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, 1998

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 14, 1998, there were outstanding 1,585,995 shares of common stock, $.10 per share.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

JUNE 30, 1998

PART I - FINANCIAL INFORMATION

Unaudited consolidated financial statements of Graham

Corporation (the Company) and its subsidiaries of June 30, 1998 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, 1998 and its results of operations for the three month period then ended.

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 1998	March 31, 1998
Assets		
Current Assets:		
Cash and equivalents	$ 1,064,000	$ 1,694,000
Marketable securities	4,675,000	4,801,000
Trade accounts receivable	8,614,000	6,791,000
Inventories	8,902,000	10,278,000
Deferred tax asset	894,000	881,000
Prepaid expenses and other current assets	472,000	468,000
	24,621,000	24,913,000
Property, plant and equipment, net	9,971,000	10,026,000
Deferred tax asset	2,054,000	2,067,000
Other assets	15,000	24,000
	$36,661,000	$37,030,000

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (concluded)

	June 30, 1998	March 31, 1998

Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt due banks	$ 2,863,000	$ 40,000
Current portion of long-term debt	507,000	505,000
Accounts payable	2,597,000	4,195,000
Accrued compensation	3,332,000	4,940,000
Accrued expenses and other liabilities	1,316,000	1,039,000
Customer deposits	1,106,000	779,000
Domestic and foreign income taxes payable	793,000	956,000
	12,514,000	12,454,000
Long-term debt	867,000	859,000
Deferred compensation	1,165,000	1,007,000
Other long-term liability	252,000	264,000
Deferred pension liability	1,548,000	1,464,000
Accrued postretirement benefits	3,225,000	3,207,000
Total liabilities	19,571,000	19,255,000
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, 1998 and March 31, 1998	169,000	169,000
Capital in excess of par value	4,521,000	4,521,000
Cumulative foreign currency translation adjustment	(1,780,000)	(1,781,000)
Retained earnings	16,326,000	15,362,000
	19,236,000	18,271,000
Less:		
Treasury Stock	(1,771,000)	(71,000)
Employee Stock Ownership Plan Loan Payable	(375,000)	(425,000)
Total shareholders' equity	17,090,000	17,775,000
	$36,661,000	$37,030,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

<TABLE>
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	Three Months ended June 30, 1998	1997
<S>	<C>	<C>
Net Sales	$15,156,000	$11,855,000
Cost and expenses:		
Cost of products sold	10,664,000	8,172,000
Selling, general and administrative	2,972,000	2,936,000
Interest expense	66,000	79,000
	13,702,000	11,187,000
Income before income taxes	1,454,000	668,000
Provision for income taxes	490,000	235,000
Net income	964,000	433,000
Retained earnings at beginning of period	15,362,000	11,596,000
Retained earnings at end of period	$16,326,000	$12,029,000
Per Share Data:		
Basic:		
Net income	$.58	$.27
Diluted:		
Net income	$.57	$.26

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GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Three Months Ended June 30, 1998	1997
<S>	<C>	<C>
Operating activities:		
Net income	$ 964,000	$ 433,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	267,000	258,000
(Gain) Loss on sale of property, plant and equipment	10,000	(22,000)
(Increase) Decrease in operating assets:		
Accounts receivable	(1,822,000)	729,000
Inventory, net of customer deposits	1,702,000	955,000
Prepaid expenses and other current and non-current assets	(4,000)	20,000
Increase (Decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other liabilities	(2,928,000)	(1,810,000)
Estimated liabilities of discontinued operations		(66,000)
Deferred compensation, deferred pension liability, and accrued postemployment benefits	261,000	140,000
Domestic and foreign income taxes	(163,000)	190,000
Deferred income taxes		(31,000)
Other long-term liabilities	(12,000)	(42,000)
Total adjustments	(2,689,000)	321,000
Net cash provided (used) by operating activities	(1,725,000)	754,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (concluded)
<TABLE>

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	Three Months Ended June 30, 1998	1997
Investing activities:		
Purchase of property, plant and equipment	(203,000)	(179,000)
Purchase of marketable securities	(1,251,000)	(365,000)
Proceeds from maturity of marketable securities	1,366,000	365,000
Net cash used by investing activities	(88,000)	(179,000)
Financing activities:		
Increase in short-term debt	2,823,000	
Proceeds from issuance of long-term debt	5,110,000	5,090,000
Principal repayments on long-term debt	(5,050,000)	(6,635,000)
Issuance of common stock		130,000
Purchase of treasury stock	(1,700,000)	
Net cash provided (used) by financing activities	1,183,000	(1,415,000)
Effect of exchange rate on cash		
Net decrease in cash and equivalents	(630,000)	(840,000)
Cash and equivalents at beginning of period	1,694,000	854,000
Cash and equivalents at end of period	$ 1,064,000	$ 14,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION
JUNE 30, 1998

NOTE 1 - INVENTORIES

Major classifications of inventories are as follows:

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	6/30/98	3/31/98
Raw materials and supplies	$ 2,543,000	$ 2,707,000
Work in process	8,088,000	12,081,000
Finished products	1,171,000	1,131,000
	11,802,000	15,919,000
Less - progress payments	2,900,000	5,641,000
	$ 8,902,000	$10,278,000

</TABLE>

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, 1998	1997
Basic earnings per share		
Numerator:		
Net income	$ 964,000	$ 433,000
Denominator:		
Weighted common shares outstanding	1,650,000	1,596,000
Share equivalent units (SEU) outstanding	3,000	3,000
Weighted average shares and SEU's outstanding	1,653,000	1,599,000
Basic earnings per share	$.58	$.27

	Three months ended June 30, 1998	1997
Diluted earnings per share		
Numerator:		
Net income	$ 964,000	$ 433,000
Denominator:		
Weighted average shares and SEU's outstanding	1,653,000	1,599,000
Stock options outstanding	27,000	55,000
Contingently issuable SEU's	6,000	1,000
Weighted average common and potential common shares outstanding	1,686,000	1,655,000
Diluted earnings per share	$.57	$.26

Options to purchase 55,200 shares of common stock at $21.44 per share and 11,250 shares at $21.25 were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

NOTE 3 - CASH FLOW STATEMENT

Actual interest paid was $66,000 and $79,000 for the three months ended June 30, 1998 and 1997, respectively. In addition, actual income taxes paid were $653,000 and $76,000 for the three months ended June 30, 1998 and 1997, respectively.

