
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): January 29, 2010

Graham Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

1-8462

(Commission
File Number)

16-1194720

(IRS Employer
Identification No.)

20 Florence Avenue, Batavia, New York

(Address of principal executive offices)

14020

(Zip Code)

Registrant's telephone number, including area code: (585) 343-2216

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On January 29, 2010, Graham Corporation (the “Company”) issued a press release describing its results of operations and financial condition for its third quarter and nine months ended December 31, 2009. The Company’s press release is attached to this Current Report on Form 8-K as Exhibit 99.1.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On January 28, 2010, the Company’s Board of Directors approved the execution of an Indemnification Agreement with each member of the Company’s Board of Directors and with each of the Company’s officers (together, the “Indemnitees”).

The Indemnification Agreements, which will be dated as of January 29, 2010, provide for the indemnification of an Indemnitee if he or she becomes or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (together, “Actions”) related to his or her service to the Company. The indemnification provided by the Indemnification Agreements is from and against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by an Indemnitee or on his or her behalf in connection with any Action. However, an Indemnitee is only entitled to indemnification if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to a criminal Action, had no reasonable cause to believe his or her conduct was unlawful.

The rights of an Indemnitee are not exclusive and are in addition to such Indemnitee’s rights under the Company’s Certificate of Incorporation and Bylaws and under applicable Delaware law. The Indemnification Agreements also contain expense advancement and reimbursement provisions that are customary to such agreements. In addition, the Indemnification Agreements require the Company to maintain directors and officers liability insurance and contain other provisions limiting the Company’s obligation to provide indemnification and expense advancement in certain instances, including in connection with an Indemnitee’s violation of the Company’s insider trading policy, an Indemnitee’s violation of Section 16 of the Securities and Exchange Act of 1934, as amended, for certain claims initiated by an Indemnitee, and for claims involving the enforcement against an Indemnitee of an agreement involving non-competition, non-disclosure or non-disparagement. The rights of an Indemnitee under the Indemnification Agreements survive such Indemnitee’s service to the Company.

The foregoing does not constitute a complete summary of the terms of the form of Indemnification Agreement to be entered into by each Director and officer of the Company, and reference is made to the complete text of the form of such Indemnification Agreement, which is attached hereto as Exhibit 99.2 and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated January 29, 2010 describing the results of operations and financial condition for Graham Corporation's third quarter and nine months ended December 31, 2009.
99.2	Form of Indemnification Agreement between Graham Corporation and each of its Directors and Officers.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

Graham Corporation

Date: January 29, 2010

By: Jeffrey Glajch
Jeffrey Glajch
Vice President — Finance & Administration and
Chief Financial Officer



Graham Corporation 20 Florence Avenue Batavia, NY 14020

**Graham Corporation Reports Record Backlog for
Third Quarter of Fiscal 2010**

- *Record orders of \$51.6 million in third quarter includes a significant U.S. Navy program order and several geographically dispersed refining orders*
- *Achieved 6% net margin on 51% decline in sales*
- *Cash balance increased to \$57.7 million as balance sheet remains strong*
- *Full-year gross margin guidance raised to 34%-36% and revenue guidance tightened to \$60-\$63 million*
- *Record Backlog of \$89.8 million; only 50% expected to convert to sales in next 12 months*

BATAVIA, NY, January 29, 2010 — Graham Corporation (NYSE Amex: GHM), a designer and manufacturer of critical equipment for the oil refinery, petrochemical and power industries, today reported its financial position and results of operations for its third quarter and nine months ended December 31, 2009. Graham's current fiscal year ends March 31, 2010, and is referred to as "fiscal 2010."

Net sales were \$12.2 million in the fiscal 2010 third quarter, a decline of \$12.5 million, or 50.7%, compared with net sales of \$24.7 million in the third quarter of the fiscal year which ended March 31, 2009, referred to as "fiscal 2009." Net income in the fiscal 2010 third quarter was \$0.8 million, or \$0.08 per diluted share, a decline of 79.8% compared with net income of \$3.8 million, or \$0.37 per diluted share, in the same period last year.

Mr. James R. Lines, Graham's President and Chief Executive Officer, commented, "The drastic fall-off in orders that we experienced a year ago is now resulting in a corresponding measurable decline in sales. Order level was adversely impacted by worldwide economic uncertainty which led to rapid declines in demand. However, the steps we took to control costs over the past year and benefits achieved from productivity improvements stemming from capital spending and continuous improvement projects have enabled us to remain profitable even in a quarter where revenue was extremely weak. Although we have been operating in a dismal economic environment, our team has done an exceptional job of delivering solid results."

U.S. sales in the third quarter of fiscal 2010 declined \$9.3 million, or 64.6%, to \$5.1 million, compared with U.S. sales of \$14.4 million in the third quarter of fiscal 2009. International sales during the third quarter were \$7.1 million, down from \$10.3 million during the same quarter of fiscal 2009. U.S. sales comprised 42% of total sales in the current quarter compared with 58% in last year's third quarter, while international sales represented 58% of total sales in the third quarter of fiscal 2010 compared with 42% in the fiscal 2009 third quarter. Graham believes that the significant decline in U.S. sales reflects continued weakness in the U.S. refining market, which is expected to continue through at least fiscal 2011. The decline in U.S. sales is expected to result in an overall shift toward a higher proportion of international sales. International sales were off in all major regions with the exception of Africa, which saw a notable increase in third quarter sales.

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In Graham's leading industries, 36% of sales in the third quarter were to the refining industry, compared with 46% of sales in the same period of the prior fiscal year, and approximately 44% of sales were to the chemical/petrochemical industry during the third quarter, compared with 27% in the third quarter of fiscal 2009.

Fluctuations in Graham's sales among geographic locations and industries can vary measurably from quarter-to-quarter based on the timing and magnitude of projects. Graham does not believe that such quarter-to-quarter fluctuations are indicative of business trends, which Graham believes are more visible on a trailing 12-month basis. Nevertheless, Graham expects that international sales will comprise a larger portion of future revenue both for the remainder of the current fiscal year and beyond.

