

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-8
REGISTRATION STATEMENT
under
THE SECURITIES ACT OF 1933

GRAHAM CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR
ORGANIZATION)

16-1194720
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

20 FLORENCE AVENUE
BATAVIA, NEW YORK 14020
(716) 343-2216
(ADDRESS, INCLUDING ZIP CODE, OF PRINCIPAL EXECUTIVE OFFICES)

1995 GRAHAM CORPORATION
INCENTIVE PLAN TO INCREASE SHAREHOLDER VALUE
(FULL TITLE OF THE PLAN)

William A. Smith, Jr.
General Counsel
Graham Corporation
20 Florence Avenue
Batavia, New York 14020
(716) 343-2216

Copy to:

W. Edward Bright, Esq.
Thacher Proffitt & Wood
Two World Trade Center - 39th Floor
New York, New York 10048
(212) 912-7400

(NAME AND ADDRESS, INCLUDING ZIP CODE, TELEPHONE NUMBER AND AREA CODE, OF
AGENT FOR SERVICE)

<TABLE>

CALCULATION OF REGISTRATION FEE

<CAPTION>

Title of Securities Amount of to be Registered Registration Fee	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)
<S>	<C>	<C>	<C>
<C> Common Stock, \$0.10 par value \$605	150,000 shares	\$14.9375	\$2,001,968

</TABLE>

- (1) Based on the number of shares of common stock of Graham Corporation ("Graham") reserved for issuance upon exercise of options granted pursuant to the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan"). In addition to such shares, this registration statement also covers an undetermined number of shares of common stock of Graham that, by reason of certain events specified in the Plan, may become issuable upon exercise of options through the use of certain anti-dilution provisions.
- (2) Estimated solely for purpose of calculating the registration fee in accordance with Rule 457 of the Securities Act of 1933, pursuant to which shares subject to outstanding options are deemed to be offered at the prices at which such options may be exercised and shares that may be acquired upon exercise of options granted in the future are deemed

to be offered at \$14.9375 per share, the average of the daily high and low sales prices of common stock of Graham on the American Stock Exchange at the close of trading on March 14, 1997.

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PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

ITEM 1. PLAN INFORMATION.

Not required to be filed with the Securities and Exchange Commission (the "Commission").

ITEM 2. REGISTRANT INFORMATION AND EMPLOYEE PLAN ANNUAL INFORMATION.

Not required to be filed with the Commission.

Note: The document containing the information specified in this Part I will be sent or given to employees as specified by Rule 428(b)(1). Such document need not be filed with the Commission either as part of this registration statement or as prospectuses or prospectus supplements pursuant to Rule 424. These documents and the documents incorporated by reference in this registration statement pursuant to Item 3 of Part II of this form, taken together, constitute a prospectus that meets the requirements of Section 10(a) of the Securities Act of 1933, as amended ("Securities Act").

PART II

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents and information heretofore filed with the Commission by the Registrant are incorporated by reference in this registration statement:

- (1) the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, which was filed with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act");
- (2) the Registrant's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 1996, June 30, 1996, and September 30, 1996, filed with the Commission pursuant to the Exchange Act;
- (3) the description of the Registrant's Common Stock (the "Common Stock") contained in the Registrant's Registration Statement on Form 8-A, as amended by Form 8, filed with the Commission pursuant to the Exchange Act;
- (4) the description of the Common Stock Purchase Rights (the "Rights") issued by the Registrant pursuant to the Rights Agreement dated as of February 23, 1990 (the "Rights Agreement") between the Registrant and Chase Lincoln First Bank N.A., (now known as Chase Manhattan Bank), contained in the Registration

Statement on Form 8-A, as amended by Form 8, filed with the Commission on March 2, 1990, pursuant to which the Registrant registered the Rights pursuant to Section 12(g) of the Exchange Act; and

- (5) the Graham Corporation Proxy Statement dated April 5, 1996 for Annual Meeting of Shareholders held on May 9, 1996.

All documents filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the date hereof and prior to the date of the termination of the offering of the Common Stock offered hereby shall be deemed to be incorporated by reference into this registration statement and to be a part hereof from the date of filing of such documents. Any statement contained

herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained herein or in any document which is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

ITEM 4. DESCRIPTION OF SECURITIES.

Not Applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Registrant's authority to indemnify its officers and directors is governed by the provisions of Section 145 of the Delaware General Corporation Law, as amended, ("DGCL") and by the Certificate of Incorporation of the Registrant.

Article Fourteenth of the Registrant's Certificate of Incorporation requires the Registrant, among other things, to indemnify its directors, officers, employees and agents to the fullest extent permitted by the DGCL and provides that such rights of indemnification shall be in addition to any rights to which any such director, officer, employee or agent may otherwise be entitled to under any other statute, the Certificate of Incorporation or by virtue of any agreement or vote of the shareholders or disinterested directors or otherwise both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

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Article Fourteenth of the Certificate of Incorporation of the Registrant also provides that to the fullest extent permitted by the DGCL, a director shall not be liable to the Registrant or its shareholders for monetary damages for breach of fiduciary duty as a director.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not Applicable.

ITEM 8. EXHIBITS.

- 4.1 1995 Graham Corporation Incentive Plan to Increase Shareholder Value.
- 4.2 Form of Stock Option Agreement Pursuant to the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value.
- 4.3 Certificate of Incorporation of Graham Corporation, as amended, incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 filed with the Commission pursuant to the Exchange Act.
- 4.4 By-Laws of Graham Corporation, incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, which was filed with the Commission pursuant to the Exchange Act.
- 4.5 Shareholder Rights Plan of Graham Corporation incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 26, 1991, as amended by Amendment No. 1 filed on Form 8 dated June 1, 1991.

- 5. Opinion of Thacher Proffitt & Wood, counsel for Registrant, as to the legality of the securities being registered.
- 23.1 Consent of Thacher Proffitt & Wood (included in Exhibit 5 hereof).
- 23.2 Consent of Deloitte & Touche LLP.

ITEM 9. UNDERTAKINGS.

A. RULE 415 OFFERING. The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

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(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

PROVIDED, HOWEVER, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

B. FILINGS INCORPORATING SUBSEQUENT EXCHANGE ACT DOCUMENTS BY REFERENCE. The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

C. INCORPORATED ANNUAL AND QUARTERLY REPORTS. The undersigned Registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

D. FILING OF REGISTRATION ON FORM S-8. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons

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of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant for expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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EXPLANATORY NOTE

This registration statement includes or is deemed to include two forms of prospectus: one to be sent or given to certain participants (the "Participant Prospectus") in the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan") pursuant to Part I of Form S-8 and Rule 428(b)(1) under the Securities Act of 1933, as amended ("Securities Act"), and one to be used in connection with certain reoffers and resales (the "Resale Prospectus") of shares of Common Stock, par value \$0.10 per share, of Graham Corporation by participants in the Plan as contemplated by Instruction C to Form S-8 under the Securities Act. The form of Participant Prospectus has been omitted from this registration statement as permitted by Part I of Form S-8. The form of Resale Prospectus is included herein immediately following this page.

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CROSS REFERENCE SHEET REQUIRED BY ITEM 501(b) OF REGULATION S-K
(Showing location of Information Requested by Form S-3)

ITEMS REQUIRED BY PART I OF FORM S-3

S-3 ITEM	PROSPECTUS HEADING
1. Front of Registration Statement and Outside Front Cover Page of Prospectus	Facing Page; Outside Front Cover Page; this Cross-Reference Sheet
2. Inside Front and Outside Back Cover Pages of Prospectus	Available Information; Incorporation of Certain Documents by Reference; Table of Contents
3. Summary Information, Risk Factors	Risk Factors
4. Use of Proceeds	Use of Proceeds
5. Determination of Offering Price	Determination of Offering Price
6. Dilution	Not Applicable
7. Selling Security Holders	Selling Security Holders
8. Plan of Distribution	Plan of Distribution
9. Description of Securities to be Registered	Not Applicable
10. Interests of Named Experts and Counsel	Legal Opinions; Experts
11. Material Changes	Not Applicable
12. Incorporation of Certain Documents by Reference	Incorporation of Certain Documents by Reference
13. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Indemnification of Directors and Officers

PROSPECTUS

GRAHAM CORPORATION

150,000 SHARES OF COMMON STOCK
(\$0.10 PAR VALUE)

OFFERED OR TO BE OFFERED BY CERTAIN SELLING SHAREHOLDERS OF
GRAHAM CORPORATION FOLLOWING THEIR ACQUISITION UNDER
THE 1995 INCENTIVE PLAN TO INCREASE SHAREHOLDER VALUE

Certain holders of Graham Corporation Common Stock may offer, from time to time, up to 150,000 shares of Graham Common Stock which they have acquired under the 1995 Incentive Plan to Increase Shareholder Value ("Plan"). The shares may be sold directly by the holder to purchasers or may be given by the holder to donees, such as members of the holder's family or charitable organizations, and then sold by the donee to the purchasers. Sales may occur through the facilities of the American Stock Exchange, on which the shares are listed, or may occur privately.

This Prospectus relates to 150,000 authorized shares of Graham Common Stock registered for purchase under the Plan. Such shares are, at the date hereof, either unissued shares or are held as treasury stock by Graham Corporation (the "Company"). It is suggested that this Prospectus be retained for future reference. This Prospectus contains a discussion of material risks in connection with the purchase of shares of the Company. See "Risk Factors" beginning on page 3.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS ANY SUCH COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is March 20, 1997

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act") and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the "Commission"). Information, as of particular dates, concerning directors and officers, their remuneration, the principal holders of Graham Common Stock, and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements, and other information can be inspected and copied at the offices of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549; at Public Reference Facilities in the Chicago Regional Office, 500 West Madison Street, Chicago, Illinois 60661; and at the New York Regional Office in Seven World Trade Center, New York, New York 10048. Copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street N.W., Washington, D.C. 20549 at prescribed rates. Graham Common Stock is traded on the American Stock Exchange. The Commission maintains a Web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, such as the Company. Reports, proxy material and other information concerning the Company may also be inspected at the offices of the American Stock Exchange, 86 Trinity Place, New York, New York 10006.

