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, 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 November 6, 1998, there were outstanding 1,584,995 shares of common stock, $.10 per share.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

SEPTEMBER 30, 1998

PART I - FINANCIAL INFORMATION

Unaudited consolidated financial statements of Graham Corporation (the Company) and its subsidiaries of September 30, 1998 and for the three month and six 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.

This part also includes management's discussion and analysis of the Company's financial condition as of September 30, 1998 and its results of operations for the three month period then ended.

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	September 30, 1998	March 31, 1998
<S>	<C>	<C>
Assets		
Current Assets:		
Cash and equivalents	$ 102,000	$ 1,694,000
Marketable securities	5,153,000	4,801,000
Trade accounts receivable	6,821,000	6,791,000
Inventories	6,062,000	10,278,000
Deferred tax asset	912,000	881,000
Prepaid expenses and other current assets	499,000	468,000
	19,549,000	24,913,000
Property, plant and equipment, net	9,950,000	10,026,000
Deferred tax asset	2,036,000	2,067,000
Other assets	7,000	24,000
	$31,542,000	$37,030,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (concluded)

<TABLE>
<CAPTION>

	September 30, 1998	March 31, 1998
<S>	<C>	<C>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt due banks		$ 40,000
Current portion of long-term debt	$ 513,000	505,000
Accounts payable	2,018,000	4,195,000
Accrued compensation	3,624,000	4,940,000
Accrued expenses and other liabilities	846,000	1,039,000
Customer deposits	572,000	779,000
Domestic and foreign income taxes payable	153,000	956,000
	7,726,000	12,454,000
Long-term debt	615,000	859,000
Deferred compensation	1,115,000	1,007,000
Other long-term liabilities	223,000	264,000

Deferred pension liability	1,398,000	1,464,000
Accrued postretirement benefits	3,247,000	3,207,000
Total liabilities	14,324,000	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 September 30, 1998 and on March 31, 1998	169,000	169,000
Capital in excess of par value	4,521,000	4,521,000
Cumulative foreign currency translation adjustment	(1,746,000)	(1,781,000)
Retained earnings	16,383,000	15,362,000
	19,327,000	18,271,000
Less:		
Treasury Stock	(1,784,000)	(71,000)
Employee Stock Ownership Plan Loan Payable	(325,000)	(425,000)
Total shareholders' equity	17,218,000	17,775,000
	$31,542,000	$37,030,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

<TABLE>
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	Three Months ended September 30, 1998	Three Months ended September 30, 1997	Six Months ended September 30, 1998	Six Months ended September 30, 1997
<S>	<C>	<C>	<C>	<C>
Net Sales	$11,417,000	$14,618,000	$26,573,000	$26,473,000
Cost and expenses:				
Cost of products sold	8,164,000	9,656,000	18,828,000	17,828,000
Selling, general and administrative	3,104,000	3,471,000	6,076,000	6,407,000
Interest expense	55,000	61,000	121,000	140,000
	11,323,000	13,188,000	25,025,000	24,375,000
Income before income taxes	94,000	1,430,000	1,548,000	2,098,000
Provision for income taxes	37,000	485,000	527,000	720,000
Net income	57,000	945,000	1,021,000	1,378,000
Retained earnings at beginning of period	16,326,000	12,029,000	15,362,000	11,596,000
Retained earnings at end of period	$16,383,000	$12,974,000	$16,383,000	$12,974,000
Per Share Data:				
Basic:				
Net income	$.04	$.58	$.63	$.85
Diluted:				
Net income	$.04	$.56	$.62	$.82

0

0

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

<S>	Six Months Ended September 30, 1998 <C>	1997 <C>
Operating activities:		
Net income	$ 1,021,000	$ 1,378,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	523,000	513,000
(Gain)Loss on sale of property, plant and equipment	10,000	(22,000)
(Increase) Decrease in operating assets:		
Accounts receivable	(17,000)	1,573,000
Inventory, net of customer deposits	4,019,000	1,137,000
Prepaid expenses and other current and non-current assets	(28,000)	67,000
Increase (Decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other liabilities	(3,771,000)	(1,635,000)
Estimated liabilities of discontinued operations		(119,000)
Deferred compensation, deferred pension liability, and accrued postemployment benefits	158,000	280,000
Domestic and foreign income taxes	(803,000)	15,000
Deferred income taxes		(22,000)
Other long-term liabilities	(42,000)	(73,000)
Total adjustments	49,000	1,714,000
Net cash provided by operating activities	1,070,000	3,092,000

