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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Number 1-8462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

16-1194720

(I.R.S. Employer
Identification No.)

20 Florence Avenue, Batavia, New York

(Address of principal executive offices)

14020

(Zip Code)

585-343-2216

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 30, 2010, there were outstanding 9,883,565 shares of the registrant's common stock, par value \$.10 per share.

Graham Corporation and Subsidiary
Index to Form 10-Q
As of June 30, 2010 and March 31, 2010 and for the Three-Month Periods
Ended June 30, 2010 and 2009

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GRAHAM CORPORATION AND SUBSIDIARY
FORM 10-Q
JUNE 30, 2010

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

GRAHAM CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2010	March 31, 2010
(Amounts in thousands, except per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,597	\$ 4,530
Investments	64,562	70,060
Trade accounts receivable, net of allowances (\$9 and \$17 at June 30 and March 31, 2010, respectively)	5,950	7,294
Unbilled revenue	5,978	3,039
Inventories	3,746	6,098
Income taxes receivable	313	—
Prepaid expenses and other current assets	1,561	651
Total current assets	88,707	91,672
Property, plant and equipment, net	10,030	9,769
Prepaid pension asset	7,529	7,335
Other assets	193	203
Total assets	\$ 106,459	\$ 108,979
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of capital lease obligations	\$ 61	\$ 66
Accounts payable	5,126	6,623
Accrued compensation	2,178	4,010
Accrued expenses and other current liabilities	1,955	2,041
Customer deposits	21,840	22,022
Income taxes payable	—	68
Deferred income tax liability	139	138
Total current liabilities	31,299	34,968
Capital lease obligations	132	144
Accrued compensation	299	292
Deferred income tax liability	3,152	2,930
Accrued pension liability	243	246
Accrued postretirement benefits	895	880
Other long-term liabilities	483	445
Total liabilities	36,503	39,905
Commitments and Contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$1.00 par value Authorized, 500 shares		
Common stock, \$.10 par value Authorized, 25,500 shares Issued, 10,188 and 10,155 shares at June 30 and March 31, 2010, respectively	1,019	1,016
Capital in excess of par value	15,602	15,459
Retained earnings	60,219	59,539
Accumulated other comprehensive loss	(4,330)	(4,386)
Treasury stock (305 shares at June 30 and March 31, 2010, respectively)	(2,554)	(2,554)
Total stockholders' equity	69,956	69,074
Total liabilities and stockholders' equity	\$ 106,459	\$ 108,979

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited)

	Three Months Ended June 30,	
	2010	2009
	(Amounts in thousands, except per share data)	
Net sales	\$ 13,351	\$ 20,138
Cost of products sold	9,501	11,860
Gross profit	<u>3,850</u>	<u>8,278</u>
Other expenses and income:		
Selling, general and administrative	2,567	3,248
Interest income	(16)	(18)
Interest expense	7	1
Total other expenses and income	<u>2,558</u>	<u>3,231</u>
Income before income taxes	1,292	5,047
Provision for income taxes	414	1,529
Net income	878	3,518
Retained earnings at beginning of period	59,539	53,966
Dividends	(198)	(197)
Retained earnings at end of period	<u>\$ 60,219</u>	<u>\$ 57,287</u>
Per share data:		
Basic:		
Net income	<u>\$.09</u>	<u>\$.36</u>
Diluted:		
Net income	<u>\$.09</u>	<u>\$.35</u>
Weighted average common shares outstanding:		
Basic	9,922	9,885
Diluted	9,962	9,915
Dividends declared per share	<u>\$.02</u>	<u>\$.02</u>

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,	
	2010	2009
(Amounts in thousands)		
Operating activities:		
Net income	\$ 878	\$ 3,518
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	291	250
Amortization of unrecognized prior service cost and actuarial losses	70	170
Discount accretion on investments	(15)	(17)
Stock-based compensation expense	59	78
Gain on disposal or sale of property, plant and equipment	—	(3)
Deferred income taxes	23	51
(Increase) decrease in operating assets:		
Accounts receivable	1,346	(9,123)
Unbilled revenue	(2,933)	5,368
Inventories	2,354	518
Income taxes receivable/payable	(381)	1,412
Prepaid expenses and other current and non-current assets	(726)	(238)
Prepaid pension asset	(194)	(61)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,526)	421
Accrued compensation, accrued expenses and other current and non-current liabilities	(1,882)	(1,985)
Customer deposits	(183)	(890)
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	19	13
Net cash used by operating activities	<u>(2,800)</u>	<u>(518)</u>
Investing activities:		
Purchase of property, plant and equipment	(525)	(80)
Proceeds from disposal of property, plant and equipment	—	7
Purchase of investments	(50,837)	(36,558)
Redemption of investments at maturity	56,350	35,570
Net cash provided (used) by investing activities	<u>4,988</u>	<u>(1,061)</u>
Financing activities:		
Proceeds from issuance of long-term debt	—	198
Principal repayments on long-term debt	(16)	(204)
Issuance of common stock	66	34
Dividends paid	(198)	(197)
Purchase of treasury stock	—	(229)
Excess tax deduction on stock awards	22	21
Other	—	2
Net cash used by financing activities	<u>(126)</u>	<u>(375)</u>
Effect of exchange rate changes on cash	5	1
Net increase (decrease) in cash and cash equivalents	2,067	(1,953)
Cash and cash equivalents at beginning of period	4,530	5,150
Cash and cash equivalents at end of period	<u>\$ 6,597</u>	<u>\$ 3,197</u>

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

(Unaudited)

(Amounts in thousands, except per share data)

NOTE 1 — BASIS OF PRESENTATION:

Graham Corporation's (the "Company's") Condensed Consolidated Financial Statements include one wholly-owned foreign subsidiary located in China, and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, each as promulgated by the Securities and Exchange Commission. The Company's Condensed Consolidated Financial Statements do not include all information and notes required by GAAP for complete financial statements. The unaudited Condensed Consolidated Balance Sheet as of March 31, 2010 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2010. For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010 ("fiscal 2010"). In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included in the Company's Condensed Consolidated Financial Statements.

The Company's results of operations and cash flows for the three months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2011 ("fiscal 2011").

Certain reclassifications have been made to prior year amounts to conform with the current year presentation. In the Condensed Consolidated Statements of Cash Flows, the line item "Amortization of unrecognized prior service cost and actuarial losses" was reported separately from the line item "Depreciation and amortization" for the three months ended June 30, 2009.

NOTE 2 — REVENUE RECOGNITION:

The Company recognizes revenue on all contracts with a planned manufacturing process in excess of four weeks (which approximates 575 direct labor hours) using the percentage-of-completion method. The majority of the Company's revenue is recognized under this methodology. The percentage-of-completion method is determined by comparing actual labor incurred to a specific date to management's estimate of the total labor to be incurred on each contract. Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in the contract value and estimated costs at completion. Losses on contracts are recognized immediately when evident to management.

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Revenue on contracts not accounted for using the percentage-of-completion method is recognized utilizing the completed contract method. The majority of the Company's contracts have a planned manufacturing process of less than four weeks and the results reported under this method do not vary materially from the percentage-of-completion method. The Company recognizes revenue and all related costs on these contracts upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further obligations under the contract after the revenue is recognized.

At March 31, 2010, the Company's backlog included four orders with a value of \$6,655 that were placed on hold (suspended) pending further customer evaluation. During the three months ended June 30, 2010, one of the orders placed on hold valued at \$1,588 was cancelled. Production had started on this project prior to being put on hold. The customer requested shipment of the partly completed project on an "as is" basis. At June 30, 2010, three orders included in backlog with a value of \$5,211 remained on hold (suspended).

NOTE 3 — INVESTMENTS:

Investments consist solely of fixed-income debt securities issued by the United States Treasury with original maturities of greater than three months and less than one year. All investments are classified as held-to-maturity, as the Company has the intent and ability to hold the securities to maturity. The investments are stated at amortized cost, which approximates fair value. All investments held by the Company at June 30, 2010 are scheduled to mature between July 1 and September 30, 2010.

NOTE 4 — INVENTORIES:

Inventories are stated at the lower of cost or market, using the average cost method. For contracts accounted for on the completed contract method, progress payments received are netted against inventory to the extent the payment is less than the inventory balance relating to the applicable contract. Progress payments that are in excess of the corresponding inventory balance are presented as customer deposits in the Condensed Consolidated Balance Sheets. Unbilled revenue in the Condensed Consolidated Balance Sheets represents revenue recognized that has not been billed to customers on contracts accounted for on the percentage-of-completion method. For contracts accounted for on the percentage-of-completion method, progress payments are netted against unbilled revenue to the extent the payment is less than the unbilled revenue for the applicable contract. Progress payments exceeding unbilled revenue are netted against inventory to the extent the payment is less than or equal to the inventory balance relating to the applicable contract, and the excess is presented as customer deposits in the Condensed Consolidated Balance Sheets.

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Major classifications of inventories are as follows:

	June 30, 2010	March 31, 2010
Raw materials and supplies	\$ 1,879	\$ 1,843
Work in process	5,356	5,365
Finished products	581	573
	<u>7,816</u>	<u>7,781</u>
Less — progress payments	4,070	1,683
Total	<u>\$ 3,746</u>	<u>\$ 6,098</u>

NOTE 5 — STOCK-BASED COMPENSATION:

The Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 1,375 shares of common stock in connection with grants of incentive stock options, non-qualified stock options, stock awards and performance awards to officers, key employees and outside directors; provided, however, that no more than 250 shares of common stock may be used for awards other than stock options. Stock options may be granted at prices not less than the fair market value at the date of grant and expire no later than ten years after the date of grant.

Stock option awards granted in the three months ended June 30, 2010 and 2009 were 20 and 24, respectively. The stock option awards vest 33⅓% per year over a three-year term. All options have a term of ten years from their grant date.

Restricted stock awards granted in the three months ended June 30, 2010 and 2009 were 24 and 15, respectively. Performance-vested restricted stock awards granted to officers in the three months ended June 30, 2010 vest 100% on the third anniversary of the grant date, subject to the satisfaction of the performance metrics established for the applicable three-year period. Time-vested restricted stock awards granted to officers in the three-month period ended June 30, 2009 vest 50% on the second anniversary of the grant date and 50% on the fourth anniversary of the grant date. Time-vested restricted stock awards granted to directors for the three months end June 30, 2010 and 2009 vest 100% on the first anniversary of the grant date.

