
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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):

September 20, 2006

Graham Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

1-8462

(Commission File Number)

16-1194720

(IRS Employer Identification No.)

20 Florence Avenue, Batavia, New York

(Address of principal executive offices)

14020

(Zip Code)

Registrant's telephone number, including area code:

(585) 343-2216

N/A

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

On September 20, 2006, Graham Corporation (the "Company") entered into a Third Amendment (the "Third Amendment") to that certain Amended and Restated Credit Facility Agreement (the "Credit Agreement") with Bank of America, N.A. (the "Bank") dated July 12, 2005, as amended. The Third Amendment was entered into to provide for the Bank's issuance of bank guarantees rather than letters of credit for the benefit of the Company's Chinese subsidiary ("Graham China") and sets forth the process by which letters of credit and bank guarantees, as the case may be, may be issued by the Bank to the Company and Graham China under the Credit Agreement. Pursuant to the Third Amendment, the total amount of all undrawn and/or outstanding letters of credit and bank guarantees issued for the benefit of the Company and Graham China under the Credit Agreement may not exceed \$12,500,000, with initial sublimits of \$11,000,000 in letters of credit for the Company and \$1,500,000 in bank guarantees for Graham China. The Bank, in its discretion, may revise such allocation from time to time based on the Company's and Graham China's respective needs. In connection with the Third Amendment, the Company executed a Continuing and Unconditional Guarantee (the "Guarantee") for the benefit of the Bank, pursuant to which the Company agreed to guarantee all of Graham China's obligations to the Bank.

The Company entered into the Third Amendment to facilitate its anticipated letters of credit and bank guarantee requirements. A copy of each of the Third Amendment and the Guarantee are attached to this Current Report on Form 8-K as Exhibit 4.1 and Exhibit 4.2, respectively.

Item 9.01. Financial Statements and Exhibits.

(d) *Exhibits.* The following are attached as exhibits to this Form 8-K:

<u>Exhibit No.</u>	<u>Description</u>
4.1	Third Amendment, dated as of September 20, 2006, to Credit Facility Agreement between Graham Corporation and Bank of America, N.A. dated as of July 12, 2005, as amended.
4.2	Continuing and Unconditional Guarantee, dated as of September 20, 2006 made by Graham Corporation in favor of Bank of America, N.A.

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: September 21, 2006

By: /s/ J. Ronald Hansen

J. Ronald Hansen
Vice President — Finance & Administration and
Chief Financial Officer

THIRD AMENDMENT TO CREDIT FACILITY AGREEMENT

THIS THIRD AMENDMENT, dated as of the 20th day of September, 2006, to that certain Amended and Restated Credit Facility Agreement dated as of July 12, 2005, as amended by a First Amendment to Credit Facility Agreement dated as of February 24, 2006 and a Second Amendment to Credit Facility Agreement dated as of June 14, 2006 (as so amended, the "Agreement"), between BANK OF AMERICA, N.A., a national banking association and successor by merger to Fleet National Bank, having an office at One East Avenue, Rochester, New York 14638 (the "Bank"), and GRAHAM CORPORATION, a corporation formed under the laws of the State of Delaware with offices at 20 Florence Avenue, Batavia, New York 14020 (the "Borrower").

The parties hereby agree as follows:

1. Agreement Ratified. Except as expressly amended hereby, the Agreement is in all respects ratified and confirmed, and all of the terms, provisions and conditions thereof shall be and remain in full force and effect, and this Amendment and all of its terms, provisions and conditions shall be deemed to be a part of the Agreement. All capitalized terms used herein and not defined shall have the meanings given them in the Agreement.

2. Definition Added. The following new definition shall be added to the Agreement:

"Bank Guarantee" shall mean a Bank Guarantee issued by the Bank's Shanghai, China branch as described in Article 3 of this Agreement.

