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 September 30, 1995

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 November 9, 1995, there were outstanding 1,053,999 shares of common stock, $.10 par value.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

SEPTEMBER 30, 1995

PART I - FINANCIAL INFORMATION

Unaudited consolidated financial statements of Graham Corporation (the company) and its subsidiaries as of September 30, 1995 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 adjustments which are, in the opinion of management, necessary to a fair statement of the results of the interim periods.

This part also includes management's discussion and analysis of the company's financial condition as of September 30, 1995 and its results of operations for the three month and nine month periods then ended.

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 1995	December 31, 1994
Assets		
Current assets:		
Cash and equivalents	$ 111,000	$ 454,000
Trade accounts receivable	8,089,000	11,883,000
Inventories	6,477,000	4,547,000
Deferred tax asset	1,114,000	1,114,000
Prepaid expenses and other current assets	292,000	439,000
	16,083,000	18,437,000
Property, plant and equipment, net	9,131,000	9,663,000
Deferred income taxes	1,791,000	1,791,000
Other assets	45,000	62,000
	$27,050,000	$29,953,000

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (concluded)

<TABLE>
<CAPTION>

<S>	September 30, 1995 <C>	December 31, 1994 <C>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt due banks	$ 522,000	$ 196,000
Current portion of long-term debt	230,000	235,000
Accounts payable	2,848,000	4,275,000
Accrued compensation	3,567,000	3,220,000
Accrued expenses and other liabilities	1,251,000	1,488,000
Litigation reserve		1,247,000
Customer deposits	650,000	270,000
Domestic and foreign income taxes payable	114,000	260,000
Estimated liabilities of discontinued operations	275,000	401,000
	9,457,000	11,592,000
Long-term debt	4,314,000	5,161,000
Deferred compensation	966,000	993,000
Deferred income taxes	138,000	138,000
Other long-term liabilities	485,000	496,000
Deferred pension liability	1,166,000	1,369,000
Accrued postretirement benefits	3,150,000	3,133,000
Total liabilities	19,676,000	22,882,000
Shareholders' equity:		
Common stock, $.10 par value- Authorized, 6,000,000 shares Issued and outstanding, 1,053,249 shares in 1995 and 1,051,499 shares in 1994	105,000	105,000
Capital in excess of par value	3,213,000	3,197,000
Accumulated translation adjustment	(1,869,000)	(1,876,000)
Retained earnings	6,856,000	6,720,000
	8,305,000	8,146,000
Less:		
Treasury stock	(6,000)	
Employee Stock Ownership Plan Loan Payable	(925,000)	(1,075,000)
Total shareholders' equity	7,374,000	7,071,000
	$27,050,000	$29,953,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

<TABLE>
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	THREE MONTHS ended September 30,		NINE MONTHS ended September 30,	
<S>	1995 <C>	1994 <C>	1995 <C>	1994 <C>
Net Sales	$10,651,000	$11,288,000	$31,962,000	$29,753,000
Cost and expenses:				
Cost of products sold	7,583,000	8,379,000	23,729,000	22,064,000
Selling, general and administrative	2,525,000	2,482,000	7,555,000	7,290,000
Interest expense	150,000	125,000	477,000	354,000
Litigation provision		145,000		397,000
	10,258,000	11,131,000	31,761,000	30,105,000
Income(loss) from continuing				

operations before income taxes	393,000	157,000	201,000	(352,000)
Provision(benefit) for income taxes	139,000	(34,000)	65,000	(212,000)
Income(loss) from continuing operations	254,000	191,000	136,000	(140,000)
Loss from discontinued operations		(1,759,000)		(2,211,000)
Loss from disposal of Graham Manufacturing Ltd.		(2,581,000)		(2,581,000)
Income(loss) before cumulative effect of change in accounting principle	254,000	(4,149,000)	136,000	(4,932,000)
Cumulative effect of change in accounting principle				(6,000)
Net income(loss)	254,000	(4,149,000)	136,000	(4,938,000)
Retained earnings at beginning of period	6,602,000	14,346,000	6,720,000	15,135,000
Retained earnings at end of period	$ 6,856,000	$10,197,000	$ 6,856,000	$10,197,000
Per Share Data:				
Income(loss) from continuing operations	$.24	$.18	$.13	($.13)
Loss from discontinued operations		(1.67)		(2.10)
Loss from disposal of Graham Manufacturing Ltd.		(2.46)		(2.46)
Cumulative effect of change in accounting principle				(.01)
Net income	$.24	($3.95)	$.13	($4.70)
Average number of common and common equivalent shares outstanding	1,053,000	1,051,000	1,052,000	1,050,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW

<TABLE>
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	Nine Months Ended September 30, 1995	1994
<S>	<C>	<C>
Operating activities:		
Net income (loss).................................	$ 136,000	$(4,938,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....................	722,000	1,026,000
Loss(Gain) on sale of property, plant and equipment	(5,000)	2,000
Minority interest in net income...................		(38,000)
(Increase) Decrease in operating assets:		
Accounts receivable............................	3,801,000	458,000
Inventory, net of customer deposits.............	(1,543,000)	(1,967,000)
Prepaid expenses and other current and non-current assets...........................	151,000	(11,000)
Increase (Decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other liabilities.........	(1,533,000)	2,959,000
Litigation reserve..............................	(1,247,000)	
Estimated liabilities of discontinued operations.	(133,000)	2,536,000
Deferred compensation, deferred pension liability and accured postretirement benefits............	(13,000)	(656,000)
Domestic and foreign income taxes................	(146,000)	
Other long-term liabilities.....................		1,000
Deferred income taxes...........................		(148,000)
Total adjustments............................	54,000	4,162,000
Net cash provided(used) by operating activities.....	190,000	(776,000)
Investing activities:		
Purchase of property, plant and equipment...........	(171,000)	(317,000)
Proceeds from sale of property, plant and equipment.	9,000	3,000
Net cash used by investing activities..............	(162,000)	(314,000)
Financing activities:		
Increase in short-term debt.........................	327,000	780,000
Proceeds from issuance of long-term debt............	8,252,000	1,046,000
Principal repayments on long-term debt.............	(8,955,000)	(835,000)
Issuance of common stock...........................	6,000	

Purchase of treasury stock	(6,000)	
Net cash (used)provided by financing activities	(376,000)	991,000
Effect of exchange rate on cash	5,000	
Net decrease in cash and equivalents	(343,000)	(99,000)
Cash and equivalents at beginning of period	454,000	99,000
Cash and equivalents at end of period	$ 111,000	$

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION
SEPTEMBER 30, 1995

NOTE 1 - INVENTORIES:

Major classifications of inventories are as follows:
<TABLE>
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<S>	9/30/95 <C>	12/31/94 <C>
Raw materials and supplies	$ 2,721,000	$ 1,857,000
Work in process	4,507,000	2,507,000
Finished products	1,028,000	953,000
	8,256,000	5,317,000
Less - progress payments	1,779,000	770,000
	$ 6,477,000	$ 4,547,000

</TABLE>

NOTE 2 - EARNINGS PER SHARE:

Earnings per share is computed by dividing net income by the weighted number of common shares and, when applicable, common equivalent shares outstanding during the period. Net loss per share is based on the weighted average number of shares outstanding during the period.

NOTE 3 - CASH FLOW STATEMENT:

Actual interest paid was $521,000 and $551,000 for the nine months ended September 30, 1995 and 1994, respectively. In addition, actual income taxes paid were $244,000 and $33,000 for the nine months ended September 30, 1995 and 1994, respectively.

NOTE 4 - CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 1994, the company adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." SFAS 112 requires that projected future costs of providing postemployment benefits be recognized as an expense as employees render service rather than when the benefits are paid. The adjustment to adopt SFAS 112 of $9,000, net of the related tax benefit of $3,000, or $.01 per share, is presented in the Consolidated Statement of Operations and Retained Earnings as the cumulative effect of change in accounting principle. The amount of the after tax charge of $6,000 relating to continuing operations was $2,000. The incremental costs of adopting this statement are insignificant on an ongoing basis.