During the three months ended June 30, 2010 and 2009, the Company recognized stock-based compensation costs of \$59 and \$78, respectively. The income tax benefit recognized related to stock-based compensation was \$20 and \$27 for the three months ended June 30, 2010 and 2009, respectively.

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NOTE 6 — INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Common shares outstanding include share equivalent units, which are contingently issuable shares. Diluted income per share is calculated by dividing net income by the weighted average number of common shares outstanding and, when applicable, potential common shares outstanding during the period. A reconciliation of the numerators and denominators of basic and diluted income per share is presented below:

	Three Months Ended June 30,	
	2010	2009
Basic income per share		
Numerator:		
Net income	\$ 878	\$ 3,518
Denominator:		
Weighted common shares outstanding	9,864	9,831
Share equivalent units ("SEUs")	58	54
Weighted average common shares and SEUs	9,922	9,885
Basic income per share	\$.09	\$.36
Diluted income per share		
Numerator:		
Net income	\$ 878	\$ 3,518
Denominator:		
Weighted average shares and SEUs outstanding	9,922	9,885
Stock options outstanding	40	30
Weighted average common and potential common shares outstanding	9,962	9,915
Diluted income per share	\$.09	\$.35

Options to purchase a total of 17 and 41 shares of common stock were outstanding at June 30, 2010 and 2009, respectively, but were not included in the above computation of diluted income per share given their exercise prices as they would be anti-dilutive upon issuance.

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NOTE 7 — PRODUCT WARRANTY LIABILITY:

The reconciliation of the changes in the product warranty liability is as follows:

	Three Months Ended June 30,	
	2010	2009
Balance at beginning of period	\$ 369	\$ 366
Expense (income) for product warranties	30	(52)
Product warranty claims (paid) refunded	(64)	4
Balance at end of period	<u>\$ 335</u>	<u>\$ 318</u>

The product warranty liability is included in the line item “Accrued expense and other current liabilities” in the Condensed Consolidated Balance Sheets.

NOTE 8 — CASH FLOW STATEMENT:

Interest paid was \$1 for each of the three-month periods ended June 30, 2010 and 2009. In addition, income taxes paid were \$715 and \$29 for the three months ended June 30, 2010 and 2009, respectively.

During the three months ended June 30, 2010 and 2009, stock option awards were exercised and the related income tax benefit realized exceeded the tax benefit that had been recorded pertaining to the compensation cost recognized. This excess tax deduction has been separately reported under “Financing activities” in the Condensed Consolidated Statement of Cash Flows.

At June 30, 2010 and 2009, there were \$23 and \$1 of capital purchases that were recorded in accounts payable and are not included in the caption “Purchase of property, plant and equipment” in the Condensed Consolidated Statements of Cash Flows.

NOTE 9 — COMPREHENSIVE INCOME:

Total comprehensive income was as follows:

	Three Months Ended June 30,	
	2010	2009
Net income	\$ 878	\$ 3,518
Other comprehensive income:		
Foreign currency translation adjustment	10	1
Defined benefit pension and other postretirement plans	<u>46</u>	<u>108</u>
Total comprehensive income	<u>\$ 934</u>	<u>\$ 3,627</u>

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Defined benefit pension and other postretirement plans reflect the amortization of prior service costs and recognized gains and losses related to such plans during the periods.

NOTE 10 — EMPLOYEE BENEFIT PLANS:

The components of pension (benefit) cost are as follows:

	Three Months Ended June 30,	
	2010	2009
Service cost	\$ 96	\$ 79
Interest cost	335	324
Expected return on assets	(625)	(465)
Amortization of:		
Service cost	1	1
Actuarial loss	105	205
Net pension (benefit) cost	<u>\$ (88)</u>	<u>\$ 144</u>

The Company made no contributions to its defined benefit pension plan during the three months ended June 30, 2010 and does not expect to make any contributions to the plan for the balance of fiscal 2011.

The components of the postretirement benefit income are as follows:

	Three Months Ended June 30,	
	2010	2009
Service cost	\$ —	\$ —
Interest cost	15	15
Amortization of prior service cost	(41)	(41)
Amortization of actuarial loss	5	5
Net postretirement benefit income	<u>\$ (21)</u>	<u>\$ (21)</u>

The Company paid benefits of \$1 related to its postretirement benefit plan during the three months ended June 30, 2010. The Company expects to pay benefits of approximately \$121 for the balance of fiscal 2011.

NOTE 11 — COMMITMENTS AND CONTINGENCIES:

The Company has been named as a defendant in certain lawsuits alleging personal injury from exposure to asbestos contained in products made by the Company. The Company is a co-defendant with numerous other defendants in these lawsuits and intends to vigorously defend itself against these claims. The claims are similar to previous asbestos suits that named the Company as defendant, which either were dismissed when it was shown that the Company had not supplied products to the plaintiffs' places of work or were settled for amounts below the expected defense costs. The outcome of these lawsuits cannot be determined at this time.

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From time to time in the ordinary course of business, the Company is subject to legal proceedings and potential claims. At June 30, 2010, other than noted above, management was unaware of any material litigation matters.

NOTE 12 — INCOME TAXES:

The Company files federal and state income tax returns in several domestic and foreign jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is currently under examination by the United States Internal Revenue Service (the “IRS”) for tax year 2009. The IRS has completed its examination for tax years 2006 through 2008. In June 2010, the IRS proposed an adjustment, plus interest, to disallow substantially all of the research and development tax credit claimed by the Company in tax years 2006 through 2008. The Company filed a protest to appeal the adjustment in July 2010. The Company believes its tax position is correct and will continue to take appropriate actions to vigorously defend its position.

The cumulative tax benefit related to the research and development tax credit for the tax years ended March 31, 1999 through March 31, 2010 was \$2,218. The liability for unrecognized tax benefits related to this tax position was \$445 at June 30 and March 31, 2010, which represents management’s estimate of the potential resolution of this issue. During the first quarter of fiscal 2011, there was no change in the balance of the unrecognized tax benefit. Any additional impact on the Company’s income tax liability cannot be determined at this time. The tax benefit and liability for unrecognized tax benefits were recorded in the Company’s Consolidated Statement of Operations as follows:

	Year Ended March 31,				
	2007	2008	2009	2010	Total
Tax benefit of research and development tax credit	\$ 1,653	\$ 218	\$ 238	\$ 109	\$ 2,218
Unrecognized tax benefit	—	—	—	(445)	(445)
Net tax benefit of research and development tax credit	<u>\$ 1,653</u>	<u>\$ 218</u>	<u>\$ 238</u>	<u>\$ (336)</u>	<u>\$ 1,773</u>

The Company is subject to examination in state and international tax jurisdictions for tax years 2006 through 2009 and tax year 2009, respectively. It is the Company’s policy to recognize any interest related to uncertain tax positions in interest expense and any penalties related to uncertain tax positions in selling, general and administrative expense. The Company had no other unrecognized tax benefits as of June 30, 2010. During the three months ended June 30, 2010 and 2009, the Company recorded \$6 and \$0, respectively, for interest and \$0 for penalties related to its uncertain tax position in each of the three month periods ended June 30, 2010 and 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Dollar amounts in thousands, except per share data)

Overview

We are a global designer and manufacturer of custom-engineered ejectors, vacuum systems, condensers, liquid ring pump packages and heat exchangers. Our equipment is used in critical applications in the petrochemical, oil refinery and electric power generation industries, including cogeneration and geothermal plants. Our equipment can also be found in alternative energy applications, including ethanol, biodiesel and coal and gas-to-liquids and other applications, and other diverse applications, such as metal refining, pulp and paper processing, shipbuilding, water heating, refrigeration, desalination, soap manufacturing, food processing, pharmaceuticals, heating, ventilating and air conditioning.

Our corporate offices and production facilities are located in Batavia, New York. We also have a wholly-owned foreign subsidiary located in Suzhou, China which supports sales orders from China and provides engineering support and supervision of subcontracted fabrication.

Highlights

Highlights for the three months ended June 30, 2010 (the first quarter of the fiscal year ending March 31, 2011 is referred to as "fiscal 2011") include:

- Net sales for the first quarter of fiscal 2011 were \$13,351, down 34% compared with \$20,138 for the first quarter of fiscal 2010.
- Net income and income per diluted share for the first quarter of fiscal 2011, were \$878 and \$0.09, compared with net income of \$3,518 and income per diluted share of \$0.35 for the first quarter of the fiscal year ended March 31, 2010, referred to as "fiscal 2010".
- Orders booked in the first quarter of fiscal 2011 were \$8,124, down 8% compared with the first quarter of fiscal 2010, when orders were \$8,838.
- Backlog decreased to \$89,115 at June 30, 2010, representing a 5% decrease compared with March 31, 2010, when our backlog was a record \$94,255.
- Gross profit margin and operating margin for the first quarter of fiscal 2011 were 29% and 10% compared with 41% and 25%, respectively, for the first quarter of fiscal 2010.
- Cash and short-term investments at June 30, 2010 were \$71,159 compared with \$74,590 at March 31, 2010.

Forward-Looking Statements

This report and other documents we file with the Securities and Exchange Commission include "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.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results implied by the forward-looking statements. Such factors include, but are not limited to, the risks and uncertainties identified by us under the heading "Risk Factors" in Item 1A of our Annual Report on Form 10-K for fiscal 2010.

Forward-looking statements may also include, but are not limited to, statements about:

- *current and future economic environments affecting us and the markets we serve;*
- *sources of revenue and anticipated revenue, including the contribution from the growth of new products, services and markets;*
- *plans for future products and services and for enhancements to existing products and services;*
- *operations in foreign countries;*
- *estimates regarding liquidity and capital requirements;*
- *timing of conversion of backlog to sales;*
- *our ability to achieve expected profitability levels;*
- *our ability to attract or retain customers;*
- *the outcome of any existing or future litigation;*
- *our acquisition strategy; and*
- *our ability to increase our productivity and capacity.*

Forward-looking statements are usually accompanied by words such as “anticipate,” “believe,” “estimate,” “may,” “intend,” “expect” and similar expressions. Actual results could differ materially from historical results or those implied by the forward-looking statements contained in this report.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we undertake no obligation to update or announce any revisions to forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

Fiscal 2011 and the Near-Term Market Conditions

The downturn in the global economy which commenced in the fall of 2007 led to reduced demand for petroleum-based products, which in turn resulted in our customers deferring investment in major capital projects. We believe that we are beginning to see some positive signs that international customers are once again examining investments in major capital projects.

