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, 2002

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 _____

As of February 7, 2003, there were outstanding 1,648,249 shares of common stock, $.10 per share.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

DECEMBER 31, 2002

PART I - FINANCIAL INFORMATION

Unaudited consolidated financial statements of Graham Corporation (the Company) and its subsidiaries as of December 31, 2002 and for the three month and nine month periods 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. The March 31, 2002 Consolidated Balance Sheet was derived from the Company's audited financial statements for the year ended March 31, 2002.

This part also includes management's discussion and analysis of the Company's financial condition as of December 31, 2002 and its results of operations for the three and nine month periods then ended.

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31, 2002	March 31, 2002
<S>	<C>	<C>
Assets		
Current Assets:		
Cash and equivalents	$ 267,000	$ 2,901,000
Investments	6,514,000	2,496,000
Trade accounts receivable	7,686,000	17,053,000
Inventories	8,349,000	8,342,000
Domestic and foreign income taxes receivable	786,000	
Deferred income tax asset	1,020,000	1,218,000
Prepaid expenses and other current assets	559,000	377,000
	25,181,000	32,387,000
Property, plant and equipment, net	9,774,000	9,726,000
Deferred income tax asset	2,410,000	1,585,000
Other assets	53,000	6,000
	$37,418,000	$43,704,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Concluded)

<TABLE>
<CAPTION>

	December 31, 2002	March 31, 2002
<S>	<C>	<C>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 1,489,000	$ 1,050,000
Current portion of long-term debt	86,000	85,000
Accounts payable	2,528,000	4,333,000
Accrued compensation	3,104,000	4,444,000
Accrued expenses and other liabilities	1,749,000	1,100,000
Customer deposits	4,405,000	6,704,000
Domestic and foreign income taxes payable		859,000
	13,361,000	18,575,000
Long-term debt	476,000	150,000
Accrued compensation	650,000	680,000
Deferred income tax liability	46,000	41,000
Other long-term liabilities	12,000	11,000
Accrued pension liability	1,678,000	1,398,000
Accrued postretirement benefits	3,321,000	3,213,000
Total liabilities	19,544,000	24,068,000
Shareholders' equity:		
Preferred Stock, $1 par value - Authorized, 500,000 shares		
Common stock, $.10 par value - Authorized, 6,000,000 shares Issued, 1,716,572 shares on December 31, 2002 and March 31, 2002	172,000	172,000
Capital in excess of par value	4,757,000	4,757,000
Retained earnings	17,730,000	18,888,000
Accumulated other comprehensive loss	(2,841,000)	(2,178,000)
	19,818,000	21,639,000
Less:		
Treasury Stock (68,323 shares on December 31, 2002 and March 31, 2002)	(1,161,000)	(1,161,000)
Notes receivable from officers and directors	(783,000)	(842,000)
Total shareholders' equity	17,874,000	19,636,000
	$37,418,000	$43,704,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

<TABLE>
<CAPTION>

	Three Months ended December 31, 2002	Three Months ended December 31, 2001	Nine Months ended December 31, 2002	Nine Months ended December 31, 2001
<S>	<C>	<C>	<C>	<C>
Net Sales	$13,703,000	$11,810,000	$35,308,000	$35,473,000
Cost and expenses:				
Cost of products sold	11,135,000	8,669,000	28,711,000	27,647,000
Selling, general and administrative	2,814,000	2,594,000	8,019,000	7,571,000
Interest expense	31,000	30,000	68,000	135,000
	13,980,000	11,293,000	36,798,000	35,353,000

Income (Loss) before income taxes	(277,000)	517,000	(1,490,000)	120,000
Provision (Benefit) for income taxes	(99,000)	163,000	(503,000)	26,000
Net income (loss)	(178,000)	354,000	(987,000)	94,000
Retained earnings at beginning of period	17,994,000	16,323,000	18,888,000	16,583,000
Dividends	(86,000)		(171,000)	
Retained earnings at end of period	$17,730,000	$16,677,000	$17,730,000	$16,677,000
Per Share Data:				
Basic:				
Net income (loss)	$(.11)	$.21	$(.59)	$.06
Diluted:				
Net income (loss)	$(.11)	$.21	$(.59)	$.06