Solid Operating Margins Reflect Better than Expected Results from Cost Cutting Activities, Tight Cost Controls, Productivity Improvements and Delayed Spending

Gross profit was \$3.8 million, or 31.4% of sales, in the third quarter of fiscal 2010, compared with \$9.4 million, or 37.9% of sales, in the same period of the prior fiscal year. A higher proportion of sales in Asia (which typically carry a lower gross margin), the fact that Graham has substantially worked through its backlog of more profitable orders received during the previous strong industry cycle and the deleveraging effect of lower sales volume resulted in lower gross profit margin in the current quarter compared with the prior year's period. However, better than expected results from cost reduction activities and gains from productivity improvements enabled Graham to sustain relatively solid margin performance in a challenging market. Graham has increased its projected gross margin for the full fiscal year 2010 to be in the range of 34% to 36%.

Mr. Lines noted, "Our gross margin has been pressured by the shift in sales to Asia, where projects have historically been more price competitive than value driven. However, we believe that we are beginning to see the Graham value proposition taking hold, with our engineering expertise as its foundation, and expect that we will continue to be able to achieve acceptable future margins even as a higher percentage of sales are expected to originate in that region."

Selling, general and administrative ("SG&A") expenses in the third quarter declined to \$2.7 million, or 22.3% of sales, compared with \$3.6 million, or 14.4% of sales, in the third quarter of fiscal 2009. The decrease in SG&A expenses in the current year's third quarter compared with the same quarter of fiscal 2009 was a result of decreased variable costs, such as commissions, related to the decline in sales, as well as to lower salaries and benefits resulting from the restructuring initiatives implemented during the last 12 months. In addition, tight cost controls and delayed spending on certain items further lowered expenses in the third quarter. Full year fiscal 2010 SG&A is expected to be approximately \$12.0 million.

Interest income in the third quarter of fiscal 2010 declined to \$11 thousand compared with \$83 thousand in the same period of the prior fiscal year, primarily as a result of a significant decline in current U.S. Treasury yields compared with a year ago.

Graham's effective tax rate was 31.4% in the third quarter of fiscal 2010 compared with an effective tax rate of 35.5% for the third quarter of fiscal 2009 and 34.7% for full year fiscal 2009. For the current fiscal year's nine-month period, Graham's effective tax rate was 35.2% compared with 34.3% in the fiscal 2009 nine-month period. The effective tax rate for fiscal 2010 is expected to be 30% to 31%, excluding a \$0.4 million charge in Graham's fiscal 2010 second quarter related to unrecognized benefits for certain tax credits claimed for tax years 2006 through 2009.

Fiscal 2010 Nine-Month Review

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Net sales for the first nine months of fiscal 2010 were \$48.4 million, a decline of \$27.9 million, or 36.5%, compared with net sales of \$76.3 million in the first nine months of fiscal 2009. U.S. sales represented 48% of sales for the first nine months of fiscal 2010, compared with 63% in fiscal 2009, while international sales were 52% of sales during the period, compared with 37% last year. Sales to Asia and Africa increased appreciably while sales to other regions declined.

Sales to the refining industry accounted for 43% of revenue in the first nine months of fiscal 2010, down from 48% in same period of fiscal 2009. Chemical/petrochemical sales were 32% of revenue, compared with 24% last year, and 25% of fiscal 2010 nine-month sales were to other markets, compared with 28% in the same period in fiscal 2009.

Gross profit for the fiscal 2010 nine-month period was \$18.0 million, or 37.1% of sales compared with \$32.1 million, or 42.1% of sales in the prior year period. The decline was primarily related to lower sales somewhat offset by cost reduction activities, purchasing discipline and improvements in operating efficiencies achieved as part of Graham's continuous improvement program. As previously noted, Graham has increased its projected gross margin for the full year fiscal year 2010 to be in the range of 34% to 36%.

SG&A expenses were \$9.0 million, or 18.6% of sales, in the fiscal 2010 nine-month period compared with \$11.3 million, or 14.8% of sales, in the first nine months of fiscal 2009. The decrease in absolute dollars was due primarily to reduced commissions on lower sales as well as to the effects of Graham's restructuring initiatives. As previously noted, Graham expects that SG&A will be in the range of \$12.0 to \$12.3 million for full year fiscal 2010 as variable costs such as commissions are expected to adjust based on the geographic location of sales.

Net income in the first nine months of fiscal 2010 was \$5.8 million, or \$0.58 per diluted share, compared with net income of \$13.9 million, or \$1.36 per diluted share, in the nine-month period of 2009. Excluding the \$0.4 million charge in the fiscal 2010 second quarter related to unrecognized benefits for tax credits, net income would have been \$6.2 million, or \$0.63 per diluted share, in the first nine months of fiscal 2010.

Strong Balance Sheet with Significant Cash Position

Cash, cash equivalents and investments at December 31, 2009 were \$57.7 million compared with \$45.4 million at December 31, 2008, and \$46.2 million at March 31, 2009. The increase resulted from operating earnings and improvements in accounts receivable and inventory levels. Approximately \$51.1 million was invested in U.S. Treasury notes with maturity periods of 91 to 180 days at December 31, 2009. As of December 31, 2009, Graham had no borrowings against its \$30.0 million revolving line of credit facility.

Net cash provided by operating activities for the third quarter of fiscal 2010 was \$3.4 million, compared with \$3.0 million in the prior year's third quarter. For the first nine months of fiscal 2010, cash provided by operations was \$12.7 million compared with \$7.4 million in cash provided by operations in the comparable fiscal 2009 period. The increase for both the quarter and nine-month periods was related to a reduction in inventory and to lower levels of accounts receivable. In addition, the fiscal 2009 nine-month period was impacted by a \$3.6 million pension contribution made during last year's second quarter. Graham's pension plan is fully-funded and no contributions to the plan are expected to be made during fiscal 2010.

Capital expenditures were \$220 thousand in the third quarter and \$502 thousand for the first nine months of fiscal 2010, compared with \$398 thousand for the third quarter and \$1.2 million for the first nine months of fiscal 2009. Capital expenditures in fiscal 2010 are expected to be approximately \$0.8 million to \$1.0 million. Approximately 65% of capital spending is for machinery and equipment, approximately 28% is for information technology while approximately 7% is for other anticipated expenditures. Approximately 50% of Graham's planned capital expenditures for fiscal 2010 are associated with productivity improvements and the balance for capitalized maintenance and other general purposes.