In addition, we believe that the significant increase in construction costs, including raw material costs, which had occurred over the four-to-five-year period prior to the downturn, which began in the fall of 2007, also led to delays in new commitments by our customers. The increase in costs resulted in the economics of projects becoming less feasible, which we believe caused our customers to choose to wait until costs declined, as they have recently.

Currently, near-term demand trends that we believe are affecting our customers’ investments include the following:

- As the global economy recovers slowly from the global recession, many emerging economies continue to have relatively strong economic growth. This expansion is driving growing energy requirements and the need for more refined petroleum products. Although uncertainty in the capital markets continues, there has been some improved access to capital, which has resulted in certain previously stalled projects being released for production.

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- The expansion of the Middle Eastern economies and the continued growth in demand for oil and refined products has renewed investment activity in that area. We believe that such renewed activity is exemplified by the re-starting of projects in both the petrochemical and refining industries, such as the Jubail and Yanbu export refinery projects in Saudi Arabia. Construction costs for these projects have reportedly been reduced by 20%.
- Asia, specifically China, has been experiencing renewed demand for refined petroleum products such as gasoline in calendar year 2009 and thus far in 2010, following reductions in demand during calendar year 2008 as economic uncertainty stymied growth. This renewed demand is driving increased investment in petrochemical and refining projects.
- South America, specifically Brazil, Venezuela and Colombia, is seeing increased refining and petrochemical investments that are driven by expanding economies and increased local demand for gasoline and other products that are made from oil as the feedstock.
- The U.S. refining market has declined and refinery utilization has fallen as demand declined from conservation efforts, economic weakness, and uncertainty around U.S. energy policy and its potential impact on production costs. As a result, there have been fewer investment dollars in capital projects for refineries in the U.S. This is expected to continue for the next few years.
- Investments in North American oil sands have been delayed as a result of construction costs and uncertainty around U.S. energy policy and the potential impact that changes to the energy policy may have on production costs which could impact project economics and risk. Recently however, there have been investments in extraction projects in Alberta and foreign investment in Alberta. Historically, downstream investments that involve our equipment occur two to three years after extraction projects.
- Weaknesses in European end markets, which have been impacted by debt concerns in certain Euro-denominated markets, threaten local and global recovery. This may continue to impact both local demand as well as those regions which export to Europe.

We expect that the consequences of these near-term trends will be more pressure on our gross margin, as the U.S. refining market has historically provided higher margins than certain international markets. Because of continued global economic uncertainty and the risk associated with growth in emerging economies, we also expect that we will have continued volatility in our order pattern. For the next several quarters, we expect to see smaller value projects than what we had seen during the last expansion cycle. As a result, for us to achieve similar revenue levels, we will have to win a greater number of orders.

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We continue to expect our new order levels to remain volatile, resulting in both strong and weak quarters. For example, sequentially the past five quarters had new order levels of \$8,838, \$29,567, \$51,644, \$18,268, and \$8,124 in the first, second, third and fourth quarters of fiscal 2010 and the first quarter of fiscal 2011, respectively. We believe that looking at our order level in any one quarter does not provide an accurate indication of our future expectations or performance. Rather, we believe that looking at our orders and backlog over a rolling four-quarter time period provides a better measure of our business.

Shift to International Growth Expected to Drive Next Industry Cycle

Over the long-term, we expect our customers' markets to regain their strength and, while remaining cyclical, continue to grow. We believe the long-term trends remain strong and that the drivers of future growth include:

Demand Trends

- Global consumption of crude oil is estimated to expand significantly over the next two decades, primarily in emerging markets. This is expected to offset estimated flat to slightly declining demand in North America and Europe.
- Increased demand is expected for power, refinery and petrochemical products, stimulated by an expanding middle class in Asia, in particular China and India.
- Increased development of geothermal electrical power plants in certain regions is expected to meet projected growth in demand for electrical power.
- Increased global regulations over the refining and petrochemical industries are expected to continue to drive requirements for capital investments.
- Increased demand is expected from the nuclear power generation industry and government contractors.

Impact of Demand Trends

- Construction of new petrochemical plants in the Middle East, where natural gas is plentiful and less expensive, is expected to continue.
- Increased investments in new power projects are expected in Asia and South America to meet projected consumer demand increases.
- Global oil refining capacity is projected to increase, and is expected to be addressed through new facilities, refinery upgrades, revamps and expansions.
- Long-term growth potential is believed to exist in alternative energy markets, such as coal-to-liquids, gas-to-liquids and other emerging technologies, such as biodiesel, ethanol and waste-to-energy.

We believe that all of the above factors offer us long-term growth opportunity to meet our customers' expected capital project needs. In addition, we believe we can continue to grow our less cyclical smaller product lines and aftermarket businesses.

Emerging markets require petroleum-based products. These markets are expected to continue to grow at rates faster than the U.S. Therefore, we expect international opportunities will be more plentiful relative to domestic projects. Our domestic sales as a percentage of aggregate product sales, which had increased from 50% in fiscal 2007 to 54% in fiscal 2008 to 63% in fiscal 2009, decreased to 45% in fiscal 2010. In the first quarter of fiscal 2011, domestic sales were 41%. The economic recovery, which we believe has partly begun in the

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international markets, we expect will provide greater opportunities in international markets than in the domestic market in the near term. Our order rates for fiscal 2010 were 50% domestic and 50% international. However, the domestic order level was heavily impacted by a large order (in excess of \$25,000) from Northrop Grumman to supply surface condensers for the U.S. Navy. If we exclude this project, the international order percentage in fiscal 2010 would have exceeded 65%. In the first quarter of fiscal 2011, international orders were only 47% of total orders. However, as we look at the remainder of fiscal 2011 and beyond, we believe international sales and orders will surpass domestic sales.

Results of Operations

For an understanding of the significant factors that influenced our performance, the following discussion should be read in conjunction with our condensed consolidated financial statements and the notes to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following table summarizes our results of operations for the periods indicated:

	Three Months Ended June 30,	
	2010	2009
Net sales	\$ 13,351	\$ 20,138
Net income	\$ 878	\$ 3,518
Diluted income per share	\$ 0.09	\$ 0.35
Total assets	\$ 106,459	\$ 87,857

The First Quarter of Fiscal 2011 Compared With the First Quarter of Fiscal 2010

Sales for the first quarter of fiscal 2011 were \$13,351, a 34% decrease as compared with sales of \$20,138 for the first quarter of fiscal 2010. The decrease in the current quarter's sales was due to lower sales in all product lines except for heat exchangers. International sales accounted for 59% and 49% of total sales for the first quarter of fiscal 2011 and fiscal 2010, respectively. International sales year-over-year decreased \$2,067, or 21%, driven by a \$3,662, or 45%, decrease in Asia, offset by increases across most other international regions. Domestic sales decreased \$4,720, or 46%, in the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010. Fluctuations in sales among products and geographic locations can vary measurably from quarter-to-quarter based on timing and magnitude of projects. We do believe this shift back toward a higher international sales mix will continue in fiscal 2011. Sales in the three months ended June 30, 2010 were 25% to the refining industry, 40% to the chemical and petrochemical industries and 35% to other commercial and industrial applications. Sales in the three months ended June 30, 2009 were 46% to the refining industry, 23% to the chemical and petrochemical industries and 31% to other commercial and industrial applications. For additional information on future sales and our markets, see "Orders and Backlog" below.

Our gross profit percentage for the first quarter of fiscal 2011 was 29% compared with 41% for the first quarter of fiscal 2010. Gross profit dollars for the first quarter of fiscal 2011 decreased 53% compared with fiscal 2010. Gross profit percentage and dollars decreased primarily due to non-repeatable raw material purchasing benefits achieved in the first quarter of fiscal 2010 and the 34% decrease in sales volume experienced during the first quarter of fiscal 2011.

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Selling, general and administrative (“SG&A”) expenses as a percent of sales for the three-month periods ended June 30, 2010 and 2009 were 19% and 16%, respectively. Actual costs in fiscal 2011 were \$2,567, a decrease of \$681, or 21%, compared with the first quarter of fiscal 2010. SG&A expenses decreased due to the restructuring which occurred in the third quarter of fiscal 2010, timing of expenses, which we expect will increase in subsequent quarters, lower pension expense as well as lower variable costs (e.g., sales commissions, variable compensation) related to lower sales and income.

Interest income for the three month-periods ended June 30, 2010 and 2009 was \$16 and \$18, respectively. Low levels of interest income resulted from the continuing low level of interest rates on short term U.S. government securities.

Interest expense was \$7 for the quarter ended June 30, 2010, up slightly from \$1 for the quarter ended June 30, 2009.

Our effective tax rate in fiscal 2011 is projected to be between 30% and 33%, which represents the tax rate used to reflect income tax expense in the current quarter (32%). The actual effective tax rate for fiscal 2010 was 37%. The decrease compared with fiscal 2010 was due to tax adjustments recorded in fiscal 2010 for unrecognized tax benefits related to research and development tax credits and a valuation allowance against certain deferred tax assets. See Note 12 to the Condensed Consolidated Financial Statements.

Net income for the first three months of fiscal 2011 compared with the first three months of fiscal 2010 was \$878 and \$3,518, respectively. Income per diluted share was \$0.09 and \$0.35 for the respective periods.

Liquidity and Capital Resources

The following discussion should be read in conjunction with our Condensed Consolidated Statements of Cash Flows:

	June 30, 2010	March 31, 2010
Cash and investments	\$ 71,159	\$ 74,590
Working capital	57,408	56,704
Working capital ratio ⁽¹⁾	2.8	2.6
Long-term liabilities/capitalization ⁽²⁾	7.4%	7.1%

1) Working capital ratio equals current assets divided by current liabilities.

2) Long-term liabilities/capitalization equals total liabilities minus current liabilities divided by stockholders' equity plus long-term debt.

Net cash used by operating activities for the first quarter of fiscal 2011 was \$2,800, compared with \$518 used by operating activities for the first quarter of fiscal 2010. The increase in cash used was due to lower net income, timing of payments for accounts payable, accrued compensation and income taxes payable, offset by improvements in accounts receivable (net of unbilled revenue) and inventory. Inventory levels in the first quarter of fiscal 2011 increased by \$2,352. We expect the inventory to increase during the remainder of fiscal 2011 as sales levels increase.

There were no shares repurchased in the first quarter of fiscal 2011 compared with \$229 which was used to repurchase 26 shares of stock in the first quarter of fiscal 2010. The Board of Directors implemented a stock repurchase program which was announced in January 2009. The

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stock repurchase program is effective through July 30, 2011. No shares have been repurchased since the first quarter of fiscal 2010.