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Nine Months Ended December 31, 2002	2001
<S>	<C>	<C>
Operating activities:		
Net income (loss)	$ (987,000)	$ 94,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	656,000	722,000
(Gain) Loss on sale of property, plant and equipment	28,000	(4,000)
Loss on sale of investments		28,000
(Increase) Decrease in operating assets:		
Accounts receivable	9,582,000	985,000
Inventory, net of customer deposits	(2,084,000)	4,035,000
Prepaid expenses and other current and non-current assets	(162,000)	77,000
Increase (Decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other liabilities	(2,471,000)	(3,018,000)
Deferred compensation, deferred pension liability, and accrued postemployment benefits	(1,492,000)	286,000
Domestic and foreign income taxes	(1,644,000)	459,000
Deferred income taxes	(38,000)	94,000
Total adjustments	2,375,000	3,664,000
Net cash provided by operating activities	1,388,000	3,758,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)

<TABLE>
<CAPTION>

	Nine Months Ended December 31, 2002	Nine Months Ended December 31, 2001
<S>	<C>	<C>
Investing activities:		
Purchase of property, plant and equipment	(675,000)	(496,000)
Proceeds from sale of property, plant and equipment	4,000	143,000
Collection of notes receivable from officers and directors	59,000	
Purchase of investments	(19,220,000)	(2,487,000)
Redemption of investments at maturity	15,300,000	4,877,000
Net cash provided (used) by investing activities	(4,532,000)	2,037,000
Financing activities:		
Increase (Decrease) in short-term debt	293,000	(3,456,000)
Proceeds from issuance of long-term debt	4,195,000	4,785,000
Principal repayments on long-term debt	(3,895,000)	(5,445,000)
Issuance of common stock		145,000
Dividends paid	(86,000)	
Net cash provided (used) by financing activities	507,000	(3,971,000)
Effect of exchange rate on cash	3,000	5,000
Net increase (decrease) in cash and equivalents	(2,634,000)	1,829,000
Cash and equivalents at beginning of period	2,901,000	226,000
Cash and equivalents at end of period	$ 267,000	$2,055,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES / NOTES TO FINANCIAL INFORMATION
DECEMBER 31, 2002

NOTE 1 - INVENTORIES

Major classifications of inventories are as follows:

<TABLE>
<CAPTION>

	12/31/02	3/31/02
<S>	<C>	<C>

Raw materials and supplies	$ 1,869,000	$ 2,257,000
Work in process	14,887,000	13,322,000
Finished products	2,744,000	1,724,000
	19,500,000	17,303,000
Less - progress payments	11,049,000	8,871,000
- inventory reserve	102,000	90,000
	$ 8,349,000	$ 8,342,000

</TABLE>

NOTE 2 - EARNINGS PER SHARE:

Basic earnings (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 includes share equivalent units which are contingently issuable shares. Diluted earnings (loss) per share is calculated by dividing net income (loss) 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 (loss) per share is presented below:

<TABLE>
<CAPTION>

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
<S>	<C>	<C>	<C>	<C>
Basic earnings (loss) per share				
Numerator:				
Net income (loss)	$ (178,000)	$ 354,000	$ (987,000)	$ 94,000
Denominator:				
Weighted common shares outstanding	1,648,000	1,644,000	1,648,000	1,637,000
Share equivalent units (SEU) outstanding	16,000	11,000	14,000	11,000
Weighted average shares and SEU's outstanding	1,664,000	1,655,000	1,662,000	1,648,000
Basic earnings (loss) per share	$(.11)	$.21	$(.59)	$.06

