
**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, 2011

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.

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 29, 2011, there were outstanding 9,901,473 shares of the registrant's common stock, par value \$.10 per share.

Graham Corporation and Subsidiaries
Index to Form 10-Q
As of June 30, 2011 and March 31, 2011 and for the Three-Month Periods
Ended June 30, 2011 and 2010

	Page
<u>Part I. FINANCIAL INFORMATION</u>	
Item 1. Unaudited Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosure About Market Risk	27
Item 4. Controls and Procedures	29
<u>Part II. OTHER INFORMATION</u>	
Item 6. Exhibits	30
Signatures	31
Index to Exhibits	32
EX-10.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

GRAHAM CORPORATION AND SUBSIDIARIES
FORM 10-Q
JUNE 30, 2011

PART I — FINANCIAL INFORMATION

Item 1.

Unaudited Condensed Consolidated Financial Statements
GRAHAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
(Unaudited)

	Three Months Ended June 30,	
	2011	2010
	(Amounts in thousands, except per share data)	
Net sales	\$ 25,012	\$ 13,351
Cost of products sold	16,707	9,501
Cost of goods sold — amortization	108	—
Total cost of goods sold	16,815	9,501
Gross profit	8,197	3,850
Other expenses and income:		
Selling, general and administrative	3,651	2,564
Amortization	50	3
Interest income	(21)	(16)
Interest expense	20	7
Total other expenses and income	3,700	2,558
Income before provision for income taxes	4,497	1,292
Provision for income taxes	1,481	414
Net income	3,016	878
Retained earnings at beginning of period	64,623	59,539
Dividends	(198)	(198)
Retained earnings at end of period	<u>\$ 67,441</u>	<u>\$ 60,219</u>
Per share data		
Basic:		
Net income	<u>\$.30</u>	<u>\$.09</u>
Diluted:		
Net income	<u>\$.30</u>	<u>\$.09</u>
Weighted average common shares outstanding:		
Basic	9,939	9,922
Diluted	9,981	9,962
Dividends declared per share	\$.02	\$.02

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2011	March 31, 2011
(Amounts in thousands, except per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,204	\$ 19,565
Investments	15,899	23,518
Trade accounts receivable, net of allowances (\$16 and \$26 at June 30 and March 31, 2011, respectively)	14,925	8,681
Unbilled revenue	12,116	14,280
Inventories	5,642	8,257
Prepaid expenses and other current assets	739	424
Deferred income tax asset	1,902	1,906
Total current assets	76,427	76,631
Property, plant and equipment, net	11,860	11,705
Prepaid pension asset	6,888	6,680
Goodwill	7,404	7,404
Permits	10,300	10,300
Other intangible assets, net	5,102	5,218
Other assets	214	112
Total assets	\$ 118,195	\$ 118,050
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of capital lease obligations	\$ 64	\$ 47
Accounts payable	7,316	9,948
Accrued compensation	3,982	4,580
Accrued expenses and other current liabilities	3,037	3,427
Customer deposits	11,998	12,854
Income taxes payable	2,983	1,772
Total current liabilities	29,380	32,628
Capital lease obligations	188	116
Accrued compensation	276	259
Deferred income tax liability	9,083	8,969
Accrued pension liability	233	234
Accrued postretirement benefits	900	892
Other long-term liabilities	1,300	1,297
Total liabilities	41,360	44,395
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$1.00 par value -		
Authorized, 500 shares		
Common stock, \$.10 par value -		
Authorized, 25,500 shares		
Issued, 10,251 and 10,216 shares at June 30 and March 31, 2011, respectively	1,025	1,022
Capital in excess of par value	16,590	16,322
Retained earnings	67,441	64,623
Accumulated other comprehensive loss	(4,921)	(5,012)
Treasury stock (350 shares at June 30 and March 31, 2011)	(3,300)	(3,300)
Total stockholders' equity	76,835	73,655
Total liabilities and stockholders' equity	\$ 118,195	\$ 118,050

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended	
	June 30,	
	2011	2010
Operating activities:		
Net income	\$ 3,016	\$ 878
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	353	288
Amortization	158	3
Amortization of unrecognized prior service cost and actuarial losses	98	70
Discount accretion on investments	(3)	(15)
Stock-based compensation expense	134	59
Deferred income taxes	36	23
(Increase) decrease in operating assets:		
Accounts receivable	(6,219)	1,346
Unbilled revenue	2,164	(2,933)
Inventories	2,588	2,354
Prepaid expenses and other current and non-current assets	(373)	(726)
Prepaid pension asset	(208)	(194)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,711)	(1,526)
Accrued compensation, accrued expenses and other current and non-current liabilities	(989)	(1,882)
Customer deposits	(867)	(183)
Income taxes payable/receivable	1,211	(381)
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	24	19
Net cash used by operating activities	<u>(1,588)</u>	<u>(2,800)</u>
Investing activities:		
Purchase of property, plant and equipment	(340)	(525)
Purchase of investments	(9,698)	(50,837)
Redemption of investments at maturity	17,320	56,350
Net cash provided by investing activities	<u>7,282</u>	<u>4,988</u>
Financing activities:		
Principal repayments on capital lease obligations	(17)	(16)
Issuance of common stock	66	66
Dividends paid	(198)	(198)
Excess tax deduction on stock awards	72	22
Net cash used by financing activities	<u>(77)</u>	<u>(126)</u>
Effect of exchange rate changes on cash	22	5
Net increase in cash and cash equivalents	5,639	2,067
Cash and cash equivalents at beginning of year	19,565	4,530
Cash and cash equivalents at end of year	<u>\$ 25,204</u>	<u>\$ 6,597</u>

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except per share data)

NOTE 1 — BASIS OF PRESENTATION:

Graham Corporation's (the "Company's") Condensed Consolidated Financial Statements include (i) its wholly-owned foreign subsidiary located in China at June 30, 2011 and March 31, 2011 and for the three months ended June 30, 2011 and 2010 and (ii) its wholly-owned domestic subsidiary located in Lapeer, Michigan at June 30, 2011 and for the three months ended June 30, 2011. See Note 2. The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("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, 2011 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2011. 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, 2011 ("fiscal 2011"). 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, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2012 ("fiscal 2012").