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There were no repurchases of shares in the third quarter under Graham's previously announced stock buyback program.

Record Backlog Extends into Fiscal 2012

Orders during the third quarter of fiscal 2010 were a record \$51.6 million compared with orders of \$8.1 million and \$29.6 million in the prior year's third quarter and the trailing second quarter of fiscal 2010, respectively. Included in orders in the fiscal 2010 third quarter was an order in excess of \$25 million related to the U.S. Navy's latest super carrier program as well as several larger orders destined for refineries in the U.S., Middle East and China. Orders from U.S. customers were \$37.0 million, or 72% of total orders, while international orders were \$14.6 million, or 28% of total orders. This compares with last year's third quarter when U.S. orders were \$5.0 million and international orders were \$3.1 million, or 62% and 38% of total orders, respectively. The order for the U.S. Navy carrier program significantly skewed the order balance toward a more domestic representation in the third quarter and Graham expects orders in future quarters to return to a higher international weighting which has been the trend in recent quarters.

Graham's backlog was \$89.8 million at December 31, 2009, the highest backlog in its history and 71.0% higher than \$52.5 million at the end of last year's fiscal third quarter and 77.8% above backlog of \$50.5 million at September 30, 2009. At December 31, 2009, there were four orders in backlog with a value of approximately \$7.0 million which remained on hold. There were no orders put on hold or canceled during the third quarter of fiscal 2010.

Approximately 40% of projects in Graham's backlog as of the end of the third quarter are for refinery projects, 20% for chemical and petrochemical projects and 40% for power and other markets compared with 45%, 33% and 22%, respectively, at December 31, 2008. Included in backlog are several large orders, including the order related to the U.S. Navy's carrier program, that are not expected to begin to be delivered until fiscal 2012 and beyond. Consequently, Graham expects only about 50% of its current backlog to ship in the next twelve months, as opposed to the typical 85% to 90% of backlog that would normally ship in a twelve-month period, because several large orders in backlog have delivery dates beyond the next twelve months.

Mr. Lines concluded, "We were successful at winning several significant contracts during the quarter and our backlog now stands at a record level. We are cautiously optimistic that the recent increase in order activity may signal an end to the slowdown we have seen in our international markets during the past 15 months. However, we still expect some lumpiness in order activity over the next few quarters as the U.S. refining market is expected to remain slow for the foreseeable future. We anticipate fiscal 2010 revenue to range between \$60 and \$63 million and expect to be profitable in the fourth quarter. Looking forward to fiscal 2011, we do not anticipate revenue to begin to grow again until the second half of the year as we will continue to be impacted by the low level of orders we saw during the past year as well as the lengthened delivery dates on some of our more recent orders. However, we do expect to be profitable in each of the first two quarters of fiscal 2011."

Webcast and Conference Call

Graham will host a conference call and live webcast today at 11:00 a.m. Eastern Time. During the conference call and webcast, James R. Lines, President and Chief Executive Officer, and Jeffrey Glajch, Vice President — Finance & Administration and Chief Financial Officer, will review Graham's financial and operating results for the third quarter of fiscal 2010 as well as Graham's strategy and outlook. A question-and-answer session will follow.

Graham's conference call and live webcast can be accessed as follows:

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- The live webcast can be found at <http://www.graham-mfg.com>. Participants should go to the website 10 – 15 minutes prior to the scheduled conference in order to register and download any necessary audio software.
- The teleconference can be accessed by dialling 1-201-689-8560 and referencing conference ID number 340778 approximately 5 – 10 minutes prior to the call.

The conference call and webcast will be archived and can be reviewed as follows:

- The webcast will be archived at <http://www.graham-mfg.com> and a transcript will be posted, once available. The webcast and transcript will remain available on Graham's website for approximately 30 days.
- A telephonic replay can be heard by calling 1-201-612-7415, and entering account number 3055 and conference ID number 340778. The replay will be available from 2:00 p.m. on January 29, 2010, through February 5, 2010, at 11:59 p.m. Eastern Time.

ABOUT GRAHAM CORPORATION

With world-renowned engineering expertise in vacuum and heat transfer technology, Graham Corporation is a global designer, manufacturer and supplier of custom-engineered ejectors, pumps, condensers, vacuum systems and heat exchangers. For over 70 years, Graham has built a reputation for top quality, reliable products and high-standards of customer service. Sold either as components or complete system solutions, the principal markets for Graham's equipment are energy, including oil and gas refining and electrical power generation, chemical/petrochemical and other process industries. In addition, Graham's equipment can be found in diverse applications, such as metal refining, pulp and paper processing, ship-building, water heating, refrigeration, desalination, food processing, pharmaceutical, heating, ventilating and air conditioning.

Graham Corporation's reach spans the globe. Its equipment is installed in facilities from North and South America to Europe, Asia, Africa and the Middle East. Graham routinely posts news and other important information on its website, www.graham-mfg.com, where additional comprehensive information on the Company can be found.

Safe Harbor Regarding Forward Looking Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are subject to risks, uncertainties and assumptions and are identified by words such as "expects," "estimates," "projects," "anticipates," "believes," "could," and other similar words. All statements addressing operating performance, events, or developments that Graham Corporation expects or anticipates will occur in the future, including but not limited to, statements relating to anticipated revenue, the timing of conversion of backlog to sales, profit margins, foreign sales operations, its strategy to build its global sales representative channel, the effectiveness of automation in expanding its engineering capacity, its ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which it operates, changes in general economic conditions and customer behavior and its acquisition strategy are forward-looking statements. Because they are forward-looking, they should be evaluated in light of important risk factors and uncertainties. These risk factors and uncertainties are more fully described in Graham Corporation's most recent Annual and Quarterly Reports filed with the Securities and Exchange Commission, including under the heading entitled "Risk Factors."