</TABLE>

<TABLE>
<CAPTION>

	Three months ended December 31, 2002	Three months ended December 31, 2001	Nine months ended December 31, 2002	Nine months ended December 31, 2001
<S>	<C>	<C>	<C>	<C>
Diluted earnings (loss) per share				
Numerator:				
Net income (loss)	$ (178,000)	$ 354,000	$ (987,000)	$ 94,000
Denominator:				
Weighted average shares and SEU's outstanding	1,664,000	1,655,000	1,662,000	1,648,000
Stock options outstanding		23,000		21,000
Weighted average common and potential common shares outstanding	1,664,000	1,678,000	1,662,000	1,669,000
Diluted earnings (loss) per share	$(.11)	$.21	$(.59)	$.06

</TABLE>

All options to purchase shares of common stock at various exercise prices were excluded from the computation of diluted loss per share for the three and nine month periods ended December 31, 2002 as the effect would be antidilutive due to the net losses for the periods.

Options to purchase shares of common stock which totaled 88,600 for the three and nine months ended December 31, 2001 were not included in the computation of diluted earnings per share as the effect would be antidilutive due to the options' exercise price being greater than the average market price of the common shares.

NOTE 3 - CASH FLOW STATEMENT

Actual interest paid was $68,000 and $147,000 for the nine months ended December 31, 2002 and 2001, respectively. In addition, actual income taxes paid (refunded) were $1,180,000 and $(527,000) for the nine months ended December 31, 2002 and 2001, respectively.

Non-cash activities during the nine months ended December 31, 2002 and 2001 included capital expenditures totaling $22,000 and $70,000, respectively, which were financed through the issuance of capital leases. In addition, a minimum pension liability adjustment, net of a $533,000 tax benefit, totaling $990,000 was recognized in the third quarter of fiscal year 2003.

NOTE 4 - COMPREHENSIVE INCOME

Total comprehensive income (loss) was $(1,094,000) and $339,000 for the three months ended December 31, 2002 and 2001, respectively. Other comprehensive loss for the three months ended December 31, 2002 included a foreign currency translation adjustment of $74,000 and a minimum pension liability adjustment, net of tax, of $(990,000). Other comprehensive income for the three months ended December 31, 2001 included a foreign currency translation adjustment of $(15,000).

Total comprehensive income (loss) for the nine months ended December 31, 2002 and 2001 was $(1,650,000) and $158,000, respectively. Other comprehensive loss for the nine months ended December 31, 2002 included a foreign currency translation adjustment of $327,000 and a minimum pension liability adjustment, net of tax, of $(990,000). Other comprehensive income for the nine months ended December 31, 2001 included a foreign currency translation adjustment of 64,000.

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 December 31, 2002	Three Months Ended December 31, 2001	Nine Months Ended December 31, 2002	Nine Months Ended December 31, 2001
<S>	<C>	<C>	<C>	<C>
Sales to external customers				
U.S.	$12,168,000	$10,476,000	$31,641,000	$31,105,000
U.K.	1,535,000	1,334,000	3,667,000	4,368,000
Total	$13,703,000	$11,810,000	$35,308,000	$35,473,000
Intersegment sales				
U.S.	$ 2,000	$ 27,000	$ 31,000	$ 27,000
U.K.	453,000	256,000	1,065,000	772,000
Total	$ 455,000	$ 283,000	$ 1,096,000	$ 799,000
Segment net income (loss)				
U.S.	$ (218,000)	$ 264,000	$ (983,000)	$ (163,000)
U.K.	71,000	121,000	(87,000)	230,000
Total segment net income (loss)	(147,000)	385,000	(1,070,000)	67,000
Eliminations	(31,000)	(31,000)	83,000	27,000
Net income (loss)	$ (178,000)	$ 354,000	$ (987,000)	$ 94,000

</TABLE>
NOTE 6 - STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 144, 146 & 148

During the first quarter of fiscal year 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") No.

144, "Accounting for the Impairment or Disposal of Long Lived Assets." There was no effect on the Company's consolidated financial position, results of operations or cash flows resulting from the adoption of SFAS No. 144 at December 31, 2002.