NOTE 2 — ACQUISITION:

On December 14, 2010, the Company completed its acquisition of Energy Steel & Supply Co. ("Energy Steel"), a privately-owned nuclear code accredited fabrication and specialty machining company located in Lapeer, Michigan dedicated primarily to the nuclear power industry. The Company believes that this acquisition furthers its growth strategy through market and product diversification, broadens its offerings to the energy markets and strengthens its presence in the nuclear sector.

The transaction was accounted for under the acquisition method of accounting. Accordingly, the results of Energy Steel were included in the Company's Consolidated Financial Statements from the date of acquisition. The purchase price was \$17,899 in cash. The purchase agreement also included a contingent earn-out, which ranges from \$0 to \$2,000, dependent upon Energy Steel's earnings performance in calendar years 2011 and 2012. If achieved, the earn-out

Table of Contents

will be payable in fiscal 2012 and fiscal 2013. A liability of \$1,498 was recorded for the contingent earn-out and was treated as additional purchase price. In addition, the Company and Energy Steel entered into a five year lease agreement with ESSC Investments, LLC for Energy Steel's manufacturing and office facilities located in Lapeer, Michigan which lease includes an option to renew the lease for an additional five year term. The Company and Energy Steel also have an option to purchase the leased facility for \$2,500 at any time during the first two years of the lease term. ESSC Investments, LLC is partly owned by the President and former sole shareholder of Energy Steel.

The cost of the acquisition was preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition and the amount exceeding the fair value of \$7,404 was recorded as goodwill, which is not deductible for tax purposes. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained, including, but not limited to, settlement of the contingent payment and the final reconciliation and confirmation of tangible assets. The valuations will be finalized within twelve months of the close of the acquisition. Any changes to the preliminary valuation may result in material adjustments to the fair value of the assets and liabilities acquired, as well as goodwill.

The following table summarizes the preliminary allocation of the cost of the acquisition to the assets acquired and liabilities assumed as of the close of the acquisition:

	December 14, 2010
Assets acquired:	
Current assets	\$ 2,827
Property, plant & equipment	1,295
Backlog	170
Customer relationships	2,700
Tradenname	2,500
Permits	10,300
Goodwill	7,404
Other assets	14
Total assets acquired	27,210
Liabilities assumed:	
Current liabilities	1,899
Deferred income tax liability	5,924
Total liabilities assumed	7,813
Purchase price	<u>\$ 19,397</u>

The fair values of the assets acquired and liabilities assumed were preliminarily determined using one of three valuation approaches: (i) market; (ii) income; and (iii) cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which estimates the value for a subject asset based on available market pricing for comparable assets, was utilized for work in process inventory. The income approach, which estimates the value for a subject asset based on the present value of cash flows projected to be generated by the asset, was used for certain intangible assets such as permits, tradenname and backlog. The projected cash flows were discounted at a required rate of return that reflects the relative risk of the Energy Steel transaction and the time value of money. The projected cash flows for each asset considered multiple factors, including current revenue from existing customers, the competition limiting effect of nuclear permits due to the time and effort required to obtain them, and expected profit margins giving consideration to historical and expected margins. The cost approach was used for the majority of personal property, raw materials inventory and customer relationships. The

[Table of Contents](#)

cost to replace a given asset reflects the estimated replacement cost for the asset, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

The fair value of the work in process inventory acquired was estimated by applying a version of the market approach known as the comparable sales method. This approach estimates the fair value of the asset by calculating the potential sales generated from selling the inventory and subtracting from it the costs related to the sale of that inventory and a reasonable profit allowance. Based upon this methodology, the Company recorded the inventory acquired at fair value resulting in an increase in inventory of \$196. During the first quarter of fiscal 2012, the Company expensed as cost of sales \$38 of the step-up value relating to the acquired inventory sold during the first quarter of fiscal 2012. As of June 30, 2011, there was \$11 of inventory step-up value remaining in inventory to be expensed. Raw materials inventory was valued at replacement cost.

The purchase price was allocated to specific intangible assets as follows:

	Fair Value assigned	Weighted average amortization period
Intangibles subject to amortization		
Backlog	\$ 170	6 months
Customer relationships	<u>2,700</u>	15 years
	<u>\$ 2,870</u>	14 years
Intangibles not subject to amortization		
Permits	\$ 10,300	indefinite
Tradename	<u>2,500</u>	indefinite
	<u>\$ 12,800</u>	

Backlog consists of firm purchase orders received from customers that had not yet entered production or were in production at the date of the acquisition. The fair value of backlog was computed as the present value of the expected sales attributable to backlog less the remaining costs to fulfill the backlog. The life was based upon the period of time in which the backlog is expected to be converted to sales.

Customer relationships represent the estimated fair value of customer relationships Energy Steel has with nuclear power plants as of the acquisition date. These relationships were valued using the replacement cost method based upon the cost to obtain and retain the limited number of customers in the nuclear power market. The Company determined that the estimated useful life of the intangible assets associated with the existing customer relationships is 15 years. This life was based upon historical customer attrition and management's understanding of the industry and regulatory environment.