Should one or more of these risks or uncertainties materialize, or should any of Graham Corporation's underlying assumptions prove incorrect, actual results may vary materially from those currently anticipated. In addition, undue reliance should not be placed on Graham Corporation's forward-looking statements. Except as required by law, Graham Corporation disclaims any obligation to update or publicly announce any revisions to any of the forward-looking statements contained in this press release.

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FINANCIAL TABLES FOLLOW.

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Graham Corporation Third Quarter Fiscal 2010
Consolidated Statements of Operations and Retained Earnings
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
	(Amounts in thousands, except per share data)			
Net sales	\$ 12,166	\$ 24,701	\$ 48,412	\$ 76,263
Cost of products sold	8,345	15,339	30,459	44,184
Gross profit	<u>3,821</u>	<u>9,362</u>	<u>17,953</u>	<u>32,079</u>
<i>Gross profit margin</i>	31.4%	37.9%	37.1%	42.1%
Other expenses and income:				
Selling, general and administrative	2,718	3,567	8,998	11,320
Operating profit	1,103	5,795	8,955	20,759
<i>Operating profit margin</i>	9.1%	23.5%	18.5%	27.2%
Interest income	(11)	(83)	(44)	(386)
Interest expense	—	1	34	4
Other expense	—	—	96	—
Total other expenses and income	<u>2,707</u>	<u>3,485</u>	<u>9,084</u>	<u>10,938</u>
Income before income taxes	1,114	5,877	8,869	21,141
Provision for income taxes	350	2,087	3,119	7,255
Net income	764	3,790	5,750	13,886
Retained earnings at beginning of period	58,558	46,995	53,966	37,216
Dividends	(197)	(203)	(591)	(557)
Effect of transition to a fiscal year end measurement date for defined benefit pension and other postretirement plan assets and obligations	—	—	—	37
Retained earnings at end of period	<u>\$ 59,125</u>	<u>\$ 50,582</u>	<u>\$ 59,125</u>	<u>\$ 50,582</u>
Per share data:				
Basic:				
Net income	<u>\$.08</u>	<u>\$.37</u>	<u>\$.58</u>	<u>\$ 1.37</u>
Diluted:				
Net income	<u>\$.08</u>	<u>\$.37</u>	<u>\$.58</u>	<u>\$ 1.36</u>
Weighted average common shares outstanding:				
Basic:	9,903	10,181	9,897	10,145
Diluted:	9,945	10,211	9,933	10,221
Dividends declared per share	<u>\$.02</u>	<u>\$.02</u>	<u>\$.06</u>	<u>\$.055</u>

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**Graham Corporation Third Quarter Fiscal 2010
Consolidated Balance Sheets**
(Amounts in thousands, except per share data)
(Unaudited)

	December 31, 2009	March 31, 2009
(Amounts in thousands, except per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,638	\$ 5,150
Investments	51,062	41,059
Trade accounts receivable, net of allowances (\$19 and \$39 at December 31, and March 31, 2009, respectively)	7,850	6,995
Unbilled revenue	2,027	10,444
Inventories	3,638	4,665
Income taxes receivable	3,425	4,054
Prepaid expenses and other current assets	432	375
Total current assets	75,072	72,742
Property, plant and equipment, net	9,402	9,645
Prepaid pension asset	4,484	4,300
Other assets	282	237
Total assets	\$ 89,240	\$ 86,924
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of capital lease obligations	\$ 29	\$ 28
Accounts payable	3,527	5,514
Accrued compensation	3,756	4,630
Accrued expenses and other liabilities	2,196	2,266
Customer deposits	5,461	5,892
Deferred income tax liability	4,870	4,865
Total current liabilities	19,839	23,195
Capital lease obligations	10	31
Accrued compensation	287	250
Deferred income tax liability	1,255	1,253
Accrued pension liability	248	256
Accrued postretirement benefits	856	828
Total liabilities	22,495	25,813
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, \$1.00 par value Authorized, 500 shares		
Common stock, \$.10 par value Authorized, 25,500 shares		
Issued, 10,150 and 10,127 shares at December 31 and March 31, 2009, respectively	1,015	1,013
Capital in excess of par value	15,293	14,923
Retained earnings	59,125	53,966
Accumulated other comprehensive loss	(6,132)	(6,460)
Treasury stock (305 and 279 shares at December 31 and March 31, 2009, respectively)	(2,554)	(2,325)
Notes receivable	(2)	(6)
Total stockholders' equity	66,745	61,111
Total liabilities and stockholders' equity	\$ 89,240	\$ 86,924

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Graham Corporation Third Quarter Fiscal 2010
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Nine Months Ended December 31,	
	2009	2008
	(Amounts in thousands)	
Operating activities:		
Net income	\$ 5,750	\$ 13,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	751	749
Amortization of unrecognized prior service cost and actuarial losses	508	77
Discount accretion on investments	(40)	(371)
Stock-based compensation expense	317	315
Loss on disposal of property, plant and equipment	3	2
Deferred income taxes	(228)	1,178
(Increase) decrease in operating assets:		
Accounts receivable	(855)	(3,365)
Unbilled revenue	8,419	208
Inventories	1,027	(222)
Income taxes receivable/payable	629	884
Prepaid expenses and other current and non-current assets	(58)	(358)
Prepaid pension asset	(184)	(3,630)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,996)	(1,483)
Accrued compensation, accrued expenses and other current and non-current liabilities	(945)	(531)
Customer deposits	(432)	82
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	57	24
Net cash provided by operating activities	<u>12,723</u>	<u>7,445</u>
Investing activities:		
Purchase of property, plant and equipment	(502)	(1,193)
Proceeds from sale of property, plant and equipment	7	1
Purchase of investments	(134,673)	(102,550)
Redemption of investments at maturity	124,710	96,450
Net cash used by investing activities	<u>(10,458)</u>	<u>(7,292)</u>
Financing activities:		
Proceeds from issuance of long-term debt	821	2,450
Principal repayments on long-term debt	(841)	(2,471)
Issuance of common stock	34	695
Dividends paid	(591)	(557)
Purchase of treasury stock	(229)	(14)
Excess tax deduction on stock awards	21	1,696
Other	4	4
Net cash (used) provided by financing activities	<u>(781)</u>	<u>1,803</u>
Effect of exchange rate changes on cash	4	161
Net increase in cash and cash equivalents	1,488	2,117
Cash and cash equivalents at beginning of period	5,150	2,112
Cash and cash equivalents at end of period	<u>\$ 6,638</u>	<u>\$ 4,229</u>