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement is effective for exit or disposal activities initiated after December 31, 2002. The Company does not believe the adoption of this Standard will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that changes to the fair value based method of accounting for stock-based employee compensation and changes the disclosure requirements. This Statement is effective for financial statements for fiscal years ending after December 15, 2002, and therefore, is currently under review by the Company.

NOTE 7 - PRODUCT WARRANTIES

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation elaborates on the existing disclosure requirements for most guarantees in interim and annual financial statements and changes the accounting for obligations undertaken in issuing guarantees. The disclosure requirements, which are applicable to the Company with regard to product warranties, are effective for financial statements of interim or annual periods ending after December 15, 2002.

The Company provides a liability for product warranty claims which is determined primarily on the basis of past claims experience and ongoing evaluations of any specific probable claims from customers. A reconciliation of the changes in the product warranty liability is presented below.

<TABLE>
<CAPTION>

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Nine Months Ended December 31, 2002	Nine Months Ended December 31, 2001
<S>	<C>	<C>	<C>	<C>
Balance at beginning of period	$471,000	$134,000	$182,000	$137,000
Accruals for product warranties	50,000	50,000	544,000	150,000
Product warranty claims	130,000	36,000	335,000	139,000
Balance at end of period	$391,000	$148,000	$391,000	$148,000

</TABLE>

GRAHAM CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
December 31, 2002

Results of Operations

Sales increased 16% in the third quarter of fiscal year 2003 compared to the same period in the previous year. Sales for the third quarter increased 16% in the United States and 25% in the United Kingdom compared to fiscal year 2002. Sales for the nine months ended December 31, 2002 were at the same level as sales for the same period last year. Sales in the United States increased 2% while sales in the United Kingdom declined 8% from the same period last year. The increase in sales in the United States in the third quarter is a reflection of uneven production load as year-to-date sales are in line with the prior year. In the United Kingdom there was a substantial improvement in sales levels of offshore and dry pumps in the third quarter compared to the prior year, however, year-to-date sales are less than last year due to the decline in the economy and customer capital spending.

Cost of sales as a percent of sales for the third quarter was 81% compared to 73% a year ago. Cost of sales as a percent of sales for the three month period was 84% in the United States compared to 76% last year and in the United Kingdom it increased from 55% to 65%. For the nine months, cost of sales as a percent of sales was 81% compared to 78% last year. In the United States, the cost of sales percentage was 84% compared to 81% in the prior year period and in the United Kingdom it increased to 68% from 62%

for the same period last year. The unfavorable percentages in the United States are due to higher labor and overhead costs while sales have remained flat. Product mix has also impacted the percentages as the prior year sales included revenue earned for engineering services which contributed significantly to gross profit. The higher percentage in the United Kingdom also reflects product mix as well as rising manufacturing overhead costs while year-to-date sales have fallen.

Selling, general and administrative expenses were 8% higher in the third quarter compared to the same period in fiscal year 2002, but represented 21% of sales compared to 22% last year due to the 16% increase in sales. For the nine month period, selling, general and administrative expenses increased 6% as compared to fiscal year 2002 and were 23% of sales compared to 21% last year. The higher selling, general and administrative expenses are attributable to increased employee and related benefit costs, additions to the sales force and a monetary commitment to a community capital project.

Interest expense for the third quarter of fiscal year 2003 was 3% greater than interest expense for the comparable three month period of 2002. For the nine month period, interest expense decreased 50% as compared to 2002. This significant decrease is due to minimal borrowing in the United States during the current fiscal year.

Results of Operations (concluded)

The effective income tax rates for the third quarter and nine month period of fiscal year 2003 were 36% and 34%, respectively. The effective tax rates for the three months and nine months ended December 31, 2001 were 32% and 22%, respectively. The lower tax rates in the prior year were attributable to the recognition of tax benefits associated with operating losses in the United States.