The Company has filed with the Commission in Washington D.C., a Registration Statement under the Securities Act of 1933, as amended ("Securities Act"), with respect to the securities to which this prospectus relates. As permitted by the rules and regulations of the Commission, this prospectus does not contain all the information set forth in the Registration

Statement, including the exhibits thereto, which may be obtained from the Public Reference Section of the Commission at 450 Fifth Street N.W., Washington, D.C. 20549, upon payment of the prescribed fees.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are incorporated by reference herein the Graham Corporation Proxy Statement dated April 5, 1996, the Graham Corporation Annual Report on 10-K for the year ended December 31, 1995 and the Registrant's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 30, 1996, June 30, 1996, and September 30, 1996 filed with the Commission pursuant to the Exchange Act. The description of the class of securities offered under the Plan is described in the Registration Statement on Form 8-A, as amended, filed by the Company with the Commission pursuant to the Exchange Act. Such descriptions are incorporated by reference herein.

All documents filed by the Company pursuant to Sections 13, 14, or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the securities made hereby are incorporated herein by reference, and such documents shall be deemed to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a

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statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, upon request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference (other than exhibits to such documents). Written requests shall be directed to Mr. William A. Smith, Jr., General Counsel, Graham Corporation, 20 Florence Avenue, Batavia, New York 10420. Telephone requests may be directed to (716) 343-2216.

The principal executive offices of the Company are located at 20 Florence Avenue, Batavia, New York 14020. The telephone number at such offices is (716) 343-2216.

CERTAIN CONSIDERATIONS

RISK FACTORS

THE COMPANY. Graham Corporation was organized in 1983 as a Delaware holding company and is the successor to Graham Manufacturing Co., Inc., now a wholly owned subsidiary of the Company. Graham Manufacturing Co., Inc. was organized in 1936 under the laws of the State of New York. The Company manages the activities of various subsidiaries that are located in the United States and the United Kingdom. The Company is primarily engaged in the custom manufacture and design of vacuum and heat transfer equipment. The principal customers for these products are large industrial corporations in the chemical, petrochemical, petroleum refining and electric power generating industries. The Company's products are sold through a combination of direct sales engineers and independent sales representatives located in over 40 major cities in the United States and abroad. Consolidated sales in 1995 were \$49,480,000, resulting in net income of \$1,134,000 or \$0.72 per share.

Graham's United States operation consists of one wholly-owned, separately incorporated subsidiary, Graham Manufacturing Co., Inc. ("GMC") located in Batavia, New York. GMC is a leading manufacturer of steam jet ejector vacuum systems. In addition, GMC is a recognized manufacturer of surface condensers for steam turbines, liquid ring vacuum pumps and various types of heat exchangers such as Heliflow, plate and frame, and special types of nuclear shell and tube heat exchangers. Graham's United Kingdom operation consists of two subsidiaries, Graham Vacuum & Heat Transfer Limited and Graham Precision Pumps Limited ("GPPL") in Congleton, Cheshire. U.K. sales were \$5,494,000 in 1995 (converted at an exchange rate of \$1.58 per British Pound Sterling).

CONCENTRATION OF CUSTOMERS IN CYCLICAL INDUSTRIES. Historically, almost all of the Company's revenues have been derived from sales to corporations in the chemical, petrochemical, petroleum refining and electrical power generating industries. Corporations in these industries have historically experienced cyclical periods of construction and expansion of their plants and facilities. Currently, in the United States, these industries are experiencing a protracted

cycle of little expansion of existing facilities. For example, no new major petroleum

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refining facilities have been constructed in the United States in 20 years. Demand for the Company's products has increasingly come from the construction of new facilities outside the United States and from the upgrading of existing facilities within the United States. While the Company believes that demand for its products will increase, there can be no assurance that the Company will be successful in its efforts to continue to derive a greater portion of revenues from outside the United States or that the cyclical downturn in the Company's customers' industries will not continue.

FLUCTUATION OF FINANCIAL RESULTS. The Company's revenues and operating results could fluctuate significantly from period to period. Given the relatively large sales price of the Company's products and variations in profit margins between product lines, a limited number of product orders may account for a substantial portion of revenues and profits in any particular period. As a result of these and other factors, the Company could experience significant fluctuations in revenues and operating results in future periods.

TECHNOLOGICAL OBSOLESCENCE. The Company believes that its future success will depend in part upon its ability to enhance existing products and to develop and manufacture new products that meet new demands from its customers. The failure to introduce new or enhanced products on a timely and cost-competitive basis could have a material adverse effect on the Company's financial condition and results of operation.

COMPETITIVE MARKETPLACE. The markets in which the Company operates are composed of other global and regional competitors, some of which may have greater financial, engineering, manufacturing or other resources than the Company. While the Company believes that in the manufacture of steam jet ejectors it is a leading manufacturer, the Company gathers a small percentage of the market share in its other product areas. There can be no assurance that the Company will have sufficient resources to continue as a leading manufacturer of steam jet ejectors or that it will be successful in capturing additional market share.

INCREASED NUMBER OF REGISTERED SHARES. Public trading in the Company's Common Stock may be characterized by a small trading volume. The addition of a substantial number of additional shares eligible for public trading may have the effect of creating an excess of the supply of shares for sale over the demand for shares to be purchased, which may lead to a decline of the prevailing prices at which shares of the Common Stock may trade.

ANTI-TAKEOVER PROVISIONS

CORPORATE STRUCTURE. The Company's Certificate of Incorporation (the "Certificate of Incorporation") and By-laws contain certain provisions that may discourage potential takeover attempts that are not negotiated with the Company's Board of Directors. As a result, these provisions may have the effect of precluding takeover attempts that shareholders deem to be in their best interests, or in which shareholders might otherwise have received a substantial premium for their shares over the then-current market price, as well as making it more difficult for shareholders to acquire majority representation on the Board of Directors.

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These provisions provide, among other things: (1) that the Company's Board of Directors be divided into three classes with staggered terms; (2) that approval of the holders of 75% of the shares of stock entitled to vote, as well as the approval of the majority of the holders of shares of stock entitled to vote, if a corporation, person or other entity owns more than 50% of the shares of stock entitled to vote, be obtained for consummation of certain business combinations not approved in advance by the Company's Board of Directors (such as the merger or dissolution of Company); (3) for the issuance of additional shares of common stock or shares of preferred stock by the Company's Board of Directors without the approval of the shareholders (including the issuance of such shares in connection with a Shareholder Rights Plan); (4) that cumulative voting shall not be permitted in connection with the election of directors; and (5) that special meetings of shareholders may be called only by the Chairman of the Board, the President or by two directors or more.

DELAWARE LAW. In general, Section 203 of the Delaware General Corporation Law ("DGCL") prevents an "interested stockholder" (defined generally as a person with 15% or more of a corporation's outstanding voting stock) from engaging in a "business combination" (as defined in the DGCL) with a Delaware corporation for three years following the date such person became an interested stockholder.

The provision is not applicable when (i) prior to the date the stockholder became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the outstanding voting stock of the corporation, not including shares owned by directors who are also officers and by certain employee stock plans or (iii) on or subsequent to the date the stockholder becomes an interested stockholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of stockholders, and not by written consent, by the affirmative vote of the holders of at least two-thirds of the outstanding voting stock entitled to vote thereon, excluding shares owned by the interested stockholder.

The DGCL's restrictions generally do not apply to business combinations with an interested stockholder that are proposed subsequent to the public announcement of, and prior to the consummation or abandonment of, certain mergers, sales of a majority of the corporation's assets or tender offers for 50% or more of the corporation's voting stock.

The DGCL allows corporations to elect not to be subject to the provisions of the DGCL. The Company has not so elected.

VOTING CONTROL OF EXECUTIVE OFFICERS AND DIRECTORS. Directors and executive officers of the Company currently hold or control the voting of approximately 21.2% of the outstanding shares of Graham Common Stock either directly or through participation in employee benefit plans. Management's potential voting control could, together with additional stockholder support, defeat stockholder proposals requiring a super majority vote. As a result, these provisions may preclude or render more difficult takeover attempts that certain stockholders may deem to be in their best interest and may tend to perpetuate existing management.

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PROVISIONS OF REMUNERATION PLANS AND AGREEMENTS. Employment agreements with certain management officials of the Company and certain provisions of the Company's stock option plans may provide for benefits and cash payments in the event of a change in control of the Company. These provisions may have the effect of increasing the cost of acquiring the Company, thereby discouraging future attempts to take over the Company.

POSSIBLE DILUTIVE EFFECT OF STOCK OPTIONS. Directors, officers and employees of the Company have been granted options to purchase Graham Common Stock and authorized but unissued shares have been reserved for issuance upon exercise of such options. Such reserved shares amount to approximately 11.9% of the outstanding Graham Common Stock. In addition, authorized but unissued shares in an amount equal to approximately 7.0% of the outstanding Graham Common Stock have been reserved for issuance pursuant to additional options that may be granted pursuant to the Company's existing option plans. If all the options granted but not exercised and which may be granted in the future were to be exercised using authorized but unissued Graham Common Stock, the voting interest of existing shareholders would be diluted by approximately 18.9%.

