GRAHAM CORP
Form 10-Q
February 01, 2005

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For Quarterly Period Ended December 31, 2004

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 1-8462

GRAHAM CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	16-1194720
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
20 FLORENCE AVENUE, BATAVIA, NEW YORK	14020
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including Area Code - 585-343-2216

(Former name, former address and former fiscal year, if changed since last report.)

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 __X__ NO _____

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).

Yes __ __ No __X__

As of February 1, 2005, there were outstanding 1,668,667 shares of common stock, $.10 per share.

Graham Corporation and Subsidiaries
Index to Form 10-Q
As of and for the Three and Nine Month Periods Ended December 31, 2004

		Page
Part I	FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	23
Item 4.	Controls and Procedures	26
Part II.	OTHER INFORMATION	
Item 5.	Other Information	27
Item 6.	Exhibits and Reports on Form 8-K	27

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

DECEMBER 31, 2004

PART I - FINANCIAL INFORMATION

(Dollar amounts in thousands except per share data)

Unaudited condensed consolidated financial statements of Graham Corporation (the Company) and its subsidiaries as of December 31, 2004 and for the three month and nine month periods ended December 31, 2004 and 2003 are presented on the following pages. The financial statements have been prepared in accordance with the Company's usual accounting policies, are based in part on estimates and reflect all normal and recurring adjustments which are, in the opinion of management, necessary to a fair presentation of the results of the interim periods. The March 31, 2004 Consolidated Balance Sheet was derived from the Company's audited Balance Sheet for the year ended March 31, 2004.

This part also includes management's discussion and analysis of the Company's financial condition as of December 31, 2004 and its results of operations for the three and nine month periods ended December 31, 2004.

4

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2004	March 31, 2004
Assets		
Current Assets:		
Cash and cash equivalents	$ 825	$ 467
Investments	1,896	5,296
Trade accounts receivable, net of allowances ($97 and $75 at December 31 and March 31, respectively)	6,977	8,950
Inventories, net	10,571	6,984
Domestic and foreign income taxes receivable	62	972
Deferred income tax asset	1,813	1,521
Prepaid expenses and other current assets	328	217
Total current assets	22,472	24,407
Property, plant and equipment, net	8,652	9,227
Deferred income tax asset	2,169	2,048
Other assets	52	58
Total assets	$33,345	$35,740
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 1,867	$ 1,925
Current portion of long-term debt	47	44
Accounts payable	2,771	3,230
Accrued compensation	2,733	3,866
Accrued expenses and other liabilities	1,403	1,562
Customer deposits	1,190	2,128
Total current liabilities	10,011	12,755
Long-term debt	58	93
Accrued compensation	216	239
Deferred income tax liability	81	77
Other long-term liabilities	365	61
Accrued pension liability	2,700	1,873
Accrued postretirement benefits	2,457	2,540
Total liabilities	15,888	17,638

5

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (concluded)

(Unaudited)

	December 31, 2004	March 31, 2004
Shareholders' equity:		
Preferred Stock, $1 par value - Authorized, 500,000 shares		
Common stock, $.10 par value - Authorized, 6,000,000 shares Issued, 1,767,790 shares at December 31 and 1,757,450 shares at March 31	177	176
Capital in excess of par value	5,180	5,097
Retained earnings	16,458	17,322
Accumulated other comprehensive loss		
Minimum pension liability adjustment	(1,456)	(1,456)
Cumulative foreign currency translation adjustment	(1,338)	(1,452)
	19,021	19,687
Less:		
Treasury Stock (99,123 shares at December 31, and March 31)	(1,385)	(1,385)
Notes receivable from officers and directors	(179)	(200)
Total shareholders' equity	17,457	18,102
Total liabilities and shareholders' equity	$33,345	$35,740

See Notes to Consolidated Financial Statements.

6

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited)

	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003	Nine Months Ended December 31, 2004	Nine Months Ended December 31, 2003
Net sales	$12,937	$10,224	$33,781	$31,348
Cost and expenses:				
Cost of products sold	9,715	8,732	28,130	26,088
Selling, general and administrative	2,559	2,528	7,450	7,450
Interest expense	34	35	84	93
Other income			(1,592)	(522)
Other expense	648		648	
Total costs and expenses	12,956	11,295	34,720	33,109
Loss before income taxes	(19)	(1,071)	(939)	(1,761)
Provision (benefit) for income taxes	2	(322)	(324)	(516)
Net loss	(21)	(749)	(615)	(1,245)
Retained earnings at beginning of period	16,562	18,152	17,322	18,810
Dividends	(83)	(81)	(249)	(243)
Retained earnings at end of period	$16,458	$17,322	$16,458	$17,322
Per Share Data:				
Basic:				
Net loss	$(.01)	$(.46)	$(.37)	$(.76)
Diluted:				
Net loss	$(.01)	$(.46)	$(.37)	$(.76)

See Notes to Consolidated Financial Statements.

7

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31, 2004	2003
Operating activities:		
Net loss	$ (615)	$(1,245)
Adjustments to reconcile net loss to net cash used by operating activities:		
Non cash other (income) expense	(761)	(522)
Depreciation and amortization	751	784
Discount accretion on investments	(27)	(42)
Loss on sale of property, plant and equipment	2	2
(Increase) decrease in operating assets:		
Accounts receivable	2,049	(98)
Inventory, net of customer deposits	(3,022)	2,268
Prepaid expenses and other current and non-current assets	(110)	(142)
Increase (decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other current and non-current liabilities	(1,199)	(3,445)
Non-current accrued compensation, accrued pension liability and accrued postemployment benefits	(230)	(469)
Domestic and foreign income taxes	910	(225)
Deferred income taxes	(377)	(98)
Total adjustments	(2,014)	(1,049)
Net cash used by operating activities	(2,629)	(2,294)
Investing activities:		
Purchase of property, plant and equipment	(128)	(172)
Collection of notes receivable from officers and directors	22	48
Purchase of investments	(6,475)	(7,919)
Redemption of investments at maturity	9,903	10,905
Net cash provided by investing activities	3,322	2,862
Financing activities:		
Decrease in short-term debt	(137)	(263)
Proceeds from issuance of long-term debt		9,195
Principal repayments on long-term debt	(31)	(9,260)
Issuance of common stock	83	94
Dividends paid	(249)	(326)

