no impairments were recognized.



**ROCK OF AGES CORPORATION AND SUBSIDIARIES**

Schedule II - Valuation and Qualifying Accounts and Reserves

Years ended December 31, 2008 and 2007

<b>COLUMN A</b>		<b>(In Thousands)</b>			<b>COLUMN D</b>	<b>COLUMN E</b>
		<b>COLUMN B</b>	<b>COLUMN C</b>			
			<b>ADDITIONS</b>			
<b>DESCRIPTION</b>		<b>BALANCE AT</b>	<b>DECREASE</b>	<b>CHARGED</b>	<b>DEDUCTIONS</b>	<b>BALANCE</b>
		<b>BEGINNING</b>	<b>DUE TO</b>	<b>TO</b>	<b>(1)</b>	<b>AT END</b>
		<b>OF PERIOD</b>	<b>DISPOSITIONS</b>	<b>COSTS AND</b>		<b>OF PERIOD</b>
				<b>EXPENSES</b>		
	Allowances for doubtful accounts					
	2008	\$ 132	\$ —	\$ 152	\$ 56	\$ 228
	2007	162	\$ —	\$ (13)	\$ 17	\$ 132

(1) Deductions consist of accounts receivable written off as uncollectible.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### ROCK OF AGES CORPORATION

By: /s/ Donald M. Labonte  
Donald M. Labonte  
Chief Executive Officer

Date: March 31, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 31, 2009.

SIGNATURE	TITLE
<u>/s/Donald M. Labonte</u> Donald M. Labonte	Chief Executive Officer (Principal Executive Officer)
<u>/s/ Laura Plude</u> Laura A. Plude	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
<u>/s/Kurt M. Swenson</u> Kurt M. Swenson	Chairman of the Board of Directors
<u>/s/Richard C. Kimball</u> Richard C. Kimball	Director
<u>/s/James L. Fox</u> James L. Fox	Director
<u>/s/ Pamela G. Sheiffer</u> Pamela G. Sheiffer	Director
<u>/s/Charles M. Waite</u> Charles M. Waite	Director
<u>/s/Frederick E. Webster Jr.</u> Frederick E. Webster Jr.	Director

## EXHIBIT INDEX

### EXHIBIT NUMBER DESCRIPTION

- 3.1 Form of Amended and Restated Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 3.2 Amended and Restated By-laws of the Company (as amended through April 6, 1999) (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on November 16, 2007)
4. Specimen Certificate representing the Class A Common Stock (incorporated herein by reference to Exhibit 4 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 10.1\* First Amendment and Restatement of Rock of Ages Corporation Key Employees Deferred Salary Plan dated April 6, 2006 (incorporated herein by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
- 10.2\* Rock of Ages 2005 Stock Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on June 23, 2005)
- 10.3\* Employment Agreement of Kurt M. Swenson (incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 10.4\* Employment Agreement of Douglas S. Goldsmith dated May 25, 2006 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on June 16, 2006)
- 10.5\* Employment Agreement of Michael B. Tule dated May 25, 2006 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on June 16, 2006)
- 10.6\* Amendment No. 1 to Employment Agreement of Kurt M. Swenson dated April 20, 2006 (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.7\* Amendment to Salary Continuation Agreement of Kurt M. Swenson dated April 20, 2006 (incorporated herein by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.8\* Retirement Agreement of Kurt M. Swenson dated April 28, 2008 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2008)
- 10.9\* Severance Agreement and General Release dated May 22, 2006 between Rudolph R. Wrabel and the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 26, 2006)
- 10.10\* Severance Agreement and General Release dated May 22, 2006 between Caryn A. Crump and the Company (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 26, 2006)
- 10.11\* Form of Salary Continuation Agreement (incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 10.12 Form of Collective Bargaining Agreement dated as of April 29, 2006 by and between Rock of Ages Corporation and the