USE OF PROCEEDS

The shares will be offered by certain individuals who acquire them upon exercise of options granted under the Plan for their personal accounts. The proceeds from such sales will be used by them for their personal benefit. The Company will not receive any portion of the payment for the shares.

DETERMINATION OF OFFERING PRICE

The purchase price of the shares offered hereby will be the market price (plus customary or negotiated brokerage commissions) prevailing at the time of the sale in the case of transactions on the American Stock Exchange and negotiated prices related to market prices in private negotiated transactions not on any securities exchange.

SELLING SHAREHOLDERS

The shares offered hereby have been issued to optionees under the Plan or will be issued upon exercise of options or stock appreciation rights under the Plan. Not all optionees under the Plan are affiliates of the Company. The directors and executive officers of the Company to whom options or stock appreciation rights have been granted under the Plan are:

<TABLE>
<CAPTION>

PERCENTAGE CLASS TO OWNED AFTER OFFERING (3)	SELLING SHAREHOLDER	POSITION AT COMPANY OR AFFILIATES WITHIN THE PAST THREE YEARS	NUMBER OF SHARES BENEFICIALLY OWNED (1)	OWNED OR TO BE OWNED UPON EXERCISE OF OPTIONS (WHETHER OR NOT VESTED ON MARCH 19, 1997)	NUMBER OF SHARES COVERED BY THIS PROSPECTUS	NUMBER OF SHARES TO BE HELD AFTER OFFERING (2)	OF BE
<S> 13.4%	Frederick D. Berkeley	Chairman of the Board, President and Chief Executive Officer	<C> 213,297	<C> 23,250	<C> 0	<C> 213,297	<C>
	Alvaro Cadena (4)	President and Chief Operating Officer Graham Manufacturing Co., Inc. ("GMC"), Vice President of Graham; previously Executive Vice President of GMC	4,208	14,700	0	4,208	
	J. Ronald Hansen (4)	Vice President of Finance and Chief Financial Officer; previously Vice President of Finance and Chief Financial Officer of Al Tech Specialty Steel Corp.	709	9,490	2,100	709	
	Joseph P. Gorman (4)	Vice President-Sales of GMC	1,530	10,500	2,100	1,530	
	Stephen P. Northrup (4)	Vice President-Engineering of GMC	813	10,500	2,100	813	
	H. Russel Lemcke (4)	Director	10,000	10,500	4,500	10,000	
	Jerald D. Bidlack (4)	Director	2,250	10,500	4,500	2,250	
	Philip S. Hill (4)	Director	0	10,500	4,500	0	
	Robert L. Tarnow (4)	Director	300	10,500	4,500	300	

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</TABLE>

- (1) Beneficial ownership in this table includes the number of shares of Company common stock which such person has the right to acquire within 60 days after March 19, 1997 by the exercise of options under the Plan.
- (2) Assumes that all shares acquired or to be acquired upon exercise of options under the Plan are sold.
- (3) Percentage with respect to each person has been calculated on the basis of the number of shares of Company Common Stock outstanding as of March 19, 1997, without regard to the number of shares of Company Common Stock which such person or any person has the right to acquire by the exercise of stock options.
- (4) Less than 1%.

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PLAN FOR DISTRIBUTION

The shares may be offered for sale on the American Stock Exchange where they are listed. They may be offered from time to time in private transactions. The Company does not expect to bear the expense of such sales.

LEGAL OPINIONS

The legal status of the shares of Graham Common Stock offered hereby will be passed upon for the Company by Thacher Proffitt & Wood, New York, New York.

EXPERTS

The consolidated financial statements and the related consolidated financial statement schedules incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1995 have been audited by Deloitte & Touche, LLP, independent auditors, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

SHAREHOLDER RIGHTS PLAN

The Company has adopted a Shareholder Rights Plan whereby one share Purchase Right is attached to each outstanding share of Common Stock. Each Purchase Right entitles the holder to purchase from the Company an additional share of Common Stock for \$46.67 per share, subject to adjustment. The Purchase Rights become exercisable upon (i) the acquisition by a person or group of persons of 20% or more of the Common Stock; or (ii) if a person or group of persons commences a tentative offer for 30% or more of the Company's outstanding Common Stock. The Company has the right to redeem the Purchase Rights for \$0.10 per Purchase Right at any time prior to the close of business on the date the Purchase Rights become exercisable.

After the Purchase Rights become exercisable, if the Company is acquired in a business combination, or if at least half of the Company's assets or earning power are sold, the Purchase Right would entitle its holder to purchase stock of the acquirer (or Graham, if it were the surviving company) at a discount of 50%. The number of shares that each Purchase Right would entitle its holder to acquire at a discount would be the number of shares having a market value equal to twice the exercise price of the Purchase Right.

The issuance of the Purchase Rights, while providing flexibility in connection with a possible acquisition, could adversely affect, among other things, the rights of existing shareholders, or could have the effect of deferring, delaying or preventing a change in control of the Company, without further action by the shareholders. The Company has no current plans to redeem the Purchase Rights.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law ("DGCL") empowers a Delaware corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of a corporation or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Similar indemnity is authorized for such person against expenses (including attorney's fees) actually and reasonably incurred in connection with the defense or settlement of any such threatened, pending or completed action or suit if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and provided further that (unless a court of competent jurisdiction otherwise provides) such person shall not have been adjudged liable to the corporation. Any such indemnification may be made only as authorized in each specific case upon a determination by the shareholders or disinterested directors or by independent legal counsel in a written opinion that indemnification is proper because the indemnitee has met the applicable standard of conduct.

Section 145 of the DGCL further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against liability asserted against him, and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would otherwise have the power to indemnify him under Section 145 of the DGCL.

Article Fourteen of the Certificate of Incorporation of Graham Corporation provides that a director shall not be liable for monetary damages for breach of fiduciary duty to the fullest extent permitted by the Delaware General Corporation Law, as amended. In addition, directors and officers of the corporation are indemnified against any liabilities incurred, including expenses incurred in defending a proceeding in advance of its final disposition, in his capacity as a director or officer to the fullest extent permitted by the Delaware General Corporation Law. The rights granted pursuant to the Certificate of Incorporation are not exclusive of any rights granted by statute, agreement, vote of shareholder or disinterested directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

No person has been authorized to give any information or to make any representation not contained in this Prospectus in connection with the offer made by this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by Graham Corporation. Prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of Graham Corporation since the date hereof or that the information contained in this Prospectus is correct as of any date subsequent to the date of this Prospectus. This Prospectus does not constitute an offer or a solicitation of an offer to buy any of the

GRAHAM CORPORATION

150,000 SHARES

COMMON STOCK

(\$0.10 PAR VALUE)

Offered or to be Offered by
Certain Selling Shareholders of Graham Corporation Following Their Acquisition under the 1995 Incentive Plan to Increase Shareholder Value

securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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PROSPECTUS

DATED: March 20, 1997

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SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Batavia, State of New York on the 19th day of March, 1997.

GRAHAM CORPORATION
(Registrant)

By: /s/ Frederick D. Berkeley, III

Frederick D. Berkeley, III
Chairman of the Board and Chief
Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ Frederick D. Berkeley, III ----- Frederick D. Berkeley, III	Chairman of the Board and Chief Executive Officer/Director	March 19, 1997
/s/ Alvaro Cadena ----- Alvaro Cadena	President and Chief Operating Officer/Director	March 19, 1997
/s/ J. Ronald Hansen ----- J. Ronald Hansen	Vice President - Finance and Chief Financial Officer	March 19, 1997
/s/ H. Russel Lemcke	Director	March 19, 1997

H. Russel Lemcke

/s/ Jerald D. Bidlack Director March 18, 1997

Jerald D. Bidlack

/s/ Philip S. Hill Director March 18, 1997

Philip S. Hill

/s/ Robert L. Tarnow Director March 19, 1997

Robert L. Tarnow

/s/ Cornelius S. Van Rees Secretary/Director March 18, 1997

Cornelius S. Van Rees

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----	PAGE NO. -----
4.1	1995 Graham Corporation Incentive Plan to Increase Shareholder Value.....	
4.2	Form of Option Agreement under the Plan for Employees and Directors.....	
4.3	Certificate of Incorporation of Graham Corporation, as amended, incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 filed with the Commission pursuant to the Exchange Act.....	
4.4	By-laws of Graham Corporation, incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, which was filed with the Commission pursuant to the Exchange Act.....	
4.5	Shareholder Rights Plan of Graham Corporation incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 26, 1991, as amended by Amendment No. 1 filed on Form 8 dated June 1, 1991.....	
5.	Opinion of Thacher Proffitt & Wood, counsel for Registrant, as to the legality of the securities being registered.....	
23.1	Consent of Thacher Proffitt & Wood (included in Exhibit 5 hereof).....	
23.2	Consent of Deloitte & Touche LLP.....	

1995 Graham Corporation Incentive Plan to Increase Shareholder Value

1995 GRAHAM CORPORATION INCENTIVE PLAN TO
INCREASE SHAREHOLDER VALUE

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1995 GRAHAM CORPORATION INCENTIVE PLAN TO
INCREASE SHAREHOLDER VALUE

ARTICLE I

PURPOSE

Section 1.1 GENERAL PURPOSE OF THE PLAN.

The purpose of the Plan is to increase shareholder value by promoting the growth and profitability of the Corporation; to provide certain directors and key executives of the Corporation with an incentive to achieve corporate objectives; to attract and retain directors and key executives of outstanding competence; and to provide such directors and executives with an equity interest in the Corporation.

ARTICLE II

DEFINITIONS

The following definitions shall apply for the purposes of this Plan, unless a different meaning is plainly indicated by the context:

Section 2.1 AMENDMENT means amendment of this Plan pursuant to section 6.

Section 2.2 BOARD means the board of directors of Graham Corporation.