</TABLE>

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

<TABLE>
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<S>	Six Months Ended September 30, 1998 <C>	1997 <C>
Investing activities:		
Purchase of property, plant and equipment	(399,000)	(336,000)
Purchase of marketable securities	(5,654,000)	(2,851,000)
Proceeds from maturity of marketable securities	5,291,000	1,156,000
Net cash used by investing activities	(762,000)	(2,031,000)
Financing activities:		
(Decrease) Increase in short-term debt	(40,000)	144,000
Proceeds from issuance of long-term debt	5,110,000	5,441,000
Principal repayments on long-term debt	(5,260,000)	(7,066,000)
Issuance of common stock		861,000
Purchase of treasury stock	(1,713,000)	
Net cash used by financing activities	(1,903,000)	(620,000)
Effect of exchange rate on cash	3,000	
Net increase (decrease) in cash and equivalents	(1,592,000)	441,000
Cash and equivalents at beginning of period	1,694,000	854,000
Cash and equivalents at end of period	$ 102,000	$ 1,295,000

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</TABLE>

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

NOTE 1 - INVENTORIES

Major classifications of inventories are as follows:

<TABLE>
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	9/30/98	3/31/98
<S>	<C>	<C>
Raw materials and supplies	$ 2,562,000	$ 2,707,000
Work in process	6,896,000	12,081,000
Finished products	1,166,000	1,131,000
	10,624,000	15,919,000
Less - progress payments	4,562,000	5,641,000
	$ 6,062,000	$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:

<TABLE>
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	Three months ended September 30, 1998	1997	Six months ended September 30, 1998	1997
<S>	<C>	<C>	<C>	<C>
Basic earning per share				
Numerator:				
Net income	$ 57,000	$ 945,000	$1,021,000	$ 1,378,000
Denominator:				
Weighted common shares outstanding	1,586,000	1,641,000	1,617,000	1,619,000
Share equivalent units (SEU) outstanding	6,000	4,000	5,000	3,000
Weighted average shares and SEU's outstanding	1,592,000	1,645,000	1,622,000	1,622,000
Basic earnings per share	$.04	$.58	$.63	$.85

</TABLE>

<TABLE>
<CAPTION>

	Three months ended September 30, 1998	1997	Six months ended September 30, 1998	1997
<C>	<C>	<C>	<C>	<C>
Diluted earnings per share				

Numerator:				
Net income	$ 57,000	$ 945,000	$1,021,000	$ 1,378,000
Denominator:				
Weighted average shares and SEU's outstanding	1,592,000	1,645,000	1,622,000	1,622,000
Stock options outstanding	17,000	51,000	22,000	53,000
Contingently issuable SEU's	4,000	2,000	6,000	2,000
Weighted average common and potential common shares outstanding	1,613,000	1,698,000	1,650,000	1,677,000
Diluted earnings per share	$.04	$.56	$.62	$.82

</TABLE>

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 $122,000 and $141,000 for the six months ended September 30, 1998 and 1997, respectively. In addition, actual income taxes paid were $1,319,000 and $709,000 for the six months ended September 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:

<TABLE>
<CAPTION>

	Three months ended September 30,		Six months ended September 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Net income	$ 57,000	$ 945,000	$1,021,000	$ 1,378,000
Other comprehensive income, net of tax				
Foreign currency translation adjustment	34,000	(38,000)	35,000	(19,000)
Comprehensive income	$ 91,000	$ 907,000	$1,056,000	$ 1,359,000

</TABLE>

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
September 30, 1998

Results of Operations

Sales decreased 22% in the second quarter of fiscal year 1999 compared to 1998. Sales for the second quarter decreased 25% in the United States and increased 34% in the United Kingdom compared to 1998. Sales for the six months ended September 30, 1998 were flat both in the United States and the United Kingdom compared to sales for the same period last year. The decline in sales for the second quarter in the United States is attributable to production scheduling changes for certain projects due to customer requirements. As a result the shipment of the equipment has been postponed to the third quarter. The increase in the United Kingdom sales is due to shipment schedules. Last year a large project anticipated to ship in the second quarter was delayed until the third quarter causing second quarter sales to be unusually low.

Cost of sales as a percent of sales for the second quarter 1999 was 72% compared to 66% a year ago. Cost of sales as a percent of sales for the three month period was 73% in the United States compared to 67% last year and 59% in the United Kingdom compared to 45% last year. For the six months, cost of sales as a percent of sales was 71% compared to 67% a year ago. For the six month period in the United States, the cost of sales percentage was 72% compared to 68% last year and in the United Kingdom it was 60% compared to 61% for the same period last year. The United States percentage is reflective of increased material costs while the unfavorable percentage for the second quarter in the United Kingdom is due primarily to product mix.