8

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (concluded)

(Unaudited)

Nine Months Ended
December 31,

	2004	2003
Acquisition of treasury stock		(20)
Net cash used by financing activities	(334)	(580)
Effect of exchange rate changes on cash	(1)	(3)
Net increase (decrease)in cash and cash equivalents	358	(15)
Cash and cash equivalents at beginning of period	467	217
Cash and cash equivalents at end of period	$ 825	$ 202

See Notes to Consolidated Financial Statements.

9

GRAHAM CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - CHANGE IN ACCOUNTING FOR REVENUE RECOGNITION

During the second quarter of fiscal year 2005, the Company changed its method of recognizing revenue for certain contracts from the completed contract to the percentage-of-completion method. Formerly, only contracts with a planned manufacturing

process in excess of three months and with revenue of at least $1,000 and 500 pounds sterling, in the USA and UK operating segments, respectively, were accounted for under the percentage-of-completion method. Now all contracts with a planned manufacturing process of four weeks or more (which approximates 575 direct labor hours) and without a dollar threshold are accounted for using the percentage-of-completion method. The Company believes this is a preferable accounting method for these contracts because it measures revenue, costs of products sold and related income on construction type contracts based on progress on the contracts, thus providing a better measure of the earnings process on a more timely basis. The Company extended its scope of contracts accounted for using the percentage-of-completion method at this time because management believes that the effects on the financial statements of applying the completed contract method on these contracts could begin to vary materially from the effects of applying the percentage-of-completion method. The majority of the Company's contracts have a planned manufacturing process of less than four weeks, and are accounted for using the completed contract method. Prior period financial results have been restated to reflect this change. The impact of the change on net sales, cost of products sold, provision for income taxes and net income for the prior periods presented and the nine months ended December 31, 2004 is as follows:

	Three Months Ended December 31, 2003 Amounts Reported Using		
	Percentage of Completion Method	Completed Contract Method	Difference
Net sales	$10,224	$10,027	$197
Cost of products sold	$ 8,732	$ 8,590	$142
(Benefit) provision for income taxes	$ (322)	$ (339)	$ 17
Net income (loss)	$ (749)	$ (787)	$ 38
Net income (loss) per share			
Basic	$(.46)	$(.48)	$.02
Diluted	$(.46)	$(.48)	$.02

	Nine Months Ended December 31, 2003 Amounts Reported Using		
	Percentage of Completion Method	Completed Contract Method	Difference

Net Sales	$31,348	$30,919	$429
Cost of products sold	$26,088	$25,727	$361
(Benefit) for income taxes	$ (516)	$ (540)	$ 24
Net income (loss)	$(1,245)	$(1,289)	$ 44
Net income (loss) per share			
Basic	$(.76)	$(.78)	$.02
Diluted	$(.76)	$(.78)	$.02

	Nine Months Ended December 31, 2004		
	Amounts Reported Using		
	Percentage of Completion Method	Completed Contract Method	Difference
Net Sales	$33,781	$32,626	$1,155
Cost of products sold	$28,130	$27,193	$ 937
(Benefit) for income taxes	$ (324)	$ (380)	$ 56
Net income (loss)	$ (615)	$ (807)	$ 192
Net income (loss) per share			
Basic	$(.37)	$(.48)	$.11
Diluted	$(.37)	$(.48)	$.11

11

The effect of the change on retained earnings is as follows:

	Three Months Ended December 31, 2003	Nine Months Ended December 31, 2003
Balance at beginning of period as previously reported	$18,103	$18,767
Add adjustment for the cumulative effect on prior periods of applying retroactively the change in accounting method	49	43
Balance at beginning of period,		

as adjusted	18,152	18,810
Net loss	(749)	(1,245)
Dividends	(81)	(243)
Balance at end of period	$17,322	$17,322

NOTE 2 - INVENTORIES

Major classifications of inventories are as follows:

	December 31, 2004	March 31, 2004
Raw materials and supplies	$ 2,245	$ 1,745
Work in process	10,135	6,169
Finished products	2,613	2,500
	14,993	10,414
Less - progress payments	4,261	3,309
- inventory reserve	161	121
	$10,571	$ 6,984

12

NOTE 3 - STOCK-BASED COMPENSATION:

The Company accounts for stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS No. 123, the Company continues to measure compensation for such plans using the intrinsic value based method of accounting, prescribed by Accounting Principles Board (APB), Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation cost for share equivalent units is recorded based on the quoted market price of the Company's stock at the end of the period.

Under the intrinsic value method, no compensation expense

has been recognized for the Company's stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans in accordance with the fair value methodology prescribed under SFAS No. 123, the Company's net loss and net loss per share would have been the pro forma amounts indicated below:

		Three Months Ended December 31,		Nine Months Ended December 31,	
		2004	2003	2004	2003
Net loss as reported		$ (21)	$(749)	$(615)	$(1,245)
Stock-based employee compensation cost net of related tax benefits		(118)	(63)	(118)	(74)
Pro forma net loss		$(139)	$(812)	$(733)	$(1,319)
Basic loss per share	As reported	$(.01)	$(.46)	$(.37)	$(.76)
	Pro forma	$(.08)	$(.49)	$(.44)	$(.80)
Diluted loss per share	As reported	$(.01)	$(.46)	$(.37)	$(.76)
	Pro forma	$(.08)	$(.49)	$(.44)	$(.80)

For purposes of the disclosure above, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal years 2005 and 2004:

	2005	2004
Expected life	5 years	5 years
Volatility	42.84%	47.13%
Risk-free interest rate	3.53%	3.01%
Dividend yield	1.65%	2.25%

NOTE 4 - INCOME (LOSS) PER SHARE:

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Common shares outstanding include share equivalent units which are contingently issuable shares. Diluted income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding and, when applicable, potential common shares outstanding during the period. A reconciliation of the numerators and denominators of basic and diluted income (loss) per share is presented below:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Basic loss per share				
Numerator:				
Net loss	$(21)	$(749)	$(615)	$(1,245)
Denominator:				
Weighted common shares outstanding	1,666,613	1,629,656	1,662,472	1,625,601
Share equivalent units (SEU) outstanding	13,900	16,437	15,689	16,344
Weighted average shares and SEUs outstanding	1,680,513	1,646,093	1,678,161	1,641,945
Basic loss per share	$(.01)	$(.46)	$(.37)	$(.76)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Diluted loss per share				
Numerator:				
Net loss	$(21)	$(749)	$(615)	$(1,245)
Denominator:				
Weighted average shares and SEUs outstanding	1,680,513	1,646,093	1,678,161	1,641,945
Diluted loss per share	$(.01)	$(.46)	$(.37)	$(.76)

There are 219,955 options to purchase shares of common stock at various exercise prices that were excluded from the computation of diluted loss per share for the three and nine month periods ended December 31, 2004 and 2003 as the effect would be antidilutive due to the net losses for the periods.

NOTE 5 - PRODUCT WARRANTY LIABILITY

The reconciliation of the changes in the product warranty liability is as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Balance at beginning of period	$225	$359	$242	$592
Expense (reversal) for product warranties	18	(70)	74	50
Product warranty claims paid	(6)	(31)	(79)	(384)
Balance at end of period	$237	$258	$237	$258

NOTE 6 - CASH FLOW STATEMENT

Interest paid was $84 and $95 for the nine months ended December 31, 2004 and 2003, respectively. In addition, income taxes refunded were $886 and $193 for the nine months ended December 31, 2004 and 2003, respectively.
15
Dividends of $249 and $243 were recorded for the respective nine month periods ended December 31, 2004 and 2003, of which $83 and $0 were not paid during the respective periods. In addition, during the nine months ended December 31, 2003, capital expenditures totaling $11 were financed through the issuance of capital leases.

NOTE 7 - COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) was $143 and $(536) for the three months ended December 31, 2004 and 2003, respectively. Other comprehensive income for the three months ended December 31, 2004 and 2003 included foreign currency translation adjustments of $164 and $213, respectively. Total comprehensive loss for the nine months ended December 31, 2004 and 2003 was $501 and $899, respectively. Other comprehensive income for the nine months ended December 31, 2004 and 2003 included foreign currency translation adjustments of $114 and $346, respectively.

NOTE 8 - EMPLOYEE BENEFIT PLANS

The components of pension cost are as follows:

	Three Months Ended December 31		Nine Months Ended December 31	
	2004	2003	2004	2003
Service cost	$118	$111	$354	$331
Interest cost	243	224	731	668
Expected return on assets	(226)	(183)	(678)	(546)
Amortization of:				
Transition asset	(3)	(11)	(11)	(11)
Unrecognized prior service cost	1	1	3	3
Actuarial loss	76	67	228	200
Net pension cost	$209	$209	$627	$625

The Company made contributions of $201 and $773 to the defined benefit pension plan in the three and nine months ended December 31, 2004, respectively. The Company does not expect to make any contributions to the plan for the balance of fiscal year 2005 due to a decrease in the minimum contribution requirement as a result of the combination of the amortization bases as permitted by the Internal Revenue Service Code Section 412(b)(4) and the replacement of the 30-year Treasury bond interest rate with a four-year weighted average long-term corporate bond interest rate.

16

The components of the postretirement benefit income are as follows:

	Three Months Ended December 31		Nine Months Ended December 31	
	2004	2003	2004	2003
Service cost	$ 0	$ 4	$ 0	$ 10
Interest cost	19	14	55	47
Amortization of prior service cost	(41)	(31)	(124)	(93)
Amortization of actuarial loss	5	3	17	7
Net postretirement benefit	$(17)	$(10)	$(52)	$(29)

The Company paid benefits of $3 and $31 related to its postretirement benefit plan in the three and nine months ended December 31, 2004, respectively. The Company expects to pay benefits of approximately $125 for the balance of fiscal year 2005.

NOTE 9 - OTHER INCOME AND EXPENSE

In November 2004, the Company entered into an Agreement and General Release in connection with the retirement of its former President and CEO. In accordance with the agreement, the Company will retain the former officer as an independent consultant for the period January 1, 2005 to November 8, 2008 and provide certain medical, dental and insurance benefits during the consulting period. The agreement also contains a non-compete provision. The agreement has been accounted for as an individual deferred compensation arrangement, and, therefore, an expense of $648 was recognized and is included in the caption "Other Expense" in the Consolidated Statement of Operations and Retained Earnings for the three and nine month periods ended December 31, 2004. The current and long-term portions of the related liability at December 31, 2004 were $243 and $319, respectively, and are included in the captions "Accrued Expenses and Other Liabilities" and "Other Long-Term Liabilities" in the Consolidated Balance Sheet at December 31, 2004.

In September 2004, the Company settled a contract dispute with a customer regarding cancellation charges. This settlement agreement was executed prior to the end of the quarter, and the unpaid settlement amount due of $183 was received on October 13, 2004. As a result of the settlement, other income of $1,592 was recorded.

17

On February 4, 2003, the Company irrevocably terminated postretirement health care benefits for current U.S. employees. Benefits payable to retirees of record on April 1, 2003 remained unchanged. As a result of the plan change, a curtailment gain of $522 was recognized. This gain is included in the caption "Other Income" in the Consolidated Statement of Operations and Retained Earnings for the nine months ended December 31, 2003.

