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

FORM 8-K

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

Date of Report (Date of earliest event reported): March 27, 2006

Graham Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**1-8462**	**16-1194720**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

20 Florence Avenue, Batavia, New York	**14020**
(Address of principal executive offices)	(Zip Code)

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

N/A

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

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

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 1.01. Entry into a Material Definitive Agreement.

Senior Executive Officer Base Salaries. On March 27, 2006, the Compensation Committee of the Board of Directors of Graham Corporation (the "Company") approved the senior executive officer base salary increases set forth below, effective as of April 1, 2006.

Senior Executive Officer	Amount of Increase	New Annual Salary
William C. Johnson, Chief Executive Officer	$ 15,000	$ 265,000
J. Ronald Hansen, Vice President of Finance and Administration and Chief Financial Officer	$ 4,950	$ 169,957
James R. Lines, Vice President and General Manager	$ 4,890	$ 167,918

Board of Directors Annual Committee Chair Fees. On March 27, 2006, the Compensation Committee approved increases to the annual fees received by the Chairmen of the Committees of the Board of Directors, effective April 1, 2006. The Compensation Committee did not modify the annual or per meeting fees received by the Company's Directors.

Position	Amount of Increase	New Annual Fee
Chairman of the Board	$ 5,000	$ 15,000
Audit Committee Chairman	$ 1,000	$ 6,000
Compensation Committee Chairman	$ 3,000	$ 5,000
Benefits Committee Chairman	$ 1,000	$ 3,000
Nominating Committee Chairman	$ 1,000	$ 3,000

The Executive Committee of the Board of Directors was previously terminated by the Board of Directors, effective April 1, 2006. As a result of the termination of the Executive Committee, the net effect of the increases in Chairman fees set forth above on the overall compensation paid by the Company to its Directors is a reduction of $4,000.

Expatriate Compensation. On March 27, 2006, the Compensation Committee approved the Graham Corporation Policy Statement for U.S. Foreign Service Employees (the "Policy Statement") in order to makes overseas assignments attractive to Company employees, including senior executive officers. Pursuant to the Policy Statement, (i) an employee assigned to service in a foreign county for greater than 30 days but less than six months may be entitled to a special bonus of up to 5% of base salary earned while on assignment, and (ii) an employee assigned to service in a foreign country for six months or more may, among other things, be eligible to receive a one time special increase of up to 5% of his or her base salary while on assignment, the payment or reimbursement of various expenses associated with living overseas, a cost of living adjustment to provide equivalent purchasing power abroad, and the reimbursement of certain other expenses (including certain travel expenses associated with family visits). Presently, the Company's only senior executive officer eligible to receive benefits under the Policy Statement is Stephen P. Northrup, the Company's Vice President of Asia Operations. Mr. Northrup's base salary, as previously reported by the Company, was increased by 5% to take into account his overseas assignment and no further adjustment to Mr. Northrup's salary will be made as a result of the Company's adoption of the Policy Statement. A copy of the Policy Statement is attached to this Current Report on Form 8-K as Exhibit 99.1

Annual Stock-Based Incentive Award Plan for Senior Executives. On March 27, 2006, the Compensation Committee of the Board of Directors adopted the Annual Stock-Based Incentive Award Plan for Senior Executives (the "Stock Bonus Plan"). The purpose of the Stock Bonus Plan is to motivate the Company's senior executive officers to increase stockholder value by providing them with long-term stock-based awards for above-average Company performance. The Stock Bonus Plan is effective for the Company's fiscal year commencing April 1, 2006 and ending March 31, 2007 (the "Fiscal Year"). Prior to the adoption of the Stock Award Plan by the Compensation Committee, the number of stock options received by the Company's senior executive officers annually was not directly tied to the Company's achievement of specific objectives. The adoption of the Stock Award Plan will not have any effect on the Compensation Committee's determination of stock options to be granted to the Company's senior executive officers in connection with the fiscal year ending March 31, 2006.

The Company's senior executive officers are all eligible to participate in the Stock Bonus Plan. Awards under the Stock Bonus Plan will consist of nonqualified stock options ("Options") and shares of restricted stock (i.e. Common Stock granted directly but subject to forfeiture in accordance with a vesting schedule), in each case granted under the 2000 Graham Corporation Incentive Plan to Increase Shareholder Value (the "2000 Plan"). Since the 2000 Plan does not presently permit the issuance of restricted stock, the issuance of any such shares in connection with the Stock Bonus Plan will be contingent upon the approval by the Company's stockholders of such modifications to the 2000 Plan at the Company's 2006 Annual Meeting of Stockholders as may be necessary to permit the issuance of restricted stock.