NOTE 5 - RECENTLY ISSUED ACCOUNTING STANDARD

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," which requires adoption no later than fiscal years beginning after December 15, 1995. The new standard defines a fair value method of accounting for stock options and similar equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

Pursuant to the new standard, companies are encouraged, but not required, to adopt the fair value method of accounting for employee stock-based transactions. Companies are also permitted to continue to account for such transactions under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," but would be required to disclose in a note to the financial statements pro forma net income and, if presented, earnings per share as if the company had applied the new method of accounting.

The accounting requirements of the new method are effective for all employee awards granted after the beginning of the fiscal year of adoption. The company has not yet determined if it will elect the change to the fair value method, nor has it determined the effect the new standard will have on net income and earnings per share should it elect to make such a change. Adoption of the new standard will have no effect on the company's cash flows.

GRAHAM CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1995

Results of Operations

Sales decreased 6% in the third quarter 1995 compared to 1994. Sales for the quarter decreased 3% in the United States and 26% in the United Kingdom compared to the third quarter 1994. The decrease in the United States is due primarily to shipment schedules, however, management anticipates strong fourth quarter sales levels.

Sales for the nine months ended September 30, 1995 exceeded sales for the same period last year by 7%. Sales in the United States increased 11% and the United Kingdom sales decreased 16% from the same period last year. The increased sales in the United States is reflective of the strong order levels experienced. The decline in United Kingdom sales for the quarter and the nine month period is attributable to European plant shutdowns during the summer months and lack of project work. An improvement in sales is expected in the fourth quarter.

Cost of sales as a percent of sales for the third quarter 1995 was 71% compared to 74% a year ago. Cost of sales as a percent of sales for the three month period was 72% in the United States compared to 76% last year and 67% in the United Kingdom compared to 58% last year. The improved third quarter cost to price relationship experienced in the United States is attributed to selling price increases. The decline in the United Kingdom is due to product mix.

For the nine month period cost of sales as a percent of sales remained unchanged at 74% compared to a year ago. In the United States the cost of sales percentage was 75% compared to 76% last year, and in the United Kingdom cost of sales was 64% compared to 61% a year ago. The improved percentages in the United States reflects lower production overhead costs while the decline in the

United Kingdom is attributable to product sales mix.

Selling, general and administrative expenses increased 2% from the third quarter of 1994, and represent 24% of sales which is relatively consistent with the third quarter 1994. For the nine months ended September 30, 1995, selling, general and administrative expenses increased 4% as compared to the same period in 1994 and were 24% of sales compared to 25% in 1994. In the third quarter, the United States operation settled a vendor dispute which attributed to the increase in administrative costs.

Interest expense for the third quarter and nine month period increased 20% and 35%, respectively, as compared to the same periods in 1994. These increases reflect higher levels of borrowing to finance work-in-process in the United States and a higher prime rate in 1995.

The effective income tax rates for the third quarter and nine month period in 1995 were 35% and 32%, respectively, and are not comparable to the 1994 effective tax rates due to the discontinued operations presentation.

As reported in the Company's 1994 annual report and Form 10-K, the Company approved a formal plan to dispose of its subsidiary, Graham Manufacturing Limited (GML), in the September 1994 and subsequently sold the operation in January 1995. Accordingly, the results of operations reflect GML's operations and related disposal costs as discontinued operations.

Financial Condition

Working capital of $6,626,000 at September 30, 1995 compares to $6,845,000 at December 31, 1994. The working capital decrease from year end reflects a decrease in current assets of $2,354,000 and a decrease in current liabilities of $2,135,000. The decrease in current assets related primarily to a decrease in accounts receivable offset by an increase in inventories. Due to the significant fourth quarter sales volume, accounts receivable were unusually high and inventory levels were low at December 31, 1994. The decrease in current liabilities reflects the decline in the litigation reserve as the lawsuit was settled and payment was made early in 1995. The remainder of the decrease is attributable to accounts payable. The current asset ratio at September 30, 1995 is 1.70 compared to 1.59 at year end 1994.