NOTE 10 - SEGMENT INFORMATION

The Company's business consists of two operating segments based upon geographic area. The United States segment designs and manufactures heat transfer and vacuum equipment and the operating segment located in the United Kingdom manufactures vacuum equipment. Operating segment information is presented below:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Sales to external customers				
U.S.	$10,783	$ 8,891	$28,135	$27,863
U.K.	2,154	1,333	5,646	3,485

Total	$12,937	$10,224	$33,781	$31,348
Intersegment sales				
U.S.			$ 118	$ 38
U.K.	$ 252	$ 1,025	610	2,091
Total	$ 252	$ 1,025	$ 728	$ 2,129
Segment net income (loss)				
U.S.	$ (69)	$ (701)	$ (389)	$ (914)
U.K.	$ 22		(329)	(276)
Total segment net loss	$ (47)	$ (701)	$ (718)	$(1,190)

The segment net loss above is reconciled to the consolidated totals as follows:

	Three Months Ended December 31, 2004	2003	Nine Months Ended December 31, 2004	2003
Total segment net loss	$ (47)	$(701)	$(718)	$(1,190)
Eliminations	26	(48)	103	(55)
Net loss	$ (21)	$(749)	$(615)	$(1,245)

18

NOTE 11 - RELATED PARTY TRANSACTION

On April 1, 2003, the Company acquired 30,800 shares of common stock previously issued under the Long-Term Stock Ownership Plan from two former officers. This transaction was accounted for as a purchase. The shares were redeemed at the original issue price of $7.25, as compared to a market price at the time of the closing of $7.55. This transaction resulted in a $224,000 increase to treasury stock, a $204,000 reduction in notes receivable from officers and directors and cash payments to former officers. The cash payments of $20 approximate amounts previously paid on the notes. (See Note 9 for additional disclosure of related party transactions).

NOTE 12 - CONTINGENCIES

The Company has been named as a defendant in certain lawsuits wherein the respective plaintiffs allege personal injury from exposure to asbestos contained in products made by the Company. The Company is a co-defendant with numerous other defendants in these suits. The Company has retained litigation counsel to defend these claims. The claims are similar to previous asbestos suits naming the Company as defendant, which either were dismissed when it was shown that the Company had not supplied products to the plaintiffs' places of work or were settled for minimal amounts below the expected defense costs. The potential for liability is not determinable.

In December 2004, the Company received a request for payment from the Metal Goods & Manufacturers Trust Fund for $30 relating to a workers' compensation assessment asserted against members in the Trust Fund during the period 1993 through 2001. The Company was a member of the Trust Fund from April 1994 until May 1995. The Company is disputing this claim and has provided for this contingent liability at December 31, 2004.

From time to time, the Company is subject to legal proceedings and potential claims arising from contractual agreements in the ordinary course of business. The Company believes there are no such matters pending against it that could have, individually or in the aggregate, a material adverse effect on its financial statements.

NOTE 13 - ACCOUNTING AND REPORTING CHANGES

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs." This Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "abnormal". In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during the fiscal year 2007. The Company believes the adoption of this Statement will result in the acceleration of recognizing indirect manufacturing expenses during times of below normal utilization of plant capacity.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions" and SFAS No. 153, "Exchanges of Nonmonetary Assets". Both Statements are effective for fiscal years beginning after June 15, 2005. The Company does not believe either of these Statements will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

The FASB also issued in December 2004, SFAS No. 123R, "Share-Based Payment". This Statement revises the standards established for the accounting of transactions in which an entity exchanges its equity instruments for goods and services. It also

addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement is effective as of the beginning of the first interim reporting period that begins after December 15, 2005 and applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The adoption of this Statement will have an effect on the Company's consolidated results of operations. For additional information, see Note 3 to the Condensed Consolidated Financial Statements.

Certain reclassifications have been made to prior financial information to conform to the current period presentation.

20

GRAHAM CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS (MD&A)
December 31, 2004

OVERVIEW

Graham Corporation consists of two operating segments as determined by geographic areas (USA: Graham Corporation, UK: Graham Vacuum and Heat Transfer Limited and its wholly-owned subsidiary, Graham Precision Pumps Limited).

Graham's fiscal financial reporting year commences April 1 and ends March 31.

In the quarter ended September 30, 2004, the Corporation modified its method of recognizing revenue for certain contracts from the completed contract to the percentage-of-completion method. Prior period financial results have been restated to reflect this change. The impact of the restatement on FYE 2004 information discussed in this MD&A is disclosed as parenthetical information within the relevant discussion sections. The restatement did not change previously reported UK financial information. The impact of the change on net sales, cost of products sold, provision for income taxes and net income for the prior periods presented and the nine months ended December 31, 2004 is as follows:

Three Months Ended
December 31, 2003
Amounts Reported Using

	Percentage of Completion Method	Completed Contract Method	Difference
Net sales	$10,224	$10,027	$197
Cost of products sold	$ 8,732	$ 8,590	$142
(Benefit) provision for income taxes	$ (322)	$ (339)	$ 17
Net income (loss)	$ (749)	$ (787)	$ 38
Net income (loss) per share			
Basic	$(.46)	$(.48)	$.02
Diluted	$(.46)	$(.48)	$.02

21

	Nine Months Ended December 31, 2003 Amounts Reported Using		
	Percentage of Completion Method	Completed Contract Method	Difference
Net Sales	$31,348	$30,919	$429
Cost of products sold	$26,088	$25,727	$361
(Benefit) for income taxes	$ (516)	$ (540)	$ 24
Net income (loss)	$(1,245)	$(1,289)	$ 44
Net income (loss) per share			
Basic	$(.76)	$(.78)	$.02
Diluted	$(.76)	$(.78)	$.02