Options awarded under the Stock Bonus Plan will have an exercise price equal to the fair market value of a share of Company Common Stock on the date of grant, a term of ten years and will vest 25% per year over four years beginning on the first anniversary of the date of grant. The number of Options to be awarded to a senior executive officer eligible to participate in the Stock Bonus Plan will be determined by multiplying such officer's base salary in effect for the Fiscal Year by 20%, and then dividing the product by the value of such an Option (determined using the Black-Scholes valuation method), rounded to the nearest whole number.

The number of shares of restricted stock to be awarded to senior executive officers under the Stock Bonus Plan will be determined based on Net Income and Working Capital matrixes (each as defined in the Stock Bonus Plan). Seventy-Five percent of a senior executive officer's restricted stock award will be based on the Company's attainment of a Net Income target and 25% will be based on the Company's attainment of Working Capital target for the Fiscal Year. Attainment of 100% of both targets would result in a restricted stock award valued at 15% of such officer's base salary (the "Target Value"). As set forth in the stock Bonus Plan, the Target Value may decrease to zero or increase to up to 150% of such Target Value based on the Company's attainment of lower or higher percentages of the respective Net Income and Working Capital target amounts. Shares of restricted stock awarded under the Stock Bonus Plan will be valued at the fair market value of the Company's Common Stock on the date of grant and will vest as follows: (i) 10% on the first anniversary of the date of grant; (ii) 20% on the second anniversary of the date of grant; (iii) 30% on the third anniversary of the date of grant; and (iv) the final 40% on the fourth anniversary of the date of grant. A copy of the Stock Award Plan is attached to this Current Report on Form 8-K as Exhibit 99.2.

Graham Annual Executive Cash Bonus Program. On March 27, 2006, the Compensation Committee of the Board of Directors adopted the Graham Annual Executive Cash Bonus

Program (the “Cash Bonus Program”). The objective of the Cash Bonus Program is to compensate the Company’s senior executive officers for above-average performance through an annual cash bonus related both to Company and individual performance, with 70% of such bonus based on the attainment by the Company of a Net Income (as defined in the Cash Bonus Program) objective, 20% based on the attainment by the Company of an Average Working Capital (as defined in the Cash Award Program) objective and 10% based on the attainment by the senior executive officer of personal objectives. The Cash Bonus Plan is effective for the Company’s fiscal year commencing April 1, 2006 and ending March 31, 2007 (the “Fiscal Year”). Target bonus levels at 100% attainment of both Company and personal objectives are 60% of base salary for the Company’s Chief Executive Officer and 35% of base salary for the Company’s other senior executive officers. As set forth in the Cash Bonus Program, each participant may receive anywhere from 0% to 150% of his target bonus level for the Net Income and Average Working Capital portions of the eligible bonus amount, depending on the attainment of objectives. The Cash Bonus Program is substantially similar to the annual executive cash bonus program in effect for the fiscal year ending March 31, 2006, except that the cash bonus program in effect for the year ending March 31, 2006 permits senior executive officers to receive up to 200% of target bonus levels and provides for a target bonus level of 45% of base salary for the Company’s Chief Executive Officer and 30% of base salary for the Company’s other senior executive officers. A copy of the Cash Award Program is attached to this Current Report on Form 8-K as Exhibit 99.3.

Item 8.01. Other Events.

Adoption of Stock Ownership Guidelines for Senior Executive Officers and Directors. On March 27, 2006, the Compensation Committee established stock ownership guidelines for the Company’s senior executive officers and Directors in order to further align their interests with those of the Company’s stockholders. Under the Company’s stock ownership guidelines: (i) the Company’s Chief Executive Officer is required to own Company Common Stock in an amount equal to 1.25 times his base salary; (ii) the Company’s other senior executive officers are required to own Company Common Stock in an amount equal to 1.00 times their respective base salaries; and (iii) the Company’s Directors are required to own not less than 4,000 shares of the Company’s Common Stock. The Company’s senior executive officers and Directors must be in compliance with the stock ownership guidelines within five years from the date the guidelines were adopted. Individuals who become senior executive officers or Directors of the Company must comply with the ownership guidelines within five years of becoming subject to such guidelines. The stock ownership guidelines require the Company’s senior executive officers to retain 65% of the net shares they realize (after tax) when a restricted stock award vests or a stock option is exercised until such persons are in compliance with the guidelines.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Graham Corporation Policy Statement for U.S. Foreign Service Employees.
99.2	Graham Corporation Annual Stock-Based Incentive Award

Exhibit No.	Description
	Plan for Senior Executives.
99.3	Graham Corporation Annual Executive Cash Bonus Program.

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SIGNATURES

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

Graham Corporation

Date: March 30, 2006

By: J. Ronald Hansen
J. Ronald Hansen
Vice President – Finance & Administration and
Chief Financial Officer

Exhibit 99.1

GRAHAM CORPORATION

POLICY STATEMENT

U. S. FOREIGN SERVICE EMPLOYEES

<u>Policy Statement</u>

The need for flexibility of assignment and mobility of employment dictates that Graham makes overseas assignments attractive to its employees.

I. <u>Less than Six Months</u>

Foreign assignments with duration of greater than 30 consecutive days but less than six consecutive months may result in a special bonus of up to 5% of base wages earned while on assignment.

II. <u>Six Months or Greater</u>

All compensation arrangements made for U. S. foreign service employees (“FSE”) will end when the employee returns to non-foreign service status.

III. <u>Basic Compensation Package (FSE)</u>

a) Assuming the foreign service assignment is of equal responsibility, the employee’s base compensation bonus and benefit package while on assignment will remain, at minimal, equal, provided benefits offered pre-foreign assignment can be extended to overseas locations. As determined by the CEO and Vice President of Administration, the employee may be given a one time special increase of up to 5% in base compensation while on assignment.

b) The Company may choose to cover various expenses associated with overseas assignments directly, such as housing, or have the employee arrange to pay for the expenses and be reimbursed. This will depend on the circumstances.

c) An employee may be given a cost of living adjustment (“COLA”) so that his base wage has equivalent purchasing power while abroad. Graham is currently using ORC Worldwide to calculate equalization allowances.

d) Foreign assignments of twelve consecutive months or greater may qualify for a foreign earned income and housing exclusion deduction up to $80,000 per annum. Any tax windfalls resulting from this exclusion may, with the approval of the CEO and Vice President of Administration, be retained by the employee. Current rules applicable to this exclusion are explained in IRS Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad. Granting this exclusion to an employee will only be considered when a person brings to the overseas assignment unique skills or special circumstances exist that justifies doing so. This benefit will not be extended to the employee except under rare circumstances.

e) Except for the foreign income exclusion if given to the employee, no employee should incur a greater income tax liability than if employed on the same base salary plus bonus in the U.S., nor should an employee experience a windfall as a result of lower income taxes. Therefore, a system of Income Tax Equalization is applicable to all U.S. Foreign Service Employees, the objective of which shall be after-tax income from base salary plus bonus earnings of no more and no less after-tax income, except for the tax benefit of the foreign income exclusion, than would be the case if the same base salary plus bonus earnings were received in the U.S.

f) In addition and subject to the approval of the CEO and Vice President of Administration, various related reimbursement of expenses may be granted. Examples of these include tax preparation expenses, up to four round trip airfares per year (one per quarter) for one family member to visit the employee or for the employee himself. Reimbursed expenses of direct pays that are included under this section will be included as additional compensation.

IV. While on foreign assignment, an employee is subject to the same code of ethics, applicable employee handbook policies, proper preparation of expense reports and all other policies as if stationed in the U.S.

V. The Company reserves the right to change this policy at any time going forward, with a six-month notice to current foreign service employees or sooner if required by law.

Exhibit 99.2

GRAHAM CORPORATION

ANNUAL STOCK-BASED INCENTIVE AWARD PLAN FOR SENIOR EXECUTIVES

Purpose

The purpose of this Annual Stock-Based Incentive Award Plan for Senior Executives (the "Plan") is to motivate the senior executive officers of Graham Corporation (the "Company") to increase shareholder value by providing them long-term stock-based awards for above-average Company performance.

Administration

The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the "Committee"), which shall have final and conclusive authority to administer and interpret the Plan.

Eligibility

Eligible employees will include: (a) the Chief Executive Officer; (b) the Chief Financial Officer; (c) the Vice President of Asia Operations; (d) the Vice President and General Manager of the Company; and (e) such other employees of the Company selected by the Chief Executive Officer to participate in the Plan, subject to the approval by the Committee of such participation.

Award Periods

Annual awards under the Plan will be based on the fiscal year of the Company, beginning with its April 1, 2006 through March 31, 2007 fiscal year (each, a "Fiscal Year").

Awards

Annual awards under the Plan will consist of nonqualified stock options ("Options") and shares of restricted stock ("Restricted Stock"), which awards will be issued under the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, or a successor plan thereto (the "Incentive Plan"), and will be subject to the terms thereof.

Options.

Options will be issued with an exercise price equal to the Fair Market Value (as such term is defined by the Incentive Plan) of a share of Company common stock on the date of grant, with a term of ten years, and will vest over four years, 25 percent per year, beginning with the first anniversary of the date of grant.

The number of Options to be issued to an eligible employee for a Fiscal Year will be determined by multiplying the eligible employee's base salary in effect for the Fiscal Year by 20 percent, and then dividing by the Black Scholes value of such a stock option on the date of determination, rounded to the nearest whole number.

Restricted Stock.

Restricted Stock will vest as follows: ten percent of the shares on the first anniversary of the date of grant; an additional 20 percent on the second anniversary of the date of grant; an additional 30 percent on the third anniversary of the date of grant; and the remaining 40 percent on the fourth anniversary of the date of grant. The Restricted Stock to be awarded to eligible employees under the Plan will be determined based on the Net Income and Working Capital matrixes for the Fiscal Year, which matrixes will be determined by the Committee and announced prior to the commencement of the Fiscal Year. In determining the net income of the Company and/or its working capital for a Fiscal Year, the Committee shall have the discretion to include or exclude any extraordinary events that positively or negatively affected the Company's financial performance for the Fiscal Year.

The number of shares of Restricted Stock to be issued to an eligible employee for a Fiscal Year will be the sum of the eligible employee's Net Income Portion and Working Capital Portion for the Fiscal Year, determined as follows (which represents a target of 15% of base pay as payout based upon meeting budget):

- The Net Income Portion of Restricted Stock to be awarded to an eligible employee for a Fiscal Year will equal the number of shares of Company Stock determined by multiplying the eligible employee's base salary in effect for the Fiscal Year by 11.25 percent (15% of base pay times 75%), further multiplied by the Net Income factor from the matrix for the Fiscal Year, and then divided by the closing price of a share of the Company's common stock on the last trading day prior to the date of grant, rounded to the nearest whole number.

- The Working Capital Portion of Restricted Stock to be awarded to an eligible employee for a Fiscal Year will equal the number of shares of Company Stock determined by multiplying the eligible employee's base salary in effect for the Fiscal Year by 3.75 percent (15% of base times 25%), further multiplied by the Working Capital factor from the matrix for the Fiscal Year, and then divided by the closing price of a share of the Company's common stock on the last trading day prior to the date of grant, rounded to the nearest whole number.

Effect of Certain Events.

Notwithstanding any other provision of the Plan, the following terms shall apply to all Options and Restricted Stock awarded under the Plan:

- Upon the death of an eligible employee, any outstanding Options and Restricted Stock awarded under the Plan will vest in full, and any Options may be exercised by the eligible employee's designated beneficiary, estate or heir, as applicable, within one year from the date of the eligible employee's death.
- Upon the Disability (as such term is defined by the Incentive Plan) of an eligible employee, any outstanding Options and Restricted Stock awarded under the Plan will vest in full, and any Options may be exercised by the eligible employee or his legal representative within one year from the date of the eligible employee's Disability.
- Except as otherwise provided by the Plan or by the Committee, the unvested portion of any Options and Restricted Stock awarded under the Plan will terminate upon the termination or resignation of an eligible employee's employment, and any vested Options may be exercised by the eligible employee within three months from the date of the eligible employee's termination.
- Unless the Committee determines otherwise, upon the termination of an eligible employee for cause (as such term shall be defined by the Committee), the vested and unvested portion of all unexercised Options and the unvested portion of all Restricted Stock awarded under the Plan will terminate, and no such Options will be exercisable thereafter.

Payment	Annual awards for a Fiscal Year will be approved by the Committee and will be issued as soon as practicable after the end of the Fiscal Year.
Amendment & Termination	The Plan may be amended or terminated by the Committee at any time. No eligible employee will have any right to an award under the Plan until such award is approved by the Committee. Neither the existence of the Plan nor the grant of an award in any year shall give an eligible employee any right to an award or similar award in future years or any right to continue such eligible employee's employment relationship with the Company. All eligible employees shall remain subject to discharge to the same extent as if the Plan were not in effect.

SCHEDULE A

PAYMENT MATRIXES
FOR 2006-2007 FISCAL YEAR

Payout calculations will be identical to those on the Annual Cash Bonus Plan

Exhibit 99.3

Graham Annual Executive Cash Bonus Program

Effective April 1, 2006

Summary

The objective of this plan is to compensate the CEO and direct reports for above average performance through annual bonuses related to both Company and individual performance. Financial budgets and individual objectives will be set on or before the start of the current fiscal year and bonuses will be paid as soon as practicable after the end of the fiscal year.

Eligibility and Participation

1. Eligible employees shall include the CEO and direct reports. “Direct reports” means (a) the CFO, (b) the VP of Asia Operations, (c) the VP and General Manager, and (d) such other employees of the Company selected by the CEO to participate in this plan, subject to the approval by the Compensation Committee of such participation.

2. Target participation levels at 100% of financial budget and full attainment of personal objectives are as follows:

CEO — 60% of base pay
Direct reports — 35% of base pay

The Compensation Committee may change these levels before the start of each fiscal year.

3. Participants for this compensation plan are eligible upon employment unless otherwise determined by the CEO for direct reports and the Compensation Committee in the case of the CEO.

4. Executives who resign before the end of the fiscal year shall receive no bonus except as approved by the Compensation Committee.

Establishment and Level of Goals

1. Financial goals shall be set during the annual budgeting process and shall be approved by the Board along with the annual budget.
2. Individual objectives shall be set on or before the annual budget. The Chairman shall approve individual objectives for the CEO. The CEO shall approve individual objectives for direct reports. The Chairman and CEO shall determine the number and weighting of objectives.
3. Bonus components shall be as follows with financial objectives representing 90% of bonus, and personal objectives representing 10%. For bonus purposes, Average Working

Capital % is defined as gross inventory plus gross trade accounts receivable minus trade payables divided by sales. The working capital calculation for bonus purposes shall be the average of the end of each fiscal quarter divided by full fiscal year sales.

4. The Bonus metrics are:

Net Income	– 70% of bonus
Average Working Capital %	– 20% of bonus
Personal Objectives	– 10% of bonus

Each of the two financial components shall be calculated in accordance with the tables below. No financial bonus shall be paid for performance less than 70% of budget for net income or greater than 110% of budget for average working capital %. Bonus for each financial component shall be capped at 150% of budget for Net Income and 75% of budget for Average Working Capital %. Net Income shall be based upon year-end results. Average Working Capital % shall be the average of each quarter. Currency exchange rates will be calculated monthly at a fixed rate to eliminate currency fluctuations from incentive calculations.

Payout Versus Budget for Net Income

Payout Matrix for Net Income

% Achieved	Payout %	% Achieved	Payout %
0-69%	0%	120%	120%
70%	10%	130%	130%
80%	60%	140%	140%
90%	80%	150%	150%
100%	100%		
110%	110%		

Payout Versus Budget for Average Working Capital % (Inventory +Receivables — Payables/Sales). Working Capital shall be the average of the end of each fiscal quarter divided by full fiscal year sales.

Payout Matrix for Working Capital

% Achieved	Payout %	% Achieved	Payout %
110%	50%	80%	138%
105%	75%	75%	150%
100%	100%		
95%	108%		
90%	118%		
85%	128%		

Individual objectives shall be calculated based upon the table below. Individual objectives are not tied to the financial performance. Therefore, an individual may achieve up to 10% of bonus even though the Company does not reach the required targets in either of the two financial components.

Payout Versus Attainment of Personal Objectives

Personal Objective Matrix

% Attainment	Payout
0%	0%
10%	1%
20%	2%
30%	3%
40%	4%
50%	5%
60%	6%
70%	7%
80%	8%
90%	9%
100%	10%

Other Considerations

1. Participants who change position during the fiscal year shall receive bonus on a pro rated basis.
2. Special awards may be made to any executive or employee who has made an extra ordinary contribution to the Company during the year. Such awards must be recommended in writing by the CEO to the Chair of the Compensation Committee and may be approved by the Committee.
3. Extraordinary events that either positively or negatively affect financial performance may be included or excluded in financial calculations at the discretion of the Compensation Committee.
4. Nothing herein shall be construed to limit or affect the normal and usual powers of management, including right to terminate any individual at any time.
5. The Compensation Committee shall have final and conclusive authority on the existence and administration of this plan.
6. In the event of death, a participant's designated beneficiary will be entitled to the participant's plan benefits. If the participant has not designated a beneficiary, the participant's beneficiary or beneficiaries will be determined in accordance with the participant's will. If there is no will, the beneficiary or beneficiaries shall be determined by the laws of descent and distribution in the state in which the participant was a resident at the time of death.