Dividend payments and capital expenditures in the first quarter of fiscal 2011 were \$198 and \$525, respectively, compared with \$197 and \$80, respectively, for the first quarter of fiscal 2010.

Capital expenditures for fiscal 2011 are expected to be between \$2,800 and \$3,300, of which \$1,500 will be used to support the Northrop Grumman project for the U.S. Navy.

Our cash, cash equivalents, and investments on June 30, 2010 were \$71,159. Most of this amount is invested in short term United States government instruments. Investments on June 30, 2010 were \$64,562 compared with \$70,060 on March 31, 2010. Investments are United States government instruments, generally with maturity periods of 91 to 120 days.

Our current cash, cash equivalents, and investments position was bolstered by a dramatic increase in customer deposits, which occurred in the fourth quarter of fiscal 2010. A small number of major customers provided upfront negotiated cash payments to assist in lowering our cost to complete their projects. This cash will be utilized to procure materials for these customers' projects in the fiscal years ended March 31, 2011 and 2012. We often obtain progress payments for large projects from our customers throughout the procurement and manufacturing process. In recent quarters, more cash was provided for certain orders shortly after the order was secured. During the rest of fiscal 2011, we expect operating cash flow may be negative at times, as the customer deposits balance is utilized to procure materials to support production.

Our revolving credit facility with Bank of America, N.A. provides us with a line of credit of \$30,000, including letters of credit and bank guarantees. Borrowings under our credit facility are secured by all of our assets. Letters of credit outstanding under our credit facility on June 30, 2010 and March 31, 2010 were \$13,113 and \$9,584, respectively. Other utilization of our credit facility limits at June 30, 2010 and March 31, 2010 were \$0. Our borrowing rate as of June 30, 2010 was Bank of America's prime rate minus 125 basis points, or 2.00%. We believe that cash generated from operations, combined with our investments and available financing capacity under our credit facility, will be adequate to meet our cash needs for the immediate future.

Orders and Backlog

Orders for the three-month periods ended June 30, 2010 and 2009 were \$8,124 and \$8,838, respectively, down 8%. Orders represent communications received from customers requesting us to supply products and services. During the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010, we experienced a 23% decrease in refining orders and a 30% decline in chemical and petrochemical orders. There was a 34% increase in other industrial and commercial applications.

Domestic orders were 53% of total orders, or \$4,266, and international orders were 47% of total orders, or \$3,858, in the current quarter compared with the first quarter of fiscal 2010, when domestic orders were 45%, or \$3,955, of total orders, and export orders were 55%, or \$4,883, of total orders. Although the first quarter of fiscal 2011 did not represent the trend seen in fiscal 2010, where international orders exceeded domestic orders, we believe during the remainder of fiscal 2011 we will see higher international orders than domestic orders. For all of fiscal 2010, excluding the, Northrop Grumman order for the U.S. Navy, international orders exceeded 65% of all orders.

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Backlog was \$89,115 at June 30, 2010, compared with record \$94,255 backlog at March 31, 2010, a 5% decrease. The backlog, four quarters ago, on June 30, 2009 was \$37,045. Backlog is defined as the total dollar value of orders received for which revenue has not yet been recognized. All orders in backlog represent orders from our traditional markets in established product lines. Approximately 50%-60% of orders currently in backlog are expected to be converted to sales within the next twelve months. This is significantly different from our normal conversion, which is approximately 85%-90% over an upcoming 12-month period. The difference in our current backlog is that a small number of large projects (especially the Northrop Grumman project for the U.S. Navy), have extended conversion periods. At June 30, 2010, 38% of our backlog was attributable to equipment for refinery project work, 13% to chemical and petrochemical projects, and 49% for other industrial or commercial applications (including the Northrop Grumman order for the U.S. Navy). At June 30, 2009, 36% of our backlog was attributed to equipment for refinery project work, 49% to chemical and petrochemical projects, and 15% for other industrial or commercial applications.

At March 31, 2010, the Company's backlog included four orders with a value of \$6,655 that were placed on hold (suspended) pending further customer evaluation. During the three months ended June 30, 2010, one of the orders placed on hold valued at \$1,588 was cancelled. Production had started on this project prior to being put on hold. The customer requested shipment of the partly completed project on an "as is" basis. At June 30, 2010, three orders included in backlog with a value of \$5,211 remained on hold (suspended).

Outlook

We believe that we are currently experiencing the bottom of the cycle associated with our sales to the refinery and petrochemical markets since we have historically tended to lag the general economic cycle by twelve to eighteen months. The third and fourth quarters of fiscal 2010 and the first and second quarters of fiscal 2011 are expected to represent the trough in sales for our business in this down cycle. Sales were \$12,166 and \$13,777 in the third and fourth quarters of fiscal 2010, respectively, and \$13,351 in the first quarter of fiscal 2011. We expect the second quarter of fiscal 2011 to be in a similar range with some potential for upside improvement late in the quarter. We anticipate that sales in the third and fourth quarters of fiscal 2011 will see growth compared with the first and second quarters of fiscal 2011. We expect the gross profit margin percentage to be in the mid-to-upper 20's range for the second quarter of fiscal 2011 (comparable to the 29% achieved in the first quarter) as we continue to have under-utilized capacity. Moreover, orders won six to twelve months ago that are now planned for revenue in the (first and) second quarter have depressed margins due to the competitive environment at that time.

Our order activity was strong in fiscal 2010 and our backlog on March 31, 2010 was a record \$94,255. Orders in the first quarter of fiscal 2011 were light, at \$8,124 and backlog decreased 5% to \$89,115. We expect fiscal 2011 order levels to continue to be variable by quarter. We do not believe that our markets have begun to fully recover, and while we have seen some improvements in the Middle East, Asia and recently, South America, it is not clear that the recovery has fully taken hold. We also believe the domestic market will be relatively weak for fiscal 2011 and beyond.

Normally, we convert 85% to 90% of existing backlog to sales within a 12-month period. However, we have a few large orders (e.g. the Northrop Grumman for the U.S. Navy project and a few large Middle East refinery orders) that will extend our March 31, 2010 backlog well beyond this normal level. We expect to convert approximately 50% to 60% of our March 31, 2010 backlog to sales in fiscal 2011.

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For fiscal 2011, we continue to expect sales to increase by 5% to 15% to between \$65,000 and \$72,000, when compared with fiscal 2010. The lower end of this range, as well as potential downside risk is tied to our customers releasing projects for production. The upper end of the range, and any potential upside above the expected range, may be achieved by faster conversion of backlog to sales if we commence production and customers are willing to accept earlier than currently planned shipments combined with the receipt of new orders which can convert to sales within the fiscal year.

We expect gross profit margin for fiscal 2011 to be in the 27% to 31% range. This margin level is below fiscal 2010, which had strong margins in the first two quarters resulting from purchasing advantages gained with raw material cost benefits. Our margins in fiscal 2011 will likely be adversely affected by the following:

- A significantly enhanced competitive environment which has been evident through recent orders during the contraction of the industry as competitors have been aggressively pursuing fewer projects;
- A shift toward international markets, where margins are generally lower when compared with domestic projects; and
- Continued expected underutilization of capacity, especially in the first two quarters of fiscal 2011.

We believe to achieve the upper end of our margin projections and potential upside above the range can occur with increased volume to minimize under utilization of capacity, continued improvements in manufacturing productivity, and continued focus and success in error elimination and rework.

Gross profit margins are expected to improve as volume increases throughout fiscal 2011 and beyond. We believe the gross profit margin percentage at the peak of the next cycle will be in the mid-to-upper 30's.

SG&A spending is expected to be between \$12,500 and \$13,000 for fiscal 2011. Our effective tax rate during fiscal 2011 is expected to be between 30% and 33% absent one time adjustments.

Cash flow in fiscal 2011 is expected to be negative due to the drawdown of customer deposits which grew in the fourth quarter of fiscal 2010 from \$5,461 at December 31, 2009 to \$22,022 at March 31, 2010 (and were at nearly the same level, \$21,840, on June 30, 2010). The increase in customer deposits was due to a number of major customers who provided upfront negotiated cash payments to assist in lowering our cost to complete their projects. This cash will be utilized to procure materials for these customers' projects from fiscal 2011 through fiscal 2013. We also expect to spend \$2,800 to \$3,300 in capital spending, above our normal \$1,500 to \$2,000 range, due to a \$1,500 capital project required for the Northrop Grumman project for the U.S. Navy.

Contingencies and Commitments

We have been named as a defendant in certain lawsuits alleging personal injury from exposure to asbestos contained in our products. We are a co-defendant with numerous other defendants in these lawsuits and intend to vigorously defend against these claims. The claims are similar to previous asbestos lawsuits that named us as a defendant. Such previous lawsuits either were dismissed when it was shown that we had not supplied products to the plaintiffs'

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places of work or were settled by us for amounts below expected defense costs. Neither the outcome of these lawsuits nor the potential for liability can be determined at this time.

From time to time in the ordinary course of business, we are subject to legal proceedings and potential claims. As of June 30, 2010, other than noted above, we were unaware of any material litigation matters.

Critical Accounting Policies, Estimates, and Judgments

Our unaudited condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. We believe that the most critical accounting estimates used in the preparation of our condensed consolidated financial statements relate to labor hour estimates used to recognize revenue under the percentage-of-completion method, accounting for contingencies, under which we accrue a loss when it is probable that a liability has been incurred and the amount can be reasonably estimated, and accounting for pensions and other postretirement benefits. For further information, refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8 “Financial Statements and Supplementary Data” included in our Annual Report on Form 10-K for the year ended March 31, 2010.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of June 30, 2010 or March 31, 2010, other than operating leases.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The principal market risks (i.e., the risk of loss arising from changes in the market) to which we are exposed are foreign currency exchange rates, price risk and project cancellation risk.

The assumptions applied in preparing the following qualitative and quantitative disclosures regarding foreign currency exchange rate, price risk and project cancellation risk are based upon volatility ranges experienced by us in relevant historical periods, our current knowledge of the marketplace, and our judgment of the probability of future volatility based upon the historical trends and economic conditions of the markets in which we operate.