Nine Months Ended
December 31,

2004

Amounts Reported Using

Percentage of	Completed

	Completion Method	Contract Method	Difference
Net Sales	$33,781	$32,626	$1,155
Cost of products sold	$28,130	$27,193	$ 937
(Benefit) for income taxes	$ (324)	$ (380)	$ 56
Net income (loss)	$ (615)	$ (807)	$ 192
Net income (loss) per share			
Basic	$(.37)	$(.48)	$.11
Diluted	$(.37)	$(.48)	$.11

The effect of the change on retained earnings is as follows:

22

	Three Months Ended December 31, 2003	Nine Months Ended December 31, 2003
Balance at beginning of period as previously reported	$18,103	$18,767
Add adjustment for the cumulative effect on prior periods of applying retroactively the change in accounting method	49	43
Balance at beginning of period, as adjusted	18,152	18,810
Net loss	(749)	(1,245)
Dividends	(81)	(243)
Balance at end of period	$17,322	$17,322

Graham Corporation designs and builds vacuum and heat transfer equipment for the process industries throughout the world. The Company is a leader in vacuum technology in the principal markets it serves. The principal markets for our equipment are the chemical, petrochemical, petroleum refining and electric power generating industries, including cogeneration and geothermal plants. Other markets served include metal refining, pulp and paper processing, shipbuilding, water heating, refrigeration, desalination, food processing, drug manufacturing, heating, ventilating and air conditioning.

Ejectors, liquid ring and dry vacuum pumps, condensers, heat exchangers and other products we sell, sold either as components or as complete systems, are used by our customers to produce synthetic fibers, chemicals, petroleum products (including

gasoline), electric power, processed food (including canned, frozen and dairy products), pharmaceutical products, paper, steel, fertilizers and numerous other products used everyday by people throughout the world.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including in this MD&A, that are not historical facts, constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, in general, predict, forecast, indicate or imply future results, performance or achievements and generally use words so indicative. The Company wishes to caution the reader that numerous important factors which involve risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, and other factors discussed in the Company's filings with the Securities and Exchange Commission, in the future, could affect the Company's actual results and could cause its actual consolidated results to
23
differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. Management has discussed each of these critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition - The Corporation recognizes revenue on all contracts with a planned manufacturing process in excess of four weeks (which approximates 575 direct labor hours) using the percentage-of-completion method. The percentage-of-completion method is determined by relating actual labor incurred to-date to management's estimate of total labor to be incurred on each contract. Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in the contract value and estimated costs at completion.

Revenue not accounted for using the percentage-of-completion method is accounted for on the completed contract method because the majority of the Company's contracts have a planned manufacturing process of less than four weeks and the results reported under this method do not vary materially from the use of the percentage-of-completion method. The Company recognizes revenue and all related costs on the completed contract method upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the

Company has no further material obligations under the contract after the revenue is recognized.

Pension and Postretirement Benefits - The Company's defined benefit pension and other postretirement benefit costs and obligations are dependent on actuarial assumptions used in calculating such amounts. These assumptions, which are reviewed annually by the Company, include the discount rate, long-term expected rate of return on plan assets, salary growth, healthcare cost trend rate and other economic and demographic factors. The Company bases the discount rate assumption for its plans on the AA-rated corporate long-term bond yield rate. The long-term expected rate of return on plan assets is based on the plan's asset allocation, historical returns and management's expectation as to future returns that are expected to be realized over the estimated remaining life of the plan liabilities that will be funded with the plan assets. The salary growth assumptions are determined based on the Company's long-term actual experience and

24

future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook, and an assessment of the likely long-term trends.

To the extent that actual results differ from our assumptions, the differences are reflected as unrecognized gains and losses and are amortized to earnings over the estimated future service period of the plan participants to the extent such total net recognized gains and losses exceed 10% of the greater of the plan's projected benefit obligation or the market-related value of assets. Significant differences in actual experience or significant changes in future assumptions would affect the Company's pension and postretirement benefit costs and obligations.

Use of Estimates - The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Use of estimates include the recording of revenue, pension obligations, and the underlying assumptions and valuation reserves for uncollectible accounts, inventory obsolescence, deferred taxes, warranty and liquidated damages.

Results of Operations

For an understanding of the significant factors that influenced the Company's performance, the following discussion should be read in conjunction with the quarterly consolidated financial statements and the notes to consolidated financial statements.

	Three Months Ended	
	December 31, 2004	December 31, 2003

	USA	UK	USA	UK
Sales	$10,783	$ 2,406	$ 8,891	$ 2,358
Net Income (Loss)	$ (69)	$ 22	$ (701)	$ 0
Diluted Income (Loss)Per Share	$ (0.04)	$ 0.01	$ (0.43)	$ 0
Identifiable Assets	$31,104	$ 6,046	$31,485	$ 6,176

25

	Nine Months Ended			
	December 31, 2004		December 31, 2003	
	USA	UK	USA	UK
Sales	$28,253	$ 6,256	$27,901	$ 5,576
Net Loss	$ (389)	$ (329)	$ (914)	$ (276)
Diluted Loss Per Share	$ (0.23)	$ (0.20)	$ (0.56)	$ (0.17)

Amounts above are inclusive of intercompany amounts.

Consolidated sales (net of intercompany sales) for the quarter were $12,937, as compared to $10,224 for the quarter ended December 31, 2003. This represents a 27% increase in consolidated sales. Sales in the USA were up 21% from one year ago. Sales from UK operations were up 2%. The increase in USA sales for the current quarter was due to selling price increases initiated to mitigate rising material costs and greater surface condenser sales. (Due to the restatement, FYE 2004 consolidated and USA sales were increased by $197 for the quarter).