Financial Condition

Working capital of $11,820,000 at December 31, 2002 compares to working capital at March 31, 2002 of $13,812,000. The decline reflects a decrease in current assets and current liabilities of $7,206,000 and $5,214,000, respectively. The decrease in current assets related to a decrease in cash and accounts receivable offset by an increase in investments and income taxes receivable. The decrease in current liabilities is due to a decrease in accounts payable, accrued compensation and customer deposits. The decline in accounts receivable is attributable to the collection of cancellation charges on certain orders for the electric power generating industry that were recorded at year end. The cash received and cash on hand were invested in short-term government securities. The income tax receivable resulted from the tax benefit recorded on the current year operating loss. The decrease in accounts payable and accrued compensation is due to timing of payments while the decline in customer deposits is the result of the reclassification of progress payments to offset inventory when the related inventory is purchased. The current ratio at December 31, 2002 is 1.9 compared to 1.7 at March 31, 2002.

Capital expenditures for the nine months ended December 31, 2002 were $675,000 compared to $496,000 for the same period last year. There were no major commitments for capital expenditures as of December 31, 2002.

Management expects that the cash flow from operations and lines of credit will provide sufficient resources to fund the fiscal year 2003 cash requirements.

The long-term debt to equity ratio was 3% at December 31, 2002 compared to 1% at March 31, 2002. The total liabilities to assets ratio is currently 52% compared to 55% at March 31, 2002. These ratios reflect the continued strength of the Company's balance sheet although it has incurred operating losses and an erosion of equity of $1,762,000 or 9% of total equity in the current year. Due to poor performance of the stock market, the Company recorded a minimum pension liability adjustment, net of a tax benefit, of $990,000 which accounted for 56% of the equity erosion. This decrease in equity will be reduced if the equity markets improve. The operating losses, net of a favorable foreign currency translation adjustment, attributed to 37% of the decline in equity.

New Orders and Backlog

New orders for the third quarter were $8,790,000 compared to $9,074,000 for the same period last year. Prior to intercompany eliminations, new orders in the United States were $6,833,000 compared to $7,629,000 for the same period in fiscal year 2002. New orders in the United Kingdom were $2,276,000 compared to $1,692,000 for the same quarter last year.

For the nine month period, new orders were $28,224,000 compared to $37,700,000 for the comparable nine month period of the prior year. Prior to intercompany eliminations, new orders in the United States were $23,850,000 compared to $34,105,000 for the same period last year and new orders in the United Kingdom were $5,421,000 compared to $4,304,000 in 2002.

In the United States, the decline in new orders is attributable to over capacity in the petrochemical and chemical markets and reduced capital spending by customers due to uncertain market conditions. New orders in the United Kingdom have increased due to the success in obtaining orders for certain offshore projects. The increase in the foreign currency exchange rate used to convert to U.S. dollars has also positively impacted the new order values.

Backlog of unfilled orders at December 31, 2002 is $27,003,000 compared to $29,965,000 at this time a year ago and $33,871,000 at March 31, 2002. Prior to intercompany eliminations, current backlog in the United States of $25,305,000 compares to $33,054,000 at March 31, 2002 and $27,721,000 at December 31, 2001. Current backlog in the United Kingdom of $2,054,000 compares to $1,180,000 at March 31, 2002 and $2,613,000 at December 31, 2001. These backlog amounts reflect the cancellation of an order for the electric power generating industry that was previously suspended. The cancellation of this order, which was received in the first quarter of fiscal year 2002, reduced the backlog by $2,659,000. New orders for fiscal year 2002 and backlog for fiscal years 2002 and 2003 have been restated to reflect this cancellation. Included in backlog at December 31, 2002 and 2001 is $7,272,000 and $6,847,000, respectively, of orders that have been suspended and are with customers operating directly or indirectly in the financially pressured electric power generating business and/or whose financial condition has eroded. A substantial portion of the suspended orders are protected with cancellation charges. The current backlog, with the exception of the suspended orders, 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 assumptions applied in preparing quantitative disclosures regarding interest rate, foreign 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.

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 December 31, 2002 and 2001, a 1% change in interest rates would impact annual interest expense by $19,000 and $7,000, respectively.

Over the past three years, Graham's international consolidated sales exposure approximates 36% of annual sales. Operating in world markets involves exposure to movements in currency exchange rates. Currency movements can affect sales in several ways. Foremost is the ability to competitively 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 local currency. The substantial portion of Graham's sales are collected in the local currencies. For the three and nine month periods ended December 31, 2002, sales in foreign currencies were consistent with the prior year at 1% and 2% of total sales, respectively. At certain times, the Company may enter 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 has limited exposure to foreign currency purchases. During the three month periods ended December 31, 2002 and 2001, purchases in foreign currencies were 5% and 7% of cost of goods sold, respectively. For both the nine month periods ended December 31, 2002 and 2001, purchases in foreign currencies were 5% of cost of goods sold. At certain times, forward foreign exchange contracts may be utilized to limit currency exposure.

Foreign operations produced net income (loss) in the third quarter of 2003 and 2002 of $71,000 and $121,000, respectively, and $(87,000) and $230,000 for the nine month periods ended December 31, 2002 and 2001, respectively. 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 have impacted the third quarter results by approximately $7,000 and $12,000 in fiscal years 2003 and 2002, respectively, and year-to-date results of fiscal years 2003 and 2002 by approximately $9,000 and $23,000, respectively.

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 December 31, 2002 and 2001 and the respective quarter end market price per share, a 50% to 75% change in the respective quarter end market price of the Company's common stock would positively or negatively impact the Company's third quarter operating results by $71,000 to $106,000 for 2003 and $65,000 to $98,000 for 2002. In the third quarters of 2003 and 2002, the expense, net of a tax benefit, 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 seven outside directors in accordance with the plan over the next five years, based upon the December 31, 2002 market price of the Company's stock of $8.73 per share, a 50% to 75% change in the stock price would positively or negatively impact the Company's operating results by $111,000 to $166,000 in 2004, $126,000 to $188,000 in 2005, and $136,000 to $203,000 in 2006, $146,000 to $218,000 in 2007 and $156,000 to $233,000 in 2008.

Critical Accounting Policies

The following discussion addresses the most critical accounting policies, which are those that are most important to the portrayal of the financial condition and results, and that require judgment.

Revenue Recognition

Percentage-of-Completion - The Company recognizes revenue and all related costs on contracts with a duration in excess of three months and with revenues of $1,000,000 and greater using the percentage-of-completion method. The percentage-of-completion 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 contract value and estimated costs at completion.

Completed Contract - Contracts with values less than $1,000,000 are accounted for on the completed contract method. The Company recognizes revenue and all related costs on these contracts 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 obligations under the contract after the revenue is recognized.

Use of Estimates - We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses in preparing our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

Forward Looking
- ---------------

Certain statements contained in this document, 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 differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

PART II - OTHER INFORMATION

Item 4. Controls and Procedures

a. Disclosure controls and procedures. Within 90 days before filing this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the SEC. Alvaro Cadena, our Chief Executive Officer, and J. Ronald Hansen, our Chief Financial Officer, reviewed and participated in this evaluation. Based on this evaluation, Messrs. Cadena and Hansen concluded that, as of the date of their evaluation, our disclosure controls were effective.

b. Internal controls. Since the date of the evaluation described above, there have not been any significant changes in our internal accounting controls or in other factors that could significantly affect those controls.

Item 5. Other Information

The Company's chief executive officer and chief financial officer have furnished to the SEC the certification with respect to this Form 10-Q that is required by Section 906 of the Sarbanes-Oxley Act of 2002.

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 December 31, 2002.

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 02/07/03

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 referenced.)

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

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.)

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.)

Index to Exhibits (concluded)
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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.

(99) Additional exhibits

None.

CERTIFICATIONS

I, Alvaro Cadena, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graham Corporation;

2. Based on my knowledge, this quarterly report does not contain

any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly presents in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 02/07/03

/s/A. Cadena

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Alvaro Cadena
Chief Executive Officer

I, J. Ronald Hansen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graham Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly presents in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated

in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 02/07/03

/s/J. R. Hansen

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J. Ronald Hansen

Chief Financial Officer