NOTE 4 - COMPREHENSIVE INCOME

Effective April 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement requires reporting and disclosure of comprehensive income and its components in financial statement format. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. The Company has determined that at March 31, 1999 it will display comprehensive income in a separate statement of comprehensive income. The Company's comprehensive earnings were as follows:

NOTE 4 - COMPREHENSIVE INCOME (concluded)

	Three months ended June 30, 1998	1997
Net income	$ 964,000	$ 433,000
Other comprehensive income, net of tax		
Foreign currency translation adjustment	1,000	19,000
Comprehensive income	$ 965,000	$ 452,000

The foreign currency translation adjustment is not currently adjusted for income taxes since it relates to an investment which is permanent in nature.

GRAHAM CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
June 30, 1998

Results of Operations

Sales increased 28% in the first quarter of fiscal year 1999 compared to the same period last year. Sales for the first quarter increased 33% in the United States and decreased 10% in the United Kingdom compared to fiscal year 1998. The increase in the United States sales is attributable to a substantial increase in surface condenser sales. The decline in the United Kingdom sales is due to the strength of the pound sterling as compared to other foreign currencies.

Cost of sales as a percent of sales for the first quarter of fiscal year 1999 was 70% compared to 69% a year ago. Cost of sales as a percent of sales for the three month period was 71% for the United States operations compared to 69% last year and 60% for the United Kingdom operations compared to 69% last year. While cost of sales as a percent of sales remained relatively consistent in the

United States, the significant improvement in the United Kingdom is reflective of lower direct material costs and a reduction in overhead expenses due to the downsizing of the work force which occurred in the second quarter last year.

Selling, general and administrative expenses for the three months ended June 30, 1998 were comparable to selling, general and administrative expenses for the same period of fiscal year 1998 and represented 20% of sales as compared to 25% in the first quarter last year. The favorable variance in this percentage is due to selling, general and administrative expenses remaining flat while sales increased 28%.

Interest expense for the first quarter is down 16% from the same period in fiscal year 1998. The decrease resulted primarily from lower interest rates in the United States and reduced levels of short and long term debt during the quarter in both the United States and United Kingdom.

The effective income tax rate for the first quarter was 34% compared to 35% for the comparable three months of last year.

Financial Condition

There were no significant changes in the financial condition of the Company for the first quarter of fiscal year 1999. Working capital of $12,107,000 at June 30, 1998 compares to $12,459,000 at March 31, 1998. The working capital decrease reflects a decrease in current assets of $292,000 and a slight increase in current liabilities of $60,000. The decrease in current assets related primarily to a significant decrease in inventories offset by an increase in accounts receivable due to the shipment of several large projects in the first quarter which were in process at year end. Revenue on these contracts was recognized using the percentage-of-completion method.

Capital expenditures for the three month period were $203,000 compared to $179,000 for the same period last year. There were no major commitments for capital expenditures as of June 30, 1998. Management anticipates spending approximately $2,000,000 in fiscal year 1999 for capital additions to upgrade computer equipment and machinery.

Total long-term debt at June 30, 1998 of $1,374,000 remained consistent compared to borrowings at year end of $1,364,000. The long-term debt to equity ratio remained unchanged from March 31, 1998 at 8%. The total liabilities to assets ratio is 53% compared to 52% at March 31, 1998. These ratios are reflective of the stability and strength of the Company's current financial condition.

Management expects that the cash flow from operations and lines of credit will provide sufficient resources to fund the fiscal year 1999 cash requirements.

New Orders and Backlog

New orders for the first quarter were $11,162,000 compared to $20,788,000 for the same period last year. New orders in the United States were $9,879,000 compared to $19,646,000 for the same period in fiscal year 1998. New orders in the United Kingdom were $1,283,000 compared to $1,142,00 for the same quarter last year. The significant decline in new orders, specifically in the United States, is directly related to the softening of the condenser market and the stiff competition that the Company has recently encountered. New orders in the United Kingdom improved slightly due to an increase in export orders for spare parts.

Although the Company has been impacted by the Asian crisis and is entering a period of shrinking markets and aggressive competition, efforts are being focused on maintaining order levels in the ejector business and seeking out opportunities for new business in Latin America.

Backlog of unfilled orders at June 30,1998 is $24,215,000 compared to $31,076,000 at this time a year ago and $28,199,000 at March 31, 1998. Current backlog in the United States of $23,240,000 compares to $27,292,000 at March 31, 1998 and $29,928,000 at June 30, 1997. Current backlog in the United Kingdom of $975,000 compares to $907,000 at March 31, 1998 and $1,148,000 at June 30, 1997. The current backlog is reflective of the recent order activity. The current backlog is scheduled to be shipped during the next twelve months and represents orders from traditional markets in the Company's established product lines.

GRAHAM CORPORATION AND SUBSIDIARIES
FORM 10-Q
JUNE 30, 1998
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, 1998.

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 08/14/98

INDEX OF EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation 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.)

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.)

1995 Graham Corporation Incentive Plan to Increase Shareholder Value (filed on the Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders 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.)

(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.

</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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