Section 2.3 CHANGE IN CONTROL OF GRAHAM CORPORATION means any of the following events:

(a) the reorganization, merger or consolidation of Graham Corporation with one or more other Persons, other than a transaction following which at least 51% of the ownership interests of the institution resulting from such transaction are owned by Persons who, immediately prior to such transaction, owned at least 51% of the outstanding voting shares of Graham Corporation;

(b) the acquisition of substantially all of the assets of Graham Corporation or more than 25% of the voting shares of Graham Corporation by any Person or by any Persons acting in concert; or

(c) the occurrence of any event if, immediately following such event, at least 50% of the members of the Board do not belong to any of the following groups:

(i) individuals who were members of the Board on the Effective Date: or

(ii) individuals who first became members of the Board after the Effective Date either:

(A) upon election to serve as a member of the Board by affirmative vote of a majority of the members of the Board, or a nominating committee thereof, in office at the time of such first election; or

(B) upon election by the stockholders of Graham Corporation to serve as a member of the Board, but only if nominated for election by affirmative vote of a majority of the members of the Board, or a nominating committee thereof, in office at the time of such first nomination;

provided, however, that no benefit conferred under the Plan, or under the terms of any Option granted under the Plan, solely as a result of the occurrence of a Change in Control of Graham Corporation shall be conferred upon any Person, or any member of the group of Persons, who makes an acquisition described in section 2.3(b) and for purposes of this proviso, the term Change in Control of Graham Corporation as applied to such a Person shall not include any acquisition made by such Person or by any group of Persons of which he is a member.

Section 2.4 CODE means the Internal Revenue Code of 1986 (including the corresponding provisions of any succeeding law).

Section 2.5 COMMITTEE means the Compensation Committee as described in, and subject to the qualifications of, section 3.1.

Section 2.6 CORPORATION means Graham Corporation and any successor thereto, and, with the prior approval of the Board and subject to such terms and conditions as may be imposed by the Board, any other corporation or other business organization.

Section 2.7 DISABILITY means a condition of total incapacity, mental or physical, for further performance of duty with the Corporation which the Committee shall have determined, on the basis of competent medical evidence, is likely to be permanent.

Section 2.8 DISINTERESTED BOARD MEMBER means a member of the Board who is not currently and has not at any time during the immediately preceding one-year period been an Eligible Individual.

Section 2.9 EFFECTIVE DATE means October 26, 1995.

Section 2.10 ELIGIBLE INDIVIDUAL means any individual whom the Committee may determine to be a key employee or director of the Corporation and selected to receive a grant of an Option pursuant to the Plan; provided, however, that no Eligible Outside Director shall be identified as an Eligible Individual.

Section 2.11 ELIGIBLE OUTSIDE DIRECTOR means a member of the board of directors of the Corporation who is not an employee of the Corporation.

Section 2.12 EXERCISE PRICE means the price per Share at which Shares subject to an Option may be purchased upon exercise of the Option, determined in accordance with section 4.5 (in the case of Options granted to Eligible Individuals) or section 4.7 (in the case of Options granted to Eligible Outside

Directors).

Section 2.13 FAIR MARKET VALUE means with respect to a Share on a specified date:

(a) the final quoted sales price on the date in question (or, if there is no reported sale on such date, on the last preceding date on which any reported sale occurred) as reported in the principal consolidated reporting system with respect to securities listed or admitted to trading on the principal United States securities exchange on which the Shares are listed or admitted to trading; or

(b) if the Shares are not listed or admitted to trading on any such exchange, the closing bid quotation with respect to a Share on such date on the National Association of Securities Dealers Automated Quotations System, or, if no such quotation is provided, on another similar system, selected by the Committee, then in use; or

(c) if sections 2.13(a) and (b) are not applicable, the fair market value of a Share as the committee may determine.

Section 2.14 GRAHAM CORPORATION means Graham Corporation, a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

Section 2.15 INCENTIVE STOCK OPTION means a right to purchase Shares that is granted pursuant to section 4.1, that is designated by the Committee to be an Incentive Stock Option and that is intended to satisfy the requirements of section 422 of the Code.

Section 2.16 NON-QUALIFIED STOCK OPTION means a right to purchase Shares (a) that is granted pursuant to section 4.1, that is designated by the Committee to be a Non-Qualified Stock Option and that is not intended to satisfy the requirements of section 422 of the Code, or (b) that is granted pursuant to section 4.7.

Section 2.17 OPTION means either an Incentive Stock Option or a Non-Qualified Stock Option.

Section 2.18 OPTION PERIOD means the period during which an Option may be exercised, determined in accordance with section 4.6 (in the case of Options granted to Eligible Individuals) or section 4.7 (in the case of Options granted to Eligible Outside Directors).

Section 2.19 PERSON means an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization.

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Section 2.20 PLAN means the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value, as amended from time to time. The Plan may be referred to as the "1995 Graham Corporation Incentive Plan to Increase Shareholder Value."

Section 2.21 SHARE means a share of common stock of Graham Corporation.

Section 2.22 TENDER OFFER shall have the meaning given to such term under section 14 of the Securities Exchange Act of 1934, as amended; provided, however, that an offer to purchase Shares made directly to the holder of such Shares by any Person, or by any Persons acting in concert, shall not constitute a Tender Offer within the meaning of this section 2.22 unless such offer, if successful, would result in a Change in Control of Graham Corporation; and provided, further, that no benefit conferred under the Plan, or under the terms of any Option granted under the Plan, solely as a result of the commencement of a Tender Offer to purchase Shares shall be conferred upon any Person, or any member of the group of Persons, who makes a Tender Offer to purchase Shares and for purposes of the proviso, the term Tender Offer as applied to such a Person shall not include any offer to purchase Shares made by such Person or by any group of Persons of which he is a member.

ARTICLE III

ADMINISTRATION

Section 3.1 COMMITTEE.

The Plan shall be administered by the Compensation Committee of the Board (or any successor committee of the Board), provided that all of the members of the Compensation Committee are Disinterested Board Members. No

members of the Compensation Committee other than Disinterested Board Members shall participate in the administration of this Plan.

Section 3.2 COMMITTEE ACTION.

The Committee shall hold meetings, at least annually, and may make such administrative rules and regulations as it may deem proper. A majority of the members of the Committee shall constitute a quorum, and the action of a majority of the members of the Committee present at a meeting at which a quorum is present, as well as actions taken pursuant to the unanimous written consent of all of the members of the Committee without holding a meeting, shall be deemed to be actions of the Committee. All actions of the Committee shall be final and conclusive and shall be binding upon the Corporation and all other interested parties. Any Person dealing with the Committee shall be fully protected in relying upon any written notice, instruction, direction or other communication signed by the secretary of the Committee and one member of the Committee, by two members of the Committee or by a representative of the Committee authorized to sign the same in its behalf.

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Section 3.3 COMMITTEE RESPONSIBILITIES.

Subject to the terms and conditions of the Plan and such limitations as may be imposed from time to time by the Board, the Committee shall be responsible for the overall management and administration of the Plan and shall have such authority as shall be necessary or appropriate in order to carry out its responsibilities, including, without limitation, the authority:

(a) to interpret and construe the Plan, and to determine all questions that may arise under the Plan as to eligibility for participation in the Plan, the number of Shares subject to the Options to be granted, and the terms and conditions thereof;

(b) to adopt rules and regulations and to prescribe forms for the operation and administration of the Plan; and

(c) to take any other action not inconsistent with the provisions of the Plan that it may deem necessary or appropriate.

ARTICLE IV

STOCK OPTIONS

Section 4.1 IN GENERAL.

Subject to the limitations of the Plan, the Committee may, in its discretion, grant to an Eligible Individual an Option to purchase Shares. Each Eligible Outside Director shall be granted an Option to purchase Shares in Accordance with section 4.7. Any such Option shall be evidenced by a written document which shall:

(a) designate the Option as either an Incentive Stock Option or a Non- Qualified Stock Option;

(b) specify the number of Shares subject to the Option;

(c) specify the Exercise Price, determined in accordance with section 4.5 (in the case of Options granted to Eligible Individuals or section 4.7 (in the case of Options granted to Eligible Outside Directors), for the Shares subject to the Option;

(d) specify the Option Period determined in accordance with section 4.6 (in the case of Options granted to Eligible Individuals) or section 4.7 (in the case of Options granted to Outside Directors);

(e) set forth specifically or incorporate by reference the applicable provisions of the Plan; and

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(f) contain such other terms and conditions not inconsistent with the Plan as the Committee may, in its discretion, prescribe with respect to an Option granted to an Eligible Individual.

Section 4.2 AVAILABLE SHARES - ELIGIBLE INDIVIDUALS.

Subject to section 6.3, the maximum aggregate number of Shares with respect to which Options may be granted to Eligible Individuals at any time shall be equal to the excess of:

- (a) 150,000 Shares; over
- (b) the sum of:
 - (i) the number of Shares with respect to which Options previously granted to Eligible Individuals under this Plan may then or may in the future be exercised; plus
 - (ii) the number of Shares with respect to which Options previously granted to Eligible Individuals under this Plan have been exercised.

For purposes of this section 4.2, an Option shall not be considered as having been exercised to the extent that such Option terminates by reason other than the purchase of the related Shares. The Shares reserved under this section 4.2 shall be in addition to, and not inclusive of, the Shares reserved under section 4.3.

Section 4.3 AVAILABLE SHARES - ELIGIBLE OUTSIDE DIRECTORS.

Subject to section 6.3, the maximum aggregate number of Shares with respect to which Options may be granted to Eligible Outside Directors at any time shall be equal to the excess of:

- (a) 42,000 Shares; over
- (b) the sum of:
 - (i) the number of Shares with respect to which Options previously granted to Eligible Outside Directors under this Plan may then or may in the future be exercised; plus
 - (ii) the number of Shares with respect to which Options previously granted to Eligible Outside Directors under this Plan have been exercised.