Foreign Currency

International consolidated sales for the first quarter of fiscal 2011 were 59% of total sales compared with 49% for the same period of fiscal 2010. Operating in markets throughout the world exposes us to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being our ability to compete for orders against foreign competitors that base their prices on relatively weaker currencies. Business lost due to competition for orders against competitors using a relatively weaker currency cannot be quantified. In addition, cash can be adversely impacted by the conversion of sales made by us in a foreign currency to U.S. dollars. In the first quarter of each of fiscal 2011 and fiscal 2010, all sales by the Company and its wholly-owned subsidiary, for which we were paid, were denominated in the local currency (U.S. dollars or Chinese RMB). At certain times, we may enter into forward foreign currency exchange agreements to hedge our exposure against potential unfavorable changes in foreign currency values on significant sales contracts negotiated in foreign currencies.

We have limited exposure to foreign currency purchases. In the first quarter of fiscal 2011 and 2010, our purchases in foreign currencies represented 2% and 1%, respectively, of the cost of products sold. At certain times, we may utilize forward foreign currency exchange contracts to limit currency exposure. Forward foreign currency exchange contracts were not used in the periods being reported on in this Quarterly Report on Form 10-Q and as of June 30, 2010 and March 31, 2010, we held no forward foreign currency contracts.

Price Risk

Operating in a global marketplace requires us to compete with other global manufacturers which, in some instances, benefit from lower production costs and more favorable economic conditions. Although we believe that our customers differentiate our products on the basis of our manufacturing quality and engineering experience and excellence, among other things, such lower production costs and more favorable economic conditions mean that certain of our competitors are able to offer products similar to ours at lower prices. Moreover, the cost of metals and other materials used in our products have experienced significant volatility. Such factors, in addition to the global effects of the recent volatility and disruption of the capital and credit markets, have resulted in downward demand and pricing pressure on our products.

Project Cancellation and Project Continuation Risk

Recent economic conditions have led to a higher likelihood of project cancellation by our customers. As described in Note 2 to the Condensed Consolidated Financial Statements included in Item 1 of this report, we had one project for \$1,588 cancelled in the first quarter of

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fiscal 2011. In the first quarter of fiscal 2010, one project was cancelled, totaling \$519. We attempt to mitigate the risk of cancellation by structuring contracts with our customers to maximize the likelihood that progress payments made to us for individual projects cover the costs we have incurred. As a result, we do not believe we have a significant cash exposure to projects which may be cancelled.

Open orders are reviewed continuously through communications with customers. If it becomes evident to us that a project is delayed well beyond its original shipment date, management will move the project into “placed on hold” (i.e., suspended) category. Furthermore, if a project is cancelled by our customer, it is removed from our backlog.

Item 4. Controls and Procedures

Conclusion regarding the effectiveness of disclosure controls and procedures

Our President and Chief Executive Officer (principal executive officer) and Vice President-Finance & Administration and Chief Financial Officer (principal financial officer) each have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, and as of such date, our President and Chief Executive Officer and Vice President-Finance & Administration and Chief Financial Officer concluded that our disclosure controls and procedures were effective in all material respects.

Changes in internal control over financial reporting

There has been no change to our internal control over financial reporting during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

June 30, 2010

PART II — OTHER INFORMATION

Item 5. Other Information

On July 28, 2010, the Compensation Committee of our Board of Directors approved an Amended and Restated Employment Agreement (the “Amended Agreement”) for Jeffrey Glajch, our Vice President, Finance & Administration and Chief Financial Officer. The Amended Agreement contains such terms as are described in our definitive Proxy Statement filed with the Securities and Exchange Commission on June 14, 2010 under the heading “Compensation of Named Executive Officers and Directors - Compensation Discussion and Analysis — Employment Agreements — Jeffrey Glajch”, which description is incorporated herein by reference. In addition, the Amended Agreement provides that, upon the occurrence of a triggering event that would be deemed an event of “termination” within two years after a “change in control” of the Company, as such terms are defined in the Amended Agreement, Mr. Glajch would be entitled to certain payments, including, among other things, a lump sum payment equal to one dollar less than three times his annualized tax-includable compensation (including bonus) for the five most recent taxable years ending before the date of such change in control. In addition, upon a change of control, all of Mr. Glajch’s unvested stock options would become immediately vested and exercisable and any unvested shares of restricted stock would become immediately vested. We would also be required to pay to Mr. Glajch within six months of the triggering event a lump sum payment amount equal to the excess, if any, of: (i) the present value of the aggregate benefits to which he would be entitled under any and all qualified and non-qualified defined contribution pension plans maintained by us as if he were 100% vested under such plans, over (ii) the present value of the benefits to which he is actually entitled under such defined contribution pension plans as of the date of his termination. The Amended Agreement also contains certain limitations for these payments that relate to our ability to deduct such payments for federal income tax purposes as well as other terms and conditions customarily found in similar agreements. The information included in this Part II Item 5 is contained herein in satisfaction of the Company’s Current Report on Form 8-K reporting obligation under Item 5.02.

A copy of the Amended Agreement is attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q and the above description is qualified in its entirety by reference to such Amended Agreement.

Item 6. Exhibits

See index to exhibits on page 28 of this report.

SIGNATURES

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

GRAHAM CORPORATION

By: /s/ Jeffrey Glajch

Jeffrey Glajch
Vice President-Finance & Administration and Chief Financial
Officer

Date: August 3, 2010

INDEX OF EXHIBITS

(10) Material Contracts

- * 10.1 Form of Employee Performance-Vested Restricted Stock Agreement
- * 10.2 Amended and Restated Employment Agreement between Graham Corporation and Jeffrey F. Glajch executed and effective on July 29, 2010.

(31) Rule 13a-14(a)/15d-14(a) Certifications

- * 31.1 Certification of Principal Executive Officer
- * 31.2 Certification of Principal Financial Officer

(32) Section 1350 Certifications

- * 32.1 Section 1350 Certifications

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- * Exhibits filed with this report.

RESTRICTED STOCK AGREEMENT
(Employee — Performance Vesting)

This RESTRICTED STOCK AGREEMENT (this "Agreement") is made and entered into as of the ___ day of ___, 201___ (the "Grant 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 (the "Company") and _____ (the "RSA Holder").

WITNESSETH :

WHEREAS, by action of its Board of Directors (the "Board"), the Company has adopted the 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, as amended and restated (the "Plan"), pursuant to which Restricted Stock Awards ("RSAs") 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 (the "Committee") has been appointed to select the individuals to whom RSAs shall be granted and to prescribe the terms and conditions of such grants; and

WHEREAS, the Committee has determined that the RSA Holder is eligible to be granted an RSA and desires to grant an RSA to the RSA Holder, and the RSA Holder desires to accept such grant, on the terms and conditions hereinafter set forth;

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

Section 1. Grant of RSA. As of the date set forth above, the Company hereby grants, and the RSA Holder hereby accepts the Company's grant of, an RSA of ___ Shares (the "Restricted Shares"), on the terms and conditions hereinafter set forth.

Section 2. Restrictions and Vesting.

(a) Subject to the terms set forth in this Agreement, provided that the RSA Holder is still a full-time employee of the Company at that time, the Payout Percentage of the number of Restricted Shares will vest on the last day of the Company's 2013 fiscal year (the "Vesting Date"). The Payout Percentage shall be the sum of the EBIT Percentage and the Net Income Percentage.

(b) The EBIT Percentage shall be based on the Company's EBIT margin for the Company's 2013 fiscal year compared to the EBIT margin of the Baird Industrial Company Composite for calendar year 2012 as follows:

EBIT Margin

Performance Share Payout

EBIT Percentage

[Insert Table For Individual Awards]

If the EBIT Margin is equal to or greater than the level to have some EBIT Percentage, but less than or equal to the maximum level, and the EBIT Margin actually attained is not represented in the table set forth above, then the EBIT Percentage shall be determined by straight-line interpolation from the amounts specified in such table immediately less than and greater than the EBIT Margin actually attained.

(c) The Net Income Percentage shall be based on the Company's net income for the Company's 2013 fiscal year as follows:

FY13 Net Income	Performance Share Payout	Net Income Percentage
------------------------	---------------------------------	------------------------------

[Insert Table For Individual Awards]

If the FY13 Net Income is equal to or greater than the level to have some Net Income Percentage, but less than or equal to the maximum level, and the FY13 Net Income actually attained is not represented in the table set forth above, then the Net Income Percentage shall be determined by straight-line interpolation from the amounts specified in such table immediately less than and greater than the FY13 Net Income actually attained.

(d) (i) Upon the date that the RSA Holder becomes eligible for Retirement, a portion of the outstanding Restricted Shares under this Agreement shall immediately vest in full. Such portion shall be the number of shares with a Fair Market Value on such date equal to the minimum tax required to be withheld by the Company on the Fair Market Value of the Restricted Shares that would vest upon the Retirement of the RSA Holder on such date pursuant to Section 2(d)(ii). The Company shall deduct and apply the shares that so vest to cover the tax withholding. For purposes of this Agreement, "Retirement" shall mean a voluntary separation from service by the RSA Holder when he or she is at least age 60 and has been employed by the Company on a full-time basis for ten or more years.

(ii) Upon the death, Disability or Retirement of the RSA Holder:

(A) the EBIT Margin shall be deemed to have met performance at the Target level, and the EBIT Percentage shall be 25%;

(B) the FY13 Net Income shall be deemed to have met performance at the Target level, and the Net Income Percentage shall be 25%; and

(C) the number of Restricted Shares that vest shall be equal to the number of outstanding Restricted Shares under this Agreement, multiplied by the Payout Percentage, multiplied by a fraction, the numerator of which shall be the number of days from the Grant Date through the date of the RSA Holder's death, Disability or Retirement, over the number of days from the Grant Date through the last day of the Company's 2013 fiscal year.

(c) Except as otherwise provided by Section 2(b), or unless the Committee determines otherwise, if the RSA Holder's employment terminates before the Vesting Date for any reason, the unvested Restricted Shares as of such date shall be forfeited and cancelled immediately.

Section 3. Rights as a Stockholder. The RSA Holder will have the rights of a stockholder with respect to the Restricted Shares, including, but not limited to, the right to receive such cash dividends, if any, as may be declared on such Shares from time to time and the right to vote (in person or by proxy) such Restricted Shares at any meeting of stockholders of the Company.

Section 4. Restrictions on Transfer of Restricted Shares. The Restricted Shares, and the right to vote the Restricted Shares and to receive dividends thereon, may not, except as otherwise provided in the Plan, be sold, assigned, transferred, pledged or encumbered in any way prior to the Vesting Date, whether by operation of law or otherwise, except by will or the laws of descent and distribution. The RSA Holder agrees that until the Vesting Date, any certificate representing the Restricted Shares (or any portion thereof) will be held by the Company's stock transfer agent or other representative of the Company (the "RSA Agent") until the applicable performance is satisfied and the Company's provides written authorization to such RSA Agent.