3. Section 2.1. Section 2.1 of the Agreement shall be amended as follows:

2.1 Revolving Line. Subject to the terms and conditions of this Agreement, the Bank hereby establishes for the benefit of the Borrower a revolving line of credit in the maximum principal amount of Twenty Million Dollars (\$20,000,000.00) outstanding at any one time. The availability under the Revolving Line shall be used to meet the Borrower's letter of credit and working capital requirements, and the bank guarantee requirements of the Borrower's Chinese subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("Graham China"). Subject to the terms of this Agreement, the Borrower may borrow, repay, and reborrow under the Revolving Line so long as the aggregate principal amount outstanding at any time, plus (a) the undrawn amount of all Letters of Credit, (b) the outstanding amounts of all Bank Guarantees, and (c) the outstanding principal amount of all Term Loans, does not exceed \$20,000,000.00.

4. Article 3 of the Agreement shall be amended to read as follows:

ARTICLE 3 — LETTERS OF CREDIT AND BANK GUARANTEES

3.1 Letters of Credit and Bank Guarantees. Subject to the terms and conditions of this Agreement, the Bank agrees that it will make Letters of Credit available for the account of the Borrower and will cause its Shanghai, China branch to make Bank Guarantees available for the account of Graham China in an aggregate amount not

exceeding the lesser of (a) Twelve Million, Five Hundred Thousand Dollars (\$12,500,000), and (b) the availability under the Revolving Line. The Borrower agrees that it will guarantee to the Bank all obligations of Graham China pursuant to the Bank Guarantees. Letters of Credit and Bank Guarantees will be made promptly available for the Borrower's or Graham China's work in process (to support customer progress payments) or as otherwise requested by Borrower or Graham China for general business purposes. The undrawn amount/amount outstanding under all Letters of Credit and Bank Guarantees shall reduce the amount available for advances under the Revolving Line at 100% of the undrawn amount of each Letter of Credit and 105% of the outstanding amount of each Bank Guarantee. Bank Guarantees will be issued in RMB and, for purposes of the preceding sentence, the Bank will revalue the outstanding amount of Bank Guarantees from time to time at its discretion. If as a result of currency fluctuations the value in US Dollars of outstanding Bank Guarantees has increased by more than 5%, the amount available under the Revolving Credit shall be correspondingly reduced by the amount of the excess. The Letters of Credit and Bank Guarantees shall be in form satisfactory to the Bank and will be for a term of up to three (3) years from the date of issuance, except that Letters of Credit and Bank Guarantees in the aggregate face amount of up to \$7,500,000.00 may have maturities of up to five (5) years from the date of issuance and may extend for up to five (5) years beyond the Revolving Credit Termination Date. The total undrawn/outstanding amount of all Letters of Credit and Bank Guarantees issued for both the Borrower and Graham China may never exceed \$12,500,000.00, with initial sublimits of \$11,000,000.00 in Letters of Credit for the Borrower and \$1,500,000.00 in Bank Guarantees for Graham China. The Bank agrees that it will, from time to time revise this allocation on the basis of the Borrower's and Graham China's respective needs, but subject always to the approval of the Bank.

3.2 Commissions. The Borrower or Graham China, as the case may be, will pay commissions to the Bank on the date of issuance of each Letter of Credit and Bank Guarantee and on each anniversary date thereafter if the Letter of Credit or Bank Guarantee is renewed or has a maturity in excess of one year from the date of issuance, at the per annum rate of one and one-quarter of one percent (1.25%) of the undrawn amount thereof for Standby Letters of Credit and for Bank Guarantees, and one-quarter of one percent (0.25%) of the undrawn amount thereof for Documentary Letters of Credit. Commissions on Letters of Credit and Bank Guarantees having maturities of less than one year remaining shall be charged ratably. In addition, the Borrower or Graham China, as the case may be, will pay to the Bank a \$150 administrative fee for each Letter of Credit and Bank Guarantee issued pursuant to this Agreement.

3.3 Reimbursement. The Borrower or Graham China, as the case may be, will execute a Reimbursement Agreement that is satisfactory to the Bank, documenting its Obligations with respect to each of the Letters of Credit and Bank Guarantees issued for its account. Among other items, the Reimbursement Agreement will require immediate reimbursement to the Bank for all amounts drawn under the Letters of Credit and Bank Guarantees, and outstanding drawn amounts not so reimbursed may, at the discretion of the Bank, be treated as advances under the Revolving Line.