For purposes of this section 4.3, an Option shall not be considered as having been exercised to the extent that such Option terminates by reason other than the purchase of the related Shares. The Shares reserved under this section 4.3 shall be in addition to, and not inclusive of, the Shares reserved under section 4.2.

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Section 4.4 SIZE OF OPTION.

Subject to section 4.2 and such limitations as the Board may from time to time impose, the number of Shares as to which an Eligible Individual may be granted Options shall be determined by the Committee, in its discretion. The number of Shares as to which an Eligible Outside Director will be granted Options shall be determined in accordance with section 4.7.

Section 4.5 EXERCISE PRICE.

The price per Share at which an Option granted to an Eligible Individual may be exercised shall be determined by the Committee, in its discretion; provided, however, that in the case of an Incentive Stock Option, the Exercise Price per Share shall in no event be less than:

- (a) if, at the time an Incentive Stock Option is granted, the Person to whom it is granted owns more than 10% of the total combined voting power of all outstanding stock of all classes issued by Graham Corporation or any parent or subsidiary thereof, 110% of the Fair Market Value of a Share on the date the Option is granted, and
- (b) in all other cases, 100% of the Fair Market Value of a Share on the date the Option is granted. The price per share at which an Option granted to an Eligible Outside Director may be exercised shall be determined in accordance with section 4.7.

Section 4.6 OPTION PERIOD.

The Option Period during which an Option granted to an Eligible Individual may be exercised shall commence on the date specified by the Committee in the document evidencing the Option and shall expire on the earliest of:

(a) the date specified by the Committee in the document evidencing the Option;

(b) in the case of an Incentive Stock Option, the last day of the three-month period commencing on the date of the Option holder's termination of employment with the Corporation other than on account of death or Disability;

(c) in the case of an Incentive Stock Option, the last day of the one-year period commencing on the date of the Option holder's death or Disability;

(d) in the case of an Incentive Stock Option granted to a Person who, on the date the Option was granted, owned more than 10% of the total combined voting power of all outstanding stock of all classes issued by Graham Corporation or any parent or subsidiary thereof, the last day of the five-year period commencing on the date the Option was granted; and

(e) the last day of the ten-year period commencing on the date on which the Option was granted; provided, however, that in the event of a tender Offer or a Change in Control of Graham Corporation while there is outstanding any Option granted to an

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Eligible Individual with respect to which an Option Period has not commenced, such Option Period shall automatically commence on the earliest date on which the Tender Offer or Change in Control of Graham Corporation is deemed to have occurred. The Option Period during which an Option granted to an Eligible Outside Director may be exercised shall be determined in accordance with section 4.7.

Section 4.7 OPTIONS GRANTED TO ELIGIBLE OUTSIDE DIRECTORS.

(a) As of the Effective Date and on each of the first, second and third anniversaries of the Effective Date, each person who is then an Eligible Outside Director of Graham Corporation shall be granted a Non-Qualified Stock Option to purchase 2,250 Shares. As of the Effective Date, each person who is then an Eligible Outside Director of a Corporation other than Graham Corporation shall be granted a Non-Qualified Stock Option to purchase 1,500 Shares. An individual who becomes an Eligible Outside Director of Graham Corporation subsequent to the Effective Date shall be granted, as of the first day of the month following the month in which such individual becomes an Eligible Outside Director and on each of the first, second and third anniversaries of such date, a Non-Qualified Stock Option to purchase a number of Shares equal to the excess, if any, of (i) 2,250 over (ii) the sum of (A) the number of Shares with respect to which such individual had previously been granted options to purchase Shares as an officer or employee of the Corporation, plus (B) the number of Shares with respect to which such individual had previously been granted options to purchase Shares as an Eligible Outside Director. An individual who becomes an Eligible Outside Director of a Corporation other than Graham Corporation subsequent to the Effective Date shall be granted, as of the first day of the month following the month in which such individual becomes an Eligible Outside Director, a Non-Qualified Stock Option to purchase a number of Shares equal to the excess, if any, of (i) 1,500 over (ii) the sum of (A) the number of Shares with respect to which such individual had previously been granted options to purchase Shares as an officer or employee of the Corporation, plus (B) the number of Shares with respect to which such individual had previously been granted options to purchase Shares as an Eligible Outside Director. No Option shall be granted under this section 4.7 at a time when the number of Shares available under section 4.3 is less than the number of Shares to be subject to the Option.

(b) The price per Share at which an Option granted to an Eligible Outside Director under this section 4.7 may be exercised shall be the Fair Market Value of a Share on the date on which the Option is granted.

(c) The Option Period during which an Option granted to an Eligible Outside Director under this section 4.7 may be exercised shall commence on the date the Option was granted and shall expire on the earliest of:

(i) the last day of the one-year period commencing on the date the Eligible Outside Director ceases to be a member of the Board for reasons other than on account of death,

Disability or retirement as a member of the Board after age 65;

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(ii) the last day of the three-year period commencing on the date the Eligible Outside Director ceases to be a member of the Board on account of death, Disability or retirement as a member of the Board after age 65; or

(iii) the last day of the ten-year period commencing on the date on which the Option was granted.

Section 4.8 METHOD OF EXERCISE.

(a) Subject to the limitations of the Plan and the document evidencing an Option, an Option holder may, at any time during the Option Period, exercise his right to purchase all or any part of the Shares to which the Option relates; provided, however, that the minimum number of Shares which may be purchased shall be 100, or, if less, the total number of Shares relating to the Options which remain unpurchased. An Option holder shall exercise an Option to purchase Shares by:

(i) giving written notice to the Committee, in such form and manner as the Committee may prescribe, of his intent to exercise the Option;

(ii) delivering to the Committee full payment for the Shares as to which the Option is to be exercised; and

(iii) satisfying such other conditions as may be prescribed in the document evidencing the Option. Payment shall be made in (A) United States dollars in cash or by certified check, money order or bank draft drawn payable to the order of Graham Corporation, (B) Shares duly endorsed for transfer and with all necessary stock transfer tax stamps attached, already owned by the Option holder and having a fair market value equal to the Exercise Price, such fair market value to be determined in such manner as may be provided by the Committee or as may be required in order to comply with or conform to the requirements of any applicable laws or regulations, or (C) a combination of United States dollars and such Shares. The date of exercise shall be the date specified in the notice referred to in section 4.8(a)(i), or if no date is specified, the date on which such notice is delivered to the Committee.

(b) When the requirements of section 4.8(a) have been satisfied, the Committee shall take such action as is necessary to cause the issuance of a stock certificate evidencing the Option holder's ownership of such Shares. The Person exercising the Option shall have no right to vote or to receive dividends, nor have any other rights with respect to the Shares, prior to the date as of which such Shares are transferred to such Person on the stock transfer records of Graham Corporation, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which such transfer is effected, except as may be required under section 6.3.

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Section 4.9 LIMITATIONS ON OPTIONS.

(a) No Eligible Individual shall be granted an Option unless, at the time the Option is granted, each member of the Committee is a Disinterested Board Member.

(b) An Option by its terms shall not be transferable by the Option holder other than by will or by the laws of descent and distribution, and shall be exercisable, during the lifetime of the Option holder, only by the Option holder.

(c) Graham Corporation's obligation to deliver Shares with respect to an Option shall, if the committee so requests, be

conditioned upon the receipt of a representation as to the investment intention of the Person to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. Graham Corporation shall not be required to deliver any Shares under the Plan prior to (i) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (ii) the completion of such registration or other qualification under any state or federal law, rule or regulation as the Committee shall determine to be necessary or advisable.

Section 4.10 ADDITIONAL RESTRICTIONS ON INCENTIVE STOCK OPTIONS.

In addition to the limitations of section 4.9, an Option designated by the Committee to be an Incentive Stock Option shall be subject to the following limitations:

(a) no Incentive Stock Option shall provide any individual with a right to purchase Shares if that right first becomes exercisable during a prescribed calendar year and if the sum of:

(i) The Fair Market Value (determined as of the date of the grant) of the Shares subject to such Incentive Stock Option which first becomes available for purchase during such calendar year; plus

(ii) the Fair Market Value (determined as of the date of grant) of all Shares subject to the Incentive Stock Options previously granted to such individual which first become available for purchase during such calendar year; exceeds \$100,000; and

(b) except with the prior written approval of the Committee, no individual shall dispose of Shares acquired pursuant to the exercise of an Incentive Stock Option until after the later of (i) the second anniversary of the date on which the Incentive Stock Option was granted, or (ii) the first anniversary of the date on which the Shares were acquired.

ARTICLE V

NO APPRECIATION RIGHTS TO BE GRANTED

Section 5.1 IN GENERAL.

No stock appreciation rights may be granted pursuant to this Plan.

ARTICLE VI

AMENDMENT AND TERMINATION

Section 6.1 TERMINATION.

The Board may suspend or terminate the Plan in whole or in part at any time prior to the tenth anniversary of the Effective Date by giving written notice of such suspension or termination to the Committee. Unless sooner terminated, the Plan shall terminate automatically on the day preceding the tenth anniversary of the Effective Date.

Section 6.2 AMENDMENT.

The Board may amend or revise the Plan in whole or in part at any time; provided, however, that if and to the extent required by any law, rule or regulation of any governmental unit having jurisdiction over Graham Corporation, or by any private or quasi-governmental body to whose jurisdiction Graham Corporation has chosen to subject itself, the effectiveness of any amendment or revision shall be conditioned on the approval thereof by the stockholders of Graham Corporation.