- Granite Cutter's Association (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.13 Form of Side Letter Agreement dated April 29, 2006 by and between the Granite Cutter's Association and Rock of Ages Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2006 and filed with the Securities and Exchange Commission on August 14, 2006)
- 10.14 Form of Collective Bargaining Agreement dated as of April 29, 2006 by and between Rock of Ages Corporation and the Granite Cutter's Association (incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
- 10.15 Form of Side Letter Agreement dated April 29, 2006 by and between the Granite Cutter's Association and Rock of Ages Corporation (incorporated herein by reference to Exhibit 10.124 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
- 10.16 Credit Facility dated as of June 25, 1997 between Royal Bank of Canada and Rock of Ages Canada, Inc., Rock of Ages Quarries Inc. and Rock of Ages Canada Inc. (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Registration No. 333-33685) filed with the Securities and Exchange Commission on August 15, 1997 and declared effective on October 20, 1997)
- 10.17 Twelfth Amendment and Consent to Financing Agreement dated as of October 30, 2006, by and between The CIT Group/Business Credit and Rock of Ages Corporation, Rock of Ages Kentucky Cemeteries, LLC, Carolina Quarries, Inc., Pennsylvania Granite Corporation, Rock of Ages Memorials, Inc. and Sioux Falls Monument Company (incorporated herein by reference to Exhibit 10.01 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on November 1, 2006)
- 10.18 Thirteenth Amendment and Consent to Financing Agreement dated as of March 29, 2007, by and between The CIT Group/Business Credit and Rock of Ages Corporation, Rock of Ages Kentucky Cemeteries, LLC, Carolina Quarries, Inc., Pennsylvania Granite Corporation, Rock of Ages Memorials, Inc. and Sioux Falls Monument Company (incorporated herein by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and filed with the Securities and Exchange Commission on April 2, 2007)
- 10.19 Supply Agreement dated as of January 11, 2002 by and between Rock of Ages Corporation and Adams Granite Co., Inc. (incorporated herein by reference to exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed with the Securities and Exchange Commission on April 1, 2002)
- 10.20 Amendment to Supply Agreement dated as of January 1, 2004 by and between Rock of Ages Corporation and Adams Granite Co., Inc. (Incorporated by reference to Exhibit 10.2 to the Company's annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed with the Commission on April 2, 2007)
- 10.21 Amendment No. 2 to Supply Agreement dated as of January 16, 2007 by and between Rock of Ages Corporation and Adams Granite Co., Inc. (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed with the Commission on April 2, 2007)
- 10.22 Purchase and Sale Agreement and related exhibits dated July 28, 2006 by and between Rock of Ages Corporation, Carolina Quarries, Inc. and New England Stone Industries, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q For the quarterly period ended September 30, 2006 and filed with the Securities and Exchange Commission on November 13, 2006)
- 10.23 Amendment No. 1 to Purchase and Sale Agreement and related exhibits dated October 19, 2006 by and between Rock of Ages Corporation, Carolina Quarries, Inc. and New England Stone Industries, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q For the quarterly period ended September 30, 2006 and filed with the Securities and Exchange Commission on November 13, 2006)
- 10.24 Stock Purchase Agreement dated as of January 17, 2008 by and between PKDM Holdings, Inc. and Rock of Ages Corporation. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on January 23, 2008)

- 10.25 Termination Agreement and General Release dated January 17, 2008 by and between Richard M. Urbach and the Company (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008)
- 10.26 Authorized Retailer Supply and License Agreement dated as of January 17, 2008 by and between the Company, PKDM Holdings, Inc., North American Heritage Services, Inc., Keith Monument Company, LLC, and Sioux Falls Monument Co., LLC (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008) †
- 10.27 Amendment No. 1 to Supply Agreement dated as of January 16, 2009 (executed and delivered March 10, 2009) by and between Rock of Ages Corporation and PKDM Holdings, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 11, 2009)
- 10.28 Amended and Restated Financing Agreement dated October 24, 2007 by and between The CIT Group/Business Credit, Inc. and Carolina Quarries, Inc., Pennsylvania Granite Corp., Keith Monument Company, LLC, Rock of Ages Memorials, Inc., Sioux Falls Monument Co., and the Company. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on October 25, 2007)
- 10.29 First Amendment to Amended and Restated Financing Agreement dated March 30, 2009 by and between The CIT Group/Business Credit, Inc. and Carolina Quarries, Inc., Pennsylvania Granite Corp., Keith Monument Company, LLC, Rock of Ages Memorials, Inc., Sioux Falls Monument Co., and the Company. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on March 31, 2009)
- 10.30 Letter from The CIT Group/Business Credit, Inc. to Carolina Quarries, Inc., Pennsylvania Granite Corp., Keith Monument Company, LLC, Rock of Ages Memorials, Inc., Sioux Falls Monument Co., and the Company consenting to sale of the Company's retail division (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008)
- 10.31 Supplemental Retirement Plan for Donald Labonté dated as of January 1, 2007 (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed with the Commission on March 31, 2008)
- 10.32 Employment Agreement of Donald M. Labonte dated as of July 1, 2008 (executed and delivered on August 26, 2008) (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K and filed with the Securities and Exchange Commission on August 28, 2008)
- 11. Statement re: computation of per share earnings (incorporated herein by reference to Note (1)(n) of the Company's consolidated financial statements (filed herewith))
- 21. Subsidiaries of the Company
- 23.1 Consent of Grant Thornton LLP
- 31.1 Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

\* This exhibit is a management contract or compensatory plan or arrangement.

† Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.



# ROCK OF AGES CORPORATION

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