At September 30, 1995, short term debt was $522,000. This represents a $326,000 increase over year end levels and is due to working capital needs. Total long term debt decreased $852,000 due to paydowns on the United States revolving line of credit, however, it is anticipated that additional borrowings will be necessary in the fourth quarter to fund the working capital required to meet fourth quarter sales projections.

The long-term debt to equity ratio is 62% compared to 76% at year-end 1994 and the total liabilities to assets ratio is 73% compared to 76% at year-end 1994.

Capital expenditures for the nine month period were $171,000 compared to $317,000 for the same period in 1994. Major commitments for capital expenditures as of September 30, 1995 were approximately $100,000.

Management expects that the cash flow from operations and lines of credit will provide sufficient resources to fund the 1995 cash requirements.

New Orders and Backlog

New orders for the third quarter were $14,222,000 compared to $10,829,000 for the same period last year. New orders in the United States were $13,409,000 compared to $9,753,000 for the same period in 1994. New orders in the United Kingdom were $813,000 compared to $1,076,000 for the same quarter last year.

For the nine month period new orders were $40,658,000 compared to $37,968,000 for the nine month period of 1994. New orders in the United States were $37,919,000 compared to $32,786,000 last year and new orders in the United Kingdom were $2,739,000 compared to $5,182,000 in 1994.

Backlog of unfilled orders at September 30, 1995 is $27,699,000 compared to $24,310,000 at this time a year ago and $18,997,000 at year end 1994. Current backlog in the United States of $27,107,000 compares to $18,127,000 at December 31, 1994. Current backlog in the United Kingdom of $592,000 compares to $870,000 at December 31, 1994. The increase in new orders and backlog reflects economic strengthening in certain markets as well as our concentrated sales efforts. The current backlog is scheduled to be shipped during the next twelve months.

GRAHAM CORPORATION

FORM 10-Q

SEPTEMBER 30, 1995

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 September 30, 1995.

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
Chief Financial Officer &
Vice President Finance

Date 11/9/95

INDEX TO 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 (filed as Exhibit C to the Proxy Statement of Graham Manufacturing Co., Inc. for that company's annual meeting of shareholders held on May 4, 1983, which Proxy Statement constitutes the prospectus included as part of the Registrant's Registration Statement No. 2-82275 on Form S-14 and is incorporated herein by reference.)

Shareholder Rights Plan of Graham Corporation (filed as Exhibit (4) to Registrant's current report filed on Form 8-K on February 26, 1991, as amended by Registrant's Amendment No. 1 on Form 8 dated June 8, 1991, 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 1991 Annual Meeting of Shareholders and incorporated herein by reference).

(11) Statement re-computation of per share earnings.

Computation of per share earnings is included herein as Exhibit 11 of this report.

(15) Letter re-unaudited interim financial information.

Not applicable.

(18) Letter re-change in accounting principles.

Not applicable.

Index of Exhibits (cont.)

(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.

EXHIBIT 11

COMPUTATION OF EARNINGS PER SHARE

<TABLE>
<CAPTION>

<S>	Three months ended September 30, 1995 <C>	Three months ended September 30, 1994 <C>	Nine months ended September 30, 1995 <C>	Nine months ended September 30, 1994 <C>
Calculation of common and common equivalent shares:				
Shares outstanding at beginning of the period	1,051,000	1,051,000	1,051,000	1,046,000
Weighted average number of shares issued during the period:				
Issuance of shares	2,000		1,000	4,000
Weighted average shares outstanding	1,053,000	1,051,000	1,052,000	1,050,000
Common equivalent shares if stock options were exercised	---------	-----------	---------	-----------
Average number of common and common equivalent shares outstanding	1,053,000	1,051,000	1,052,000	1,050,000
Calculation of earnings per share:				
Net income (loss)	$254,000	($4,149,000)	$136,000	($4,938,000)
Average number of common and common equivalent shares outstanding	1,053,000	1,051,000	1,052,000	1,050,000
Net income (loss) per common and common equivalent share	$.24	$(3.95)	$.13	$(4.70)

<FN>
Fully diluted earnings per share is equivalent to primary earnings per share as the period-end market price of common stock does not result in greater dilution.
</TABLE>

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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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