Section 6.3 ADJUSTMENTS IN THE EVENT OF A BUSINESS REORGANIZATION.

(a) In the event of any merger, consolidation or other business reorganization in which Graham Corporation is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each Person who is then a holder of record of Shares, the number of Shares covered by each outstanding Option shall be adjusted to account for such event. Such adjustment shall be effected by multiplying such number of Shares by an amount equal to the number of Shares that would be owned after such event by a Person who, immediately prior to such event, was the holder of record of one Share, and the Exercise Price shall be adjusted by dividing the Exercise Price by such number of Shares; provided, however, that the Committee may, in its discretion, establish another appropriate method of adjustment.

(b) In the event of any merger, consolidation, or other business reorganization in which Graham Corporation is not the surviving entity:

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(i) any Options granted under the Plan which remain outstanding may be cancelled as of the effective date of such merger, consolidation, business reorganization, liquidation or sale by the Board upon 30 days' written notice to each Option holder in advance of the effective date of such event; and

(ii) any Option which is not cancelled pursuant to section 6.3(b)(i) shall be adjusted in such manner as the Committee shall deem appropriate to account for such merger, consolidation or other business reorganization.

ARTICLE VII

MISCELLANEOUS

Section 7.1 STATUS AS AN EMPLOYEE BENEFIT PLAN.

This Plan is not intended to satisfy the requirements for qualification under section 401(a) of the Code or to satisfy the definitional requirements for an "employee benefit plan" under section 3(3) of the Employee Retirement Income Security Act of 1974, as amended. It is intended to be a non-qualified incentive compensation program that is exempt from the regulatory requirements of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be construed and administered so as to effectuate this intent.

Section 7.2 NO RIGHT TO A CONTINUATION OF SERVICE.

Neither the establishment of the Plan nor any provisions of the Plan nor any action of the Board or the Committee with respect to the Plan shall be held or construed to confer upon any member of the Board any right to a continuation of membership on the board of directors of the corporation or any subsidiary or affiliate thereof or upon any employee any right to a continuation of employment by the Corporation or any subsidiary or affiliate thereof. The continuation of service of any member of the board of directors and the continued employment of any employee shall be subject to the same terms and conditions that would apply from time to time if the Plan had not been adopted.

Section 7.3 CONSTRUCTION OF LANGUAGE.

Whenever appropriate in the Plan, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to an Article or section number shall refer to an Article or section of this Plan unless otherwise indicated.

Section 7.4 GOVERNING LAW.

The Plan shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by federal law.

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Section 7.5 HEADINGS.

The headings of Articles and sections are included solely for convenience of reference. If there is any conflict between such headings and the text of the Plan, the text shall control.

Section 7.6 NON-ALIENATION OF BENEFITS.

The right to receive a benefit under the Plan shall not be subject in any manner to anticipation, alienation or assignment, nor shall such right be liable for or subject to debts, contracts, liabilities, engagements or torts.

Section 7.7 TAXES.

The Corporation shall have the right to deduct from all amounts paid by the Corporation in cash with respect to an Option under the Plan any taxes required by law to be withheld with respect to such Option. Where any Person is entitled to receive Shares pursuant to the exercise of an Option, the Corporation shall have the right to require such Person to pay the Corporation the amount of any tax which the Corporation is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Section 7.8 APPROVAL OF STOCKHOLDERS.

All Options granted pursuant to Article IV of the Plan shall be conditioned on the approval of the Plan by the stockholders of Graham Corporation on or prior to the date of the first annual meeting of such stockholders. No Option granted under the Plan shall be effective, nor shall any such Option be exercised or any Shares issued or purchased upon exercise, prior to such approval.

Section 7.9 NOTICES.

Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

- (a) If to the Compensation Committee:
Graham Corporation
20 Florence Avenue
Batavia, New York 14020
Attention: GENERAL COUNSEL

- (b) If to an Option holder, to the Option holder's address as shown in the Corporation's personnel records.

EXHIBIT 4.2

Forms of Stock Option Agreements for Employees and Directors

NON-QUALIFIED STOCK OPTION AGREEMENT (EMPLOYEES)

This NON-QUALIFIED STOCK OPTION AGREEMENT ("Agreement") is made and entered into as of the [Date], by and between Graham Corporation, a corporation organized and existing under the laws of the State of Delaware and having an office at 20 Florence Avenue, Batavia, New York 14020 ("Company") and [Name] ("Option Holder").

W I T N E S S E T H :

WHEREAS, by action of its Board of Directors ("Board"), the Company has adopted the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan"), pursuant to which Non-Qualified Stock Options with respect to shares of common stock of the Company ("Shares") may be granted to the Company's eligible officers and employees; and

WHEREAS, pursuant to Article III of the Plan, a Compensation Committee ("Committee") has been appointed to select the individuals to whom Non-Qualified Stock Options shall be granted and to prescribe the terms and conditions of such grants; and

WHEREAS, the Committee has determined that the Option Holder is eligible to be granted a Non-Qualified Stock Option and desires to grant a Non-Qualified Stock Option to the Option Holder, and the Option Holder desires to accept such grant, on the terms and conditions hereinafter set forth;

NOW, THEREFORE, the Company and the Option Holder hereby agree as follows:

Section 1. GRANT OF NON-QUALIFIED STOCK OPTION. The Company hereby grants, and the Option Holder hereby accepts the Company's grant of, a Non-Qualified Stock Option to purchase [Number] Shares ("Optioned Shares"), on the terms and conditions hereinafter set forth.

Section 2. OPTION PERIOD. Subject to the limitations of section 4, the Option Holder shall have the right to purchase all or any portion of the Optioned Shares at any time during a period ("Option Period") which shall commence on the date first above written and shall end on the earliest to occur of the following dates:

- (a) the tenth anniversary of the date first above written;
- (b) the second anniversary of the Option Holder's termination of employment with the Company due to his death, Disability or retirement; and
- (c) the first anniversary of the date of the Option Holder's termination of employment with the Company for any reason not described in section 2(b).

Section 3. EXERCISE PRICE. The Option Holder shall have the right to purchase all or any portion of the Optioned Shares at a price per Share equal to [Price] ("Exercise Price") payable (a) in United States dollars in cash or by certified check, money order or bank draft payable to the order of Graham Corporation, (b) in Shares duly endorsed for transfer and with all necessary stock transfer tax stamps attached, already owned by the Option Holder and having a fair market value equal to the Exercise Price, such fair market value to be determined in such manner as may be provided by the Committee or as may be required in order to comply with or conform to the requirements of any applicable laws or regulations, or (c) in a combination of United States dollars and such Shares.

Section 4. LIMITATIONS ON EXERCISE. There shall be no limitations on exercise of the Optioned Shares other than those provided in Section 2.

Section 5. METHOD OF EXERCISE. The Option Holder may, at any

time during the Option Period, exercise his right to purchase all or any part of the Optioned Shares then available for purchase; provided, however, that the minimum number of Optioned Shares which may be purchased shall be one hundred (100) or, if less, the total number of Optioned Shares then available for purchase. The Option Holder shall exercise such right by:

(a) giving written notice to the Committee, in the form attached hereto as Exhibit A; and

(b) delivering to the Committee full payment of the Exercise Price for the Optioned Shares to be purchased.

As soon as is practicable following the date on which the Option Holder has satisfied the requirements of this section 5, the Committee shall take such action as is necessary to cause the Company to issue a stock certificate evidencing the Option Holder's ownership (or the ownership of such other person as the Option Holder may, by written notice to the Committee, designate) of the Optioned Shares that have been purchased. The Option Holder or other person shall have no right to vote or to receive dividends, nor have any other rights with respect to Optioned Shares, prior to the date as of which such Optioned Shares are transferred to him on the stock transfer records of the Company, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which such transfer is effected, except as may be required under section 8.

Section 6. REGISTRATION AND DELIVERY OF OPTIONED SHARES. The Company's obligation to deliver Shares under this Agreement shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Option Holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local

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law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under this Agreement prior to (a) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the Committee shall determine to be necessary or advisable.

Section 7. EFFECT OF EXERCISE OF APPRECIATION RIGHT. In the event that the Option Holder shall be granted an Appreciation Right with respect to all or any portion of the Optioned Shares, the exercise of such Appreciation Right shall automatically result in a reduction of the number of Optioned Shares available for purchase hereunder by the number of Shares as to which such Appreciation Right is exercised.

Section 8. ADJUSTMENTS IN THE EVENT OF REORGANIZATION.

(a) In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each person who is then a shareholder of record, the number of Optioned Shares shall be adjusted to account for such event. Such adjustment shall be effected by multiplying:

(i) such number of Optioned Shares by

(ii) an amount equal to the number of Shares that would be owned after such event by a person who, immediately prior to such event, was the holder of record of one Share

and the Exercise Price shall be adjusted by dividing the Exercise Price by the amount determined under section 8(a)(ii); provided, however, that the Committee may, in its discretion, establish another appropriate method of adjustment.

(b) In the event of any merger, consolidation, or other business reorganization in which the Company is not the surviving entity:

(i) Any Non-Qualified Stock Options granted under this Agreement that remain outstanding may be cancelled by the Board upon at least thirty days' written notice to each Option Holder in advance of the effective date of such merger, consolidation, business reorganization, liquidation or sale; and

(ii) Any Non-Qualified Stock Option which is not

cancelled pursuant to section 8(b)(i) shall be adjusted in such manner as the Committee shall deem appropriate to account for such merger, consolidation or other business reorganization.

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Section 9. NO RIGHT TO CONTINUED EMPLOYMENT. Nothing in this Agreement nor any action of the Board or Committee with respect to this Agreement shall be held or construed to confer upon the Option Holder any right to a continuation of employment by the Company or any of its affiliates which employ the Option Holder. The Option Holder may be dismissed or otherwise dealt with as though this Agreement had not been entered into.