Nuclear permits are required and critical to generate all of the revenue of Energy Steel, due to the strict regulatory environment of the nuclear industry. The permits are inherently valuable as a result of their competition-limiting effect due to the significant time, effort and resources required to obtain them. The Company intends to continually renew the permits and maintain all quality programs and processes, as well as abide by all required regulations of the nuclear industry, therefore, an indefinite life has been assigned to the permits. The permits will be tested annually for impairment. In the first quarter of fiscal 2012, the Company renewed the permits.

[Table of Contents](#)

The tradename represents the estimated fair value of the corporate name acquired from Energy Steel which will be utilized by the Company in the future. The Company believes the use of the tradename, which the Company expects will be instrumental in enabling it to maintain or expand its market share, is inherently valuable. The Company currently intends to utilize the tradename for an indefinite period of time, therefore, the intangible asset is not being amortized but will be tested for impairment on an annual basis.

The excess of the purchase price over the preliminary fair value of net tangible and intangible assets acquired of \$7,404 was allocated to goodwill. Various factors contributed to the establishment of goodwill, including the value of Energy Steel's highly trained assembled workforce and management team and the expected revenue growth over time that is attributable to increased market penetration.

NOTE 3 — 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. There is no reserve for credit losses related to unbilled revenue recorded for contracts accounted for on the percentage of completion method. Any reserve for credit losses related to unbilled revenue is recorded as a reduction to revenue.

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 material obligations under its contracts after the revenue is recognized.

NOTE 4 — INVESTMENTS:

Investments consist solely of fixed-income debt securities issued by the U.S. 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, 2011 are scheduled to mature between July 7, 2011 and September 1, 2011.

[Table of Contents](#)

NOTE 5 — 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.

Major classifications of inventories are as follows:

	June 30, 2011	March 31, 2011
Raw materials and supplies	\$ 2,108	\$ 2,293
Work in process	10,702	12,983
Finished products	<u>621</u>	<u>543</u>
	13,431	15,819
Less — progress payments	<u>7,789</u>	<u>7,562</u>
Total	<u>\$ 5,642</u>	<u>\$ 8,257</u>

[Table of Contents](#)

NOTE 6 — INTANGIBLE ASSETS:

Intangible assets are comprised of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
At June 30, 2011			
Intangibles subject to amortization:			
Backlog	\$ 170	\$ 170	\$ —
Customer relationships	2,700	98	2,602
	<u>\$ 2,870</u>	<u>\$ 268</u>	<u>\$ 2,602</u>
Intangibles not subject to amortization:			
Permits	\$ 10,300	\$ —	\$ 10,300
Tradenname	2,500	—	2,500
	<u>\$ 12,800</u>	<u>\$ —</u>	<u>\$ 12,800</u>
At March 31, 2011			
Intangibles subject to amortization:			
Backlog	\$ 170	\$ 99	\$ 71
Customer relationships	2,700	53	2,647
	<u>\$ 2,926</u>	<u>\$ 158</u>	<u>\$ 2,768</u>
Intangibles not subject to amortization:			
Permits	\$ 10,300	\$ —	\$ 10,300
Tradenname	2,500	—	2,500
	<u>\$ 12,800</u>	<u>\$ —</u>	<u>\$ 12,800</u>

Intangible assets are amortized on a straight line basis over the estimated useful lives. Intangible amortization expense for the three months ended June 30, 2011 and 2010 was \$116 and \$0, respectively. As of June 30, 2011, amortization expense is estimated to be \$135 for the remainder of fiscal 2012 and \$180 in each of fiscal 2013, fiscal 2014, fiscal 2015 and fiscal 2016.

NOTE 7 — 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, 2011 and 2010 were 9 and 20, respectively. The stock option awards vest 33⅓% per year over a three-year term. All stock options have a term of ten years from their grant date.

[Table of Contents](#)

Restricted stock awards granted in the three-month periods ended June 30, 2011 and 2010 were 27 and 24, respectively. Performance-vested restricted stock awards granted to officers in fiscal 2012 and fiscal 2011 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 fiscal 2012 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 in fiscal 2012 and fiscal 2011 vest 100% on the first anniversary of the grant date.

During the three months ended June 30, 2011 and 2010, the Company recognized stock-based compensation costs related to stock option and restricted stock awards of \$116 and \$59, respectively. The income tax benefit recognized related to stock-based compensation was \$42 and \$20 for the three months ended June 30, 2011 and 2010, respectively.

On July 29, 2010, the Company's stockholders approved the Graham Corporation Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock on the last day of a six-month offering period at a purchase price equal to the lesser of 85 percent of the fair market value of the common stock on either the first day or the last day of the offering period. A total of 200 shares of common stock may be purchased under the ESPP. During the three months ended June 30, 2011, the Company recognized stock-based compensation costs of \$18 related to the ESPP and \$6 of related tax benefits.

NOTE 8 — 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:

[Table of Contents](#)

	Three Months Ended June 30,	
	2011	2010
Basic income per share		
Numerator:		
Net income	\$ 3,016	\$ 878
Denominator:		
Weighted common shares outstanding	9,879	9,864
Share equivalent units ("SEUs")	60	58
Weighted average common shares and SEUs	9,939	9,922
Basic income per share	<u>\$.30</u>	<u>\$.09</u>
Diluted income per share		
Numerator:		
Net income	\$ 3,016	\$ 878
Denominator:		
Weighted average shares and SEUs outstanding	9,939	9,922
Stock options outstanding	42	40
Weighted average common and potential common shares outstanding	9,981	9,962
Diluted income per share	<u>\$.30</u>	<u>\$.09</u>

Options to purchase a total of 17 shares of common stock were outstanding at June 30, 2011 and 2010, 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.