All payments shall be made by Borrower or Graham China to Bank at the address for Bank first shown above in this Agreement or such other place as Bank may from time to

time specify in writing in lawful currency of the United States of America in immediately available funds, without counterclaim or setoff and free and clear of, and without deduction or withholding for, any taxes or other payments. The Borrower agrees that it will be responsible for any foreign exchange or conversion costs related to converting RMB to United States Dollars for any drawings under Bank Guarantees, and such costs shall be added to amounts outstanding under the Revolving Line.

5. Section 10.3. Section 10.3 of the Agreement shall be amended to read as follows:

10.3 Contingent Liabilities. (i) assume, guarantee, endorse, contingently agree to purchase, or otherwise become liable in any manner upon obligations in the aggregate exceeding \$150,000 at any time during the term of this Agreement, contingent or otherwise, whether funded or current except for endorsement of negotiable instruments for deposit, collection, or similar transactions in the ordinary course of business and except for guarantees in favor of the Bank, (ii) guarantee the dividends of any Person, or (iii) become the general partner in any partnership.

6. Representations and Warranties. The Borrower confirms the accuracy of and remakes as of the date hereof all of its representations, warranties contained in the Agreement. The Borrower further represents and warrants to the Bank that all necessary action on the part of the Borrower relating to authorization of the execution and delivery of this Amendment, and the performance of the Obligations of the Borrower thereunder has been taken. This Amendment constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms. The execution and delivery by the Borrower of the Amendment, and the performance by the Borrower of the Amendment, will not violate any provision of law or the Borrower's Certificate of Incorporation or By-laws or organizational or other documents or agreements. The execution, delivery and performance of the Amendment, and the consummation of the transactions contemplated thereby will not violate, be in conflict with, result in a breach of, or constitute a default under any agreement to which the Borrower is a party or by which any of its properties is bound, or any order, writ, injunction, or decree of any court or governmental instrumentality, and will not result in the creation or imposition of any lien, charge or encumbrance upon any of its properties.

7. No Events of Default. The Borrower confirms that as of the date hereof, there exists no condition or event that constitutes (or that would after expiration of applicable grace or cure periods constitute) an Event of Default as described in Article 14 of the Agreement.

8. No Offsets. As of the date hereof, the Borrower has no defenses, offsets, claims or counterclaims with respect to its obligations arising under the Agreement or this Amendment and all related documents and instruments.

9. Governing Law. This Amendment, together with all of the rights and obligations of the parties hereto, shall be construed and interpreted in accordance with the laws of the State of New York, excluding the laws applicable to conflicts or choice of law.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

BANK OF AMERICA, N.A.

By: /s/ Colleen O'Brien
Title: Colleen O'Brien
Vice President

GRAHAM CORPORATION

By: /s/Ron Hansen
Title: Ron Hansen
Vice President

BORROWER: GRAHAM VACUUM AND HEAT TRANSFER
TECHNOLOGY (SUZHOU) CO., LTD.

GUARANTOR: GRAHAM CORPORATION

CONTINUING AND UNCONDITIONAL GUARANTY

To: Bank of America, N.A.

1. The Guaranty. For valuable consideration, the undersigned (“Guarantor”) hereby unconditionally guarantees and promises to pay promptly to Bank of America, N.A., its subsidiaries and affiliates (collectively, “Bank”), or order, in lawful money of the United States, any and all Indebtedness of Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. (“Borrower”) to Bank when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter. The liability of Guarantor under this Guaranty is not limited as to the principal amount of the Indebtedness guaranteed and includes, without limitation, liability for all interest, fees, indemnities (including, without limitation, hazardous waste indemnities), and other costs and expenses relating to or arising out of the Indebtedness and for all swap, option, or forward obligations now or hereafter owing from Borrower to Bank. The liability of Guarantor is continuing and relates to any Indebtedness, including that arising under successive transactions which shall either continue the Indebtedness or from time to time renew it after it has been satisfied. This Guaranty is cumulative and does not supersede any other outstanding guaranties, and the liability of Guarantor under this Guaranty is exclusive of Guarantor’s liability under any other guaranties signed by Guarantor. If multiple individuals or entities sign this Guaranty, their obligations under this Guaranty shall be joint and several.