Section 10. TAXES. Where any person is entitled to receive Shares pursuant to the exercise of the Non-Qualified Stock Option granted hereunder, the Employer shall have the right to require such person to pay to the Employer the amount of any tax which the Employer is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Section 11. NO ASSIGNMENT. The Non-Qualified Stock Option granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such Non-Qualified Stock Option be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the Option Holder other than by will or by the laws of descent and distribution. During the lifetime of the Option Holder, the Non-Qualified Stock Option granted hereunder shall be exercisable only by him.

Section 12. NOTICES. Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

(a) If to the Committee:

Graham Corporation
20 Florence Avenue
Batavia, New York 14020
Attention: GENERAL COUNSEL

(b) If to the Option Holder, to the Option Holder's then current residential address.

Section 13. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and shall be binding upon the Company and the Option Holder and their respective heirs, successors and assigns.

Section 14. CONSTRUCTION OF LANGUAGE. Whenever appropriate in the Agreement, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a section shall be a reference to a section of this

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Agreement, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

Section 15. GOVERNING LAW. This Agreement shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal law.

Section 16. AMENDMENT. This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time by written agreement between the Company and the Option Holder.

Section 17. PLAN PROVISIONS CONTROL. This Agreement and the rights and obligations created hereunder shall be subject to all of the terms

and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Agreement, the Option Holder acknowledges receipt of a copy of the Plan.

Section 18. ACCEPTANCE BY OPTION HOLDER. By executing this Agreement and returning a fully executed copy hereof to the Committee at the address specified in section 12, the Option Holder signifies his acceptance of the terms and conditions of this Non-Qualified Stock Option. If a fully executed copy of this Agreement is not received by the Committee within forty-five (45) days after the date when it is presented to the Option Holder, the Committee may revoke the Non-Qualified Stock Option granted, and thereby avoid all obligations, hereunder.

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IN WITNESS WHEREOF, the Option Holder has executed, and the Company has caused its duly authorized representative to execute, this Agreement as of the date first above written.

GRAHAM CORPORATION

By:

F. D. Berkeley
Chairman and Chief Executive Officer

ATTEST:

- -----
Secretary

[SEAL]

OPTION HOLDER

[Name]

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EXHIBIT A TO NON-QUALIFIED STOCK OPTION AGREEMENT (EMPLOYEES)

1995 GRAHAM CORPORATION INCENTIVE PLAN TO INCREASE SHAREHOLDER VALUE

INSTRUCTIONS. Use this Notice to inform the Compensation Committee of Graham Corporation ("Company") that you are exercising your right to purchase shares of common stock ("Shares") of the Company pursuant to a non-qualified stock option ("Option") granted under the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan"). If you are not the person to whom the Option was granted ("Option Holder"), you must attach to this Notice proof of your right to exercise the Option granted under the Non-Qualified Stock Option Agreement entered into between the Company and the Option Holder ("Agreement"). This Notice should be personally delivered or mailed by certified mail, return receipt requested, to: Compensation Committee, Graham Corporation, 20 Florence Avenue, Batavia, New York 14020, Attention: General Counsel. The effective date of the exercise of the Option shall be the date this Notice is personally delivered or post marked by the United States Post Office if mailed. Except as specifically provided to the contrary herein, capitalized terms shall have the meanings assigned to them under the Plan. This Notice is subject to all of the terms and conditions of the Plan and the Agreement.

Graham Corporation
20 Florence Avenue
Batavia, NY 14020

Attention: General Counsel

Re: NOTICE OF EXERCISE OF NON-QUALIFIED STOCK OPTION (EMPLOYEES)

Dear Sirs:

This shall constitute my irrevocable direction and authorization to exercise options with respect to _____ shares of Graham Corporation stock previously granted to me under the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan") at \$[Price] per share. I further authorize you to issue my shares in my name and deliver them to _____ ("Broker") for my account.

By copy of this letter, I authorize to the Broker to issue a check from my account maintained with the Broker payable to Graham Corporation in the amount of \$ _____.

I represent that the above shares are not subject to any encumbrance or other claim and that you, the Broker, and Graham Corporation's transfer agent ("Transfer Agent") may rely upon this exercise notice as a representation and authorization for this purpose.

By copy of this letter, I further authorize the Broker to:

- Exercise and Sell
- Exercise and Hold

You are hereby directed and instructed to issue _____ shares of common stock in my name for my account maintained with the Broker. Please:

(a) Arrange for electronic transfer of the shares on this date via the Depository Trust to the Broker, whose DTC Number is _____; or

(b) Expedite the overnight delivery of said certificate by express mail to:

Broker Name _____

Address _____

I understand that the difference between the Fair Market Value of the Shares to be issued to me pursuant to this Notice and the Exercise Price of such Shares will be taxable income to me, and that I must consult with my own tax advisor regarding when such income will be reportable. I understand that, under the Plan and Agreement, I am responsible for the amount of any federal, state and local taxes that are required to be paid with respect to the Shares to be issued pursuant to this Notice.

I have been advised by my legal counsel that my acquisition of shares pursuant to this notice and my sale of the shares so acquired is not a transaction to which Section 16(b) of the Securities Exchange Act of 1934 ("short swing profit rule") applies. I acknowledge that under the short swing profit rule I may be liable to the Corporation in the event of a sale occasioned by a margin deficiency in my account.

I understand that I must rely on, and consult with, my own legal counsel (and not the Company) regarding the application of all laws -- particularly tax and securities laws -- to the transactions to be effected pursuant to this Notice.

Date _____

[Name]

Address

having an office at 20 Florence Avenue, Batavia, New York 14020 ("Company") and [Name] ("Option Holder").

W I T N E S S E T H :

WHEREAS, by action of its Board of Directors ("Board"), the Company has adopted the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan"), pursuant to which Non-Qualified Stock Options with respect to shares of common stock of the Company ("Shares") may be granted to the Company's eligible officers, employees and directors; and

WHEREAS, pursuant to Article IV of the Plan, each person who is an Eligible Outside Director shall be granted a Non-Qualified Stock Option to purchase [Number] Shares as of the date first written above or, if such person becomes an Eligible Outside Director subsequent to the date first written above, the first day of the month following the month in which such person becomes an Eligible Outside Director; and

WHEREAS, the Option Holder is an Eligible Outside Director and therefore is eligible to be granted a Non-Qualified Stock Option and the Option Holder desires to accept such grant on the terms and conditions hereinafter set forth;

NOW, THEREFORE, the Company and the Option Holder hereby agree as follows:

Section 1. GRANT OF NON-QUALIFIED STOCK OPTION. The Company hereby grants, and the Option Holder hereby accepts the Company's grant of, a Non-Qualified Stock Option to purchase [Number] Shares ("Optioned Shares"), on the terms and conditions hereinafter set forth.

Section 2. OPTION PERIOD. Subject to the limitations of section 4, the Option Holder shall have the right to purchase all or any portion of the Optioned Shares at any time during a period ("Option Period") which shall commence on the date first above written and shall end on the earliest of:

(a) the last day of the one-year period commencing on the date the Eligible Outside Director ceases to be a member of the Board for reasons other than on account of death, Disability or retirement as a member of the Board after age 65;

(b) the last day of the three-year period commencing on the date the Eligible Outside Director ceases to be a member of the Board on account of death, Disability or retirement as a member of the Board after age 65; or

(c) the last day of the ten year period commencing on the date on which the Option was granted.

Section 3. EXERCISE PRICE. The Option Holder shall have the right to purchase all or any portion of the Optioned Shares at a price per Share equal to [Price] ("Exercise Price") payable (a) in United States dollars in cash or by certified check, money order or bank draft payable to the order of Graham Corporation, (b) in Shares duly endorsed for transfer and with all necessary stock transfer tax stamps attached, already owned by the Option Holder and having a fair market value equal to the Exercise Price, such fair market value to be determined in such manner as may be provided by the Committee or as may be required in order to comply with or conform to the requirements of any applicable laws or regulations, or (c) in a combination of United States dollars and such Shares.

Section 4. LIMITATIONS ON EXERCISE. There shall be no limitations on exercise of the Optioned Shares other than those provided in Section 2.

Section 5. METHOD OF EXERCISE. The Option Holder may, at any time during the Option Period, exercise his right to purchase all or any part of the Optioned Shares then available for purchase; provided, however, that the minimum number of Optioned Shares which may be purchased shall be one hundred (100) or, if less, the total number of Optioned Shares then available for purchase. The Option Holder shall exercise such right by:

(a) giving written notice to the Compensation Committee of the Board of Directors of Graham Corporation ("Committee"), in the form attached hereto as Exhibit A; and

(b) delivering to the Committee full payment of the Exercise Price for the Optioned Shares to be purchased.

As soon as is practicable following the date on which the Option Holder has satisfied the requirements of this section 5, the Committee shall take such action as is necessary to cause the Company to issue a stock certificate evidencing the Option Holder's ownership (or the ownership of such other person as the Option Holder may, by written notice to the Committee, designate) of the Optioned Shares that have been purchased. The Option Holder or other person shall have no right to vote or to receive dividends, nor have any other rights with respect to Optioned Shares, prior to the date as of which such Optioned Shares are transferred to him on the stock transfer records of the Company, and no adjustments shall be made for any dividends or other rights for which the record date is prior to the date as of which such transfer is effected, except as may be required under section 8.

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Section 6. REGISTRATION AND DELIVERY OF OPTIONED SHARES. The Company's obligation to deliver Shares under this Agreement shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the Option Holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under this Agreement prior to (a) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the Committee shall determine to be necessary or advisable.