NOTE 9 — PRODUCT WARRANTY LIABILITY:

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

	Three Months Ended June 30,	
	2011	2010
Balance at beginning of period	\$ 202	\$ 369
Expense for product warranties	33	30
Product warranty claims paid	(18)	(64)
Balance at end of period	<u>\$ 217</u>	<u>\$ 335</u>

The product warranty liability is included in the line item "Accrued expenses and other liabilities" in the Condensed Consolidated Balance Sheets.

[Table of Contents](#)

NOTE 10 — CASH FLOW STATEMENT:

Interest paid was \$3 and \$1 for the three months ended June 30, 2011 and 2010, respectively. In addition, income taxes paid for the three months ended June 30, 2011 and 2010 were \$162 and \$715, respectively.

During the three months ended June 30, 2011 and 2010, stock option awards were exercised and restricted stock awards vested. In connection with such stock option exercises and vesting, the related income tax benefit realized exceeded the tax benefit that had been recorded pertaining to the compensation cost recognized by \$72 and \$22, respectively, for such periods. This excess tax deduction has been separately reported under “Financing activities” in the Condensed Consolidated Statements of Cash Flows.

At June 30, 2011 and 2010, there were \$63 and \$23 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. In the three months ended June 30, 2011 and 2010, capital expenditures totaling \$105 and \$0, respectively, were financed through the issuance of capital leases.

NOTE 11 — COMPREHENSIVE INCOME:

Total comprehensive income was as follows:

	Three Months Ended June 30,	
	2011	2010
Net income	\$ 3,016	\$ 878
Other comprehensive income:		
Foreign currency translation adjustment	27	10
Defined benefit pension and other postretirement plans	63	46
Total comprehensive income	<u>\$ 3,106</u>	<u>\$ 934</u>

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.

[Table of Contents](#)

NOTE 12 — EMPLOYEE BENEFIT PLANS:

The components of pension income are as follows:

	Three Months Ended June 30,	
	2011	2010
Service cost	\$ 115	\$ 96
Interest cost	355	335
Expected return on assets	(678)	(625)
Amortization of:		
Unrecognized prior service cost	1	1
Actuarial loss	129	105
Net pension income	<u>\$ (78)</u>	<u>\$ (88)</u>

The Company made no contributions to its defined benefit pension plan during the three months ended June 30, 2011 and does not expect to make any contributions to the plan for the balance of fiscal 2012.

The components of the postretirement benefit income are as follows:

	Three Months Ended June 30,	
	2011	2010
Service cost	\$ —	\$ —
Interest cost	11	15
Amortization of prior service cost	(41)	(41)
Amortization of actuarial loss	9	5
Net postretirement benefit income	<u>\$ (21)</u>	<u>\$ (21)</u>

The Company paid benefits of \$4 related to its postretirement benefit plan during the three months ended June 30, 2011. The Company expects to pay benefits of approximately \$103 for the balance of fiscal 2012.

NOTE 13 — 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.

[Table of Contents](#)

From time to time in the ordinary course of business, the Company is subject to legal proceedings and potential claims. At June 30, 2011, other than noted above, management was unaware of any other material litigation matters.

NOTE 14 — INCOME TAXES:

The Company files federal and state income tax returns in several domestic and international 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 U.S. Internal Revenue Service (the “IRS”) for tax years 2009 and 2010. 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, 2011 was \$2,381. The liability for unrecognized tax benefits related to this tax position was \$477 at June 30 and March 31, 2011, which represents management’s estimate of the potential resolution of this issue. 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,					Total
	2007	2008	2009	2010	2011	
Tax benefit of research and development tax credit	\$ 1,653	\$ 218	\$ 238	\$ 135	\$ 137	\$ 2,381
Unrecognized tax benefit	—	—	—	(445)	(32)	(477)
Net tax benefit of research and development tax credit	<u>\$ 1,653</u>	<u>\$ 218</u>	<u>\$ 238</u>	<u>\$ (310)</u>	<u>\$ 105</u>	<u>\$ 1,904</u>

The Company is subject to examination in state and international tax jurisdictions for tax years 2007 through 2010 and tax years 2008 through 2010, 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 one additional unrecognized tax benefit of \$888 as of June 30 and March 31, 2011. During the three months ended June 30, 2011 and 2010, the Company recorded \$17 and \$6, respectively, for interest related to its uncertain tax positions. No penalties related to uncertain tax positions were recorded in the three-month period ended June 30, 2011 or 2010.

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 to the refining and petrochemical industries, and a nuclear code accredited supplier of components and raw materials to the nuclear power generating market. Our equipment is used in critical applications in the petrochemical, oil refining and electric power generation industries, including nuclear, cogeneration and geothermal plants. Our equipment can also be found in alternative energy, including ethanol, biodiesel and coal and gas-to-liquids, and other diverse applications, such as metal refining, pulp and paper processing, shipbuilding, water heating, refrigeration, desalination, soap manufacturing, food processing, pharmaceuticals, and heating, ventilating and air conditioning.

Our corporate offices are located in Batavia, New York and we have production facilities in both Batavia, New York and at our wholly-owned subsidiary, Energy Steel and Supply Co., located in Lapeer, Michigan. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd., located in Suzhou, China, which supports sales orders from China and provides engineering support and supervision of subcontracted fabrication.