2. Definitions.

(a) “Borrower” shall mean the individual or the entity named in Paragraph 1 of this Guaranty and, if more than one, then any one or more of them.

(b) “Guarantor” shall mean the individual or the entity signing this Guaranty and, if more than one, then any one or more of them.

(c) “Indebtedness” shall mean any and all debts, liabilities, and obligations of Borrower to Bank, now or hereafter existing, whether voluntary or involuntary and however arising, whether direct or indirect or acquired by Bank by assignment, succession, or otherwise, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, held or to be held by Bank for its own account or as agent for another or others, whether Borrower may be liable individually or jointly with others, whether recovery upon such debts, liabilities, and obligations may be or hereafter become barred by any statute of limitations, and whether such debts, liabilities, and obligations may be or hereafter become otherwise unenforceable. Indebtedness includes, without limitation, any and all obligations of Borrower to Bank for reasonable attorneys’ fees and all other out of pocket costs and expenses incurred by Bank in the collection or enforcement of any debts, liabilities, and obligations of Borrower to Bank. Indebtedness also includes, without limitation, all obligations of Borrower arising under any interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, securities puts, calls, collars, options or forwards or any combination of, or option with respect to, these or similar transactions now or hereafter entered into between Borrower and Bank.

(d) "Loan Documents" shall mean loan agreements between Borrower and Bank, promissory notes from Borrower in favor of Bank, and all other agreements, documents, and instruments evidencing any of the Indebtedness, and deeds of trust, mortgages, security agreements, and other agreements, documents, and instruments executed by Borrower in connection with such loan agreements, promissory notes, and other agreements, documents, and instruments evidencing any of the Indebtedness, all as now in effect and as hereafter amended, restated, renewed, or superseded.

3. Obligations Independent. The obligations hereunder are independent of the obligations of Borrower or any other guarantor, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Borrower or any other guarantor or whether Borrower or any other guarantor be joined in any such action or actions. Anyone executing this Guaranty shall be bound by its terms without regard to execution by anyone else.

4. Rights of Bank. Guarantor authorizes Bank, without notice or demand and without affecting its liability hereunder, from time to time to:

(a) renew, compromise, extend, accelerate, or otherwise change the time for payment, or otherwise change the terms, of the Indebtedness or any part thereof, including increase or decrease of the rate of interest thereon, or otherwise change the terms of any Loan Documents;

(b) receive and hold security for the payment of this Guaranty or any Indebtedness and exchange, enforce, waive, release, fail to perfect, sell, or otherwise dispose of any such security;

(c) apply such security and direct the order or manner of sale thereof as Bank in its discretion may determine;

(d) release or substitute any Guarantor or any one or more of any endorsers or other guarantors of any of the Indebtedness; and

(e) permit the Indebtedness to exceed Guarantor's liability under this Guaranty, and Guarantor agrees that any amounts received by Bank from any source other than Guarantor shall be deemed to be applied first to any portion of the Indebtedness not guaranteed by Guarantor.

5. Guaranty to be Absolute. Guarantor agrees that until the Indebtedness has been paid in full and any commitments of Bank or facilities provided by Bank with respect to the Indebtedness have been terminated, Guarantor shall not be released by or because of the taking, or failure to take, any action that might in any manner or to any extent vary the risks of Guarantor under this Guaranty or that, but for this paragraph, might discharge or otherwise reduce, limit, or modify Guarantor's obligations under this Guaranty. Guarantor waives and surrenders any defense to any liability under this Guaranty based upon any such action, including but not limited to any action of Bank described in the immediately preceding paragraph of this Guaranty. It is the express intent of Guarantor that Guarantor's obligations under this Guaranty are and shall be absolute and unconditional.

6. Guarantor's Waivers of Certain Rights and Certain Defenses. Guarantor waives:

(a) any right to require Bank to proceed against Borrower, proceed against or exhaust any security for the Indebtedness, or pursue any other remedy in Bank's power whatsoever;

(b) any defense arising by reason of any disability or other defense of Borrower, or the cessation from any cause whatsoever of the liability of Borrower;

- (c) any defense based on any claim that Guarantor's obligations exceed or are more burdensome than those of Borrower; and
- (d) the benefit of any statute of limitations affecting Guarantor's liability hereunder.