Consolidated sales (net of intercompany sales) for the nine months were $33,781, as compared to $31,348 for the nine months ended December 31, 2003. This represents an 8% increase in sales. Sales in the USA were up 1% from one year ago. Sales from UK operations were up 12%. The FYE 2005 year-to-date (YTD) increase in sales was due to USA increased sales in the current quarter and increased sales YTD in UK operations of offshore oil extraction pumps. (Due to the restatement, FYE 2004 consolidated and USA sales increased $429 for the nine months).

The consolidated gross profit margin for the current quarter was 25%, as compared to 15% for the quarter ended December 31, 2003. By segment, USA operations' gross profit increased from 11% for the third quarter ended December 31, 2003 to 24% for the current quarter. The UK's gross profit margin remained unchanged at 25% for both the quarter ended December 31, 2004 and December 31, 2003. The improvement in the USA gross profit margin for the

quarter was due to greater sales volume, selling price increases, which generated improved contribution margins across all product lines, and fewer sales of lower margin products. (Due to the restatement, FYE 2004 consolidated and USA gross profit percentages increased 1% for the quarter).

26

The consolidated gross profit margin was 17% for both the nine months ended December 31, 2004 and 2003. USA operations' gross profit margin of 15% for the nine months ended December 31, 2004 was unchanged, as compared to the nine months ended December 31, 2003. The UK's gross profit margin decreased to 20% for the nine months ended December 31, 2004 from 22% for the nine months ended December 31, 2003. The reduction in the UK gross profit margin for the nine months was due to the shipment of a few orders taken at very low selling prices. (The restatement did not change gross profit percentages for the nine months ended December 31, 2003).

Selling, General and Administrative expenses (SG&A) were 20% of sales for the current quarter, as compared to 25% for the quarter ended December 31, 2003 and 22% of sales for the nine months ended December 31, 2004, as compared to 24% for the nine month period ended one year earlier. Percentage variances in SG&A expenses are due to changes in sales levels in both the quarterly and nine-month comparative periods.

Interest expense was $34 for the quarter ended December 31, 2004 and $35 for the quarter ended December 31, 2003. For the nine-month periods ended December 31, 2004 and 2003, interest expense was $84 and $93, respectively. Interest expense for the current fiscal year to date decreased in the USA, which resulted in a consolidated decrease of interest expense.

Other income for the nine months ended December 31, 2004 was $1,592, as compared to $522 for the nine months ended December 31, 2003. Other income of $1,592 resulted from a settlement of a contract dispute over cancellation charges. The settlement of this matter ended a complaint filed in April 2004 in the United States District Court for the Northern District of California alleging breach of contract by a customer and a counterclaim filed by the customer seeking specific performance of the contract or money damages. Other income of $522 recognized for the nine months ended December 31, 2003 represents a non-recurring curtailment gain resulting from the discontinuation of postretirement medical benefits.

Other expense recognized in the current quarter and nine months ended December 31, 2004 of $648 was incurred in conjunction with reaching an Agreement and General Release with its former President and CEO. In accordance with the agreement, the Company will retain the former officer as an independent consultant for the period January 1, 2005 to November 8, 2008 and

provide certain medical, dental and insurance benefits during the consulting period. Other expense for the nine months ended December 31, 2003 was zero.

The effective income tax rate for the quarter was (11)%, as compared to 30% at December 31, 2003. The effective income tax rate for the nine months ended December 31, 2004 was 35%, as compared to 29% at December 31, 2003. The lower effective income tax rate for the nine-month period ended December 31, 2003, as compared to 2004, was attributable to permanent items not available to the Company in FYE 2005. The unusually low effective income tax rate for the current quarter resulted from the need to revise the annualized projected effective income tax rate and recognize the year-to-date provision adjustment in a quarter when the income (loss) before income tax amount was minimal. (The restatement did not change the income tax rates for the three or nine months ended December 31, 2003).

Net loss for the quarter was $21 or $0.01 per diluted share. This compares to a net loss of $749 or $0.46 per diluted share for the quarter ended December 31, 2003. Net losses for the nine-month periods ended December 31, 2004 and 2003 were $615, or $0.37 per diluted share, and $1,245 or $0.76 per diluted share, respectively. (For the nine months ended December 31, 2003, the restatement reduced the consolidated and USA net losses by $44 or $0.02 per diluted share. The restatement reduced the consolidated and USA net losses for the quarter ended December 31, 2004 by $38 or $0.02 per diluted share.)

Liquidity and Capital Resources

	As of and for the Nine Months Ended			
	December 31, 2004		December 31, 2003	
	USA	UK	USA	UK
Working Capital	$10,830	$ 1,914	$ 9,720	$ 1,918
Cash Flow (Deficit) from Operations	$(2,824)	$ 195	$(2,612)	$ 318
Cash and Investments	$ 2,711	$ 10	$ 3,660	$ 44
Capital Expenditures	$ 53	$ 74	$ 141	$ 31
Long-Term Bank Borrowings	$ 0	$ 0	$ 0	$ 0
Capital Leases	$ 105	$ 0	$ 154	$ 0
Working Capital Ratio(1)	2.6	1.6	2.2	1.6
Long-Term Debt/Equity(1)	0.6%	0%	0.6%	0%

(1)As of December 31

Working Capital Ratio equals Current Assets divided by Current Liabilities

Long-Term Debt/Equity equals (Current Portion of Long-Term Debt and Long-Term Debt) divided by Shareholders' Equity

Consolidated cash flow from operations was negative $2,629 for the nine months ended December 31, 2004 compared to negative cash flow from operations of $2,294 for the nine months ended December 31, 2003. The increase in negative cash flow was due to increased inventories. Inventories increased in preparation for significant FYE 2005 fourth quarter shipments, for stocking standard products and due to rising material costs.

28

The primary source of liquidity is cash flow from operations, investments in short-term treasury bills and secured credit agreements.

Orders and Backlog

Consolidated orders for the current quarter were $16,195, as compared to $9,965 for the quarter ended December 31, 2003, representing a 63% increase. Prior to intercompany elimination, USA orders were $13,954, as compared to $8,301 in the quarter ended December 31, 2003. Orders in the UK were $2,638, as compared to $2,394 one year ago.