In advancement of our strategy to diversify our products and broaden our offerings to the energy industry, on December 14, 2010, we acquired Energy Steel. This transaction was accounted for under the acquisition method of accounting. Accordingly, the results of Energy Steel were included in our consolidated financial statements and comparisons to our prior fiscal year will be enhanced by the inclusion of Energy Steel in this fiscal year's results.

Highlights

Highlights for the three months ended June 30, 2011 (the fiscal year ending March 31, 2012 is referred to as "fiscal 2012") include:

- Net sales for the first quarter of fiscal 2012 were \$25,012, an increase of 87% compared with \$13,351 for the first quarter of the fiscal year ended March 31, 2011, referred to as "fiscal 2011". Net sales for the first quarter of fiscal 2012 included \$3,865 associated with Energy Steel.
- Net income and income per diluted share for the first quarter of fiscal 2012 were \$3,016 and \$0.30, compared with net income of \$878 and income per diluted share of \$0.09 for the first quarter of fiscal 2011.
- Orders booked in the first quarter of fiscal 2012 were \$19,043, up 134% compared with the first quarter of fiscal 2011, when orders were \$8,124. Orders in the first quarter of fiscal 2012 included \$5,178 associated with Energy Steel.
- Backlog decreased to \$85,199 at June 30, 2011, representing a 6% decrease compared with March 31, 2011, when our backlog was \$91,096.
- Gross profit margin and operating margin for the first quarter of fiscal 2012 were 33% and 18% compared with 29% and 10%, respectively, for the first quarter of fiscal 2011.

Table of Contents

- Cash and short-term investments at June 30, 2011 were \$41,103 compared with \$43,083 at March 31, 2011.

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 2011.

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

- the current and future economic environments affecting us and the markets we serve;
- expectations regarding investments in new projects by our customers;
- 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;
- our operations in foreign countries;
- our ability to integrate our acquisition of Energy Steel and continue to pursue our acquisition and growth strategy;
- our ability to expand nuclear power work into new markets;
- estimates regarding our liquidity and capital requirements;
- timing of conversion of backlog to sales;
- our ability to attract or retain customers;
- the outcome of any existing or future litigation; 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 2012 and the Near-Term Market Conditions

The downturn in the global economy which commenced in the fiscal year ending March 31, 2008 led to reduced demand for petroleum-based products, which in turn led our customers to defer investment in

[Table of Contents](#)

major capital projects. We have seen an improved business environment over the past few quarters and believe that we are in the early stages of a business recovery. While there continues to be risks around a global economic recovery, we believe current signs are more positive than a year ago.

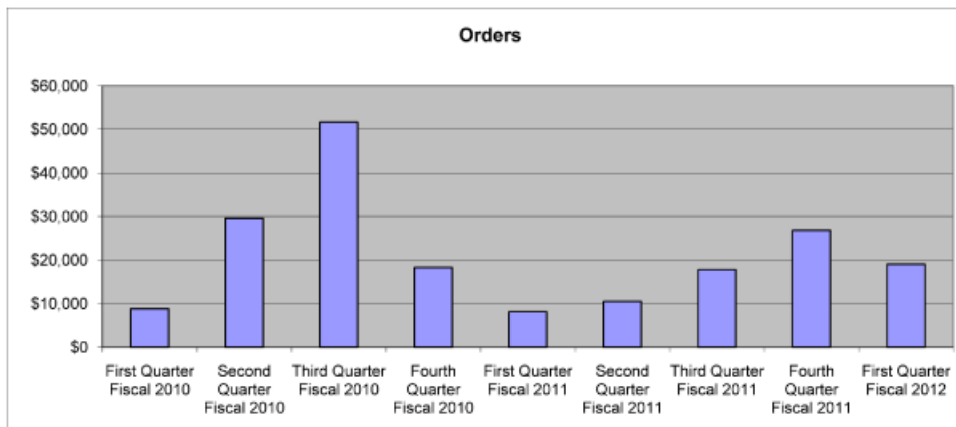
In addition, we believe that the significant increase in construction costs, including raw material costs, which had occurred over the four-to-five-year period prior to the recent downturn, also led to delays in new commitments by our customers. The increase in costs resulted in the economics of projects becoming less feasible. While some material costs have improved, copper and steel are again elevated and remain volatile.

Near-term demand trends that we believe are affecting our customers' investments include:

- As the world 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 in energy markets. 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.
- The expansion of the Middle Eastern economies and the continued growth in demand for oil and refined products has renewed investment activity in that region. The planned timeline of refinery projects in the major Middle Eastern countries is encouraging.
- Asia, specifically China, began experiencing renewed demand for refined petroleum products such as gasoline. 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 their 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 exhibited recent improvement, including near-term increases in orders of short cycle and spare parts. Historically, these types of orders have suggested a recovery, as delayed spending is released. We expect the U.S. refining market will not return to the levels experienced during the last up cycle, but will improve compared with its levels over the past few years. We expect that the U.S. refining markets will continue to be an important aspect of our business. We are beginning to see signs of planned investments to convert greater percentages of crude transportation fuels, such as revamping the distillation column to extract the residual higher value components from the low value waste stream.
- Investments in North American oil sands projects have recently increased, especially for extraction projects in Alberta and foreign investment in Alberta, which suggest that downstream investments that involve our equipment might increase in the next one to three years.
- Investment in new nuclear power capacity may become subject to increased uncertainty due to political and social pressures, enhanced by the tragic earthquake and tsunami which occurred in Japan in March 2011. However, the need for additional safety and back up redundancies at existing plants could increase demand for Energy Steel's products in the near term.

We expect that the consequences of these near-term trends, and specifically the growth in Asia and South America, will result in more pressure on our pricing and gross margins, 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. We continue to expect our new order levels to remain volatile, resulting in both strong and weak quarters. As the chart below indicates, quarterly orders can vary significantly.