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Graham Corporation Third Quarter Fiscal 2010
Additional Information

ORDER AND BACKLOG TREND

(Amounts in millions)

	Q109 6/30/08	Q209 9/30/08	Q309 12/31/08	Q409 3/31/09	FY2009 3/31/09	Q110 6/30/09	Q210 9/30/09	Q310 12/31/09
Orders	\$27.8	\$17.5	\$ 8.1	\$20.5	\$ 73.9	\$ 8.8	\$29.6	\$ 51.6
Backlog	\$76.0	\$69.7	\$ 52.5	\$48.3	\$ 48.3	\$37.0	\$50.5	\$ 89.8

SALES BY INDUSTRY — FISCAL 2010

(Amounts in millions)

	Q110 6/30/09	% Total	Q210 9/30/09	% Total	Q310 12/31/09	% Total	9-Months FY2010 12/31/09	% Total
Refining	\$ 9.2	46%	\$ 7.1	44%	\$ 4.4	36%	\$ 20.7	43%
Chemical/ Petrochemical	\$ 4.7	24%	\$ 5.3	33%	\$ 5.3	44%	\$ 15.3	32%
Power	\$ 0.1	N/A	\$ 0.1	1%	\$ 0.2	2%	\$ 0.4	1%
Other	\$ 6.1	30%	\$ 3.6	22%	\$ 2.3	18%	\$ 12.0	24%
Total	\$20.1		\$16.1		\$ 12.2		\$ 48.4	

SALES BY INDUSTRY — FISCAL 2009

(Amounts in millions)

	Q109 6/30/08	% Total	Q209 9/30/08	% Total	Q309 12/31/08	% Total	Q409 3/31/09	% Total	FY2009 3/31/09	% Total
Refining	\$14.4	52%	\$11.1	47%	\$ 11.3	46%	\$ 9.3	37%	\$ 46.0	46%
Chemical/ Petrochemical	\$ 5.3	19%	\$ 6.4	27%	\$ 6.6	27%	\$ 8.7	35%	\$ 27.0	27%
Power	\$ 1.3	5%	\$ 2.0	8%	\$ 1.5	6%	\$ 0.6	3%	\$ 5.5	5%
Other	\$ 6.6	24%	\$ 4.4	18%	\$ 5.3	21%	\$ 6.2	25%	\$ 22.6	22%
Total	\$27.6		\$23.9		\$ 24.7		\$24.8		\$101.1	

Graham Corporation Reports Record Backlog for Third Quarter of Fiscal 2010
January 29, 2010

SALES BY REGION — FISCAL 2010

(Amounts in millions)

	Q110	%	Q210	%	Q310	%	9-Months	%
	<i>6/30/09</i>	<i>Total</i>	<i>9/30/09</i>	<i>Total</i>	<i>12/31/09</i>	<i>Total</i>	<i>FY2010</i>	<i>Total</i>
							<i>12/31/09</i>	
United States	\$10.2	51%	\$ 8.1	50%	\$ 5.1	42%	\$ 23.4	48%
Middle East	\$ 0.4	2%	\$ 2.9	18%	\$ 1.8	15%	\$ 5.0	10%
Asia	\$ 8.2	41%	\$ 4.0	25%	\$ 2.8	23%	\$ 14.9	31%
Other	\$ 1.3	6%	\$ 1.1	7%	\$ 2.5	20%	\$ 5.1	11%
Total	\$20.1		\$16.1		\$ 12.2		\$ 48.4	

SALES BY REGION — FISCAL 2009

(Amounts in millions)

	Q109	%	Q209	%	Q309	%	Q409	%	FY2009	%
	<i>6/30/08</i>	<i>Total</i>	<i>9/30/08</i>	<i>Total</i>	<i>12/31/08</i>	<i>Total</i>	<i>3/31/09</i>	<i>Total</i>	<i>3/31/09</i>	<i>Total</i>
United States	\$18.6	67%	\$15.0	63%	\$ 14.4	58%	\$15.8	64%	\$ 63.7	63%
Middle East	\$ 2.0	7%	\$ 3.0	13%	\$ 2.8	11%	\$ 0.6	2%	\$ 8.4	8%
Asia	\$ 3.0	11%	\$ 1.0	4%	\$ 3.7	15%	\$ 5.5	22%	\$ 13.3	13%
Other	\$ 4.0	15%	\$ 4.9	20%	\$ 3.8	16%	\$ 2.9	12%	\$ 15.7	16%
Total	\$27.6		\$23.9		\$ 24.7		\$24.8		\$101.1	

- END -

INDEMNIFICATION AGREEMENT

This Indemnification Agreement, dated as of _____, 2010, is made by and between Graham Corporation, a Delaware corporation (the "Corporation") and [name] (the "Indemnitee").

RECITALS

A. The Corporation recognizes that competent and experienced persons are increasingly reluctant to serve or to continue to serve as directors or officers of corporations unless they are protected by comprehensive liability insurance or indemnification, or both, due to increased exposure to litigation costs and risks resulting from their service to such corporations, and due to the fact that the exposure frequently bears no reasonable relationship to the compensation of such directors and officers;

B. The statutes and judicial decisions regarding the duties of directors and officers are often difficult to apply, ambiguous, or conflicting, and therefore fail to provide such directors and officers with adequate, reliable knowledge of legal risks to which they are exposed or information regarding the proper course of action to take;

C. The Corporation and Indemnitee recognize that plaintiffs often seek damages in such large amounts and the costs of litigation may be so enormous (whether or not the case is meritorious), that the defense and/or settlement of such litigation is often beyond the personal resources of directors and officers;

D. The Corporation believes that it is unfair for its directors and officers to assume the risk of huge judgments and other expenses which may occur in cases in which the director or officer received no personal profit and in cases where the director or officer was not culpable;