No provision or waiver in this Guaranty shall be construed as limiting the generality of any other waiver contained in this Guaranty.

7. Waiver of Subrogation. Until the Indebtedness has been paid in full and any commitments of Bank or facilities provided by Bank with respect to the Indebtedness have been terminated, even though the Indebtedness may be in excess of Guarantor's liability hereunder, Guarantor agrees not to exercise any right of subrogation, reimbursement, indemnification, and contribution (contractual, statutory, or otherwise) including, without limitation, any claim or right of subrogation under the Bankruptcy Code (Title 11, United States Code) or any successor statute, arising from the existence or performance of this Guaranty, and Guarantor agrees not to exercise any right to enforce any remedy that Bank now has or may hereafter have against Borrower, and waives any benefit of, and any right to participate in, any security now or hereafter held by Bank.

8. Waiver of Notices. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, notices of intent to accelerate, notices of acceleration, notices of any suit or any other action against Borrower or any other person, any other notices to any party liable on any Loan Document (including Guarantor), notices of acceptance of this Guaranty, notices of the existence, creation, or incurring of new or additional Indebtedness to which this Guaranty applies or any other Indebtedness of Borrower to Bank, and notices of any fact that might increase Guarantor's risk.

9. Security. To secure all of Guarantor's obligations hereunder, Guarantor assigns and grants to Bank a security interest in all moneys, securities, and other property of Guarantor now or hereafter in the possession of Bank, all deposit accounts of Guarantor maintained with Bank, and all proceeds thereof. Upon default or breach of any of Guarantor's obligations to Bank hereunder, Bank may apply any deposit account to reduce the Indebtedness, and may foreclose any collateral as provided in the Uniform Commercial Code and in any security agreements between Bank and Guarantor.

10. Subordination. Any obligations of Borrower to Guarantor, now or hereafter existing, including but not limited to any obligations to Guarantor as subrogee of Bank or resulting from Guarantor's performance under this Guaranty, are hereby subordinated to the Indebtedness. In addition to Guarantor's agreement in Section 7 above regarding rights of subrogation as set forth in this Guaranty with respect to any obligations of Borrower to Guarantor as subrogee of Bank, Guarantor agrees that, if Bank so requests, Guarantor shall not demand, take, or receive from Borrower, by setoff or in any other manner, payment of any other obligations of Borrower to Guarantor until the Indebtedness has been paid in full and any commitments of Bank or facilities provided by Bank with respect to the Indebtedness have been terminated. If any payments are received by Guarantor in violation of such agreement, such payments shall be received by Guarantor as trustee for Bank and shall be paid over to Bank on account of the Indebtedness, but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty. Any security interest, lien, or other encumbrance that Guarantor may now or hereafter have on any property of Borrower is hereby subordinated to any security interest, lien, or other encumbrance that Bank may have on any such property.

11. Revocation of Guaranty.

(a) This Guaranty may be revoked at any time by Guarantor in respect to future transactions, unless there is a continuing consideration as to such transactions that Guarantor does not renounce. Such revocation shall be effective upon actual receipt by Bank, at the address shown below or at such other address as may have been provided to Guarantor by

Bank, of written notice of revocation. Revocation shall not affect any of Guarantor's obligations or Bank's rights with respect to transactions committed or entered into prior to Bank's receipt of such notice, regardless of whether or not the Indebtedness related to such transactions, before or after revocation, has been incurred, renewed, compromised, extended, accelerated, or otherwise changed as to any of its terms, including time for payment or increase or decrease of the rate of interest thereon, and regardless of any other act or omission of Bank authorized hereunder. Revocation by Guarantor shall not affect any obligations of any other guarantor.

(b) In the event of the death of a Guarantor, the liability of the estate of the deceased Guarantor shall continue in full force and effect as to (i) the Indebtedness existing at the date of death, and any renewals or extensions thereof, and (ii) loans or advances made to or for the account of Borrower after the date of the death of the deceased Guarantor pursuant to a commitment made by Bank to Borrower prior to the date of such death. As to all surviving Guarantors, this Guaranty shall continue in full force and effect after the death of a Guarantor, not only as to the Indebtedness existing at that time, but also as to the Indebtedness thereafter incurred by Borrower to Bank.