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. For the next several quarters, we also expect to see smaller value projects than what we saw during the beginning of the last expansion cycle. This will require more orders for us to achieve a similar revenue level and will adversely impact our ability to realize margin gains through volume leverage.

Mix Shift: Stronger International Growth in Refining and Chemical Processing with Domestic Growth in Nuclear Power and U.S. Navy Projects

We expect growth in the refining and chemical processing markets to be driven by emerging markets. We have also expanded our addressable markets through the acquisition of Energy Steel and our focus on U.S. Navy nuclear propulsion projects. We believe our revenue opportunities during the coming years will be equivalent between the domestic and international markets.

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.
- Global oil refining capacity is projected to increase, and is expected to be addressed through new facilities, refinery upgrades, revamps and expansions.
- Increased demand is expected for power, specifically nuclear and alternative energy sources, refinery and petrochemical products, stimulated by an expanding middle class in Asia and the Middle East.
- 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, petrochemical and nuclear power industries are expected to continue to drive requirements for capital investments.
- Increased focus on safety and redundancy is anticipated in existing nuclear power facilities.
- Long-term increased project development of international nuclear facilities is expected, despite the recent tragedy in Japan.
- 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.
- Long-term growth potential is believed to exist in alternative energy markets, such as geothermal, coal-to-liquids, gas-to-liquids and other emerging technologies, such as biodiesel, ethanol and waste-to-energy.
- Shale gas development and the resulting availability of affordable natural gas as feedstock to U.S.-based chemical/petrochemical facilities is expected to lead to renewed investment in chemical/petrochemical markets in the U.S.

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 are expected to continue to grow at rates faster than the U.S. Because of our access to the nuclear power industry with the Energy Steel acquisition and our expanding market penetration with the U.S. Navy, we believe the domestic and international markets will offer similar opportunities for us in the near term. Our domestic sales as a percentage of aggregate product sales, which had increased from 50% in our fiscal year ended March 31, 2007 to 54% in our fiscal year ended March 31, 2008 to 63% in our fiscal year ended March 31, 2009, decreased to 45% in each of our fiscal years ended March 31, 2010 and fiscal 2011, and were also 45% in the first quarter of fiscal 2012.

[Table of Contents](#)

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,	
	2011	2010
Net sales	\$ 25,012	\$ 13,351
Net income	\$ 3,016	\$ 878
Diluted income per share	\$ 0.30	\$ 0.09
Total assets	\$ 118,195	\$ 106,459

The First Quarter of Fiscal 2012 Compared With the First Quarter of Fiscal 2011

Sales for the first quarter of fiscal 2012 were \$25,012, an 87% increase as compared with sales of \$13,351 for the first quarter of fiscal 2011. The increase in the current quarter's sales was due to higher volume in the majority of our product lines and the benefit of the acquisition of the Energy Steel business, which was purchased in December 2010 and contributed \$3,865 in sales for the quarter. International sales year-over-year increased \$5,949, or 76%, due to increases of \$5,875 in the Middle East and \$2,403 in South America, partly offset by lower Asian sales, off \$1,557. International sales accounted for 55% and 59% of total sales for the first quarter of fiscal 2012 and fiscal 2011, respectively. Domestic sales increased \$5,717, or 104%, in the first quarter of fiscal 2012 compared with the first quarter of fiscal 2011, with the Energy Steel business contributing 68% of this increase. Fluctuations in sales among products and geographic locations can vary measurably from quarter-to-quarter based on timing and magnitude of projects. Sales in the three months ended June 30, 2011 were 48% to the refining industry, 12% to the chemical and petrochemical industries, 23% to the power industry, including nuclear market and 17% to other commercial and industrial applications. Sales in the three months ended June 30, 2010 were 25% to the refining industry, 40% to the chemical and petrochemical industries, 8% to power industry, and 27% to other commercial and industrial applications. For additional information on future sales and our markets, see "Orders and Backlog" below.

Our gross profit margin for the first quarter of fiscal 2012 was 33% compared with 29% for the first quarter of fiscal 2011. Gross profit dollars for the first quarter of fiscal 2012 increased to \$8,197 from \$3,850, or 113% compared with fiscal 2011. Gross profit percentage and dollars increased primarily due to higher organic volume and improving facility utilization. Gross profit dollars were also improved by \$1,181 with the addition of Energy Steel.

Selling, general and administrative ("SG&A") expenses as a percent of sales for the three-month periods ended June 30, 2011 and 2010 were 15% and 19%, respectively. Actual costs in fiscal 2012 were \$3,701, an increase of \$1,134, or 44%, compared with the first quarter of fiscal 2011. Half of the increase was organic, the remaining portion due to the addition of Energy Steel. The organic SG&A expenses increased due to increased headcount and higher variable costs related to higher sales and income.

Table of Contents

Interest income for the three month-periods ended June 30, 2011 and 2010 was \$21 and \$16, respectively. Low levels of interest income resulted from the continuing low level of interest rates on short term U.S. government securities and money market rates.

Interest expense was \$20 for the quarter ended June 30, 2011, up from \$7 for the quarter ended June 30, 2010.

Our effective tax rate in fiscal 2012 is projected to be between 33% and 35%, which represents the tax rate used to reflect income tax expense in the current quarter (33%). The actual annual effective tax rate for fiscal 2011 was 33%. Net income for the first three months of fiscal 2012 compared with the first three months of fiscal 2010 was \$3,016 and \$878, respectively. Income per diluted share was \$0.30 and \$0.09 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, 2011	March 31, 2011
Cash and investments	\$ 41,103	\$ 43,083
Working capital	47,047	44,003
Working capital ratio ⁽¹⁾	2.6	2.3

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

Net cash used by operating activities for the first quarter of fiscal 2012 was \$1,588, compared with \$2,800 used by operating activities for the first quarter of fiscal 2011. The decrease in cash used was due to higher net income, accrued compensation and timing of income taxes payable, offset by higher cash outflow for accounts receivable and payables. Approximately two-thirds of the accounts receivable increase was a shift from unbilled revenue. Unbilled revenue was unusually high on March 31, 2011, and as projects were completed and shipped in the first quarter of fiscal 2012, the unbilled revenue moved to accounts receivable.

Dividend payments and capital expenditures in the first quarter of fiscal 2012 were \$198 and \$340, respectively, compared with \$198 and \$525, respectively, for the first quarter of fiscal 2011.

Capital expenditures for fiscal 2012 are expected to be between \$3,000 and \$3,500. Over 85% of our fiscal 2012 capital expenditures are expected to be for machinery and equipment, with the remaining amounts to be used for information technology and other items.

Cash and investments were \$41,103 on June 30, 2011 compared with \$43,083 on March 31, 2011, down 5%. With the increase in accounts receivable in the first quarter of fiscal 2012, as projects were completed and shipped to customers, we expect cash and investment to increase over the next quarter or two.

We invest net cash generated from operations in excess of cash held for near-term needs in either a money market account or in U.S. government instruments, generally with maturity periods of up to 180 days. Our money market account is used to securitize our outstanding letters of credit and allows us to pay a lower cost on those letters of credit.

Our revolving credit facility with Bank of America, N.A. provides us with a line of credit of \$25,000, including letters of credit and bank guarantees. In addition, the agreement allows us

[Table of Contents](#)

to increase the line of credit, at our discretion, up to another \$25,000, for total availability of \$50,000. Borrowings under our credit facility are secured by all of our assets. Letters of credit outstanding under our credit facility on June 30, 2011 and March 31, 2011 were \$16,582 and \$13,751, respectively. There were no other amounts outstanding on our credit facility at June 30, 2011 and March 31, 2011. Our borrowing rate as of June 30 and March 31, 2011 was Bank of America's prime rate, or 3.25%. Availability under the line of credit was \$8,418 at June 30, 2011. 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, 2011 and 2010 were \$19,043 and \$8,124, respectively, an increase of 134%. Orders represent written communications received from customers requesting us to supply products and services. During the first quarter of fiscal 2012 compared with the first quarter of fiscal 2011, orders for the organic business increased \$5,741 or 71%. Orders increased in refining, up \$4,319, and power, up \$1,741, offset by a small decline in chemical and petrochemical, down \$410. Energy Steel contributed \$5,178 in new orders in the first quarter of fiscal 2012.

Domestic orders were 66% of total orders, or \$12,654, and international orders were 34% of total orders, or \$6,389, in the current quarter compared with the first quarter of fiscal 2011, when domestic orders were 53%, or \$4,266, of total orders, and export orders were 47%, or \$3,858, of total orders.

Backlog was \$85,199 at June 30, 2011, compared with \$91,096 at March 31, 2011, a 6% decrease. 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 80% to 85% of orders currently in backlog are expected to be converted to sales within the next twelve months. This is lower than our normal conversion, which is approximately 85% to 90% over an upcoming 12-month period. The difference in our current backlog includes the Northrop Grumman project for the U.S. Navy. While a significant portion of the Navy project is expected to convert in fiscal 2012, over 50% of the project is expected to still be in the backlog at the end of fiscal 2012. At June 30, 2011, 30% of our backlog was attributable to equipment for refinery project work, 10% for chemical and petrochemical projects, 21% for power projects, including nuclear, and 39% for other industrial or commercial applications (including the Northrop Grumman order). At June 30, 2010, 38% of our backlog was attributed to equipment for refinery project work, 13% for chemical and petrochemical projects, 12% for power projects, and 37% for other industrial or commercial applications.

At March 31, 2011, our backlog included one order with a value of \$1,130 that was placed on hold (suspended) pending further customer evaluation. During the three months ended June 30, 2011, the order was released for production and is expected to ship in the next 12 months. No orders in the current backlog are on hold.

Outlook

We believe that we are in the early stages of a recovery in the refinery and petrochemical markets. We also believe the improved strength of the alternative energy markets and the U.S. nuclear industry will continue into fiscal 2012. We experienced significant organic order growth in the second half of fiscal 2011, supplemented by our acquisition of Energy Steel. We believe that with our current backlog of \$85,199, the improved trend in order levels and our strong

[Table of Contents](#)

pipeline, that our revenue will increase 30% to 40% over last fiscal year, to between \$95 and \$105 million, in fiscal 2012. Approximately, 16% to 20% of our revenue is expected to come from Energy Steel. In fiscal 2011, Energy Steel contributed 8% of our revenue, as we completed our acquisition late in the third quarter of fiscal 2011. We expect fiscal 2012 order levels to continue to be variable across the year, though we are optimistic that orders will be similar to the second half of fiscal 2011 and the first quarter of fiscal 2012 during which period they ranged from approximately \$17 to \$27 million and averaged \$21 million. We continue to expect a strong international market, with pockets of strength in the U.S., especially in alternative energy and nuclear.

Normally, we convert 85% to 90% of our existing backlog to sales within a 12-month period. However, the Northrop Grumman project for the U.S. Navy currently in our backlog is expected to convert to revenue over the next three fiscal years, with the majority of the revenue expected to occur in fiscal 2012 and in the fiscal year ending March 31, 2013. Therefore, our June 30, 2011 backlog is expected to extend beyond our historical level, and we expect to convert approximately 80% to 85% of it to sales over the next twelve months.

Our expected sales for fiscal 2012 assume the expected conversion of backlog as well as continued market improvement and investment by our customers. The upper end of the range may be achieved by acceleration of projects by refining and petrochemical and alternative energy end users, our historical customer base. In addition, increased focus on safety and redundancy projects at U.S. nuclear facilities may drive near term opportunities at Energy Steel. We do, however, anticipate more revenue concentration in fiscal 2012 than in prior years. Two orders, the U.S. Navy project and a Middle East refinery project, are expected to account for approximately 25% of fiscal 2012 revenue.

We expect gross profit margin in fiscal 2012 to be in the 29% to 32% range. The full year expected margin level represents an increase from fiscal 2011, which included some lower margin projects won during the depths of the downturn in our markets. While we still have a few lower margin projects in our backlog, the overall margin within our backlog has improved compared with the start of fiscal 2011. We expect that the current shift of business in the refining and petrochemical market toward international markets, where margins are generally lower than domestic project margins, will have the effect of reducing our margins.

Historically, at the start of a recovery we have experienced margins that are somewhat less compared with later in the recovery. Due to changes in geographical markets and end use markets, we expect gross margins are unlikely to reach the 40% range achieved in the prior up cycle. We believe long-term up cycle gross profit margin in the mid-to-upper 30's is a more realistic expectation. We also expect this recovery will continue to be more focused on emerging markets, which historically have lower margins and more competitive pricing than developed markets.

Factors that may positively impact our margin projections include: (i) increased volume that increases utilization of capacity; (ii) continued improvements in our manufacturing productivity; and/or (iii) expanded margin opportunities at Energy Steel.

SG&A spending is expected to increase during fiscal 2012 to between \$16,000 and \$17,000. This includes the full year impact of Energy Steel (compared with 3/2 months in fiscal 2011). In addition to Energy Steel, we continue to invest in personnel as we prepare for increased opportunities in fiscal 2012 and beyond. Our effective tax rate during fiscal 2012 is expected to be between 33% and 35%.

[Table of Contents](#)

Cash flow in fiscal 2012 is expected to be positive, driven by improved net income and the minimal need for additional working capital despite the significant increase in revenue. We also expect to see reductions in unbilled revenue, partly offset by the drawdown of customer deposits which have been atypically high since the fourth quarter of fiscal 2010.

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' 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, 2011, other than noted above, we were unaware of any other 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 business combinations, goodwill and intangible asset impairment, accounting for income taxes, 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, 2011.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of June 30, 2011 or March 31, 2011, other than operating leases and letters of credit.

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 2012 were 55% of total sales compared with 59% for the same period of fiscal 2011. 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 2012 and fiscal 2011, all sales by us and our wholly-owned subsidiaries, 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 2012 and 2011, our purchases in foreign currencies represented 1% and 2%, 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, 2011 and March 31, 2011, 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

Economic conditions over the past few years have led to a higher likelihood of project cancellation by our customers. Our last project on hold, in the amount of \$1,130, was released in April 2011. Currently, we have no projects on hold. 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, 2011

PART II — OTHER INFORMATION

Item 6. Exhibits

See index to exhibits on page 33 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 5, 2011

INDEX TO EXHIBITS

(10) Material Contracts

- + # 10.1 Form of Employee Performance-Vested Restricted Stock Agreement.
- # 10.2 Compensation information, including salary and fiscal 2012 cash bonus program information, previously filed on the Company's Current Report on Form 8-K dated March 24, 2011, is incorporated herein by reference.
- # 10.3 Compensation information, including information regarding restricted stock grants made to the Company's named executive officers under the Amended and Restated Graham Corporation Incentive Plan to Increase Shareholder Value and named executive officer cash bonus information, previously filed on the Company's Current Report on Form 8-K dated May 26, 2011, is incorporated herein by reference.

(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 Certification

- + 32.1 Section 1350 Certifications

(101) Interactive Data File

- *+ 101.INS XBRL Instance Document
- *+ 101.SCH XBRL Taxonomy Extension Schema Document
- *+ 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- *+ 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- *+ 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- *+ 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

+ Exhibits filed with this report.

* Pursuant to Rule 406T of Regulation S-T, the information in this exhibit shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement, prospectus or other document filed under the Securities Act of 1933, or the Securities Exchange Act of 1934, except as shall be expressly set forth by specific reference in such filings.

Management contract or compensation plan.

RESTRICTED STOCK AGREEMENT
(Employee — Performance Vesting)

This RESTRICTED STOCK AGREEMENT (this “Agreement”) is made and entered into as of the ___ day of ___, 20___ (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 20___ 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 20___ fiscal year compared to the EBIT margin of the Baird Industrial Company Composite for calendar year 20___ as follows:

FY 20___ 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 20__ fiscal year as follows:

FY__ Net Income	Performance Share Payout	Net Income Percentage
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[Insert Table For Individual Awards]

If the FY__ 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 FY__ 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 FY__ 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 62 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 Target level, and the EBIT Percentage shall be 25%;

(B) the FY__ Net Income shall be deemed to have met performance at 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 20__ fiscal year.

(e) 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 Financial 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: _____

ATTEST:

Assistant Secretary

[SEAL]

RSA HOLDER

Name:

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 5, 2011

/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 5, 2011

/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, 2011 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 5, 2011

/s/ Jeffrey Glajch

Jeffrey Glajch
Vice President-Finance & Administration and
Chief Financial Officer
(Principal Financial Officer)
Date: August 5, 2011

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.