Selling, general and administrative expenses decreased 11% from the second quarter of 1998. For the six months ended September 30, 1998, selling, general and administrative expenses are down 5% as compared to the same period in fiscal year 1998 and were 23% of sales compared to 24% in 1998. These decreases are primarily attributable to the receipt of proceeds from an insurance policy.

Interest expense for the second quarter and six month period decreased 10% and 14%, respectively, as compared to the same periods in 1998. These decreases are due to paydowns of long term debt in both the United States and the United Kingdom.

The effective income tax rate for the second quarter and six month period in fiscal year 1999 was 39% and 34%, respectively, which is relatively consistent with the 1998 effective tax rate of 34% for the same periods.

Financial Condition

The financial condition of the Company has remained stable and strong during fiscal year 1999. Working capital of $11,823,000 at September 30, 1998 compares to $12,459,000 at March 31, 1998. This working capital decrease reflects a decrease in current assets of $5,364,000 and a decrease in current liabilities of $4,728,000. The decrease in current assets related primarily to a decrease in cash due to the purchase of treasury stock and a decline in inventory as there were several large projects in process at March 31 which shipped in the first quarter of fiscal year 1999. The decrease in current liabilities reflects the decline in accounts payable which is attributable to timing of purchases and a decrease in accrued compensation and income taxes payable as significant payments were made in the first half of 1999. The current ratio at September 30, 1998 is 2.53 compared to 2.0 at March 31, 1998.

Capital expenditures for the six month period were $399,000 compared to $336,000 for the same period last year. Commitments for capital expenditures as of September 30, 1998 were approximately $250,000.

During the second quarter very little short term borrowing was required to finance working capital needs. Total long-term debt decreased $236,000 due to paydowns on the ESOP loan and the United Kingdom term loan. The long-term debt to equity ratio is 7% compared to 8% at March 31, 1998 and the total liabilities to assets ratio is 45% compared to 52% at March 31, 1998. These ratios reflect management's continued effort to maintain current debt levels.

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 second quarter were $10,139,000 compared to $16,472,000 for the same period last year. New orders in the United States were $8,791,000 compared to $15,792,000 for the same period in 1998. New orders in the United Kingdom were $1,348,000 compared to $680,000 for the same quarter last year.

For the first half of the fiscal year new orders were $21,301,000 compared to $37,260,000 for the comparable six month period of 1998. New orders in the United States were $18,670,000 for the six month period compared to $35,438,000 for the same period last year and new orders in the United Kingdom were $2,631,000 compared to $1,822,000 in 1998. The substantial decline in new orders in the United States is mainly attributable to the Asian crisis and a downturn in the Latin America market. In addition, the Company is facing fierce competition, especially in the petrochemical industry. Management is taking measures to address current market conditions including cost reductions, and is optimistic that the power industry will experience growth resulting in new orders in this market. The increase in the United Kingdom orders is due to the Company's success in obtaining export orders.

Backlog of unfilled orders at September 30, 1998 is $22,965,000 compared to $31,489,000 at this time a year ago and $28,199,000 at March 31, 1998. Current backlog in the United States of $21,532,000 compares to $27,292,000 at March 31, 1998 and $30,377,000 at September 30, 1997. Current backlog in the United Kingdom of $1,433,000 compares to $907,000 at March 31, 1998 and $1,112,000 at September 30, 1997. 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.

Other Matters
- -------------

The Company has established a program to assess the impact of the Year 2000 on the software and hardware utilized in its internal operations. The cost to address the Year 2000 issues has been estimated at $85,000. This program includes the following phases: identifying affected software, hardware, and manufacturing and telecommunication equipment and assessing the impact of the Year 2000 issue; hardware and software remediation; testing; surveying the Year 2000 readiness of customers and suppliers; and developing a contingency plan. Modification and testing of hardware and software is currently in process with an anticipated completion date of December 31, 1998. Manufacturing and telecommunication equipment is also expected to be Year 2000 compliant by the end of 1998. The Company has begun surveying its customers and suppliers regarding their readiness for the Year 2000 and anticipates completing this phase of the program by March 31, 1999.

The Company relies on third-party suppliers for products and services. If these suppliers do not adequately address the impact of the Year 2000 on their own systems and products in a timely manner, it may be necessary for the Company to secure alternate vendors to supply these required products and services. The Company has developed a contingency plan to handle this situation.

GRAHAM CORPORATION AND SUBSIDIARIES
FORM 10-Q
SEPTEMBER 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 September 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 11/06/98

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.)

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.

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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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