E. The Corporation, after reasonable investigation, has determined that the liability insurance coverage presently available to the Corporation may be inadequate in certain circumstances to cover all possible exposure for which Indemnitee should be protected. The Corporation believes that the interests of the Corporation and its stockholders would best be served by a combination of such insurance and the indemnification by the Corporation of the directors and officers of the Corporation;

F. The Corporation's Certificate of Incorporation requires the Corporation to indemnify its directors and officers to the fullest extent permitted by the Delaware General Corporation Law (the "DGCL"). The Certificate of Incorporation expressly provides that the indemnification provisions set forth therein are not exclusive, and contemplates that contracts may be entered into between the Corporation and its directors and officers with respect to indemnification;

G. Section 145 of the DGCL ("Section 145"), under which the Corporation is organized, empowers the Corporation to indemnify its officers, directors, employees and agents by agreement and to indemnify persons who serve, at the request of the Corporation, as the directors, officers, employees or agents of other corporations or enterprises, and expressly provides that the indemnification provided by Section 145 is not exclusive;

H. Section 102(b)(7) of the DGCL allows a corporation to include in its certificate of incorporation a provision limiting or eliminating the personal liability of a director for monetary damages in respect of claims by shareholders and corporations for breach of certain fiduciary duties, and the Corporation has so provided in its Certificate of Incorporation that each Director shall be exculpated from such liability to the maximum extent permitted by law;

I. The Board of Directors has determined that contractual indemnification as set forth herein is not only reasonable and prudent but also promotes the best interests of the Corporation and its stockholders;

J. The Corporation desires and has requested Indemnitee to serve or continue to serve as a director or officer of the Corporation, as the case may be, free from undue concern for unwarranted claims for damages arising out of or related to such services to the Corporation; and

K. Indemnitee is willing to serve, continue to serve or to provide additional service for or on behalf of the Corporation on the condition that he or she is furnished the indemnity provided for herein.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. Generally.

To the fullest extent permitted by the laws of the State of Delaware:

(a) The Corporation shall indemnify Indemnitee if Indemnitee was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that Indemnitee is or was or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of the Corporation, or while serving as a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent (which, for purposes hereof, shall include a trustee, partner or manager or similar capacity) of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity. For the avoidance of doubt, the foregoing indemnification obligation includes, without limitation, claims for monetary damages against Indemnitee in respect of an alleged breach of fiduciary duties, to the fullest extent permitted under Section 102(b)(7) of the DGCL as in existence on the date hereof.

(b) The indemnification provided by this Section 1 shall be from and against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such action, suit or proceeding and any appeal therefrom, but shall only be provided if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best

interests of the Corporation, and, with respect to any criminal action, suit or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful.

(c) Notwithstanding the foregoing provisions of this Section 1, in the case of any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Corporation, or while serving as a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, no indemnification shall be made in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Corporation unless, and only to the extent that, the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

(d) The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that Indemnitee's conduct was unlawful.

Section 2. Successful Defense: Partial Indemnification. To the extent that Indemnitee has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 hereof or in defense of any claim, issue or matter therein, Indemnitee shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith. For purposes of this Agreement and without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to Indemnitee, (ii) an adjudication that Indemnitee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by Indemnitee, (iv) an adjudication that Indemnitee did not act in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that Indemnitee had reasonable cause to believe Indemnitee's conduct was unlawful, Indemnitee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), judgments, fines or amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with any action, suit, proceeding or investigation, or in defense of any claim, issue or matter therein, and any appeal therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify Indemnitee for the portion of such expenses (including attorneys' fees), judgments, fines or amounts paid in settlement to which Indemnitee is entitled.

Section 3. Determination That Indemnification Is Proper. Any indemnification hereunder shall (unless otherwise ordered by a court) be made by the Corporation unless a determination is made that indemnification of such person is not proper in the circumstances because he or she has not met the applicable standard of conduct set forth in Section 1(b) hereof. Any such determination shall be made (i) by a majority vote of the directors who are not parties to the action, suit or proceeding in question (“disinterested directors”), even if less than a quorum, (ii) by a majority vote of a committee of disinterested directors designated by majority vote of disinterested directors, even if less than a quorum, (iii) by a majority vote of a quorum of the outstanding shares of stock of all classes entitled to vote on the matter, voting as a single class, which quorum shall consist of stockholders who are not at that time parties to the action, suit or proceeding in question, (iv) by independent legal counsel, or (v) by a court of competent jurisdiction.

Section 4. Advance Payment of Expenses; Notification and Defense of Claim.

(a) Expenses (including attorneys’ fees) incurred by Indemnitee in defending a threatened or pending civil, criminal, administrative or investigative action, suit or proceeding, or in connection with an enforcement action pursuant to Section 5(b), shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding within thirty (30) days after receipt by the Corporation of (i) a statement or statements from Indemnitee requesting such advance or advances from time to time, and (ii) an undertaking by or on behalf of Indemnitee to repay such amount or amounts, only if, and to the extent that, it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Corporation as authorized by this Agreement or otherwise. Such undertaking shall be accepted without reference to the financial ability of Indemnitee to make such repayment. Advances shall be unsecured and interest-free.

(b) Promptly after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee shall, if a claim thereof is to be made against the Corporation hereunder, notify the Corporation of the commencement thereof. The failure to promptly notify the Corporation of the commencement of the action, suit or proceeding, or Indemnitee’s request for indemnification, will not relieve the Corporation from any liability that it may have to Indemnitee hereunder, except to the extent the Corporation is prejudiced in its defense of such action, suit or proceeding as a result of such failure.

(c) In the event the Corporation shall be obligated to pay the expenses of Indemnitee with respect to an action, suit or proceeding, as provided in this Agreement, the Corporation, if appropriate, shall be entitled to assume the defense of such action, suit or proceeding, with counsel reasonably acceptable to Indemnitee, upon the delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Corporation, the Corporation will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same action, suit or proceeding, provided that (1) Indemnitee shall have the right to employ Indemnitee’s own counsel in such action, suit or proceeding at Indemnitee’s expense and (2) if (i) the employment of counsel by Indemnitee has been previously authorized in writing by the Corporation, (ii) counsel to the Corporation or Indemnitee shall have reasonably concluded that there may be a conflict of interest or position, or reasonably believes that a conflict is likely to arise, on any significant issue between the

Corporation and Indemnitee in the conduct of any such defense or (iii) the Corporation shall not, in fact, have employed counsel to assume the defense of such action, suit or proceeding, then the fees and expenses of Indemnitee's counsel shall be at the expense of the Corporation, except as otherwise expressly provided by this Agreement. The Corporation shall not be entitled, without the consent of Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for the Corporation or Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above.