Section 5. Registration and Delivery of Restricted Shares. The Company's obligation to deliver Shares under this Agreement and/or authorize the RSA Agent to release Restricted Shares shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the RSA Holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be reasonably 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 6. Adjustments in the Event of Reorganization. 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 Restricted Shares shall be adjusted to account for such event. Such adjustment shall be effected by multiplying such number of Restricted 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.

Section 7. 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 RSA Holder any right to a continuation of employment by the Company or any of its affiliates which employ the RSA Holder. The RSA Holder may be dismissed or otherwise dealt with as though this Agreement had not been entered into.

Section 8. Taxes. Where any person is entitled to receive Shares pursuant to the RSA 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 9. No Assignment. The RSA granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such RSA be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the RSA Holder other than by will or by the laws of descent and distribution.

Section 10. 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: Chief Accounting Officer

(b) If to the RSA Holder, to the RSA Holder's then current residential address as set forth in the Company's personnel records.

Section 11. Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the Company and the RSA Holder and their respective heirs, successors and assigns.

Section 12. 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 13. 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 14. 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 RSA Holder.

Section 15. 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 RSA Holder acknowledges receipt of a copy of the Plan.

Section 16. Acceptance by RSA Holder. By executing this Agreement and returning a fully executed copy hereof to the Committee at the address specified in section 10, the RSA Holder signifies his acceptance of the terms and conditions of this RSA. 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 RSA Holder, the Committee may revoke the RSA granted, and thereby avoid all obligations, hereunder.

IN WITNESS WHEREOF, the RSA 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: _____
James R. Lines
President and Chief Executive Officer

ATTEST:

Assistant Secretary

[SEAL]

RSA HOLDER

Name:

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of July 29, 2010, by and between Graham Corporation, a Delaware corporation with its principal place of business at 20 Florence Avenue, Batavia, New York 14020 (the "Company"), and Jeffrey F. Glajch, (the "Executive").

WHEREAS, the Company and the Executive desire amend and restate that certain Employment Agreement dated as of March 2, 2009 and enter into this Agreement to describe the employment relationship and obligations of the parties.

NOW, THEREFORE, the parties hereto, intending to be legally bound and in consideration of the mutual covenants herein contained, agree as follows:

1. Employment. The Company hereby agrees to continue to employ the Executive and the Executive hereby agrees to continue employment as the Company's Vice President, Finance and Administration and Chief Financial Officer, upon the terms and conditions hereinafter set forth.

2. Duties.

(a) The Executive shall have authority and responsibility for all aspects of the Company's financial reporting and analysis, accounting and control systems, information technology and human resources and shall report directly to the Company's President and Chief Executive Officer. The Executive shall perform such duties generally consistent with Executive's title and as may from time to time be required of the Executive by the President and Chief Executive Officer or by the Board of Directors (the "Board") of the Company. The Executive's office shall be located at the Company's principal place of business in Batavia, New York. The Executive agrees to travel to the extent reasonably necessary for the performance of his duties. The Executive shall devote his full time to the business and affairs of the Company and shall use his best efforts, skill and ability in performing his duties on behalf of the Company.

(b) The Executive agrees that the Company, in its discretion, may apply for and procure in its own name and for its own benefit, life insurance on the life of the Executive in any amount or amounts considered advisable, and that he shall have no right, title or interest therein. The Executive further agrees to submit to any medical or other examination and to execute and deliver any application or other instrument in writing, reasonably necessary to effectuate such insurance, provided such actions do not materially harm the Executive's ability to otherwise obtain or retain personal life insurance.

3. Term.

(a) Except as otherwise provided in this Agreement to the contrary, this Agreement shall be and remain in effect during the period of employment (the "Term") established under this Section 3.

(b) Except as provided in Section 3(c), beginning on the effective date of this Agreement, the Term shall be for one year and shall be automatically extended each day that this Agreement is in effect (such that while this Agreement is in effect the remaining Term shall never be less or greater than one year), unless either the Company, or the Executive, respectively,

elects not to extend the Term further by giving written notice to the other party, in which case the Term shall end on the first anniversary of the date on which such written notice is given; provided, however, that in any event, the Term shall end on the last day of the month in which the Executive attains the age of 65.

(c) Notwithstanding anything herein contained to the contrary, (i) this Agreement may be terminated during the Term as provided for herein and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Executive's employment following the expiration of the Term upon such terms and conditions as the Company and the Executive may mutually agree upon.

4. **Base Compensation.** As the base compensation for all services to be rendered by the Executive to the Company, the Company agrees to pay to the Executive, and the Executive accept, a salary at a rate of \$216,300 per annum, payable in arrears in equal monthly installments of \$18,025 each, subject to such deductions and withholdings as may be required by law. Periodically, the Board will review the salary of the Executive, taking into consideration such factors as the Executive's performance and such other matters as it deems relevant and, in its discretion alone, may increase the salary of the Executive to such rate as the Board deems proper; provided that the Company shall in no event be required to grant any such increase.

5. **Incentive Compensation.**

(a) *Bonus.* The Executive shall be eligible to receive bonuses and awards under the Company's bonus plans or arrangements as may be in effect from time to time, including the Company's Annual Executive Cash Bonus Program, as may be from time to time determined by the Board or a committee thereof.

(b) *Long-Term Incentive Compensation.* The Executive shall be eligible to participate in any long-term incentive compensation plan generally made available to similarly situated executive officers of the Company in accordance with and subject to the terms of such plans, including the Company's Annual Stock-Based Incentive Award Plan for Senior Executives, as may from time to time be determined by the Board or a committee thereof.

(c) *Other Compensation.* The Company may, upon recommendation of the Board or a committee thereof, award to the Executive such other bonuses and compensation as it deems appropriate and reasonable.

6. **Benefits.** During the term of this Agreement, the Company shall provide the following benefits to the Executive:

(a) *Medical*. The Company will provide the Executive health coverage for himself and his family in accordance with the Company's health and medical insurance plans, as the same may be in effect from time to time. The Executive shall be responsible for paying the employee portion of the premiums for such health and medical insurance plans.

(b) *Vacation*. Executive shall be entitled to vacation in accordance with the Company's general vacation policies and practices as may be in effect from time to time. For vacation policy purposes only, the Executive shall be credit with 15 years of service as of the date his employment with the Company commenced.

(c) *General Benefits*. The Executive shall be entitled to participate in all employee benefit plans and arrangements of the Company that may be in effect from time to time

and as may from time to time be made available to the other similarly situated executive officers of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements.

(d) *No Limitation of Company's Rights.* Nothing in this Section 6 shall be construed to limit or restrict the complete discretion of the Company to amend, modify or terminate any employee benefit plan or plans of the Company where such action generally affects plan participants or employees, including the Executive.

(e) *Insurance.* The Company shall provide Executive with \$2,500 per annum for the purpose of Executive procuring a term insurance policy that names such person(s) of Executive's choosing as beneficiary(ies).

7. *Travel Expenses.* The Company shall pay or reimburse the Executive for all reasonable and necessary travel and other expenses incurred or paid by the Executive in connection with the performance of his duties under this Agreement upon presentation of expense statements or vouchers and such other supporting information as the Company may from time to time reasonably request. However, the amount available for such travel and other expenses may be fixed in advance by the Company.

8. *Termination.* This Agreement shall terminate prior to the Term expiration date, hereinabove set forth, in the event that the Executive shall die or the Board shall reasonably determine that the Executive has become disabled, or if the Executive's employment shall be terminated for cause or without cause, as hereinafter provided.

(a) *Disability.* The Board may determine that the Executive has become disabled, for purposes of this Agreement, in the event that the Executive shall fail, because of illness or incapacity, to render for three successive months, or for shorter periods aggregating three months or more in any period of twelve months, services of the character contemplated by this Agreement; and thereupon this Agreement and all rights of the Executive hereunder shall be deemed to have been terminated as of the end of the calendar month in which such determination is made.

(b) *For Cause.* The Board may dismiss the Executive for cause in the event that it determines that there has been willful misconduct by the Executive in connection with the performance of his duties hereunder, or any other conduct on the part of the Executive which has been materially injurious to the Company; and thereupon this Agreement shall terminate effective upon the delivery to the Executive of 30-day written notice that the Board has made such determination. For purposes of this Agreement, "cause" shall be determined only by a good faith finding thereof by the Board, which shall afford the Executive the opportunity to appear before it prior to finalizing any such determination.

(c) *Without Cause.* The Executive may resign without cause at any time upon 30 days' written notice to the Company, in which event the Company's obligation to compensate him ceases on the effective date of his termination except as to amounts due to him under Section 8(c)(i). In the event that the Company dismisses the Executive other than for cause, or if the Executive resigns because of a material breach of this Agreement by the Company (which Executive may do only if such breach remains materially uncured after the Executive has provided 30 days prior written notice to the Board), and the Executive's dismissal or resignation qualifies as a "separation from service" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations and other official guidance issued thereunder (collectively, "Section 409A"), then the Company shall provide to the Executive:

(i) payment of the compensation due to him through the effective date of the termination of the Executive's employment, within ten business days following such effective date of the termination of the Executive's employment;

(ii) continuation of the Executive's salary for twelve months following the effective date of the termination of the Executive's employment at the higher of the rate specified in Section 4 or the highest salary rate in effect for the Executive during the one-year period preceding the termination of his employment, which salary continuation shall be paid monthly in accordance with the Company's regular payroll practices

(iii) payment of any Accrued Bonus (as defined below), to be paid as soon as administratively practicable after the six-month anniversary of the effective date of the termination of the Executive's employment. Accrued Bonus shall mean any amount of bonus with respect to any year prior to the year in which dismissal without cause occurs ("Prior Bonus Year") calculable by applying the formula prescribed by the Company's incentive compensation plan as it existed on December 31 of such Prior Bonus Year and employing in the application of such formula the goals, ratios and weighting percentages and other variable figures which the bonus plan calls for the Company's Board or any committee thereof to determine annually ("Bonus Plan Variables") which the Company's Board of Directors or any committee thereof adopted for purposes of the bonus plan prior to December 31 of such Prior Bonus Year. Notwithstanding any other provision of this Section, no Accrued Bonus shall be payable pursuant to this Section 8(c) for any Prior Bonus Year with respect to which a bonus amount was paid to and accepted by the Executive.

(iv) Notwithstanding anything to the contrary, to the extent that any payments under Section 8(c) are subject to a six-month waiting period under Section 409A, any such payments that would be payable before the expiration of six months following the Executive's separation from service but for the operation of this sentence shall be made during the seventh month following the Executive's separation from service

(d) In the event that the provisions of this Section 8(c) are triggered, the Executive shall resign from all offices and directorships of the Company and of all subsidiaries and affiliates of the Company, upon payment to the Executive of the amount referred to in Section 8(c)(i).

(e) *Release of Claims.* The Company's obligation to provide the payments under this Section 8 is conditioned upon the Executive's execution of an enforceable release of all claims (and upon the expiration of all applicable rescission periods contained in such release) and his compliance with all provisions of this Agreement. If the Executive chooses not to execute such a release (or rescinds such release) or fails to comply with these provisions, then the Company's obligation to compensate him ceases on the effective date of his termination except as to amount due to him under Section 8(c)(i).

(f) *Return of Confidential Documentation.* Upon termination of his employment for any reason whatsoever, the Executive shall return to the Company all working papers, computer equipment, notebooks, strategic plans and other confidential documents and information, in any form whatsoever.

9. Change in Control.

(a) *Continuation by Executive of Employment Pending Change in Control* In the event a person begins a tender or exchange offer, circulates a proxy to stockholders, or takes other steps seeking to effect a Change in Control (as hereinafter defined), the Executive agrees that he will not voluntarily leave the employ of the Company, and will render the services contemplated in this Agreement, until such person has either abandoned or terminated his or its efforts to effect a Change in Control or until three months after a Change in Control has occurred.

(b) *Post-Change in Control Termination Benefits* In addition to the benefits otherwise payable to the Executive (other than Sections 8(c)(ii) and (iii)) pursuant to this Agreement, upon the event of a Termination (as hereinafter defined) of the Executive's employment with the Company within two years after a Change in Control

(i) The Company will pay to the Executive as compensation for services rendered to the Company a lump sum (subject to any applicable payroll or other taxes required to be withheld) in an amount equal to (i) one dollar less than three times the Executive's annualized tax-includable compensation, including bonus compensation, for the five most recent taxable years ending before the date of the Change in Control; or (ii) if the Executive was employed by the Company for less than five years, one dollar less than three times the Executive's annualized tax includable compensation including bonus compensation for the period during which the individual was continuously employed by the Company and ending on the date of the Change in Control of the Company. The payment shall be made as soon as administratively practicable after the six-month anniversary of the effective date of the termination of the Executive's employment. In the event the Executive dies prior to receiving the lump sum payment, but following the occurrence of any event requiring the Company to make the payment required by this Section 9(b)(i), the payment provided for by this Section 9(b)(i) shall be paid to the Executive's estate as soon as administratively practicable after the date of the Executive's death. The payment under this Section 9(b)(i) shall be made in lieu of the payments provided for by Sections 8(c)(ii) and (iii).

(ii) The Company shall accelerate and make immediately exercisable in full any unvested stock options or shares of restricted stock that the Executive then holds. Accelerated stock options shall be exercisable by the Executive in accordance with their terms.

(iii) The Company shall pay and provide to the Executive (or, in the event of his death, to his estate) as soon as administratively practicable after the six-month anniversary of the effective date of the termination of the Executive's employment (or, in the event of his death, as soon as administratively practicable after the date of his death), a lump sum payment in an amount equal to the excess, if any, of:

(1) the value of the aggregate benefits to which he would be entitled under any and all qualified and non-qualified defined contribution pension plans maintained by, or covering employees of, the Company if he were 100 percent vested thereunder, such benefits to be determined as of the date of termination of employment; or

(2) the value of the benefits to which he is actually entitled under such defined contribution pension plans as of the date of his termination.

(iv) The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, nor shall any payments under this Agreement be reduced on account of any compensation,

benefits or service credits for benefits from any employment that the Executive may obtain following his Termination.

(v) The Company's obligation to provide the payments under this Section 9(b) is conditioned upon the Executive's execution of an enforceable release of all claims (and upon the expiration of all applicable rescission periods contained in such release) and his compliance with all provisions of this Agreement. If the Executive chooses not to execute such a release (or rescinds such release) or fails to comply with these provisions, then the Company's obligation to compensate him ceases on the effective date of his termination except as to amount due to him under Section 8(c)(i).

(c) Definitions.

(i) For the purposes of this Agreement, the term "Change in Control" shall mean:

(1) any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Company, a subsidiary, or any employee benefit plan(s) sponsored by the Company or any subsidiary, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) 30 percent or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote at the election of directors;

(2) individuals who constitute the Board on the effective date of this Agreement (the "Incumbent Board") have ceased for any reason to constitute at least a majority thereof (or a majority of the Board as then constituted), provided that any person becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director without objection to such nomination) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board;

(3) the closing of a reorganization, merger or consolidation of the Company, other than one with respect to which all or substantially all of those persons who were the beneficial owners, immediately prior to such reorganization, merger or consolidation, of outstanding securities of the Company ordinarily having the right to vote in the election of directors own, immediately after such transaction, more than three-quarters of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors;

(4) the closing of a sale or other disposition of all or substantially all of the assets of the Company, other than to a subsidiary; or

(5) the complete liquidation and dissolution of the Company.

(ii) For the purposes of this Section 9, the term "Termination" shall mean termination by the Company of the employment of the Executive with the Company (including its subsidiaries) for any reason other than death, disability or cause (as defined herein), or resignation of the Executive, that qualifies as a "separation from service" for purposes of Section 409A, upon the occurrence of either of the following events:

(1) A change in the nature or scope of the Executive's authority from that prior to a Change in Control, a reduction in the Executive's total compensation (including all and any base compensation, bonuses, incentive compensation and benefits of any kind or nature whatsoever) from that prior to a Change in Control, or failure of the Company to make any increase in compensation to which the Executive may be entitled under any employment agreement, or a change requiring the Executive to perform services other than in Batavia, New York or in any location more than thirty miles distant from Batavia, New York by road, except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations; or

(2) A reasonable determination (as defined below) by the Executive that, as a result of a Change in Control and a change in circumstances thereafter significantly affecting his position, he is unable to exercise the authority, powers, function or duties attached to his position.

(iii) Termination of employment by the Executive in his "reasonable determination" shall mean termination based on:

(1) subsequent to a Change in Control of the Company, and without the Executive's express written consent, the assignment to him of any duties inconsistent with his positions, duties, responsibilities and status with the Company immediately prior to a Change in Control, or a change in the Executive's reporting responsibilities, titles, or offices as in effect immediately prior to a Change in Control, or any removal of the Executive from or any failure to re-elect him to any of such positions, except in connection with the termination of his employment for cause, disability or retirement or as a result of his death or by the Executive other than in a reasonable determination; or

(2) subsequent to a Change in Control of the Company, a reduction by the Company in the Executive's base salary as in effect on the date hereof or as the same may be increased from time to time, or failure of the Company to make an increase in compensation to which the Executive may be entitled under any employment agreement; or

(3) subsequent to a Change in Control of the Company, a failure by the Company to continue any bonus plans in which the Executive is presently entitled to participate (the "Bonus Plans") as the same may be modified from time to time but substantially in the forms currently in effect, or a failure by the Company to continue the Executive as a participant in the Bonus Plans on at least the same basis as he presently participates in accordance with the Bonus Plans; or

(4) subsequent to a Change in Control of the Company, the failure by the Company to continue in effect (subject to such changes as may be required by law from time to time) any benefit or compensation plan, stock ownership plan, stock purchase plan, stock option plan, life insurance plan, health-and-accident plan or disability plan in which the Executive is participating at the time of Change in Control of the Company (or plans providing him with substantially similar benefits), the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce his benefits under any of such plans or deprive him of any material fringe benefit enjoyed by him at the time of the Change in Control, or the failure by the Company to provide him with the number of paid vacation days to which he is then entitled in accordance with the Company's normal vacation policy in effect on the date hereof; or

(5) prior to a Change in Control of the Company, the failure by the Company to obtain the assumption of the agreement to perform this Agreement by any successor as contemplated in Section 17.

(d) Golden Parachute Limitation.

(i) In the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any payment by the Company under this Section 9(d) to or for the benefit of the Executive would be nondeductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in Section 280G of the Code, then the total amount of all payments under this Section 9(d) shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Section 9(d), the "Reduced Amount" shall be the amount that maximizes the total amount of the payments without causing any payment to be nondeductible by the Company because of Section 280G of the Code.

(ii) If the Auditors determine that any payment under this Section 9(d) would be nondeductible by the Company because of Section 280G of the Code, then the Company shall promptly give the Executive notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Executive may then elect, in his sole discretion, which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall advise the Company in writing of his election within ten days of receipt of notice. If no such election is made by the Executive within such ten-day period, then the Company may elect which and how much of the payments under this Section 9(d) shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall notify the Executive promptly of such election. All determinations made by the Auditors under this Section 9(d) shall be binding upon the Company and the Executive and shall be made within 60 days of the date when a payment becomes payable.

As a result of uncertainty in the application of Section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that payments will have been made by the Company that should not have been made (an "Overpayment") or that additional payments that will not have been made by the Company could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Executive which he or she shall repay to the Company, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Executive to the Company if and to the extent that such payment would not reduce the amount subject to taxation under Section 4999 of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Executive, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code.

(e) Notwithstanding anything to the contrary, to the extent that any payments under Section 9 are subject to a six-month waiting period under Section 409A, any such payments that would be payable before the expiration of six months following the Executive's separation from service but for the operation of this sentence shall be made during the seventh month following the Executive's separation from service

(10) Covenants of Executive. The Executive acknowledges that: (i) the business of the Company and its affiliates, as currently conducted and as conducted from time to time throughout the term of this Agreement (collectively, the "Business"), is conducted by and is proposed to be conducted by the Company on a world-wide basis (the "Company's Market"); (ii) the Business involves providing design, engineering and manufacture of certain vacuum and heat transfer equipment, including but not limited to steam condensers, steam jet ejectors, shell and tube heat exchangers, plate and frame heat exchangers, Heliflow heat exchangers, liquid ring vacuum pumps and rotary piston pumps; (iii) the Company has developed trade secrets and confidential information concerning the Business; and (iv) the agreements and covenants contained in this Section 10 are essential to protect the Business. In order to induce the Company to enter into this Employment Agreement, the Executive covenants and agrees that:

(a) *Agreement Not To Compete*. For a period of 18 months after the termination of Executive's employment with the Company for any reason (such period of time hereinafter referred to as the "Restricted Period"), neither the Executive nor any entity of which 20 percent or more of the beneficial ownership is held by the Executive or a person related to the Executive by blood or marriage ("Controlled Entity") will, anywhere in the Company's Market, directly or indirectly own, manage, operate, control, invest or acquire an interest in, or otherwise engage or participate in, whether as a proprietor, partner, stockholder, director, officer, member manager, employee or otherwise any business which competes in the Company's Market with the Business, without the prior written consent of the Company. Notwithstanding any other provisions of this Agreement, the Executive may make a passive investment in any publicly-traded company or entity in an amount not to exceed five percent of the voting stock of any such company or entity.

(b) *Agreement Not To Interfere in Business Relationships*.

(i) During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly solicit, induce or influence any customer, or any other person which has a business relationship with the Company or any affiliate, or which had on the date of this Agreement such a relationship with the Company or any affiliate, to discontinue or reduce the extent of such relationship with the Company or any affiliate in the Company's Market.

(ii) During the Restricted Period, neither the Executive nor any Controlled Entity will (1) directly or indirectly recruit, solicit or otherwise induce or influence any stockholder or employee of the Company or any of its affiliates to discontinue such employment or other relationship with the Company or any affiliate, or (2) employ or seek to employ, or cause any business which competes in the Company's Markets to employ or seek to employ for any reason, any person who is then (or was at any time within six months prior to the date the Executive or such business employs or seeks to employ such person) employed by the Company or any affiliate without the prior written consent of the Company.

(c) *Confidentiality*. During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly disclose to anyone, or use or otherwise exploit for the Executive's or any Controlled Entity's own benefit or for the benefit of anyone other than the Company, any confidential information, including, without limitation, any confidential "know-how", trade secrets, customer lists, details of customer contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans and new personnel acquisition plans of the Company or any affiliate related to the Business or any portion or phase of any scientific, engineering or technical information, design, process, procedure, formula, improvement, discovery, invention, machinery or device of

the Company or any affiliate, whether or not in written or tangible form (all of the preceding is hereinafter referred to as "Confidential Information"). The term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that becomes generally available to the public or the Company's competitors other than as a result of a disclosure by the Executive or a Controlled Entity or any agent or other representative thereof. Neither the Executive nor any Controlled Entity shall have any obligation hereunder to keep confidential any Confidential Information to the extent disclosure is required by law, or determined in good faith by the Executive to be necessary or appropriate to comply with any legal or regulatory order, regulation or requirement; provided, however, that in the event disclosure is required by law, the Executive or the Controlled Entity concerned shall provide the Company with prompt advance written notice of such requirement so that the Company may seek an appropriate protective order. It is understood that in any new employment, the Executive may use his ordinary skill and non-confidential knowledge, even though said skill and non-confidential knowledge may have been gained at the Company. The Executive's obligations under this Section 10(c) shall be in addition to, not in substitution for, any common law fiduciary duties the Executive has to the Company regarding information acquired during the course of his employment.

(d) *Intellectual Property.* The Executive shall communicate to the Company full information concerning all inventions, improvements, discoveries, formulas, processes, systems of organization, management procedures, software or computer applications (hereinafter, collectively, "Intellectual Property") made or conceived by him either solely or jointly with others while in the employ of the Company, whether or not perfected during his period of employment and which shall be within the existing or contemplated scope of the Company's business during his employment. The Executive will assist the Company and its nominees in every way at the Company's expense in obtaining patents for such Intellectual Property as may be patentable in any and all countries and the Executive will execute all papers the Company may desire and assignments thereof to the Company or its nominees and said Intellectual Property shall be and remain the property of the Company and its nominees, if any, whether patented or not or assigned or not.

(e) *Survival of Covenants.* In the event of a termination of this Agreement, the covenants and agreements contained in this Section 10 and in Section 9 and Sections 12 through 20 shall survive, shall continue thereafter, and shall not expire unless and except as expressly set forth in this Section.

(f) *Remedies.* The parties to this Agreement agree that (i) if either the Executive or any Controlled Entity breaches any provision of this Section 10, the damage to the Company and its affiliates will be substantial, although difficult to ascertain, and money damages will not afford an adequate remedy, and (ii) if either the Executive or any Controlled Entity is in breach of this Agreement, or threatens a breach of this Agreement, the Company shall be entitled in its own right and/or on behalf of one or more of its affiliates, in addition to all other rights and remedies as may be available at law or in equity, to (1) injunctive and other equitable relief to prevent or restrain a breach of this Agreement and (2) may require the breaching party to pay damages as the result of any transactions constituting a breach hereof.

(11) *Indemnification of Executive.* In the event the Executive is terminated for any reason, (a) the Company will hold harmless and indemnify the Executive for all third party claims, actions or other proceedings against the Executive initiated either prior to the termination of employment or thereafter which relate to duties performed in good faith by the Executive while employed by the Company; and (b) the Company will retain the Executive as named insured under any directors' and officers' insurance policies it may have, for acts of the

Executive during the time he served as an officer of the Company. Additionally, all reasonable legal and other costs incurred by the Executive to defend himself will be paid by the Company, as the Executive is billed for such costs, within ten days of periodic submission to the Company of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such defense.

(12) Effect of Waiver. The waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

(13) Notice. Any and all notices provided for herein shall be in writing and shall be physically delivered or mailed by registered or certified mail, return receipt requested to the parties at their respective addresses set forth hereinabove. Either party may from time to time designate a different address for notices to be sent to such party by giving the other party due notice of such different address.

(14) Modification and Assignment. This Agreement shall not be modified or amended except by an instrument in writing signed by the parties hereto. This Agreement and all of its terms and conditions shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns, including but not limited to any corporation or other entity with or into which the Company is merged or consolidated or any other successor of the Company. The Executive agrees that he will not and may not assign, transfer or convey, pledge or encumber this Agreement or his right, title or interest therein, or his power to execute the same or any monies due or to become due hereunder, this Agreement being intended to secure the personal services of the Executive, and the Company shall not recognize any such assignment, transfer, conveyance, pledge or encumbrance.

(15) Applicable Law. This Agreement and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York, without giving effect to the conflict of laws provisions thereof. Any action or proceeding brought by either party against the other arising out of or related to the Agreement shall be brought only in a state court of competent jurisdiction located in the County of Monroe, State of New York or the Federal District Court for the Western District of New York located in Monroe County, New York and the parties hereby consent to the personal jurisdiction and venue of said courts.

(16) Prior Agreements. This Agreement shall supersede any prior employment agreement, arrangement or understanding between the Company and the Executive, without limitation, and shall be effective from the date specified hereinabove.

(17) Business Combinations. In the event of any sale, merger or any form of business combination affecting the Company, including without limitation the purchase of assets or any other form of business combination, the Company will obtain the express written assumption of this Agreement by the acquiring or surviving entity from such combination, and failure of the Company to obtain such an assumption will constitute a breach of this Agreement, entitling the Executive to all payments and other benefits to be provided in the event of termination without cause provided in Section 9(c).

(18) Section 409A. This Agreement is intended to comply with Section 409A to the extent its provisions are subject to that law. The parties agree that they will negotiate in good faith regarding amendments necessary to bring this Agreement into compliance with the terms of that Section or an exemption therefrom as interpreted by guidance issued by the Internal Revenue Service, taking into account any limitations on amendments imposed by Section 409A or Internal

Revenue Service guidance. The parties further agree that to the extent the terms of this Agreement fail to qualify for exemption from or satisfy the requirements of Section 409A, this Agreement may be operated in compliance with Section 409A pending amendment to the extent authorized by the Internal Revenue Service. In such circumstances the Company and the Executive will administer the Agreement in a manner which adheres as closely as possible to the existing terms and intent of the Agreement while complying with Section 409A.

(19) Headings. The section headings of this Agreement are for convenience of reference only and are not to be considered in the interpretation of the terms and conditions of this Agreement.

(20) Invalidity or Unenforceability. If any term or provision of this Agreement is held to be invalid or unenforceable, for any reason, such invalidity or unenforceability shall not affect any other term or provision hereof and this Agreement shall continue in full force and effect as if such invalid or unenforceable term or provision (to the extent of the invalidity or unenforceability) had not been contained herein. If any court determines that any provision of Section 10 hereof is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the scope or duration of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

(21) Counterparts. This Agreement may be executed in any number of counterparts, each of which for all purposes shall be deemed to be an original.

[Remainder of page intentionally left blank]

[Signature page to Jeffrey Glajch Employment Agreement]

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement as of the day and year first above written.

GRAHAM CORPORATION

By: _____
Name: James R. Lines
Title: President and Chief Financial Officer

Jeffrey Glajch

STATE OF NEW YORK)
) ss.:
COUNTY OF MONROE)

On this ___ day of July, 2010, before me personally came James R. Lines, to me known, who, being by me duly sworn did depose and say that the above-named person resides in Lancaster, New York, that said person is the President and the Chief Executive Officer of Graham Corporation, the corporation described in and which executed the foregoing instrument; and that the above-named person signed thereto by order of the Board of Directors of said corporation.

Notary Public

[Notary Stamped]

STATE OF NEW YORK)
) ss.:
COUNTY OF MONROE)

On the ___ day of July, 2010, before me came Jeffrey Glajch, who, being by me duly sworn did depose and say that the above-named person resides in _____, New York, and such person proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the above agreement and acknowledged to me that he executed the same in his individual.

Notary Public

[Notary Stamped]

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER

I, James R. Lines, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Graham Corporation;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2010

/s/ James R. Lines

James R. Lines
President and Chief Executive Officer

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER

I, Jeffrey Glajch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Graham Corporation;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2010

/s/ Jeffrey Glajch

Jeffrey Glajch

Vice President-Finance & Administration and
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graham Corporation (the "Company") on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James R. Lines

James R. Lines
President and Chief Executive Officer
(Principal Executive Officer)
Date: August 3, 2010

/s/ Jeffrey Glajch

Jeffrey Glajch
Vice President-Finance & Administration and
Chief Financial Officer
(Principal Financial Officer)
Date: August 3, 2010

A signed original of this written statement required by Section 906 has been provided to Graham Corporation and will be retained by Graham Corporation and furnished to the Securities and Exchange Commission or its staff upon request.