Section 7. EFFECT OF EXERCISE OF APPRECIATION RIGHT. In the event that the Option Holder shall be granted an Appreciation Right with respect to all or any portion of the Optioned Shares, the exercise of such Appreciation Right shall automatically result in a reduction of the number of Optioned Shares available for purchase hereunder by the number of Shares as to which such Appreciation Right is exercised.

Section 8. ADJUSTMENTS IN THE EVENT OF REORGANIZATION.

(a) In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each person who is then a shareholder of record, the number of Optioned Shares shall be adjusted to account for such event. Such adjustment shall be effected by multiplying:

(i) such number of Optioned Shares by

(ii) an amount equal to the number of Shares that would be owned after such event by a person who, immediately prior to such event, was the holder of record of one Share;

and the Exercise Price shall be adjusted by dividing the Exercise Price by the amount determined under section 8(a)(ii); provided, however, that the Committee may, in its discretion, establish another appropriate method of adjustment.

(b) In the event of any merger, consolidation, or other business reorganization in which the Company is not the surviving entity:

(i) Any Non-Qualified Stock Options granted under this Agreement that remain outstanding may be cancelled by the Board upon at least thirty days' written notice to each Option Holder in advance of the effective date of such

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merger, consolidation, business reorganization, liquidation or sale; and

(ii) Any Non-Qualified Stock Option which is not cancelled pursuant to section 8(b)(i) shall be adjusted in such manner as the Committee shall deem appropriate to account for such merger, consolidation or other business reorganization.

Section 9. NO RIGHT TO CONTINUED BOARD MEMBERSHIP. Nothing in this Agreement, nor any action of the Board or Committee with respect to this

Agreement, shall be held or construed to confer upon the Option Holder any right to a continuation of membership on the Board of the Company or any of its affiliates. The Option Holder may be dealt with in the same manner as if this Agreement had not been entered into.

Section 10. TAXES. Where any person is entitled to receive Shares pursuant to the exercise of the Non-Qualified Stock Option granted hereunder, the Company shall have the right to require such person to pay to the Company the amount of any tax which the Company is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Section 11. NO ASSIGNMENT. The Non-Qualified Stock Option granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such Non-Qualified Stock Option be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the Option Holder other than by will or by the laws of descent and distribution. During the lifetime of the Option Holder, the Non-Qualified Stock Option granted hereunder shall be exercisable only by him.

Section 12. NOTICES. Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

(a) If to the Committee:

Graham Corporation
20 Florence Avenue
Batavia, New York 14020

Attention: GENERAL COUNSEL

(b) If to the Option Holder, to the Option Holder's then current residential address.

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Section 13. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and shall be binding upon the Company and the Option Holder and their respective heirs, successors and assigns.

Section 14. CONSTRUCTION OF LANGUAGE. Whenever appropriate in the Agreement, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a section shall be a reference to a section of this Agreement, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

Section 15. GOVERNING LAW. This Agreement shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by federal law.

Section 16. AMENDMENT. This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time by written agreement between the Company and the Option Holder.

Section 17. PLAN PROVISIONS CONTROL. This Agreement and the rights and obligations created hereunder shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Agreement, the Option Holder acknowledges receipt of a copy of the Plan.

Section 18. ACCEPTANCE BY OPTION HOLDER. By executing this Agreement and returning a fully executed copy hereof to the Committee at the address specified in section 12, the Option Holder signifies his acceptance of the terms and conditions of this Non-Qualified Stock Option. If a fully executed copy of this Agreement is not received by the Committee within forty-five days after the date when it is presented to the Option Holder, the Committee may revoke the Non-Qualified Stock Option granted, and thereby avoid all obligations, hereunder.

IN WITNESS WHEREOF, the Option Holder has executed, and the Company has caused its duly authorized representative to execute, this Agreement as of the date first above written.

GRAHAM CORPORATION

By: _____
F. D. Berkeley
Chairman and Chief Executive Officer
Date: _____

ATTEST:

Secretary

[SEAL]

[Name]

Signature
Date: _____

EXHIBIT A TO NON-QUALIFIED STOCK OPTION AGREEMENT (DIRECTORS)

1995 GRAHAM CORPORATION INCENTIVE PLAN TO INCREASE SHAREHOLDER VALUE

INSTRUCTIONS. Use this Notice to inform the Compensation Committee of Graham Corporation ("Company") that you are exercising your right to purchase shares of common stock ("Shares") of the Company pursuant to a non-qualified stock option ("Option") granted under the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan"). If you are not the person to whom the Option was granted ("Option Holder"), you must attach to this Notice proof of your right to exercise the Option granted under the Non-Qualified Stock Option Agreement entered into between the Company and the Option Holder ("Agreement"). This Notice should be personally delivered or mailed by certified mail, return receipt requested, to: Compensation Committee, Graham Corporation, 20 Florence Avenue, Batavia, New York 14020, Attention: General Counsel. The effective date of the exercise of the Option shall be the date this Notice is personally delivered or post marked by the United States Post Office if mailed. Except as specifically provided to the contrary herein, capitalized terms shall have the meanings assigned to them under the Plan. This Notice is subject to all of the terms and conditions of the Plan and the Agreement.

Graham Corporation
20 Florence Avenue
Batavia, NY 14020

Attention: General Counsel

Re: NOTICE OF EXERCISE OF NON-QUALIFIED STOCK OPTION (DIRECTORS)

Dear Sirs:

This shall constitute my irrevocable direction and authorization to exercise options with respect to _____ shares of Graham Corporation stock previously granted to me under the 1995 Graham Corporation Incentive Plan to Increase Shareholder Value ("Plan") at \$[Price] per share. I further authorize you to issue my shares in my name and deliver them to _____ ("Broker") for my account.

By copy of this letter, I authorize the Broker to issue a check from my account maintained with the Broker payable to Graham Corporation in the amount

of \$ _____.

I represent that the above shares are not subject to any encumbrance or other claim and that you, the Broker, and Graham Corporation's transfer agent ("Transfer Agent") may rely upon this exercise notice as a representation and authorization for this purpose.

By copy of this letter, I further authorize the Broker to:

Exercise and Sell
Exercise and Hold

You are hereby directed and instructed to issue _____ shares of common stock in my name for my account maintained with the Broker. Please:

(a) Arrange for electronic transfer of the shares on this date via the Depository Trust to the Broker, whose DTC Number is _____; or

(b) Expedite the overnight delivery of said certificate by express mail to:

Broker Name _____

Address _____

I understand that the difference between the Fair Market Value of the Shares to be issued to me pursuant to this Notice and the Exercise Price of such Shares will be taxable income to me, and that I must consult with my own tax advisor regarding when such income will be reportable. I understand that, under the Plan and Agreement, I am responsible for the amount of any federal, state and local taxes that are required to be paid with respect to the Shares to be issued pursuant to this Notice.

I have been advised by my legal counsel that my acquisition of shares pursuant to this notice and my sale of the shares so acquired is not a transaction to which Section 16(b) of the Securities Exchange Act of 1934 ("short swing profit rule") applies. I acknowledge that under the short swing profit rule I may be liable to the Corporation in the event of a sale occasioned by a margin deficiency in my account.

I understand that I must rely on, and consult with, my own legal counsel (and not the Company) regarding the application of all laws - particularly tax and securities laws -- to the transactions to be effected pursuant to this Notice.

Date _____ [Name] _____

Address _____

Opinion of Thacher Proffitt & Wood, counsel for Registrant,
as to the legality of the securities being registered

Consent of Thacher Proffitt & Wood

[OPINION LETTERHEAD OF THACHER PROFFITT & WOOD]

Writer's Direct Dial
(212) 912-7435

March 20, 1997

Graham Corporation
20 Florence Avenue
P.O. Box 719
Batavia, New York 14020

Re: 1995 Graham Corporation Incentive Plan
To Increase Shareholder Value

Dear Sirs:

We have acted as counsel for Graham Corporation, a Delaware corporation ("Corporation"), in connection with the filing of a registration statement on Form S-8 under the Securities Act of 1933, as amended ("Registration Statement") with respect to 150,000 shares of its common stock, par value \$.10 per share ("Shares"), which may be issued pursuant to the 1995 Graham Corporation Incentive Plan To Increase Shareholder Value ("Plan"). In rendering the opinion set forth below, we do not express any opinion concerning law other than the federal law of the United States and the corporate law of the States of New York and Delaware.

We have examined originals or copies, certified or otherwise identified, of such documents, corporate records and other instruments as we have deemed necessary or advisable for purposes of this opinion. As to matters of fact, we have examined and relied upon the Plan described above and, where we have deemed appropriate, representations or certificates of officers of the Corporation or public officials. We have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies.

Based on the foregoing, we are of the opinion that the Shares which are being registered pursuant to the Registration Statement have been duly authorized and, when issued and paid for in accordance with the terms of the Plan, such Shares will be validly issued, fully paid and non-assessable.

Graham Corporation
March 20, 1997

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In rendering the opinion set forth above, we have not passed upon and do not purport to pass upon the application of "doing business" or securities or "blue-sky" laws of any jurisdiction (except federal securities law).

This opinion is given solely for the benefit of the Corporation and purchasers of shares under the Plan, and no other person or entity is entitled to rely hereon without express written consent.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the references to our Firm's name therein.

Very truly yours,

THACHER PROFFITT & WOOD

By /s/ W. Edward Bright

W. Edward Bright

EXHIBIT 23.2

Consent of Deloitte & Touche

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement of Graham Corporation on Form S-8 of our reports dated February 22, 1996, appearing in and incorporated by reference in the Annual Report on Form 10-K of Graham Corporation for the year ended December 31, 1995 and to the reference to us under the heading "Experts" in the Prospectus, which is part of this Registration Statement.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
March 19, 1997