(d) Notwithstanding any other provision of this Agreement to the contrary, to the extent that Indemnitee is, by reason of Indemnitee's corporate status with respect to the Corporation or any corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee is or was serving or has agreed to serve at the request of the Corporation, a witness or otherwise participates in any action, suit or proceeding at a time when Indemnitee is not a party in the action, suit or proceeding, the Corporation shall indemnify Indemnitee against all expenses (including attorneys' fees) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

Section 5. Procedure for Indemnification

(a) To obtain indemnification hereunder, Indemnitee shall promptly submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Corporation shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification.

(b) The Corporation's determination whether to grant Indemnitee's indemnification request shall be made promptly, and in any event, within 60 days following receipt of a request for indemnification pursuant to Section 5(a). The right to indemnification as granted by Section 1 of this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or fails to respond within such 60-day period. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 4 hereof where the required undertaking, if any, has been received by the Corporation) that Indemnitee has not met the standard of conduct set forth in Section 1 hereof, but the burden of proving such defense by clear and convincing evidence shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or one of its committees, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct set forth in Section 1 hereof, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors or one of its committees, its independent legal counsel, and its stockholders) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has or has not met the applicable standard of conduct. The Indemnitee's expenses (including attorneys' fees) incurred in connection with successfully establishing Indemnitee's right to indemnification, in whole or in part, in any such proceeding or otherwise shall also be indemnified by the Corporation.

(c) The Indemnitee shall be presumed to be entitled to indemnification under this Agreement upon submission of a request for indemnification pursuant to this Section 5, and the Corporation shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. Such presumption shall be used as a basis for a determination of entitlement to indemnification unless the Corporation overcomes such presumption by clear and convincing evidence.

Section 6. Insurance and Subrogation.

(a) The Corporation may purchase and maintain insurance on behalf of an Indemnitee who is or was or has agreed to serve at the request of the Corporation as a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against, and incurred by, Indemnitee or on Indemnitee's behalf in any such capacity, or arising out of Indemnitee's status as such, whether or not the Corporation would have the power to indemnify Indemnitee against such liability under the provisions of this Agreement. If the Corporation has such insurance in effect at the time the Corporation receives from Indemnitee any notice of the commencement of a proceeding, the Corporation shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the policy. The Corporation shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policy.

(b) In the event of any payment by the Corporation under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee with respect to any insurance policy, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights in accordance with the terms of such insurance policy. The Corporation shall pay or reimburse all expenses actually and reasonably incurred by Indemnitee in connection with such subrogation.

(c) The Corporation shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (including, but not limited to, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) if and to the extent that Indemnitee has otherwise actually received such payment under this Agreement or any insurance policy, contract, agreement or otherwise.

Section 7. Certain Definitions. For purposes of this Agreement, the following definitions shall apply:

(a) The term "action, suit or proceeding" shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed claim, action, suit or proceeding, whether civil, criminal, administrative or investigative.

(b) The term “by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Corporation, or while serving as a director or officer of the Corporation, is or was serving or has agreed to serve at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise” shall be broadly construed and shall include, without limitation, any actual or alleged act or omission to act.

(c) The term “expenses” shall be broadly and reasonably construed and shall include, without limitation, all direct and indirect costs of any type or nature whatsoever (including, without limitation, all attorneys’ fees and related disbursements, appeal bonds, other out-of-pocket costs and reasonable compensation for time spent by Indemnitee for which Indemnitee is not otherwise compensated by the Corporation or any third party, provided that the rate of compensation and estimated time involved is approved by the Board, which approval shall not be unreasonably withheld), actually and reasonably incurred by Indemnitee in connection with either the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification under this Agreement, Section 145 of the General Corporation Law of the State of Delaware or otherwise.

(d) The term “judgments, fines and amounts paid in settlement” shall be broadly construed and shall include, without limitation, all direct and indirect payments of any type or nature whatsoever (including, without limitation, all penalties and amounts required to be forfeited or reimbursed to the Corporation), as well as any penalties or excise taxes assessed on a person with respect to an employee benefit plan).

(e) The term “Corporation” shall include, without limitation and in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

(f) The term “other enterprises” shall include, without limitation, employee benefit plans.

(g) The term “serving at the request of the Corporation” shall include, without limitation, any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries.

(h) A person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Agreement.

Section 8. Limitation on Indemnification. Notwithstanding any other provision herein to the contrary, the Corporation shall not be obligated pursuant to this Agreement:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to Indemnitee with respect to an action, suit or proceeding (or part thereof) initiated by Indemnitee, except with respect to an action, suit or proceeding brought to establish or enforce a right to indemnification (which shall be governed by the provisions of Section 8(b) of this Agreement), unless such action, suit or proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

(b) Action for Indemnification. To indemnify Indemnitee for any expenses incurred by Indemnitee with respect to any action, suit or proceeding instituted by Indemnitee to enforce or interpret this Agreement, unless Indemnitee is successful in establishing Indemnitee's right to indemnification in such action, suit or proceeding, in whole or in part, or unless and to the extent that the court in such action, suit or proceeding shall determine that, despite Indemnitee's failure to establish his or her right to indemnification, Indemnitee is entitled to indemnity for such expenses; provided, however, that nothing in this Section 8(b) is intended to limit the Corporation's obligation with respect to the advancement of expenses to Indemnitee in connection with any such action, suit or proceeding instituted by Indemnitee to enforce or interpret this Agreement, as provided in Section 4 hereof.

(c) Section 16 Violations. To indemnify Indemnitee on account of any proceeding with respect to which final judgment is rendered against Indemnitee for payment or an accounting of profits arising from the purchase or sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or any similar successor statute.

