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 June 30, 2000

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 - 716-343-2216

(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 _____

As of August 4, 2000, there were outstanding 1,504,472 shares of common stock, $.10 per share.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

JUNE 30, 2000

PART I - FINANCIAL INFORMATION

Unaudited consolidated financial statements of Graham Corporation (the Company) and its subsidiaries as of June 30, 2000 and for the three month period then ended 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 approximations 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.

This part also includes management's discussion and analysis of the Company's financial condition as of June 30, 2000 and its results of operations for the three month period then ended.

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	June 30, 2000 <C>	March 31, 2000 <C>
Assets		
Current Assets:		
Cash and equivalents	$ 25,000	$ 1,110,000
Investments	4,905,000	4,905,000
Trade accounts receivable	8,059,000	7,593,000
Inventories	5,223,000	6,640,000
Domestic and foreign income taxes receivable	56,000	300,000
Deferred income tax asset	1,709,000	1,644,000
Prepaid expenses and other current assets	511,000	400,000
	20,488,000	22,592,000
Property, plant and equipment, net	9,997,000	10,105,000
Deferred income tax asset	1,766,000	1,862,000
Other assets	31,000	37,000
	$32,282,000	$34,596,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (concluded)

<TABLE>
<CAPTION>

<S>	June 30, 2000 <C>	March 31, 2000 <C>

Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 2,094,000	$ 2,000,000
Current portion of long-term debt	238,000	286,000
Accounts payable	1,895,000	2,672,000
Accrued compensation	2,679,000	3,228,000
Accrued expenses and other liabilities	1,008,000	865,000
Customer deposits	885,000	444,000
Contingent liability	696,000	700,000
	9,495,000	10,195,000
Long-term debt	720,000	1,948,000
Accrued compensation	770,000	766,000
Deferred income tax liability	32,000	33,000
Other long-term liabilities	12,000	13,000
Accrued pension liability	1,408,000	1,339,000
Accrued postretirement benefits	3,229,000	3,210,000
Total liabilities	15,666,000	17,504,000
Shareholders' equity:		
Preferred stock, $1 par value - Authorized, 500,000 shares		
Common stock, $.10 par value - Authorized, 6,000,000 shares Issued 1,690,595 shares on June 30, 2000 and March 31, 2000	169,000	169,000
Capital in excess of par value	4,521,000	4,521,000
Retained earnings	16,544,000	16,898,000
Accumulated other comprehensive loss	(2,086,000)	(1,964,000)
	19,148,000	19,624,000
Less:		
Treasury stock	(2,532,000)	(2,532,000)
Total shareholders' equity	16,616,000	17,092,000
	$32,282,000	$34,596,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

<TABLE>
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	Three Months ended June 30, 2000	1999
<S>	<C>	<C>
Net Sales	$ 8,284,000	$ 9,053,000
Cost and expenses:		
Cost of products sold	6,425,000	6,413,000
Selling, general and administrative	2,307,000	2,298,000
Interest expense	74,000	42,000
	8,806,000	8,753,000
Income (Loss) before income taxes	(522,000)	300,000
Provision (Benefit) for income taxes	(168,000)	119,000
Net income (loss)	(354,000)	181,000
Retained earnings at beginning of period	16,898,000	17,731,000
Retained earnings at end of period	$16,544,000	$17,912,000
Per Share Data:		
Basic:		
Net income (loss)	$(.23)	$.12
Diluted:		

Net income (loss)	$(.23)	$.12

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
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	Three Months Ended June 30, 2000	1999
<S>	<C>	<C>
Operating activities:		
Net income (loss)	$ (354,000)	$ 181,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	240,000	263,000
Gain on sale of property, plant and equipment	(23,000)	
(Increase) Decrease in operating assets:		
Accounts receivable	(506,000)	637,000
Inventory, net of customer deposits	1,814,000	294,000
Prepaid expenses and other current and non-current assets	(115,000)	19,000
Increase (Decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other liabilities	(1,142,000)	(1,374,000)
Accrued compensation, accrued pension liability, and accrued postemployment benefits	92,000	204,000
Domestic and foreign income taxes	242,000	87,000
Other long-term liabilities		(2,000)
Total adjustments	602,000	128,000
Net cash provided by operating activities	248,000	309,000
Investing activities:		
Purchase of property, plant and equipment	(188,000)	(79,000)
Proceeds from sale of property, plant & equipment	27,000	
Purchase of investments		(904,000)
Proceeds from maturity of investments		906,000
Net cash used by investing activities	(161,000)	(77,000)
Financing activities:		
Increase in short-term debt	95,000	165,000
Proceeds from issuance of long-term debt	5,844,000	
Principal repayments on long-term debt	(7,103,000)	(81,000)
Purchase of treasury stock		(10,000)
Net cash provided (used) by financing activities	(1,164,000)	74,000
Effect of exchange rate on cash	(8,000)	(6,000)
Net increase (decrease) in cash and equivalents	(1,085,000)	300,000
Cash and equivalents at beginning of period	1,110,000	120,000
Cash and equivalents at end of period	$ 25,000	$ 420,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION

JUNE 30, 2000

NOTE 1 - INVENTORIES

Major classifications of inventories are as follows:

	6/30/00	3/31/00
Raw materials and supplies	$1,524,000	$1,627,000
Work in process	6,386,000	6,045,000
Finished products	1,281,000	1,304,000
	9,191,000	8,976,000
Less - progress payments	3,968,000	2,336,000
	$5,223,000	$6,640,000

NOTE 2 - EARNINGS PER SHARE:

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common and, when applicable, potential common shares outstanding during the period. A reconciliation of the numerators and denominators of basic and diluted earnings per share is presented below:

	Three months ended June 30, 2000	1999
Basic earnings (loss) per share		
Numerator:		
Net income (loss)	$(354,000)	$ 181,000
Denominator:		
Weighted common shares outstanding	1,504,000	1,520,000
Share equivalent units (SEU) outstanding	11,000	5,000
Weighted average shares and SEU's outstanding	1,515,000	1,525,000
Basic earnings (loss) per share	$(.23)	$.12

NOTE 2 - EARNINGS PER SHARE: (concluded)

	Three months ended June 30, 2000	1999
Diluted earnings (loss) per share		
Numerator:		
Net income (loss)	$(354,000)	$ 181,000
Denominator:		
Weighted average shares and SEU's outstanding	1,515,000	1,525,000
Stock options outstanding		6,000
Contingently issuable SEU's		6,000
Weighted average common and potential common shares outstanding	1,515,000	1,537,000
Diluted earnings (loss) per share	$(.23)	$.12

</TABLE>

All options to purchase shares of common stock at various exercise prices were excluded from the computation of diluted loss per share as the effect would be antidilutive due to the net loss.

NOTE 3 - CASH FLOW STATEMENT

Actual interest paid was $77,000 and $41,000 for the three months ended June 30, 2000 and 1999, respectively. In addition, actual income taxes refunded were $411,000 for the three months ended June 30, 2000 and actual income taxes paid were $32,000 for the three months ended June 30, 1999.

NOTE 4 - COMPREHENSIVE INCOME

Total comprehensive income (loss) was $(476,000) and $152,000 for the three months ended June 30, 2000 and 1999, respectively. Other comprehensive loss included foreign currency translation adjustments of $122,000 and $29,000 for the quarters ended June 30, 2000 and 1999, respectively.

NOTE 5 - 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:

<TABLE>
<CAPTION>

	Three months ended June 30, 2000	1999
<S>	<C>	<C>
Sales from external customers		
U.S.	$7,413,000	$8,054,000
U.K.	871,000	999,000
Total	$8,284,000	$9,053,000
Intersegment sales		
U.S.	$ 9,000	
U.K.	194,000	$ 254,000
Total	$ 203,000	$ 254,000
Segment net income (loss)		
U.S.	$ (404,000)	$ 233,000
U.K.	(33,000)	(52,000)
Total	$ (437,000)	$ 181,000

</TABLE>

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

<TABLE>
<CAPTION>

<S>	<C>	<C>
Total segment net income (loss)	$(437,000)	$181,000
Eliminations	83,000	
Net income (loss)	$(354,000)	$181,000

</TABLE>

GRAHAM CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
June 30, 2000

Results of Operations

Sales decreased 8% in the first quarter of fiscal year 2001 compared to the same period last year. Sales for the first quarter decreased 8% in the United States and 15% in the United Kingdom compared to fiscal year 2000. The decrease in the United States sales is attributable to customer changes to equipment specifications which resulted in longer production schedules for several large projects. The decline in the United Kingdom sales is a reflection of the low level of new orders obtained during fiscal year 2000. In addition, the strength of the pound sterling as compared to other foreign currencies and the recession in the United Kingdom manufacturing sector have adversely impacted sales volumes and prices.