Consolidated orders for the nine months ended December 31, 2004 were $41,707, up 44%, as compared to $29,052 for the nine months ended December 31, 2003. Prior to intercompany elimination, USA orders for the nine months ended December 31, 2004 were $36,600, as compared to $23,624 for the nine months ended December 31, 2003. UK orders were $5,985 and $7,504 for the nine months ended December 31, 2004 and 2003, respectively.

Orders of surface condensers were up $10,013 over the nine months ended December 31, 2003 due to increased demand in major project work in the chemical, energy and refinery sectors. Improved business conditions are global. As compared to December 31, 2003, for USA products, export orders are up 53% and domestic orders are up 57%. Profit margins on orders in backlog have also improved.

Backlog was $24,722 at December 31, 2004, as compared to $15,759 at December 31, 2003, representing a 57% increase. Prior to intercompany eliminations, USA backlog was $22,145 and UK backlog was $3,082 at December 31, 2004. At December 31, 2003, USA and UK backlog amounts were $12,840 and $3,712, respectively. The prior year backlog amounts have been restated to reflect contract cancellations and the restatement of sales due to the change in the revenue recognition accounting method. All orders in backlog represent orders from traditional markets in the Company's established product lines.

Market Risk (Quantitative and Qualitative Disclosures)

The principal market risks (i.e., the risk of loss arising from changes in market rates and prices) to which Graham is exposed are:

- foreign currency exchange rates
- equity price risk (related to its Long-Term Incentive Plan for Directors)

- material availability and price risk

The assumptions applied in preparing quantitative disclosures regarding foreign currency exchange rate and equity price risk are based upon volatility ranges experienced in relevant historical periods, management's current knowledge of the business and market place, and management's judgment of the probability of future volatility based upon the historical trends and economic conditions of the business.

29

Graham's international consolidated sales for the past three years approximates 43% of total sales. Operating in world markets involves exposure to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being the ability to compete for orders against competition having a relatively weaker currency. Business lost due to this cannot be quantified. Secondly, cash can be adversely impacted by the conversion of sales in foreign currency to U.S. dollars. The substantial portion of Graham's sales is collected in the local currency (USA - dollars; UK - pounds sterling). For both quarters ended December 31, 2004 and 2003, sales in foreign currencies were 2% of sales. For the nine months ended December 31, 2004 and 2003, sales in foreign currencies were 3% and 2% of total sales, respectively. At certain times, the Company may enter into forward foreign currency exchange agreements to hedge its exposure against unfavorable changes in foreign currency values on significant sales contracts negotiated in foreign currencies.

Graham has limited exposure to foreign currency purchases. For the three month periods ended December 31, 2004 and 2003, purchases in foreign currencies were 5% and 9% of cost of goods sold, respectively. For the nine month periods ended December 31, 2004 and 2003, purchases in foreign currencies were 6% and 10% of cost of goods sold, respectively. In FYE 2004 and 2005, USA operations recorded an unusually significant dollar volume of orders utilizing UK subsidiary products in conjunction with USA equipment. At certain times, forward foreign currency exchange contracts may be utilized to limit currency exposure.

UK operations experienced a current quarter net income of $22, as compared to a quarterly net income (loss) of $0 for December 31, 2003. For the nine months ended December 31, 2004 and 2003, foreign operations produced net losses of $329 and $276, respectively. As currency exchange rates change, translations of the income statements of the UK business into US dollars affect year-over-year comparability of operating results. The increase in the foreign currency translation rate to convert pounds sterling to US dollars increased all UK income statement items and order amounts by 12% and all UK balance sheet and backlog amounts by 7% for the nine months ended December 31, 2004 over 2003. The Company does not hedge translation risks because cash flows from UK operations are mostly reinvested in the UK. A 10% change in foreign currency exchange rates would have impacted the UK reported net loss by approximately $3 and $0 for the three months ended December 31, 2004 and 2003, and $33 and $28 for the nine month periods, respectively.

The Company has a Long-Term Incentive Plan, which provides for awards of share equivalent units (SEUs) for outside directors based upon the Company's performance. The outstanding SEUs are recorded at fair market value thereby exposing the Company to

equity price risk. Gains and losses recognized due to market price changes are included in the Company's results of operations. Based upon the SEUs outstanding at December 31, 2004 and 2003 and a $12 per share price, a 50-75% change in the respective year end market price of the Company's common stock would positively or negatively impact the Company's operating

30 (Continued)

results by $79 to $118 for the three and nine months ended December 31, 2004 and $99 to $148 for the three and nine months ended December 31, 2003. Assuming required net income of $500 is met, and based upon a market price of the Company's stock of $12 per share, a 50-75% change in the stock price would positively or negatively impact the Company's operating results by $122 to $183 in 2006, $136 to $203 in 2007, $146 to $218 in 2008, $156 to $233 in 2009 and $158 to $237 in 2010.

The risks associated with materials include availability and price increases. Material shortages have affected the Company's ability to meet delivery requirements for certain orders. The Company has identified alternative vendors in such cases and seeks to negotiate escalation provisions in its sales contracts in the event that costs of materials increase. Profit margins on sales would be reduced to the extent rising material costs could not be passed on to Graham's customers.

Contingencies

The Company is a co-defendant with numerous other defendants in matters of litigation alleging personal injury from exposure to asbestos contained in some of the Company's products previously manufactured. To date, it has been the Company's experience that upon investigation the cases have been dismissed or settled for minimal amounts. However, the magnitude of potential damages on unsettled current claims is not determinable.

In December 2004, the Company received a request for payment from the Metal Goods & Manufacturers Trust Fund for $30 relating to a workers' compensation assessment asserted against members in the Trust Fund during the period 1993 through 2001. The Company was a member of the Trust Fund from April 1994 until May 1995. The Company is disputing this claim. It is not possible to predict the outcome of this dispute at this time, however, management has provided for this contingent liability at December 31, 2004.

From time to time, the Company is subject to legal proceedings and potential claims arising from contractual agreements in the ordinary course of business. The Company believes there are no such matters pending against it that could have, individually or in the aggregate, a material adverse effect on its financial statements.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing, "to clarify the

accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials. This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "abnormal." In addition, this Statement requires that allocation of fixed
31 (Continued)
production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred on a prospective basis during fiscal years beginning after June 15, 2005. The pronouncement will have the effect of accelerating the recognition of indirect manufacturing costs in times of below normal manufacturing capacity utilization.

In December 2004, the FASB issued SFAS Nos. 152, Accounting for Real Estate Time-Sharing Transactions and 153, Exchanges of Nonmonetary Assets as Amendment of ARB Opinion No. 29. Both statements are effective for fiscal years beginning after June 15, 2005. It is anticipated that neither pronouncement will have a significant, if any, impact on Graham's financial reporting, if any.

The FASB also issued in December 2004, SFAS No. 123R, "Share-Based Payment". This Statement revises the standards established for the accounting of transactions in which an entity exchanges its equity instruments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement is effective as of the beginning of the first interim reporting period that begins after December 15, 2005 and applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The adoption of this Statement will have an effect on the Company's consolidated results of operations. For additional information, see Note 3 to the Condensed Consolidated Financial Statements.

Controls and Procedures

The Company's President and Chief Executive Officer and its Vice President-Finance and Chief Financial Officer each have independently evaluated the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-14(c) and 15d-14(c) as of the end of the period covered by this quarterly report on Form 10-Q and each regards such controls as effective.

There have been no significant changes to any such controls or in other factors that could significantly affect such controls, subsequent to the date of their evaluation by each of the CEO and the CFO.

GRAHAM CORPORATION AND SUBSIDIARIES
FORM 10-Q
DECEMBER 31, 2004
PART II - OTHER INFORMATION

Item 5. Other Information

The Company's Chief Executive Officer and Chief Financial Officer have furnished to the SEC the certifications with respect to this Form 10-Q that is required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002. These certifications are included in Exhibits 31 and 32 to this Form 10-Q.

Item 6. Exhibits

a. See index to exhibits.

SIGNATURES

Pursuant to the requirements 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.

GRAHAM CORPORATION

/s/ J. R. Hansen

J. R. Hansen
Vice President Finance and
Administration / CFO (Principal
Accounting Officer)

Date 2/1/05

INDEX OF EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

Not applicable.

(3)(i) Articles of Incorporation of Graham Corporation (filed as Exhibit 3(b) to the Registrant's annual report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference.)

(3)(ii) By-laws of registrant, as amended (filed as Exhibit 3(ii) to the Registrant's quarterly report on Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference).

(4) Instruments defining the rights of security holders, including indentures

(a) Equity securities

The instruments defining the rights of the holders of Registrant's equity securities are as follows:

Certificate of Incorporation, as amended, of Registrant (filed as Exhibit 3(a) to the Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1989, and incorporated herein by reference.)

Stockholder Rights Plan of Graham Corporation (filed as Item 5 to Registrant's current report filed on Form 8-K on August 23, 2000 and Registrant's Form 8-A filed on September 15, 2000, and incorporated herein by reference.)

(b) Debt securities

Not applicable.

(10) Material Contracts

(10.1) Indemnification Agreements with Named Directors

1989 Stock Option and Appreciation Rights Plan of Graham Corporation (filed on the Registrant's Proxy Statement for its 1990 Annual Meeting of Stockholders and incorporated herein by reference.)

1995 Graham Corporation Incentive Plan to Increase Shareholder Value (filed on the Registrant's Proxy Statement for its 1996 Annual Meeting of Stockholders and incorporated herein by reference.)

Index to Exhibits (Continued)

2000 Graham Corporation Incentive Plan to Increase Shareholder Value (filed on the Registrant's Proxy Statement for its 2001 Annual Meeting of Stockholders and incorporated herein by reference.)

Graham Corporation Outside Directors' Long-Term Incentive Plan (filed as Exhibit 10.3 to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by reference.)

Employment Contracts between Graham Corporation and Named Executive Officers (filed as Exhibit 10.4 to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998 and Exhibit 10.2 to Registrant's current report filed on Form 8-K on December 2, 2004, and are incorporated herein by reference.)

Senior Executive Severance Agreements with Named Executive Officers (filed as Exhibit 10.5 to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by reference.)

Long-Term Stock Ownership Plan of Graham Corporation (filed on the Registrant's Proxy Statement for its 2000 Annual Meeting of Stockholders and incorporated herein by reference.)

Agreement and Release of Claims dated November 29, 2004 between Alvaro Cadena and Graham Corporation (filed as Exhibit 10.1 to Registrant's current report filed on Form 8-K on December 2, 2004 and is incorporated herein by reference.)

Indemnification Agreement with Named Officer (filed as Exhibit 10.1 to Registrant's current report filed on Form 8-K on January 25, 2005 and is incorporated herein by reference.)

(11) Statement re-computation of per share earnings

Computation of per share earnings is included in Note 4 of the Notes to Financial Information.

(14) Code of Ethics

The Company's code of ethics is available on the Company's website at www.graham-mfg.com.

(15) Letter re-unaudited interim financial information

Not applicable.

(18) Letter re-change in accounting principles

Not applicable.

(19) Report furnished to security holders

None.

(22) Published report regarding matters submitted to vote of security holders

None.

(23) Consents of experts and counsel

Not applicable.

(24) Power of Attorney

Not applicable.

(31) Rule 13a-14(a)/15d-14(a) Certifications

(32) Section 1350 Certifications

(99) Additional exhibits

None.