(d) Insider Trading Policy Violations. To indemnify Indemnitee on account of any proceeding with respect to which final judgment is rendered against Indemnitee for violating Section 10(b) of the Exchange Act, or any similar successor statute, except for proceedings arising from a claim based on a theory of "controlling person" liability under Section 20(a) of the Exchange Act.

(e) Non-compete, Non-disclosure and Non-Disparagement. To indemnify Indemnitee in connection with proceedings or claims involving the enforcement of non-compete, non-disclosure and/or non-disparagement agreements or the non-compete, non-disclosure and/or non-disparagement provisions of employment, consulting or similar agreements the Indemnitee may be a party to with the Corporation, or any subsidiary of the Corporation or any other applicable foreign or domestic corporation, partnership, joint venture, trust or other enterprise, if any.

Section 9. Certain Settlement Provisions. The Corporation shall have no obligation to indemnify Indemnitee under this Agreement for amounts paid in settlement of any action, suit or proceeding without the Corporation's prior written consent, which shall not be unreasonably withheld. The Corporation shall not settle any action, suit or proceeding in any manner that would impose any fine or other obligation on Indemnitee without Indemnitee's prior written consent, which shall not be unreasonably withheld.

Section 10. Savings Clause. If any provision or provisions of this Agreement shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify Indemnitee as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated and to the full extent permitted by applicable law.

Section 11. Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for herein is held by a court of competent jurisdiction to be unavailable to Indemnitee in whole or in part, it is agreed that, in such event, the Corporation shall, to the fullest extent permitted by law, contribute to the payment of Indemnitee's costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, in an amount that is just and equitable in the circumstances, taking into account, among other things, contributions by other directors and officers of the Corporation or others pursuant to indemnification agreements or otherwise; provided, that, without limiting the generality of the foregoing, such contribution shall not be required where such holding by the court is due to (i) the failure of Indemnitee to meet the standard of conduct set forth in Section 1 hereof, or (ii) any limitations on indemnification set forth in Section 6(c), 8 or 9 hereof.

Section 12. Form and Delivery of Communications. Any notice, request or other communication required or permitted to be given to the parties under this Agreement shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, return receipt requested, postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to the Corporation:

Graham Corporation
20 Florence Avenue
Batavia, New York 14020
Attn: Chief Executive Officer
Facsimile: (585) 343-2216

with a copy to:

Harter Secrest & Emery LLP
1600 Bausch & Lomb Place
Rochester, New York 14604
Attn: Daniel R. Kinel, Esq.
Facsimile: (585) 232-2152

If to Indemnitee:

[insert]

Section 13. Subsequent Legislation. If the General Corporation Law of Delaware is amended after adoption of this Agreement to expand further the indemnification permitted to directors or officers, then the Corporation shall indemnify Indemnitee to the fullest extent permitted by the General Corporation Law of Delaware, as so amended.

Section 14. Nonexclusivity. The provisions for indemnification and advancement of expenses set forth in this Agreement shall not be deemed exclusive of any other rights which Indemnitee may have under any provision of law, the Corporation's Certificate of Incorporation or By-Laws, in any court in which a proceeding is brought, the vote of the Corporation's stockholders or disinterested directors, other agreements or otherwise, and Indemnitee's rights hereunder shall continue after Indemnitee has ceased acting as an agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of Indemnitee. However, no amendment or alteration of the Corporation's Certificate of Incorporation or By-Laws or any other agreement shall adversely affect the rights provided to Indemnitee under this Agreement

Section 15. Enforcement. The Corporation shall be precluded from asserting in any judicial proceeding that the procedures and presumptions of this Agreement are not valid, binding and enforceable. The Corporation agrees that its execution of this Agreement shall constitute a stipulation by which it shall be irrevocably bound in any court of competent jurisdiction in which a proceeding by Indemnitee for enforcement of his rights hereunder shall have been commenced, continued or appealed, that its obligations set forth in this Agreement are unique and special, and that failure of the Corporation to comply with the provisions of this Agreement will cause irreparable and irremediable injury to Indemnitee, for which a remedy at law will be inadequate. As a result, in addition to any other right or remedy Indemnitee may have at law or in equity with respect to breach of this Agreement, Indemnitee shall be entitled to injunctive or mandatory relief directing specific performance by the Corporation of its obligations under this Agreement.

Section 16. Interpretation of Agreement. It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to Indemnitee to the fullest extent now or hereafter permitted by law.

Section 17. Entire Agreement. This Agreement and the documents expressly referred to herein constitute the entire agreement between the parties hereto with respect to the matters covered hereby, and any other prior or contemporaneous oral or written understandings or agreements with respect to the matters covered hereby are expressly superceded by this Agreement.

Section 18. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 19. Successor and Assigns. All of the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the parties hereto and their respective successors, assigns, heirs, executors, administrators and legal

representatives. The Corporation shall require and cause any direct or indirect successor (whether by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Corporation, by written agreement in form and substance reasonably satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place.

Section 20. Service of Process and Venue. For purposes of any claims or proceedings to enforce this agreement, the Corporation consents to the jurisdiction and venue of any federal or state court of competent jurisdiction in the states of Delaware and New York, and waives and agrees not to raise any defense that any such court is an inconvenient forum or any similar claim.

Section 21. Supercedes Prior Agreement. This Agreement supercedes any prior indemnification agreement between Indemnitee and the Corporation or its predecessors.

Section 22. Governing Law. This Agreement shall be governed exclusively by and construed according to the laws of the State of Delaware, as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware. If a court of competent jurisdiction shall make a final determination that the provisions of the law of any state other than Delaware govern indemnification by the Corporation of its officers and directors, then the indemnification provided under this Agreement shall in all instances be enforceable to the fullest extent permitted under such law, notwithstanding any provision of this Agreement to the contrary.

Section 23. Employment Rights. Nothing in this Agreement is intended to create in Indemnitee any right to employment or continued employment.

Section 24. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument, notwithstanding that both parties are not signatories to the original or same counterpart.

Section 25. Headings. The section and subsection headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the date first above written.

GRAHAM CORPORATION

By _____

Name:

Title:

INDEMNITEE:

By

Name:
