SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE FISCAL YEAR ENDED MARCH 31, 2002.

[ ] 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)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE -- 585-343-2216

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK (PAR VALUE $.10)	AMERICAN STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF CLASS
COMMON STOCK PURCHASE RIGHTS

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 (the "Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 12, 2002 was $16,647,314.90.

As of June 12, 2002, there were outstanding 1,648,249 shares of common stock, $.10 par value. As of June 12, 2002, there were outstanding 1,648,249 common stock purchase rights.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Notice of Meeting and Proxy Statement for the 2002 Annual Meeting of Stockholders is incorporated by reference into Part III of this filing.

An Exhibit Index is located at page 36 of this filing under the sequential numbering system prescribed by Rule 0-3(b) of the Act.

PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

Graham Corporation (the "Company" or the "Registrant") is a Delaware company incorporated in 1983. It is the successor to Graham Manufacturing Co., Inc., which was incorporated in 1936. The Company's business consists of two segments, one operated by the Company in the United States and one operated by its indirectly wholly-owned subsidiary in the United Kingdom.

UNITED STATES OPERATIONS

During the Fiscal Year ended March 31, 2002 ("FY 2001-2002") the Company's U.S. operations consisted of its engineering and manufacturing business in Batavia, NY.

The Company is a well-recognized supplier of steam jet ejector vacuum systems, surface condensers for steam turbines, liquid ring vacuum pumps and compressors, dry pumps and various types of heat exchangers such as Heliflow and plate and frame exchangers. It possesses expertise in combining these various products into packaged systems for sale to its customers in a variety of industrial markets, including oil refining, chemical, petrochemical, power, pulp and paper, other process applications, and shipbuilding.

FY 2001-2002 U.S. sales were $41.1 million, an increase of 1% from the previous fiscal year.

New orders in FY 2001-2002 were $52.1 million, up 22% from the previous fiscal year. Year end backlog stood at $36.5 million, compared to $25.5 million on March 31, 2001 and $23.7 million on March 31, 2000.

The Company recognized in the Fourth Quarter significant termination charges in consequence of the cancellation of certain large condenser contracts. The perceived need for additional power generating capacity in the United States offers a potential for significant sales to this market for the next decade.

Activity in the power generating market, which previously showed promise for significant growth, was depressed by the September 11 attack and the collapse of Enron. The Company will continue to pursue this market, although at a reduced pace for the time being. The Company sees significant activity in the cogeneration market, where Graham is a major supplier of condensers.

The Company sees the chemical market as entering a recovery. Petrochemical demand is expected to grow 4.5% per year by 2010, requiring additional capacity. Several contracts for new world-scale ethylene plants have been awarded to engineering and construction companies, something not seen in the last two to three years.

Graham was successful in obtaining several large crude oil vacuum distillation orders for domestic and foreign destinations. The Company is in the forefront of this technology, backed by many years of experience with our continuous research and development effort. The refinery market is expected to remain active, with the implementation of the Clean Air Act requiring low sulfur fuels. Small turbine exhaust condensers and ejectors often are required for these upgrades, with larger vacuum systems replaced when the vacuum tower is optimized. The Company has furnished equipment for upgrades of oil sands production facilities in Canada and Latin America. Further such expansions in the near term should be likely as long as oil prices remain at favorable levels. Current oil price levels also favor offshore exploration and production, presenting opportunities for Graham's UK subsidiary in the supply of specialized vacuum equipment.

For smaller products such as liquid ring vacuum pumps, small standard ejectors, Heliflows(R), and plate heat exchangers, which are susceptible to domestic economic conditions, the downturn in market conditions was noticeable during the past Fiscal Year. The economy is showing signs of recovery and the Company is executing strategies to increase its market share.

The Company's U.S. export sales represented 24.3% of U.S. sales in FY 2001-2002, compared to 31.9% of U.S. sales in the previous year. Export sales reflected a prolonged recession in Asia and Latin America. However, the Asian and Latin American markets for the Company's products have demonstrated early signs of recovery. Now that oil prices appear to have stabilized and significant mergers in the oil industry have been completed, the consensus in the industry is that opportunities in the refinery markets are expected to increase.

The Company had 288 employees in the United States as of March 31, 2002.

UNITED KINGDOM OPERATIONS

During FY 2001-2002, the Company's U.K. operations were undertaken by its indirectly wholly-owned subsidiary, Graham Precision Pumps Limited (GPPL) in Congleton, Cheshire, England. GPPL is wholly-owned by Graham Vacuum & Heat Transfer Limited, which in turn is wholly-owned by the Company. Graham Vacuum and Heat Transfer Limited has no employees.

GPPL manufactures liquid ring vacuum pumps, rotary piston pumps, oil sealed rotary vane pumps, atmospheric air operated ejectors and complete vacuum pump systems that are factory assembled with self-supporting structure.

Sales for FY 2001-2002 stood at $7,432,000, an increase of 38% compared with the previous year, reflecting at least in part GPPL's success in the introduction of its line of dry vacuum pumps.

GPPL achieved substantial growth in sales and profitability against the background of a depressed European economy. Notable successes were achieved in winning and executing substantial orders in the petrochemical, offshore and gas industries. During FY 2002, GPPL completed fabrication of its largest single vacuum pump order to-date for a major South African company for the production of cosmetics. Future business could materialize as a result of this order. UK operations have been successful in penetrating the German market and will continue expanding to other countries in the European Union during FY 2003.

GPPL employed 60 people on March 31, 2002.

CAPITAL EXPENDITURES

The Company's capital expenditures for FY 2001-2002 amounted to $688,000. Of this amount, $607,000 was for the U.S. business and $81,000 was for the U.K. business.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

(1) Industry Segments and (2) Information as to Lines of Business

Graham Corporation operates in only one industry segment which is the design and manufacture of vacuum and heat transfer equipment. Further segment information is set forth in Note 13 to the Consolidated Financial Statements on pages 31-33 of the Annual Report on Form 10-K.

(C) NARRATIVE DESCRIPTION OF BUSINESS

(1) Business Done and Intended to be Done

Principal Products and Markets

The Company designs and manufactures vacuum and heat transfer equipment, primarily custom built. Its products include steam jet ejector vacuum systems, surface condensers for steam turbines, liquid ring vacuum pumps and compressors and various types of heat exchangers including helical coil exchangers marketed under the registered name "Heliflow" and plate and frame exchangers. These products function to produce a vacuum or to condense steam or otherwise transfer heat, or any combination of these tasks. They accomplish this without involving any moving parts and are available in all metals and in many non-metallic and corrosion resistant materials as well.

This equipment is used in a wide range of industrial process applications: power generation facilities, including fossil fuel plants and nuclear plants as well as cogeneration plants and geothermal power plants that harness naturally occurring thermal energy; petroleum refineries; chemical plants; pharmaceutical plants; plastics plants; fertilizer plants; breweries and titanium plants; liquified natural gas production; soap manufacturing; air conditioning systems; food processing plants and other process industries. Among these the principal markets for the Company's products are the chemical, petrochemical, petroleum refining, and electric power generating

industries. The Company's equipment is sold by a combination of direct company sales engineers and independent sales representatives located in over 40 major cities in the United States and abroad.

Status of Publicly Announced New Products or Segments

The Company has no plans for new products or for entry into new industry segments that would require the investment of a material amount of the Company's assets or that otherwise is material.

Sources and Availability of Raw Materials

The Company experienced no serious material shortages in FY 2001-2002.

Material Patents, Trademarks

The Company holds no material patents, trademarks, licenses, franchises or concessions the loss of which would have a materially adverse effect upon the business of the Company.

Seasonal Variations

No material part of the Company's business is seasonal.

Principal Customers

The Company's principal customers include the large chemical, petroleum and power companies, which are end users of the Company's equipment in their manufacturing and refining processes, as well as large engineering contractors who build installations for such companies and others.

No material part of the Company's business is dependent upon a single customer or on a few customers, the loss of any one or more of whom would have a materially adverse effect on the Company's business. No customer of the Company or group of related customers regularly accounts for as much as 10% of the Company's consolidated annual revenue.

Order Backlog

Backlog of unfilled orders at March 31, 2002 was $37,322,000 compared to $28,458,000 at March 31, 2001 and $27,302,000 at March 31, 2000.

Competition

The Company's business is highly competitive and a substantial number of companies having greater financial resources are engaged in manufacturing similar products. However, the Company believes it is one of the leading manufacturers of steam jet ejectors.

Research Activities

During the fiscal years ended March 31, 2002, 2001, and 2000 the Company spent approximately $248,000, $250,000, and $255,000, respectively, on research activities relating to the development of new products or the improvement of existing products.

Environmental Matters

The Company does not anticipate that compliance with federal, state and local provisions, which have been enacted or adopted regulating the discharge of material in the environment or otherwise pertaining to the protection of the environment, will have a material effect upon the capital expenditures, earnings and competitive position of the Company and its subsidiaries.

(d) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The information called for under this Item is set forth in Note 13 to Consolidated Financial Statements, on pages 31-33 of this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

United States: The Company's corporate headquarters is located at 20 Florence Avenue, Batavia, New York, consisting of a 45,000 square foot building. The Company's manufacturing facilities are also located in Batavia, consisting of approximately thirty-three acres and containing about 204,000 square feet in several connected buildings, including 162,000 square feet in manufacturing facilities, 48,000 square feet for warehousing and a 6,000 square-foot building for product research and development.

Additionally the Company leases U.S. sales offices in Los Angeles and Houston.

United Kingdom: The Company's U.K. subsidiary, Graham Precision Pumps Limited, owns a 41,000 square-foot manufacturing facility located on 15 acres in Congleton, Cheshire, England.

Assets of the Company with a book value of $36,294,000 have been pledged to secure certain domestic long-term borrowings. Short and long-term borrowings of the Company's United Kingdom subsidiary are secured by assets of the subsidiary, which have a book value of $611,000.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of fiscal year covered by this report to a vote of the Company's security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(a) The information called for under this Item is set forth under Item 8, "Financial Statements and Supplementary Data," in the Statement of Quarterly Financial Data appearing on page 33 of this Annual Report on Form 10-K.

(b) On June 12, 2002, there were approximately 400 holders of the Company's common stock. This figure includes stockholders of record and individual participants in security position listings who have not objected to the disclosure of their names; it does not, however, include individual participants in security position listings who have objected to disclosure of their names. On June 12, 2002, the closing price of the Company's common stock on the American Stock Exchange was $10.10 per share.

(c) The Company has not paid a dividend since January 4, 1993, when it paid a dividend of $.07 per share. The Company will evaluate on an ongoing basis whether to pay a dividend in the foreseeable future. Restrictions on dividends are described in Note 5 to the Consolidated Financial Statements included in this Report.

(d) Equity Compensation Plan Information

PLAN CATEGORY	(a) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(b) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(c) NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))
Equity compensation plans approved by security holders	191,423	$ 12.80	347,973
Equity compensation plans not approved by security holders	0	0	0
Total	191,423	$ 12.80	347,973

ITEM 6. SELECTED FINANCIAL DATA

GRAHAM CORPORATION -- TEN YEAR REVIEW

	2002(1)	2001(1)	2000(1)	1999(1)	1998(1)
OPERATIONS:					
Net Sales	$47,396,000	$44,433,000	$38,728,000	$52,978,000	$56,206,000
Gross Profit	10,077,000	9,796,000	9,964,000	14,872,000	18,083,000
Income (Loss) From Continuing Operations	2,305,000	195,000	(833,000)	2,369,000	3,766,000
Dividends					
COMMON STOCK:					
Basic Earnings (Loss) From Continuing Operations Per Share	1.40	.12	(.55)	1.48	2.27
Diluted Earnings (Loss) From Continuing Operations Per Share	1.38	.12	(.55)	1.46	2.21
Dividends Per Share					
FINANCIAL DATA:					
Working Capital	13,812,000	11,162,000	12,397,000	11,989,000	12,459,000
Capital Expenditures	688,000	1,124,000	711,000	1,189,000	1,400,000
Depreciation	955,000	926,000	998,000	983,000	905,000
Total Assets	43,704,000	36,608,000	34,596,000	34,136,000	37,030,000
Long-Term Debt	150,000	682,000	1,948,000	505,000	859,000
Shareholders' Equity	19,636,000	17,137,000	17,092,000	16,712,000	17,775,000

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(1) The financial data presented for 2002 - 1998 is for the respective twelve months ended March 31. The financial data presented for 1997 is for the three month transition period ended March 31, 1997. The financial data

presented for 1996-1992 is for the respective twelve months ended December 31.

<Table>
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GRAHAM CORPORATION -- TEN YEAR REVIEW

	1997(1)	1996	1995(2)	1994(2)	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>	<C>
OPERATIONS:						
Net Sales......................	$14,257,000	$51,487,000	$50,501,000	$46,467,000	$44,592,000	$47,514,000
Gross Profit...................	4,080,000	15,463,000	13,257,000	12,153,000	11,661,000	9,234,000
Income (Loss) From Continuing Operations...................	621,000	3,102,000	1,361,000	9,000	481,000	(2,153,000)
Dividends......................						293,000
COMMON STOCK:						
Basic Earnings (Loss) From Continuing Operations Per Share........................	.39	1.96	.86	.01	.31	(1.37)
Diluted Earnings (Loss) From Continuing Operations Per Share........................	.38	1.93	.86	.01	.31	(1.37)
Dividends Per Share............						.28
FINANCIAL DATA:						
Working Capital................	10,300,000	8,239,000	7,093,000	6,819,000	7,075,000	9,601,000
Capital Expenditures...........	237,000	1,291,000	204,000	412,000	513,000	9,213,000
Depreciation...................	249,000	892,000	927,000	1,027,000	1,349,000	1,385,000
Total Assets...................	31,224,000	30,494,000	29,499,000	29,927,000	41,388,000	45,573,000
Long-Term Debt.................	2,764,000	1,442,000	3,303,000	5,161,000	6,102,000	9,491,000
Shareholders' Equity...........	12,538,000	11,915,000	8,426,000	7,045,000	14,793,000	14,564,000

</Table>

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(2) Per share data has been adjusted to reflect a three-for-two stock split on July 25, 1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Graham Corporation consists of two operating segments as determined by geographic areas (USA: Graham Corporation, UK: Graham Vacuum and Heat Transfer, Limited and its wholly-owned subsidiary, Graham Precision Pumps, Ltd.).

Certain statements contained in this document, including within this Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical facts, constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, in general, predict, forecast, indicate or imply future results, performance or achievements and generally use words so indicative. The Company wishes to caution the reader that numerous important factors which involve risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, and other factors discussed in the Company's filings with the Securities and Exchange Commission, in the future, could affect the Company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

ANALYSIS OF CONSOLIDATED OPERATIONS

RESULTS OF OPERATIONS

For an understanding of the significant factors that influenced our performance during the past three fiscal years, the following discussion should be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements presented in this annual report.

<Table>
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	2002		2001		2000	
	USA	UK	USA	UK	USA	UK
	(IN THOUSANDS OF DOLLARS (EXCEPT SHARE DATA))					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales............................	$41,115	$7,432	$40,686	$5,375	$34,940	$ 5,068
Net Income (Loss)................	$ 1,826	$ 505	$ 224	$ 41	$ 374	$(1,209)
Diluted Earnings (Loss) per						

Share	$ 1.09	$ 0.30	$ 0.14	$ 0.03	$ 0.25	$ (0.79)
Identifiable Assets	$42,446	$5,127	$35,737	$4,665	$34,489	$ 3,831

</Table>

2002 COMPARED TO 2001

Consolidated sales (net of intercompany sales) were $47,396,000 for the year ended March 31, 2002 as compared to sales of $44,433,000 for the prior twelve months. Sales from the USA operation increased about 1%. Surface condenser sales increased about 68% or about $7,000,000 in fiscal year end ("FYE") 2002 due to opportunities in the electric power industry. The "power industry" includes sales to merchants, cogeneration and independent production facilities. Increased sales in condensers were largely offset by reduced shipments in other product lines. Export shipments, as a percent of total sales, were the lowest they have been since 1990. The broad decline in demand for Graham's USA products is believed to be temporary. Principal reasons for fewer projects under construction by contractors in the three major segments the Company serves (refinery, chemical and petrochemical) are: (1) limited capital spending due to poor global economic conditions, (2) the strong US dollar, (3) merger and acquisition activity, (4) revamping of financial infrastructure needs in Asia, and (5) caution resulting from the war on terrorism.

Sales from UK operations increased about 38% over FYE March 2001, or about $2,000,000. Significant sales increases were achieved in the categories of liquid ring pump packages, offshore pumps, dry pumps and spares. The increased sales in pump packages resulted from the shipment of one large order valued at about $1,400,000 to South Africa for the petrochemical industry. Going forward, targeting larger orders will be a strategic objective. In FYE 2001 Graham purchased Leybold's dry pump line. Increased dry pump sales in the current year is due to further establishing the product line under Graham's offerings. This product is predicted to show continued sales growth going forward. Spare part sales increased as a result of the market demand for offshore activity and to the success of the dry pump line.

The consolidated gross profit margin was 21%, down from 22% last year and down from a recent historical range of about 25-28%. The UK operations posted a 38% gross profit, up from 31% for the prior year, due to improved product mix. In the current year the UK operations significantly increased their sales in offshore pumps and spares. These pumps require high quality standards and special fabrication techniques. Accordingly, they bear a higher profit margin. In the USA the gross profit percent was 18%, down from 20% in FYE March 2001. The lower gross profit margin was attributed to depressed selling prices together with greater employment costs in the areas of incentive compensation and medical and workers compensation insurances.

Selling, general and administrative expense for the current year was about 22% of sales as compared to about 21% for the prior year. USA costs approximated FYE 2001 costs. The 1% increase occurred in the UK and related to greater costs for additional sales personnel and more sales commissions and royalty payments on higher sales.

Interest expense for the current year decreased 54% from FYE 2001. Bank debt was about 5% of equity, or $1,050,000, at March 31, 2002 as compared to 27% of equity, or $4,709,000 as of March 31, 2001.

The provision for income taxes for the current year of $1,172,000 approximated statutory rates at 34% as compared to a net tax benefit of $221,000 for the FYE 2001.

Consolidated net income for the year was $2,305,000 or $1.38 per diluted share. In the fourth quarter of FYE March 2002 some orders for the power generating industry were cancelled. Net of related expenses and income taxes, cancellation income of about $2,633,000 was recorded. (See Note 11.) Net income for FYE 2001 was $195,000 or $0.12 per diluted share.

2001 COMPARED TO 2000

For FYE 2001 Graham Corporation's consolidated sales (after elimination of intercompany sales) were $44,433,000, producing a net income of $195,000, or $0.12 per diluted share. This compares to FYE 2000 with sales of $38,728,000 resulting in a net loss of $833,000 or $0.55 per diluted share.

Consolidated sales were up 15% in FYE 2001 over FYE 2000. USA operations increased sales by $5,887,000 or 17%. About $3,400,000 of this increase came from the increase in sales into Canada. This new business is due to mega-projects in the synthetic fuel markets. Other export gains over FYE 2000 were made in Asia where orders to oil refinery and petrochemical plants were won and in the Middle East where two large orders, one for an oil refinery upgrade and the other an ethylene petrochemical facility, were awarded to Graham. These increases in sales resulted from the timing of when these refining and petrochemical facilities were to be built.

The consolidated gross profit margin was 22% for FYE 2001 as compared to

26% for FYE 2000. This is a lower gross profit margin than usual and was a result of several factors including depressed selling prices, rising material costs and overall product mix bearing lower contribution margins than the Company's traditional core product margins. Major equipment sales (contracts in excess of $75,000) increased 25% over the year 2000. These orders usually carry a lower contribution percentage and a higher ratio of material costs to sales dollars than non-major equipment sales; material content as a percentage of selling price was thus 10% greater than material costs for the prior year. Selling prices were depressed during 2001 because the sales opportunities available to sell vacuum and heat transfer equipment were less. Merger and acquisition activity, along with poor economic conditions, depressed capital spending by the process industries. On average, selling prices were depressed by 6%.

Consolidated selling, general and administrative expenses increased about 6% over FYE 2000. In the USA Graham's costs rose 4% as a result of greater sales commissions due to increased sales and the launching of a comprehensive advertising agenda. In the UK SG&A costs rose 21%. This increase resulted from gearing up for the future manufacturing and selling of Graham's Leybold dry pump acquisition (e.g., staff, sales office in Germany). Overall, consolidated SG&A expenses were 21% of sales compared to FYE 2000 when SG&A costs equaled 23% of sales.

Interest expense was up due to prime rate increases and borrowings to support higher inventories and sales activities.

The income tax provision for FYE 2001 resulted in a net tax benefit of $221,000 due to resolving certain federal and state income tax matters. The net tax benefit for FYE 2000 of $280,000 resulted from the termination of the UK defined pension plan.

SHAREHOLDERS' EQUITY

<Table>
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	2002	2001	2000
	(IN THOUSANDS OF DOLLARS)		
<S>	<C>	<C>	<C>
USA	$20,794	$18,786	$18,488
UK	2,661	2,145	2,327
Eliminations	(3,819)	(3,794)	(3,723)
	$19,636	$17,137	$17,092
Book Value Per Share	$ 11.91	$ 10.52	$ 11.36

</Table>

2002 COMPARED TO 2001

Shareholders' Equity increased $2,499,000 or nearly 15% for the current year as compared to about 0% for FYE 2001. Ninety-two percent of the increase was due to current earnings. Net book value increased to $11.91 per share at March 31, 2002 from $10.52 as of March 31, 2001 for a 13% increase in book value per share. The trading price of Graham's common stock followed with a 23% increase in share price at March 31, 2002 from March 31, 2001 ($11.00 and $8.95, respectively).

2001 COMPARED TO 2000

Due to a minimal net income, shareholders' equity increased only slightly in FYE 2001. Book value per share decreased about 7% as a result of the sale at fair market value of 117,800 treasury shares in FYE 2001. This sale will result in long-term stock ownership by officers and board members of the Corporation.

LIQUIDITY AND CAPITAL RESOURCES

<Table>
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	2002		2001		2000	
	USA	UK	USA	UK	USA	UK
	(IN THOUSANDS OF DOLLARS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Working Capital	$12,408	$1,702	$10,310	$1,125	$11,393	$ 1,206
Cash Flow from Operations	$ 4,290	$ 174	$ 90	$ (912)	$ (565)	$(1,055)
Cash and Investments	$ 5,307	$ 90	$ 5,072	$ 59	$ 5,762	$ 253
Capital Expenditures	$ 607	$ 81	$ 1,025	$ 99	$ 699	$ 12
Long-Term Borrowings	$ 0	$ 0	$ 545	$ 0	$ 1,757	$ 67
Capital Leases	$ 173	$ 62	$ 111	$ 153	$ 70	$ 340

</Table>

2002 COMPARED TO 2001

Consolidated cash flow from operations was $4,464,000 for the current year as compared to negative cash flow of $822,000 for FYE 2001. The increase was due to net income of $2,305,000 and other changes in working capital items of $2,650,000. At March 31, 2002 trade account receivables were $17,053,000, up $9,099,000 from March 31, 2001. This increase significantly related to amounts due on cancelled and suspended electric power generating business. In April and May 2002 the majority of the outstanding balance was collected.

Capital expenditures for the year ending March 31, 2003 are budgeted to be $975,000 (USA, $749,000; UK, $226,000). This amount approximates estimated depreciation expense for the upcoming year.

The Company plans to fund cash needs through earnings, cash investments, and, if needed, lines of credit. At March 31, 2002 the USA unused bank line of credit was $12,557,000. The UK operation had an unused line available of $149,000.

2001 COMPARED TO 2000

Consolidated cash flow from operations was negative $822,000 in FYE 2001 compared to negative cash flow of $1,620,000 for the prior year. The FYE 2001 shortfall was due to an increase in inventory of 41% or $2,743,000. This buildup was due to scheduled first half FYE 2002 shipments, billings (minus related cost of goods sold) on seven percent-of-completion jobs (net of progress payments), the newly acquired dry pump product line, rising raw material costs, and buying ahead to protect from raw material price escalations on fixed price contracts having extended shipment dates.

ORDERS AND BACKLOG

<Table>
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ORDERS	2002	2001	2000
	(IN THOUSANDS OF DOLLARS)		
<S>	<C>	<C>	<C>
USA	$52,081	$42,541	$44,012
UK	6,118	7,768	5,154
Eliminations	(1,077)	(1,542)	(1,559)
Consolidated	$57,122	$48,767	$47,607

</Table>

<Table>
<Caption>

BACKLOG	2002	2001	2000
	(IN THOUSANDS OF DOLLARS)		
<S>	<C>	<C>	<C>
USA	$36,506	$25,544	$23,689
UK	1,180	3,366	1,198
Eliminations	(364)	(452)	(585)
Consolidated	$37,322	$28,458	$24,302

</Table>

Graham's consolidated backlog at March 31, 2002 is $37,322,000. This amount represents an increase of about 31% or $8,864,000 greater than at March 31, 2001. Included in the backlog is $8,791,000 of orders for electric power plant business that has been put on hold by the customer. Possible release to commence construction could be received in FYE 2003, although notices have not been received to-date. All suspended orders are protected with cancellation charges. The backlog, except for suspended electric power plant orders, is expected to be converted into sales in FYE March 31, 2003.

Orders increased 17% over FYE 2001. Major active industries were power fossil and petroleum refining. Going forward Graham expects the power fossil market to continue for an extended period of time, but at a slower pace than orders were received in the past year. The Company believes activity will continue to provide excellent opportunities for new business in the coming year and beyond in the petroleum refinery industry. This work will be largely related to upgrades required to meet clean air emission standards as well as upgrading facilities for processing lower cost crude oils. Additionally, early signs of a pick up in petrochemical expansions and enhancements, and in particular China, are beginning to surface. In all markets served, pricing will continue to be competitive in FYE 2003.

MARKET RISK (QUANTITATIVE AND QUALITATIVE DISCLOSURES)

The principal market risks (i.e., the risk of loss arising from changes in market rates and prices) to which Graham is exposed are:

- interest rates

- foreign exchange rates

- equity price risk

The assumptions applied in preparing quantitative disclosures regarding interest rate, foreign exchange rate and equity price risk are based upon volatility ranges experienced in relevant historical periods, management's current knowledge of the business and market place, and management's judgment of the probability of future volatility based upon the historical trends and economic conditions of the business.

The Company is exposed to interest rate risk primarily through its borrowing activities. Management's strategy for managing risks associated with interest rate fluctuations is to hold interest bearing debt to the absolute minimum and carefully assess the risks and rewards for incurring long-term debt. Assuming year ended 2002 and 2001 variable rate debt, a 1% change in interest rates would impact annual interest expense by $10,500 and $47,000, respectively.

Graham's international consolidated sales exposure for the current year approximated 33% of annual sales as compared to 37% for the year 2001. Operating in world markets involves exposure to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being the ability to competitively compete for orders against competition having a relatively weaker currency. Business lost due to this cannot be quantified. Secondly, cash can be adversely impacted by the conversion of sales in foreign currency to U.S. dollars. The substantial portion of Graham's sales is collected in the local currencies. In 2002 and 2001, sales in foreign currencies were 1.5% and 1.1%, respectively. At certain times, the Company may enter into forward foreign exchange agreements to hedge its exposure against unfavorable changes in foreign currency values on significant sales contracts negotiated in foreign currencies.

Graham has limited exposure to foreign currency purchases. In FYE 2002 and 2001, purchases in foreign currencies were 5% and 4% of cost of goods sold, respectively. At certain times, forward foreign exchange contracts may be utilized to limit currency exposure.

Foreign operations resulted in a current year net income of $505,000 as compared to $41,000 for FYE 2001. As currency exchange rates change, translations of the income statements of the UK business into US dollars affects year-over-year comparability of operating results. We do not hedge translation risks because cash flows from UK operations are mostly reinvested in the UK. A 10% change in foreign exchange rates would have impacted the UK reported net income by approximately $50,500 for FYE 2002 and $4,100 for the previous year.

The Company has a Long-Term Incentive Plan which provides for awards of share equivalent units (SEU) for outside directors based upon the Company's performance. The outstanding SEU's are recorded at fair market value thereby exposing the Company to equity price risk. Gains and losses recognized due to market price changes are included in the quarterly results of operations. Based upon the SEU's outstanding at March 31, 2002 and 2001 and a $11 per share price, a 50-75% change in the respective year end market price of the Company's common stock would positively or negatively impact the Company's operating results by $84,000 to $125,900 for FYE 2002 and $48,000 to $72,000 in FYE 2001. Assuming required net income is met, and based upon a market price of the Company's stock of $11 per share, a 50-75% change in the stock price would positively or negatively impact the Company's operating results by $109,000 to $163,400 in 2003, $114,000 to $170,900 in 2004, and $119,000 to $178,400 in 2005 and thereafter.

OTHER MATTERS

Increases in material and labor costs traditionally have been offset by cost cutting measures and selling price increases. Obtaining price increases are largely a factor of supply and demand for Graham's products, whereas inflation factors can originate from influences outside of the Company's direct global competition. Graham will continue to monitor the impact of inflation in order to minimize its effects in future years through sales growth, pricing, product mix strategies, purchasing advantageously, productivity improvements, and cost reductions.

The Company's USA operations are governed by federal environmental laws, principally the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Air Act, and the Clean Water Act, as well as state counterparts ("Environmental Laws"). Environmental Laws require that certain parties fund remedial actions regardless of fault, legality or original disposal or ownership of the site.

Graham is not involved in any environmental remediation projects.

CRITICAL ACCOUNTING POLICIES

The significant accounting policies are disclosed in Note 1 to the consolidated financial statements. The following discussion addresses the most critical accounting policies, which are those that are most important to the portrayal of the financial condition and results, and that require judgment.

REVENUE RECOGNITION

PERCENTAGE-OF-COMPLETION

The Company recognizes revenue and all related costs on contracts with a duration in excess of three months and with revenues of $1,000,000 and greater using the percentage-of-completion method. The percentage-of-completion is determined by relating actual labor incurred to-date to management's estimate of 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 contract value and estimated costs at completion.

COMPLETED CONTRACT

Contracts with values less than $1,000,000 are accounted for on the completed contract method. The Company recognizes revenue and all related costs on these contracts upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further obligations under the contract after the revenue is recognized.

USE OF ESTIMATES

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses in preparing our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

NEW ACCOUNTING PRONOUNCEMENTS

In FYE March 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133 ("Accounting for Derivative Instruments and Hedging Activities") as amended by SFAS Nos. 137 and 138. These statements establish accounting and reporting standards for derivative instruments. The Company did not enter into any derivative transactions in the current fiscal year.

For affect in the 2003 fiscal year, the Financial Accounting Standards Board issued SFAS Nos. 141, "Business Combinations," and 142, "Goodwill and Other Intangible Assets" in June 2001. Neither of these pronouncements will have an impact on Graham's financial statements for the year ended March 2003.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets to be held and used, to be disposed of other than by sale and to be disposed of by sale. Although the Statement retains certain of the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it supercedes SFAS No. 121. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and therefore, will be adopted by the Company, as required, on April 1, 2002. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Included in Item 7, Management's Discussion and Analysis -- Market Risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(Financial Statements, Notes to Financial Statements, Quarterly Financial Data)

CONSOLIDATED STATEMENTS OF OPERATIONS

<Table>
<Caption>

	YEAR ENDED MARCH 31,		
	2002	2001	2000

Net sales	$47,396,000	$44,433,000	$38,728,000
Costs and expenses:			
Cost of products sold	37,319,000	34,637,000	28,764,000
Selling, general and administrative	10,439,000	9,494,000	8,943,000
Interest expense	150,000	328,000	233,000
Other (income) expense	(3,989,000)		1,901,000
	43,919,000	44,459,000	39,841,000
Income (Loss) before income taxes	3,477,000	(26,000)	(1,113,000)
Provision (Benefit) for income taxes	1,172,000	(221,000)	(280,000)
Net income (loss)	$ 2,305,000	$ 195,000	$ (833,000)
Per Share Data			
Basic:			
Net income (loss)	$ 1.40	$ .12	$ (.55)
Diluted:			
Net income (loss)	$ 1.38	$ .12	$ (.55)

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2002	MARCH 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,901,000	$ 226,000
Investments	2,496,000	4,905,000
Trade accounts receivable, net	17,053,000	7,954,000
Inventories	8,342,000	9,383,000
Domestic and foreign income taxes receivable		449,000
Deferred income tax asset	1,218,000	1,021,000
Prepaid expenses and other current assets	377,000	529,000
	32,387,000	24,467,000
Property, plant and equipment, net	9,726,000	10,013,000
Deferred income tax asset	1,585,000	2,113,000
Other assets	6,000	15,000
	$43,704,000	$36,608,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 1,050,000	$ 4,164,000
Current portion of long-term debt	85,000	126,000
Accounts payable	4,333,000	4,968,000
Accrued compensation	4,444,000	2,225,000
Accrued expenses and other liabilities	1,100,000	893,000
Customer deposits	6,704,000	929,000
Domestic and foreign income taxes payable	859,000	
	18,575,000	13,305,000
Long-term debt	150,000	682,000
Accrued compensation	680,000	706,000
Deferred income tax liability	41,000	31,000
Other long-term liabilities	11,000	11,000
Accrued pension liability	1,398,000	1,516,000
Accrued postretirement benefits	3,213,000	3,220,000
Total liabilities	24,068,000	19,471,000
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value -- Authorized, 500,000 shares		
Common stock, $.10 par value -- Authorized, 6,000,000 shares Issued, 1,716,572 shares in 2002 and 1,697,645 shares in 2001	172,000	170,000
Capital in excess of par value	4,757,000	4,575,000
Retained earnings	18,888,000	16,583,000

Accumulated other comprehensive loss	(2,178,000)	(2,188,000)
	21,639,000	19,140,000
Less:		
Treasury stock (68,323 shares in 2002 and 2001)	(1,161,000)	(1,161,000)
Notes receivable from officers and directors	(842,000)	(842,000)
Total shareholders' equity	19,636,000	17,137,000
	$43,704,000	$36,608,000

</Table>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>
<Caption>

	YEAR ENDED MARCH 31,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Operating activities:			
Net income (loss)	$ 2,305,000	$ 195,000	$ (833,000)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	956,000	948,000	1,050,000
Gain on sale of property, plant and equipment	(19,000)	(51,000)	(22,000)
Loss on sale of investments	28,000		
Asset impairment			17,000
(Increase) Decrease in operating assets:			
Accounts receivable	(9,089,000)	(489,000)	(24,000)
Inventories, net of customer deposits	6,817,000	(2,342,000)	184,000
Domestic and foreign income taxes receivable/payable	1,347,000	(107,000)	(227,000)
Prepaid expenses and other current and non-current assets	139,000	(139,000)	(118,000)
Increase (Decrease) in operating liabilities:			
Accounts payable, accrued compensation, accrued expenses and other liabilities	1,395,000	739,000	(925,000)
Accrued compensation, accrued pension liability and accrued postretirement benefits	239,000	126,000	(354,000)
Deferred income taxes	346,000	298,000	(368,000)
Total adjustments	2,159,000	(1,017,000)	(787,000)
Net cash provided (used) by operating activities	4,464,000	(822,000)	(1,620,000)
Investing activities:			
Purchase of property, plant and equipment	(688,000)	(1,124,000)	(711,000)
Proceeds from sale of property, plant and equipment	160,000	293,000	49,000
Purchase of investments	(5,975,000)		(904,000)
Redemption of investments at maturity	8,377,000		906,000
Net cash provided (used) by investing activities	1,874,000	(831,000)	(660,000)
Financing activities:			
Increase (Decrease) in short-term debt	(3,122,000)	2,207,000	2,000,000
Proceeds from issuance of long-term debt	4,785,000	17,504,000	3,244,000
Principal repayments on long-term debt	(5,472,000)	(18,988,000)	(1,834,000)
Issuance of common stock	146,000	54,000	
Purchase of treasury stock			(124,000)
Sale of treasury stock		12,000	
Net cash provided (used) by financing activities	(3,663,000)	789,000	3,286,000
Effect of exchange rate on cash		(20,000)	(16,000)
Net increase (decrease) in cash and equivalents	2,675,000	(884,000)	990,000
Cash and cash equivalents at beginning of year	226,000	1,110,000	120,000

Cash and cash equivalents at end of year........	$ 2,901,000	$ 226,000	$ 1,110,000
	============	===========	============

</Table>

See Notes of Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<Table>
<Caption>

	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	EMPLOYEE STOCK OWNERSHIP PLAN LOAN PAYABLE	NOTES RECEIVABLE FROM OFFICERS AND DIRECTORS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at March 31, 1999..................	1,690,595	$169,000	$4,521,000	$17,731,000	$(3,076,000)	$(2,408,000)	$(225,000)	
Net loss.................				(833,000)				
Foreign currency translation adjustment............					(79,000)			
Minimum pension liability adjustment, net of tax of $510,000...........					1,191,000			
Total comprehensive income............								
Acquisition of treasury stock.................						(124,000)		
Payments on Employee Stock Ownership Plan loan payable..........							225,000	
Balance at March 31, 2000..................	1,690,595	169,000	4,521,000	16,898,000	(1,964,000)	(2,532,000)	0	
Net income..............				195,000				
Foreign currency translation adjustment............					(224,000)			
Total comprehensive loss..............								
Issuance of shares.......	7,050	1,000	53,000					
Stock option tax benefit...............			8,000					
Notes receivable from officers and directors for the purchase of treasury stock.........			(7,000)	(510,000)		1,371,000	0	$(842,000)
Balance at March 31, 2001..................	1,697,645	170,000	4,575,000	16,583,000	(2,188,000)	(1,161,000)	0	(842,000)
Net income..............				2,305,000				
Foreign currency translation adjustment............					10,000			
Total comprehensive income............								
Issuance of shares.......	18,927	2,000	144,000					
Stock option tax benefit...............			38,000					

Balance at March 31, 2002	1,716,572	$172,000	$4,757,000	$18,888,000	$(2,178,000)	$(1,161,000)	$	0	$(842,000)
	==========	========	==========	===========	===========	===========		=========	=========

<Caption>

<S>	SHAREHOLDERS' EQUITY <C>
Balance at March 31, 1999	$16,712,000
Net loss	(833,000)
Foreign currency translation adjustment	(79,000)
Minimum pension liability adjustment, net of tax of $510,000	1,191,000
Total comprehensive income	279,000
Acquisition of treasury stock	(124,000)
Payments on Employee Stock Ownership Plan loan payable	225,000
Balance at March 31, 2000	17,092,000
Net income	195,000
Foreign currency translation adjustment	(224,000)
Total comprehensive loss	(29,000)
Issuance of shares	54,000
Stock option tax benefit	8,000
Notes receivable from officers and directors for the purchase of treasury stock	12,000
Balance at March 31, 2001	17,137,000
Net income	2,305,000
Foreign currency translation adjustment	10,000
Total comprehensive income	2,315,000
Issuance of shares	146,000
Stock option tax benefit	38,000
Balance at March 31, 2002	$19,636,000

</Table>

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- THE COMPANY AND ITS ACCOUNTING POLICIES:

Graham Corporation and its subsidiaries are primarily engaged in the design and manufacture of vacuum and heat transfer equipment used in the chemical, petrochemical, petroleum refining, and electric power generating industries and sell to customers throughout the world. The Company's significant accounting policies follow.

Principles of Consolidation and Use of Estimates in the Preparation of Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned domestic and foreign subsidiaries. All significant intercompany balances, transactions and profits are eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the related revenues and expenses during the reporting period. Actual amounts could differ from those estimated.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at currency exchange rates in effect at year end and revenues and expenses are translated at average exchange rates in effect for the year. Gains and losses resulting from foreign currency transactions are included in results of operations. The Company's sales and purchases in foreign currencies are minimal, therefore, foreign currency transaction gains and losses are not significant. Gains and losses resulting from translation of foreign subsidiary balance sheets are included in a separate component of shareholders' equity. Translation adjustments are not adjusted for income taxes since they relate to an investment which is permanent in nature.

Revenue Recognition

Percentage-of-Completion

The Company recognizes revenue and all related costs on contracts with a duration in excess of three months and with revenues of $1,000,000 and greater using the percentage-of-completion method. The percentage-of-completion is determined by relating actual labor incurred to-date to management's estimate of 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 contract value and estimated costs at completion.

Completed Contract

All contracts with revenue of less than $1,000,000 are accounted for using the completed contract method. The Company recognizes revenue and all related costs on these contracts upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further obligations under the contract after the revenue is recognized.

Shipping and Handling Fees and Costs

Shipping and handling fees are billed to the customer and classified as revenue and the related costs incurred for shipping and handling are included in cost of goods sold.

Investments

Investments consist primarily of fixed-income debt securities with maturities of beyond three months. All investments are classified as held-to-maturity as the Company has the positive intent and ability to hold the securities to maturity. The investments are stated at amortized cost which approximates fair value. All the investments mature within one year.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out method. Progress payments for orders 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 Consolidated Balance Sheets.

Property, Plant and Depreciation

Property, plant and equipment are stated at cost. Major additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided based upon the estimated useful lives under the straight line method. Estimated useful lives range from approximately five to twenty-five years for office and manufacturing equipment and forty years for buildings and improvements. Upon sale or retirement of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations. Impairment losses are recognized when the carrying value of an asset exceeds its fair value. The Company regularly assesses all of its long-lived assets for impairment and recognized an impairment loss of $17,000 in 2000. No such impairment losses were required in 2002 or 2001.

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. The Company evaluates the available evidence about future taxable income and other possible sources of realization of deferred income tax assets and records a valuation allowance to reduce deferred income tax assets to an amount that represents the Company's best estimate of the amount of such deferred income tax assets that more likely than not will be realized.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation cost for share equivalent units is recorded based on the quoted market price of the Company's stock at the end of the period.

Per Share Data

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Common shares outstanding includes share equivalent units which are contingently issuable shares. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common and, when applicable, potential common shares outstanding during the

period. A reconciliation of the numerators and denominators of basic and diluted earnings per share is presented below.

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Basic earnings (loss) per share			
Numerator:			
Net income (loss)	$2,305,000	$ 195,000	$ (833,000)
Denominator:			
Weighted common shares outstanding	1,639,000	1,588,000	1,514,000
Share equivalent units (SEU) outstanding	11,000	11,000	9,000
Weighted average shares and SEU's outstanding	1,650,000	1,599,000	1,523,000
Basic earnings (loss) per share	$ 1.40	$ .12	$ (.55)
Diluted earnings (loss) per share			
Numerator:			
Net income (loss)	$2,305,000	$ 195,000	$ (833,000)
Denominator:			
Weighted average shares and SEU's outstanding	1,650,000	1,599,000	1,523,000
Stock options outstanding	20,000	14,000	
Contingently issuable SEU's	1,000		
Weighted average common and potential common shares outstanding	1,671,000	1,613,000	1,523,000
Diluted earnings (loss) per share	$ 1.38	$ .12	$ (.55)

</Table>

Options to purchase shares of common stock which totaled 131,600, 116,500 and 187,250 in 2002, 2001 and 2000, respectively, were not included in the computation of diluted earnings (loss) per share as the effect would be anti-dilutive.

Cash Flow Statement

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Actual interest paid was $161,000 in 2002, $319,000 in 2001, and $230,000 in 2000. In addition, actual income taxes paid (refunded) were $(521,000) in 2002, $(376,000) in 2001, and $331,000 in 2000.

Non cash activities during 2002, 2001, and 2000 included capital expenditures totaling $112,000, $93,000 and $3,000, respectively, which were financed through the issuance of capital leases. In 2000, the minimum pension liability adjustment, net of a tax benefit, totaling $1,191,000 that was originally recognized in 1999 was subsequently reversed.

Accumulated Other Comprehensive Loss

Comprehensive income is comprised of net income (loss) and other comprehensive income or loss items, which are reflected as a separate component of equity. For the Company, other comprehensive income or loss items include foreign currency translation adjustments and minimum pension liability adjustments.

Accounting and Reporting Changes

On April 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, which amended certain provisions of SFAS No. 133. There was no effect on the Company's consolidated financial position, results of operations or cash flows resulting from the adoption of SFAS No. 133, as amended, during fiscal year 2002.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets to be held and used, to be disposed of other than by sale and to be disposed of by sale. Although the Statement retains certain of the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived

Assets and for Long-Lived Assets to Be Disposed Of," it supercedes SFAS No. 121. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001, and therefore, will be adopted by the Company, as required, on April 1, 2002. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 2 -- INVENTORIES:

Major classifications of inventories are as follows:

<Table>
<Caption>

	2002	2001
<S>	<C>	<C>
Raw materials and supplies	$ 2,257,000	$ 2,029,000
Work in process	13,322,000	11,250,000
Finished products	1,724,000	1,880,000
	17,303,000	15,159,000
Less -- progress payments	8,871,000	5,736,000
inventory reserve	90,000	40,000
	$ 8,342,000	$ 9,383,000

</Table>

NOTE 3 -- PROPERTY, PLANT AND EQUIPMENT:

Major classifications of property, plant and equipment are as follows:

<Table>
<Caption>

	2002	2001
<S>	<C>	<C>
Land	$ 281,000	$ 281,000
Leasehold improvements		160,000
Buildings and improvements	10,635,000	10,609,000
Machinery and equipment	16,454,000	16,023,000
Construction in progress	8,000	50,000
	27,378,000	27,123,000
Less -- accumulated depreciation and amortization	17,652,000	17,110,000
	$ 9,726,000	$10,013,000

</Table>

NOTE 4 -- LEASES:

The Company leases equipment and office space under various operating leases. Rent expense applicable to operating leases was $123,000, $150,000, and $141,000 in 2002, 2001, and 2000, respectively. Rent expense in 2000 is net of sublease income of $11,000.

Property, plant and equipment include the following amounts for leases which have been capitalized.

<Table>
<Caption>

	2002	2001
<S>	<C>	<C>
Machinery and equipment	$1,663,000	$1,574,000
Less accumulated amortization	1,132,000	1,013,000
	$ 531,000	$ 561,000

</Table>

Amortization of property, plant and equipment under capital lease amounted to $149,000, $133,000, and $192,000 in 2002, 2001, and 2000, respectively, and is included in depreciation expense.

As of March 31, 2002, future minimum payments required under non-cancelable leases are:

<Table>
<Caption>

	OPERATING LEASES	CAPITAL LEASES
<S>	<C>	<C>
2003	$113,000	$112,000
2004	106,000	85,000
2005	90,000	42,000
2006	36,000	34,000
2007	17,000	16,000
Thereafter		2,000
Total minimum lease payments	$362,000	291,000
Less -- amount representing interest		56,000
Present value of net minimum lease payments		$235,000

</Table>

NOTE 5 -- DEBT:

Short-Term Debt Due Banks

The Company and its subsidiaries had short-term borrowings outstanding as follows:

<Table>
<Caption>

	2002	2001
<S>	<C>	<C>
Borrowings under domestic repurchase agreements		$3,150,000
Borrowings of United Kingdom subsidiary under line of credit at bank's rate plus 1 1/2%	$1,050,000	1,014,000
	$1,050,000	$4,164,000

</Table>

The Company may borrow under domestic repurchase agreements from its investment banker. The interest rate is based upon the federal funds rate and the type of collateral securing the loan. At March 31, 2001, the interest rate was 5.35%. The borrowings were secured by the Company's short-term investments totaling $4,905,000.

The United Kingdom subsidiary has a revolving credit facility agreement which provides a line of credit of 920,000 pounds sterling ($1,316,000 at the March 31, 2002 exchange rate) including letters of credit. The interest rate is the bank's rate plus 1 1/2%. The bank's base rate was 4% and 5.75% at March 31, 2002 and 2001, respectively. The United Kingdom operations had available unused lines of credit of $149,000 at March 31, 2002. The United Kingdom short-term bank borrowings are secured by assets of the United Kingdom subsidiary which have a book value of $611,000 at March 31, 2002. The United States operation does not provide a corporate guarantee or any security for the United Kingdom revolving credit facility. The weighted average interest rate on short-term borrowings in 2002 and 2001 was 4.4% and 6.5%, respectively.

Long-Term Debt

The Company and its subsidiaries had long-term borrowings outstanding as follows:

	2002	2001
United States revolving credit facility		$545,000
Capital lease obligations (Note 4)	$235,000	263,000
	235,000	808,000
Less: current amounts, including amounts for capital leases of $85,000 in 2002 and $126,000 in 2001	85,000	126,000
	$150,000	$682,000

The United States revolving credit facility agreement provides a line of credit of up to $13,000,000 including letters of credit, through October 31, 2002. The agreement allows the Company to borrow at prime minus a

variable percentage based upon certain financial ratios. The Company was able to borrow at a rate of prime minus 125 basis points at March 31, 2002 and prime minus 100 basis points at March 31, 2001.

The agreement allows the Company at any time to convert balances outstanding not less than $2,000,000 and up to $9,000,000 into a two-year term loan. Under this conversion feature which is available through October 2002, the Company may convert the principal outstanding on the revolving line of credit to a two-year term loan. The bank's prime rate was 4.75% and 8% at March 31, 2002 and 2001, respectively. The United States operations had available unused lines of credit of $12,557,000 at March 31, 2002.

With the exception of capital leases, there are no long-term debt payment requirements over the next five years.

The Company is required to pay commitment fees of 1/4% on the unused portion of the domestic revolving credit facility. No other financing arrangements require compensating balances or commitment fees.

The loan agreements contain provisions pertaining to the maintenance of minimum working capital balances, tangible net worth and financial ratios as well as restrictions on the payment of cash dividends to shareholders and incurrence of additional long-term debt. In addition, the United States operations cannot make any loans or advances exceeding $500,000 to any affiliates without prior consent of the bank.

NOTE 6 -- FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, investments, and trade accounts receivable. The Company places its cash, cash equivalents, and investments with high credit quality financial institutions and actively evaluates the credit worthiness of these financial institutions. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the Company's customer base and their geographic dispersion. At March 31, 2002 and 2001, the Company had no significant concentrations of credit risk.

Letters of Credit:

The Company has entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At March 31, 2002 and 2001, the Company was contingently liable on outstanding standby letters of credit aggregating $558,000 and $828,000, respectively.

Foreign Exchange Risk Management:

The Company, as a result of its global operating and financial activities, is exposed to market risks from changes in foreign exchange rates. In seeking to minimize the risks and/or costs associated with such activities, the Company may utilize foreign exchange forward contracts with fixed dates of maturity and exchange rates. The Company does not hold or issue financial instruments for trading or other speculative purposes and only contracts with high quality financial institutions. If the counterparties to the exchange contracts do not fulfill their obligations to deliver the contracted foreign currencies, the Company could be at risk for fluctuations, if any, required to settle the obligation. At March 31, 2002 and 2001, there were no foreign exchange forward contracts held by the Company.

Fair Value of Financial Instruments:

The methods and assumptions used to estimate the fair value of financial instruments are summarized as follows:

INVESTMENTS -- The fair value of investments at March 31, 2002 and 2001 approximated the carrying value.

SHORT-TERM DEBT -- The carrying value of short-term debt approximates fair value due to the short-term maturity of this instrument.

LONG-TERM DEBT -- The carrying values of credit facilities with variable rates of interest approximate fair values.

NOTE 7 -- INCOME TAXES:

An analysis of the components of pre-tax income (loss) is presented below:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
United States	$2,751,000	$ (81,000)	$ 564,000
United Kingdom	726,000	55,000	(1,677,000)
	$3,477,000	$ (26,000)	$(1,113,000)
The provision (benefit) for income taxes consists of:			
Current:			
Federal	$ 695,000	$(555,000)	$ 63,000
State	131,000	36,000	33,000
United Kingdom			(8,000)
	826,000	(519,000)	88,000
Deferred:			
Federal	111,000	274,000	59,000
State	14,000	11,000	33,000
United Kingdom	221,000	13,000	(412,000)
Change in valuation allowance			(48,000)
	346,000	298,000	(368,000)
Total provision (benefit) for income taxes	$1,172,000	$(221,000)	$ (280,000)

</Table>

The reconciliation of the provision (benefit) calculated using the United States federal tax rate with the provision for income taxes presented in the financial statements is as follows:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Provision (Benefit) for income taxes at federal rate	$1,182,000	$ (9,000)	$(378,000)
Difference between foreign and U.S. tax rates	(29,000)	(1,000)	50,000
State taxes	100,000	35,000	55,000
Charges not deductible for income tax purposes	59,000	29,000	96,000
Recognition of tax benefit generated by extraterritorial income exclusion	(121,000)		
Recognition of tax benefit generated by foreign sales corporation		(98,000)	(81,000)
Tax credits	(14,000)	(11,000)	(14,000)
Foreign losses for which no tax benefit was provided			48,000
Reversal of tax reserve		(172,000)	
Change in valuation allowance			(48,000)
Other	(5,000)	6,000	(8,000)
Provision (Benefit) for income taxes	$1,172,000	$(221,000)	$(280,000)

</Table>

The deferred income tax asset (liability) recorded in the Consolidated Balance Sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax asset follows:

	2002		2001	
	UNITED STATES	UNITED KINGDOM	UNITED STATES	UNITED KINGDOM
Depreciation	$ (675,000)	$ (36,000)	$ (574,000)	$ (26,000)
Accrued compensation	446,000		327,000	
Accrued pension liability	436,000		482,000	
Accrued postretirement benefits	1,309,000		1,310,000	
Compensated absences	563,000		520,000	
Inventories	1,000	67,000	(205,000)	6,000
Warranty liability	71,000		54,000	
Foreign loss carryforwards		644,000		909,000
Federal tax credits			315,000	
New York State investment tax credit	107,000		151,000	
Other	126,000	(5,000)	129,000	(5,000)
	2,384,000	670,000	2,509,000	884,000
Less: Valuation allowance		(292,000)		(290,000)
Deferred income tax asset	$2,384,000	$ 378,000	$2,509,000	$ 594,000

Deferred income taxes include the impact of foreign net operating loss carryforwards which may be carried forward indefinitely and investment tax credits which expire from 2007 to 2017. A valuation allowance of $292,000 at March 31, 2002 is deemed adequate to reserve for the foreign net loss carryforwards which are not considered probable of realization.

The Company does not provide for additional U.S. income taxes on undistributed earnings considered permanently invested in its United Kingdom subsidiary. At March 31, 2002, such undistributed earnings totaled $1,317,000. It is not practicable to determine the amount of income taxes that would be payable upon the remittance of assets that represent those earnings.

NOTE 8 -- EMPLOYEE BENEFIT PLANS:

Retirement Plans

The Company has a qualified defined benefit plan covering employees in the United States which is non-contributory. Benefits are based on the employee's years of service and average earnings for the five highest consecutive calendar years of compensation for the ten year period preceding retirement. The Company's funding policy for the plan is to contribute the amount required by the Employee Retirement Income Security Act of 1974.

The components of pension cost are:

	2002	2001	2000
Service cost-benefits earned during the period	$372,000	$352,000	$392,000
Interest cost on projected benefit obligation	826,000	768,000	741,000
Expected return on assets	(908,000)	(884,000)	(823,000)
Amortization of transition asset	(44,000)	(44,000)	(44,000)
Net pension cost	$246,000	$192,000	$266,000
The actuarial assumptions are:			
Discount rate used to determine projected benefit obligation	7 1/4%	7 1/4%	7 1/2%
Rate of increase in compensation levels	3%	3%	3%
Expected rate of return on plan assets	9%	9%	9%

Changes in the Company's benefit obligation, plan assets and funded status for the pension plan are presented below:

<Table>
<Caption>

	2002	2001
<S>	<C>	<C>
Change in the benefit obligation		
Projected benefit obligation at beginning of year........	$11,619,000	$10,610,000
Service cost..	335,000	314,000
Interest cost...	826,000	768,000
Actuarial loss..	12,000	250,000
Benefit payments..	(404,000)	(323,000)
Projected benefit obligation at end of year.............	$12,388,000	$11,619,000
Change in fair value of plan assets		
Fair value of plan assets at beginning of year..........	$10,268,000	$ 9,771,000
Actual return on plan assets............................	(1,294,000)	337,000
Employer contribution...................................		506,000
Benefit and administrative expense payments.............	(457,000)	(346,000)
Fair value of plan assets at end of year................	$ 8,517,000	$10,268,000
Funded status		
Funded status at end of year............................	$(3,872,000)	$(1,351,000)
Unrecognized transition obligation......................	(103,000)	(148,000)
Unrecognized prior service cost.........................	(2,000)	(2,000)
Unrecognized actuarial loss.............................	2,309,000	79,000
Net amounts recognized..................................	$(1,668,000)	$(1,422,000)

</Table>

The current portion of the pension liability as of March 31, 2002 and 2001 is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets.

In October 1999, the Company terminated the defined benefit pension plan in the United Kingdom. This plan was contributory with the employer's share being actuarially determined. Benefits were based on the employee's years of service and average earnings for the three highest years for the ten year period preceding retirement. As a result of the plan termination, a curtailment loss of $1,682,000 was recognized. This charge is included in the caption "Other (Income) Expense" in the 2000 Consolidated Statement of Operations. Employees may participate in a defined contribution plan which has replaced the defined benefit plan.

Pension expense for the U.K. Plan was $209,000 in 2000.

Assets of the United States plan consist primarily of equity securities at March 31, 2002 and 2001. The unrecognized net asset at transition is being amortized over the remaining service lives of the participants which approximates 19 years.

The Company has a Supplemental Executive Retirement Plan which provides retirement benefits associated with wages in excess of the legislated qualified plan maximums. Pension expense recorded in 2002, 2001, and 2000 related to this plan was $26,000, $0, and $26,000, respectively. At March 31, 2002 and 2001, the related liability was $118,000 and $92,000, respectively, and is included in the caption "Accrued Pension Liability" in the Consolidated Balance Sheets.

The Company has defined contribution plans covering substantially all employees. Company contributions to the domestic plan are based on the profitability of the Company and amounted to $669,000, $43,000, and $51,000 in 2002, 2001, and 2000, respectively. In fiscal year 2000, a defined contribution plan was established in the United Kingdom. Company contributions to this plan are based on a percentage of base salary which varies with the participant's age. Company contributions were $73,000, $69,000 and $43,000 in 2002, 2001 and 2000, respectively.

The Company has a deferred compensation plan that allows certain key employees to defer a portion of their compensation. The principal and interest earned on the deferred balances are payable upon retirement. The accrued compensation liability under this plan was $647,000 and $755,000 at March 31, 2002 and 2001, respectively.

Other Postretirement Benefits

In addition to providing pension benefits, the Company has a United States plan which provides health care benefits for eligible retirees and eligible survivors of retirees. The Company recognizes the cost of these benefits on the accrual basis as employees render service to earn the benefits. Early retirees who are eligible to receive benefits under the plan are required to share in twenty percent of the medical premium cost. In addition, the Company's share of the premium costs has been capped.

The components of postretirement benefit cost are:

<Table>
<Caption>

<S>	2002 <C>	2001 <C>	2000 <C>
Service cost -- benefits earned during the period....	$ 50,000	$ 51,000	$ 69,000
Interest cost on accumulated benefit obligation......	180,000	176,000	168,000
Amortization of prior service cost..................	(87,000)	(87,000)	(87,000)
Net postretirement benefit cost.....................	$143,000	$140,000	$150,000

</Table>

The assumptions used to develop the accrued postretirement benefit obligation were:

<Table>
<Caption>

<S>	2002 <C>	2001 <C>	2000 <C>
Discount rate......................................	7 1/4%	7 1/4%	7 1/2%
Medical care cost trend rate........................	8 1/2%	7%	7 1/2%

</Table>

The medical care cost trend rate used in the actuarial computation ultimately reduces to 4 1/2% in 2010 and subsequent years. This was accomplished using 1/2% decrements for the years 2003 through 2010.

Changes in the Company's benefit obligation, plan assets and funded status for the plan are as follows:

<Table>
<Caption>

<S>	2002 <C>	2001 <C>
Change in the benefit obligation		
Projected benefit obligation at beginning of year........	$ 2,567,000	$ 2,454,000
Service cost...	50,000	50,000
Interest cost..	180,000	176,000
Participant contributions..............................	30,000	34,000
Actuarial (gain) loss..................................	(2,000)	27,000
Benefit payments.......................................	(175,000)	(174,000)
Projected benefit obligation at end of year.............	$ 2,650,000	$ 2,567,000
Change in fair value of plan assets		
Fair value of plan assets at beginning of year..........	$ 0	$ 0
Employer contribution..................................	145,000	140,000
Participants' contributions............................	30,000	34,000
Benefit payments.......................................	(175,000)	(174,000)
Fair value of plan assets at end of year................	$ 0	$ 0
Funded status		
Funded status at end of year...........................	$(2,650,000)	$(2,567,000)
Unrecognized prior service cost........................	(609,000)	(695,000)
Unrecognized actuarial gain............................	(99,000)	(97,000)
Net amounts recognized.................................	$(3,358,000)	$(3,359,000)

</Table>

The current portion of the postretirement benefit obligation is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets.

Assumed medical care cost trend rates could have a significant effect on the amounts reported for the postretirement benefit plan. However, due to the caps imposed on the Company's share of the premium costs, a one percentage point change in assumed medical care cost trend rates would not have a significant effect on the total service and interest cost components or the postretirement benefit obligation.

NOTE 9 -- STOCK COMPENSATION PLANS:

The 2000 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 150,000 shares of common stock in connection with grants of incentive stock options and non-qualified stock options to officers, key employees and outside directors. The 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.

The 1995 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 192,000 shares of common stock in connection with grants of incentive stock options and non-qualified stock options to officers, key employees and outside directors. The 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.

The Company has a Long-Term Incentive Plan which provides for awards of share equivalent units for outside directors based upon the Company's performance. Each unit is equivalent to one share of the Company's common stock. Share equivalent units are credited to each outside director's account for each of the first five full fiscal years of the director's service when the profit target of $500,000 is met. The share equivalent units are payable in cash or stock upon retirement. The cost of performance units earned and charged to pre-tax income under this Plan in 2002, 2001, and 2000 was $50,000, $0, and $0, respectively.

The Company applies APB 25 and related Interpretations in accounting for its plans. Under the intrinsic value method, no compensation expense has been recognized for its stock option plans. Had compensation cost for the Company's two stock option plans been determined based on the fair value at the grant date for awards under those plans in accordance with the optional methodology prescribed under SFAS 123, the Company's net income (loss) and net income (loss) per share would have been the pro forma amounts indicated below:

<Table>
<Caption>

		2002	2001	2000
<S>	<C>	<C>	<C>	<C>
Net income (loss)..................	As reported	$2,305,000	$195,000	$(833,000)
	Pro forma	$2,180,000	$ 80,000	$(913,000)
Basic income (loss) per share......	As reported	$ 1.40	$ .12	$ (.55)
	Pro forma	$ 1.32	$ .05	$ (.60)
Diluted income (loss) per share....	As reported	$ 1.38	$ .12	$ (.55)
	Pro forma	$ 1.31	$ .05	$ (.60)

</Table>

The weighted average fair value of the options granted during 2002, 2001, and 2000 is estimated as $5.81, $5.15, and $3.54, respectively, using the Black Scholes option pricing model with the following weighted average assumptions:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Expected life..	5 years	5 years	5 years
Volatility...	50.72%	44.04%	41.48%
Risk-free interest rate................................	4.71%	5.78%	6.05%
Dividend yield...	0%	0%	0%

</Table>

Information on options under the Company's plans is as follows:

<Table>
<Caption>

	OPTION PRICE RANGE	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>
Outstanding at March 31, 1999.......................	$6.58-21.44	178,100	14.47
Granted..	$7.75	30,400	7.75
Expired..	$13.17	(26,250)	13.17
Outstanding at March 31, 2000.......................	$6.58-21.44	182,250	13.54
Granted..	$11.00	31,000	11.00
Exercised..	$ 6.58-8.42	(7,050)	7.71
Expired..	$21.44	(8,700)	21.44
Outstanding at March 31, 2001.......................	$6.58-21.44	197,500	13.00
Granted..	$11.70	31,000	11.70
Exercised..	$ 6.58-8.08	(18,927)	7.66

Expired	$8.00-21.44	(18,150)	18.45
Outstanding at March 31, 2002	$7.50-21.44	191,423	$12.80

</Table>

At March 31, 2002, the options outstanding had a weighted average remaining contractual life of 6.82 years. There were 189,023 options exercisable at March 31, 2002 which had a weighted average exercise price of $12.75. The remaining options are exercisable at a rate of 20 percent per year from the date of grant. The outstanding options expire May 2003 to July 2011. Options available for future grants were 163,300 at March 31, 2002 and 176,150 at March 31, 2001.

NOTE 10 -- SHAREHOLDER RIGHTS PLAN:

On July 27, 2000 the Company adopted a Shareholder Rights Plan. Under the Plan, as of September 11, 2000, one share Purchase Right ("Right") is attached to each outstanding share of Common Stock. When and if the Rights become exercisable, each Right would entitle the holder of a share of Common Stock to purchase from the Company one one-hundredth (1/100) interest in a share of Series A Junior Participating preferred stock, at a price of $45.00 per one one-hundredth (1/100) interest in a share of preferred stock, subject to adjustment. The Rights become exercisable upon certain events: (i) if a person or group of affiliated persons acquires 15% or more of the Company's outstanding Common Stock; or (ii) if a person or group commences a tender offer for 15% or more of the Company's outstanding Common Stock.

The Company may redeem the Rights for $.01 per Right at any time prior to the acquisition by a person or group of affiliated persons of beneficial ownership of 15% or more of the Company's outstanding common stock ("Acquiring Person").

In the event that any person or group of affiliated persons become an Acquiring Person, each holder of a Right other than Rights beneficially owned by the Acquiring Person will have the right to receive upon exercise a number of shares of Common Stock having a market value of twice the purchase price of the Right. In the event that the Corporation is acquired in a merger or other business combination transaction or fifty percent (50%) or more of its consolidated assets or earning power is sold, each holder of a Right will have the right to receive, upon exercise, a number of shares of common stock of the acquiring corporation that at the time of such transaction will have a market value of two (2) times the purchase price of the Right.

NOTE 11 -- OTHER (INCOME) EXPENSE:

In January 2002, the Company received notice from a customer to cancel four orders for the electric power generating industry. The contracts for the cancelled orders entitled the Company to cancellation charges amounting to $4,168,000 which was paid to the Company in April 2002. This income, net of costs incurred on the contracts of $179,000, is presented separately in the caption "Other (Income) Expense" in the 2002 Consolidated Statement of Operations.

As discussed in Note 8, during fiscal year 2000, the defined benefit pension plan in the United Kingdom was terminated which resulted in a curtailment loss of $1,682,000. In addition, the Company incurred fees and expenses of $33,000 in administering the closure of the plan. The curtailment loss and related expenses are included in the caption "Other (Income) Expense" in the 2000 Consolidated Statement of Operations.

In October and March of fiscal year 2000, the United Kingdom subsidiary, in an effort to reduce costs, restructured its work force by eliminating positions at the staff and senior management levels. As a result, a restructuring charge of $186,000 was recognized which included severance and related employee benefit costs. This charge is also included in the caption "Other (Income) Expense" in the 2000 Consolidated Statement of Operations. As of March 31, 2002 and 2001, there is no liability remaining on the Consolidated Balance Sheets.

NOTE 12 -- RELATED PARTY TRANSACTIONS:

Director H. Russel Lemcke is President of the H. Russel Lemcke Group, which the Company engaged in May 1999 to assist it in making an acquisition in fulfillment of its strategic plan. Pursuant to this engagement, in the event that the Company were to acquire a business entity as a result of such assistance, Mr. Lemcke would be paid a fee of $100,000 plus 1% of the purchase price of the acquired entity.

In April 2000, the Board of Directors adopted a Long-Term Stock Ownership Plan to encourage officers and directors to broaden their equity ownership in the Company. The Board authorized the sale under the Plan of up to 160,000 shares of the Company's common stock that was held as treasury stock. Of the amount authorized, eligible participants purchased 117,800 shares at fair market value. The eligible participants paid cash equal to the par value of the shares and a note receivable was recorded by the Company for the remaining balance due on the purchase of the shares. The notes receivable are fixed rate interest bearing notes with a term of ten years. The notes are repayable in equal quarterly installments beginning June 30, 2002. The notes contain certain provisions which grant a security interest to the Company in the shares and any proceeds from the sale of the shares.

NOTE 13 -- SEGMENT INFORMATION:

The Company's business consists of two operating segments based upon geographic area. These segments were determined based upon the manner in which financial information is used by management in operating the Company. The United States segment designs and manufactures heat transfer and vacuum equipment. Heat transfer equipment includes surface condensers, Heliflows, water heaters and various types of heat exchangers. Vacuum equipment includes steam jet ejector vacuum systems and liquid ring vacuum pumps. These products are sold individually or combined into package systems for use in several industrial markets. The Company also services and sells spare parts for its equipment. The operating segment located in the United Kingdom manufactures vacuum equipment which includes liquid ring vacuum pumps, Dryflo pumps, piston pumps, ejectors and complete vacuum pump systems.

Intersegment sales represent intercompany sales made based upon a competitive pricing structure. All intercompany profits in inventory are eliminated in the consolidated accounts and are included in the eliminations caption below. In computing segment net income or loss, corporate expenses incurred by the United States segment have been charged to the United Kingdom segment on a management fee basis. Operating segment information is presented below:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Sales to external customers:			
U.S.	$41,085,000	$40,665,000	$34,778,000
U.K.	6,311,000	3,768,000	3,950,000
Total	$47,396,000	$44,433,000	$38,728,000
Intersegment sales:			
U.S.	$ 30,000	$ 21,000	$ 162,000
U.K.	1,121,000	1,607,000	1,118,000
Total	$ 1,151,000	$ 1,628,000	$ 1,280,000
Interest income:			
U.S.	$ 77,000	$ 342,000	$ 346,000
U.K.			
Total	$ 77,000	$ 342,000	$ 346,000
Interest expense:			
U.S.	$ 89,000	$ 294,000	$ 199,000
U.K.	61,000	34,000	34,000
Total	$ 150,000	$ 328,000	$ 233,000
Depreciation and amortization:			
U.S.	$ 774,000	$ 776,000	$ 827,000
U.K.	182,000	172,000	223,000
Total	$ 956,000	$ 948,000	$ 1,050,000
Income tax provision (benefit):			
U.S.	$ 964,000	$ (199,000)	$ 188,000
U.K.	221,000	13,000	(468,000)
Total	$ 1,185,000	$ (186,000)	$ (280,000)
Segment net income (loss):			
U.S.	$ 1,826,000	$ 224,000	$ 374,000
U.K.	505,000	41,000	(1,209,000)
Total	$ 2,331,000	$ 265,000	$ (835,000)

</Table>

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Segment assets:			
U.S.	$42,446,000	$35,737,000	$34,489,000
U.K.	5,127,000	4,665,000	3,831,000
Total	$47,573,000	$40,402,000	$38,320,000
Expenditures for long-lived assets:			
U.S.	$ 607,000	$ 1,025,000	$ 699,000
U.K.	81,000	99,000	12,000
Total	$ 688,000	$ 1,124,000	$ 711,000

</Table>

The operating segment information above is reconciled to the consolidated totals as follows:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
NET SALES			
Total sales for operating segments	$48,547,000	$46,061,000	$40,008,000
Elimination of intersegment sales	(1,151,000)	(1,628,000)	(1,280,000)
Net sales	$47,396,000	$44,433,000	$38,728,000
INCOME TAX PROVISION (BENEFIT)			
Total segment income tax provision (benefit)	$ 1,185,000	$ (186,000)	$ 280,000
Eliminations	(13,000)	(35,000)	
Provision (Benefit) for income taxes	$ 1,172,000	$ (221,000)	$ 280,000
NET INCOME (LOSS)			
Total segment net income (loss)	$ 2,331,000	$ 265,000	$ (835,000)
Eliminations	(26,000)	(70,000)	2,000
Net income (loss)	$ 2,305,000	$ 195,000	$ (833,000)
ASSETS			
Total segment assets	$47,573,000	$40,402,000	$38,320,000
Elimination of corporate investment in subsidiaries	(3,521,000)	(3,521,000)	(3,521,000)
Elimination of profit in inventory	(348,000)	(273,000)	(203,000)
Total assets	$43,704,000	$36,608,000	$34,596,000

</Table>

Total segment interest income, interest expense, depreciation and amortization and expenditures for long-lived assets are equivalent to the consolidated totals for each of these items. Operating segments incurred research and development costs of $248,000, $250,000, and $255,000 in 2002, 2001, and 2000, respectively.

Net sales by product line follows:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Heat transfer equipment	$24,482,000	$19,366,000	$18,166,000
Vacuum equipment	21,092,000	21,999,000	18,716,000
All other	1,822,000	3,068,000	1,846,000
Net sales	$47,396,000	$44,433,000	$38,728,000

</Table>

The breakdown of net sales and long-lived assets by geographic area is:

<Table>
<Caption>

	2002	2001	2000
<S>	<C>	<C>	<C>
Net Sales:			

	2002	2001	2000
Africa	$ 1,682,000	$ 116,000	$ 4,000
Asia	1,725,000	3,567,000	3,541,000
Australia & New Zealand	9,000	35,000	461,000
Canada	2,411,000	5,796,000	2,246,000
Mexico	400,000	511,000	695,000
Middle East	1,129,000	1,895,000	1,153,000
South America	4,086,000	747,000	2,710,000
United States	31,618,000	27,811,000	24,731,000
Western Europe	4,167,000	3,824,000	2,918,000
Other	169,000	131,000	269,000
Net sales	$47,396,000	$44,433,000	$38,728,000
Long-Lived Assets:			
United States	$ 8,694,000	$ 8,889,000	$ 8,767,000
United Kingdom	1,032,000	1,124,000	1,338,000
Total	$ 9,726,000	$10,013,000	$10,105,000

</Table>

QUARTERLY FINANCIAL DATA:

A capsule summary of the Company's unaudited quarterly results for 2002 and 2001 is presented below:

<Table>
<Caption>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
<S>	<C>	<C>	<C>	<C>	<C>
2002					
Net sales	$ 9,581,000	$14,082,000	$11,810,000	$11,923,000	$47,396,000
Gross profit	1,599,000	3,086,000	3,141,000	2,251,000	10,077,000
Net income (loss)	(609,000)	349,000	354,000	2,211,000(1)	2,305,000
Per share:					
Net income (loss):					
Basic	(.37)	.21	.21	1.33	1.40
Diluted	(.37)	.21	.21	1.32	1.38
Market price range	7.80 - 12.80	7.25 - 12.35	7.80 - 14.80	9.75 - 12.35	7.25 - 14.80
2001					
Net sales	$ 8,284,000	$11,726,000	$10,558,000	$13,865,000	$44,433,000
Gross profit	1,859,000	2,914,000	2,047,000	2,976,000	9,796,000
Net income (loss)	(354,000)	267,000	(303,000)	585,000	195,000
Per share:					
Net income (loss):					
Basic	(.23)	.17	(.18)	.36	.12
Diluted	(.23)	.16	(.18)	.35	.12
Market price range	7.06 - 8.63	7.38 - 12.94	9.00 - 12.38	8.25 - 10.75	7.06 - 12.94

</Table>

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(1) In the fourth quarter the Company recognized income from cancellation charges, net of related costs, of $3,989,000. (See Note 11).

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
Graham Corporation
Batavia, New York

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Graham Corporation and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Rochester, New York
May 17, 2002

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information called for under this Item is set forth in statements under "Election of Directors" on page 5 and "Executive Officers" on page 8 of the Company's Proxy Statement for its 2002 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information called for under this Item is set forth in statements under "Compensation of Directors" on page 7 of the Company's Proxy Statement for its 2002 Annual Meeting of Stockholders and also under "Executive Compensation" on pages 8 to 13 of such proxy statement, which statements are hereby incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The information called for under this Item is set forth in statements under "Security Ownership of Certain Beneficial Owners and Management" on pages 2 to 4 of the Company's Proxy Statement for its 2002 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

(b) SECURITY OWNERSHIP OF MANAGEMENT

The information called for under this Item is set forth in statements under "Security Ownership of Certain Beneficial Owners and Management" on pages 2 to 4, "Election of Directors" on page 5 and "Executive Compensation" on pages 8 to 13 of the Company's Proxy Statement for its 2002 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

(c) CHANGES IN CONTROL

(Not applicable.)

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for under this Item is set forth in statements under "Certain Relationships and Related Transactions" on page 17 of the Company's Proxy Statement for its 2002 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following are Financial Statements and related information filed as part of this Annual Report on Form 10-K.

<Table>
<Caption>

(G) Independent Auditors' Report..............................	34

(a) (2) In addition to the above, the following Financial Statement Schedules and related information are required to be filed as part of this Annual Report on Form 10-K by Items 8 and 14(d) of Form 10-K:

	SEQUENTIAL PAGE NUMBER
Independent Auditors' Report on Financial Statement Schedules..	37
(A) Financial Statement Schedules for the Fiscal Years ended March 31, 2002, 2001 and 2000 as follows:	
(ii) Valuation and Qualifying Accounts (Schedule II)........	38

Other financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or because the required information is shown in the financial statements or notes thereto.

No items have been reported on Form 8-K since the Company's filing of Form 10-Q for the quarter ended December 31, 2001.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
Graham Corporation
Batavia, New York

We have audited the consolidated financial statements of Graham Corporation and subsidiaries as of March 31, 2002 and 2001, and for each of the three years in the period ended March 31, 2002 and have issued our report thereon dated May 17, 2002; such report is included elsewhere in this Annual Report on Form 10-K. Our audits also included the consolidated financial statement schedule of Graham Corporation and subsidiaries, listed in Item 14(a)2. This financial statement schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
May 17, 2002

GRAHAM CORPORATION AND SUBSIDIARIES
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
Year ended March 31, 2002					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable......................	$ 24,000	$ 87,000	$ 1,000(b)	$ (36,000)	$ 76,000
Reserve for inventory obsolescence....................	40,000	50,000			90,000
	$ 64,000	$ 137,000	$ 1,000	$ (36,000)	$166,000
Year ended March 31, 2001					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable......................	$ 23,000	$ (11,000)(c)	$ 12,000(b)		$ 24,000
Reserve for inventory					

obsolescence.....................	146,000	12,000	(12,000)(a)	$(106,000)(d)	40,000
Reserves included in the balance sheet caption					
Accrued expenses					
Reserve for contingencies........	700,000	(32,000)(c)		(668,000)(e)	0
	$869,000	$ (31,000)	$ 0	$(774,000)	$ 64,000
Year ended March 31, 2000					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable.......................	$ 22,000	$ (8,000)(c)	$ 12,000(b)	$ (3,000)	$ 23,000
Reserve for inventory obsolescence.....................	101,000	47,000	(2,000)(a)		146,000
Reserves included in the balance sheet caption					
Accrued expenses:					
Reserve for contingencies........	300,000	430,000		(30,000)	700,000
	$423,000	$ 469,000	$ 10,000	$ (33,000)	$869,000

</Table>

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Notes:

(a) Represents foreign currency translation adjustment.

(b) Represents a bad debt recovery and a foreign currency translation adjustment.

(c) Represents a reversal of the reserve.

(d) Represents a write-off of obsolete inventory thereby reducing inventory and the reserve.

(e) Represents the final settlement payment for the Batavia Landfill EPA claim.

(a) (3) The following exhibits are required to be filed by Item 14(c) of Form 10-K:

<Table>
<Caption>

EXHIBIT NO.	
<C>	<S>
*3.1	Articles of Incorporation of Graham Corporation
+3.2	By-laws of Graham Corporation
*4.1	Certificate of Incorporation of Graham Corporation (included as Exhibit 3.1)
**4.2	Stockholder Rights Plan of Graham Corporation
***10.1	1989 Stock Option and Appreciation Rights Plan of Graham Corporation
****10.2	1995 Graham Corporation Incentive Plan to Increase Shareholder Value
+10.3	Graham Corporation Outside Directors' Long-Term Incentive Plan
+10.4	Employment Contracts between Graham Corporation and Named Executive Officers
+10.5	Senior Executive Severance Agreements with Named Executive Officers
++10.6	2000 Graham Corporation Incentive Plan to Increase Shareholder Value
+++10.7	Long-Term Stock Ownership Plan of Graham Corporation
11	Statement regarding computation of per share earnings Computation of per share earnings is included in Note 1 of the Notes to Consolidated Financial Statements
21	Subsidiaries of the registrant
23.1	Consent of Deloitte & Touche LLP

</Table>

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+ Incorporated herein by reference from the Annual Report of Registrant on Form 10-K for the fiscal year ended March 31, 1998.

++ Incorporated herein by reference from the Registrant's Proxy Statement for its 2001 Annual Meeting of Shareholders.

+++ Incorporated herein by reference from the Registrant's Proxy Statement for its 2000 Annual Meeting of Shareholders.

* Incorporated herein by reference from the Annual Report of Registrant on Form 10-K for the year ended December 31, 1989.

** Incorporated herein by reference from the Registrant's Current Report on Form 8-K dated August 23, 2000 and Registrant's Form 8-A dated September 15, 2000.

*** Incorporated herein by reference from the Registrant's Proxy Statement for its 1991 Annual Meeting of Shareholders.

**** Incorporated herein by reference from the Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

	GRAHAM CORPORATION
DATE: June 12, 2002	By /s/ J. RONALD HANSEN
	J. Ronald Hansen Vice President-Finance & Administration and Chief Financial Officer (Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE		
/s/ ALVARO CADENA Alvaro Cadena	President and Chief Executive Officer; Director	June 12, 2002
/s/ J. RONALD HANSEN J. Ronald Hansen	Vice President - Finance & Administration and Chief Financial Officer (Principal Accounting Officer)	June 12, 2002
/s/ PHILIP S. HILL Philip S. Hill	Director	June 12, 2002
/s/ CORNELIUS S. VAN REES Cornelius S. Van Rees	Director	June 12, 2002
/s/ JERALD D. BIDLACK Jerald D. Bidlack	Director; Chairman of the Board	June 12, 2002
/s/ HELEN H. BERKELEY Helen H. Berkeley	Director	June 12, 2002
/s/ H. RUSSEL LEMCKE H. Russel Lemcke	Director	June 12, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

EXHIBITS

FILED WITH

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MARCH 31, 2002

GRAHAM CORPORATION

- --
- --

SUBSIDIARIES OF THE REGISTRANT IN FISCAL YEAR 2002

Graham Vacuum and Heat Transfer Limited
The Forge
Congleton, Cheshire SW12 4HQ, England

Graham Precision Pumps Limited
The Forge
Congleton, Cheshire SW12 4HQ, England

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

Graham Corporation

We consent to the incorporation by reference in Registration Statement Nos. 2-83432, 2-82275, 33-82432, 333-00401 and Post-Effective Amendment No. 1 to Registration Statement No. 33-82432 of Graham Corporation and subsidiaries on Forms S-3 and S-8 of our reports dated May 17, 2002, appearing in this Annual Report on Form 10-K of Graham Corporation and subsidiaries for the year ended March 31, 2002.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Rochester, New York
June 27, 2002