Cost of sales as a percent of sales for the first quarter was 78% compared to 71% a year ago. Cost of sales as a percent of sales for the United States operating segment was 80% for the current quarter compared to 71% for the first quarter of fiscal year 2000. For the United Kingdom operations, cost of sales remained stable at 74%. While cost of sales as a percent of sales remained consistent in the United Kingdom, the significant increase in the United States is due to product mix as direct costs incurred in producing the new rectangular condenser product line are greater than the direct costs for the smaller, circular condensers. In addition, fixed production costs have increased while sales levels have declined causing this percentage to climb.

Selling, general and administrative expenses for the three months ended June 30, 2000 were substantially the same as selling, general and administrative expenses for the same period of fiscal year 2000 and represented 28% of sales as compared to 25% in the first quarter last year. Selling, general and administrative expenses as a percent of sales exceeds the prior year percentage primarily due to the decline in sales levels during the current quarter as compared to the first quarter of last year.

Interest expense for the first quarter is up 76% or $32,000 from the same period in fiscal year 2000. The increase is attributable to a higher level of borrowing in the United States during the quarter for working capital needs.

The effective income tax rate for the first quarter was 32% compared to 40% for the comparable three months of last year. The lower rate in the current year results from the utilization of prior year operating losses in the United Kingdom.

Liquidity and Capital Resources

The financial condition of the Company remained relatively stable. Working capital of $10,993,000 at June 30, 2000 compares to $12,397,000 at March 31, 2000. The working capital decrease

Liquidity and Capital Resources (concluded)

reflects decreases of $2,104,000 and $700,000 in current assets and current liabilities, respectively. The decrease in current assets related primarily to significant declines in cash and inventory. The decrease in cash is due to paydowns on long-term debt while the decline in inventory is due to the receipt of additional progress payments on several large projects which are reported as a reduction to inventory. The decrease in current liabilities is attributable to a reduction in accounts payable which is mainly the result of timing of purchases. The current ratio has remained steady at 2.2.

Net cash provided from operating activities for the first quarter was $248,000. Net loss, adjusted for depreciation and amortization, used $114,000 of operating cash. However, as noted above, the receipt of progress payments generated cash from operations to offset this use. Net cash used in investing activities for the three month period of $161,000 was utilized for capital expenditures which were $188,000 compared to $79,000 for the same period last year. The Company had commitments for capital expenditures of approximately $625,000 as of June 30, 2000. Management anticipates spending approximately $1,000,000 in fiscal year 2001 for capital additions to upgrade computer equipment and machinery. Net cash used in financing activities of $1,164,000 was due primarily to paydowns on the United States line of credit.

Management expects that the cash flow from operations and lines of credit will provide sufficient resources to fund the fiscal year 2001 cash requirements.

The long-term debt to equity ratio of 6% compares to 13% at March 31, 2000. The total liabilities to assets ratio is 49% compared to 51% at March 31, 2000. These ratios are reflective of the continued stability and strength of the Company's financial condition.

New Orders and Backlog

New orders for the first quarter were $12,425,000 compared to $7,334,000 for the same period last year. Prior to intercompany eliminations, new orders in the United States were $11,760,000 compared to $6,538,000 for the same period in fiscal year 2000. New orders in the United Kingdom were $1,101,000 compared to $1,104,00 for the same quarter last year. The significant increase in new orders in the United States is due to significant orders obtained for rectangular condensers and other large equipment in the refinery and plastics industries.

Management anticipates growth opportunities in the power, pharmaceutical, fiber and resin industries. The Company will pursue new business in these areas in order to increase market share.

New Orders and Backlog(concluded)

Backlog of unfilled orders at June 30, 2000 is $28,418,000 compared to $13,857,000 at this time a year ago and $24,302,000 at March 31, 2000. Prior to intercompany eliminations, current backlog in the United States of $28,027,000 compares to $23,689,000 at March 31, 2000 and $13,108,000 at June 30, 1999. Current backlog in the United Kingdom of $1,179,000 compares to $1,198,000 at March 31, 2000 and $958,000 at June 30, 1999. The current backlog is reflective of the recent order activity. The current backlog, with the exception of approximately $5,000,000, is scheduled to be shipped during the next twelve months and represents orders from traditional markets in the Company's established product lines.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to changes in interest rates, foreign currency exchange rates and equity prices which may adversely impact its results of operations and financial position. The Company is exposed to interest rate risk primarily through its borrowing activities. Risk associated with interest rate fluctuations on debt is managed by holding interest bearing debt to the absolute minimum and assessing the risks and benefits for incurring long-term debt. Based upon variable rate debt outstanding at June 30, 2000, a 1% change in interest rates would impact annual interest expense by $27,000.

Over the past three years, Graham's international consolidated sales exposure approximates fifty percent of annual sales. Operating in world markets involves exposure to movements in currency exchange rates. Currency movements can affect sales in several ways. Foremost, the ability to competitively compete for orders against competition having a relatively weaker currency. Business lost due to this cannot be quantified. Secondly, redemption value of sales can be adversely impacted. The substantial portion of Graham's sales are collected in U.S. dollars. The Company enters into forward foreign exchange agreements to hedge its exposure against unfavorable changes in foreign currency values on significant sales contracts negotiated in foreign currencies. Graham uses derivatives for no other reason.

Foreign operations produced a net loss in the first quarter of $34,000. As currency exchange rates change, translations of the income statements of our U.K. business into U.S. dollars affects year-over-year comparability of operating results. The Company does not hedge translation risks because cash flows from U.K. operations are mostly reinvested in the U.K. A 10% change in foreign exchange rates would impact first quarter net loss by approximately $3,000.

Quantitative and Qualitative Disclosures about Market Risk (concluded)

The Company has a Long-Term Incentive Plan which provides for awards of share equivalent units (SEU) for outside directors based upon the Company's performance. The outstanding SEU's 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 quarterly results of operations. Based upon the SEU's outstanding at June 30, 2000 and 1999 and the respective quarter end market price per share, a twenty to forty percent change in the respective quarter end market price of the Company's common stock would positively or negatively impact the Company's first quarter operating results by $26,000 to $53,000 for 2001 and $20,000 to $40,000 for 2000. In the first quarter of 2001, the loss, net of tax, recorded due to the increase in the stock price was not significant. Assuming required net income of $500,000 to award SEU's is met and SEU's are granted to the five outside directors in accordance with the plan over the next five years, based upon the June 30, 2000 market price of the Company's stock of $7.63 per share, a twenty to forty percent change in the stock price would positively or negatively impact the Company's operating results by $36,000 to $73,000 in 2002, $38,000 to $77,000 in 2003 and $40,000 to $81,000 in 2004, 2005 and 2006.

Accounting Standard Changes

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and derivatives utilized for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for the Company in fiscal 2002. The impact of adopting this statement is not expected to have an adverse effect on the Company's financial statements.

GRAHAM CORPORATION AND SUBSIDIARIES
FORM 10-Q
JUNE 30, 2000
PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

a. See index to exhibits.

b. No reports on Form 8-K were filed during the quarter ended June 30, 2000.

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

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

Date 08/04/00

INDEX OF EXHIBITS

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

Not applicable.

(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.)

By-laws of registrant, as amended (filed as Exhibit 3.2(ii) to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by reference.)

(b) Debt securities

Not applicable.

(10) Material Contracts

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.)

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 is 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.)

(11) Statement re-computation of per share earnings

Computation of per share earnings is included in Note 2 of the Notes to Financial Information.

(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.

(27) Financial Data Schedule

Financial Data Schedule is included herein as Exhibit 27 of this report.

(99) Additional exhibits

None.

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The schedule contains summary financial information extracted from the Graham Corporation consolidated balance sheet and consolidated statement of operations and retained earnings and is qualified in its entirety by reference to such financial statements.
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