(c) Guarantor acknowledges and agrees that this Guaranty may be revoked only in accordance with the foregoing provisions of this paragraph and shall not be revoked simply as a result of any change in name, location, or composition or structure of Borrower, the dissolution of Borrower, or the termination, increase, decrease, or other change of any personnel or owners of Borrower.

12. Reinstatement of Guaranty. If this Guaranty is revoked, returned, or canceled, and subsequently any payment or transfer of any interest in property by Borrower to Bank made before such revocation, return or cancellation is rescinded or must be returned by Bank to Borrower, this Guaranty shall be reinstated with respect to any such payment or transfer, regardless of any such prior revocation, return, or cancellation.

13. Stay of Acceleration. In the event that acceleration of the time for payment of any of the Indebtedness is stayed upon the insolvency, bankruptcy, or reorganization of Borrower or otherwise, all such Indebtedness guaranteed by Guarantor shall nonetheless be payable by Guarantor immediately if requested by Bank.

14. Information Relating to Borrower. Guarantor acknowledges and agrees that it shall have the sole responsibility for, and has adequate means of, obtaining from Borrower such information concerning Borrower's financial condition or business operations as Guarantor may require, and that Bank has no duty, and Guarantor is not relying on Bank, at any time to disclose to Guarantor any information relating to the business operations or financial condition of Borrower.

15. Borrower's Authorization. Where Borrower is a corporation, partnership, or limited liability company, it is not necessary for Bank to inquire into the powers of Borrower or of the officers, directors, partners, members, managers, or agents acting or purporting to act on its behalf, and any Indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder, subject to any limitations on Guarantor's liability set forth herein.

16. Foreign Currency.

(a) If any claim arising under or related to this Guaranty is reduced to judgment denominated in a currency (the "Judgment Currency") other than the currency or currencies in which the guaranteed Indebtedness is denominated (individually, an "Obligation Currency"), the judgment shall be for the equivalent in the Judgment Currency of the amount of the claim denominated in each Obligation Currency included in the judgment, determined as of the date of judgment. The equivalent of any Obligation Currency amount in any Judgment Currency shall be calculated at the spot rate for the purchase of the Obligation Currency with the Judgment Currency quoted by Bank in the place of Bank's choice at or about 8:00 a.m. on the date for determination specified above. Guarantor shall indemnify

Bank and hold Bank harmless from and against all loss or damage resulting from any change in exchange rates between the date any claim is reduced to judgment and the date of payment thereof by Guarantor.

(b) The obligations hereunder shall not be affected by any acts of any governmental authority affecting Borrower including, without limitation, any restrictions on the conversion of currency or repatriation or control of funds or any total or partial expropriation of Borrower's property, or by economic, political, regulatory, or other events in the countries where Borrower is located. If Bank so notifies Guarantor in writing, at Bank's sole and absolute discretion, payments under this Guaranty shall be made in the U.S. Dollar equivalent of any guaranteed Indebtedness that is denominated in an Obligation Currency, determined as of the date payment is made.

17. Remedies. If Guarantor fails to fulfill its duty to pay all Indebtedness guaranteed hereunder, Bank shall have all of the remedies of a creditor and, to the extent applicable, of a secured party, under all applicable law. Without limiting the foregoing, Bank may, at its option and without notice or demand:

(a) declare any Indebtedness due and payable at once;

(b) take possession of any collateral pledged by Borrower or Guarantor, wherever located, and sell, resell, assign, transfer, and deliver all or any part of the collateral at any public or private sale or otherwise dispose of any or all of the collateral in its then condition, for cash or on credit or for future delivery, and in connection therewith Bank may impose reasonable conditions upon any such sale. Further, Bank, unless prohibited by law the provisions of which cannot be waived, may purchase all or any part of the collateral to be sold, free from and discharged of all trusts, claims, rights of redemption and equities of Borrower or Guarantor whatsoever. Guarantor acknowledges and agrees that the sale of any investment property collateral through any nationally recognized broker-dealer, investment banker, or any other method common in the securities industry shall be deemed a commercially reasonable sale under the Uniform Commercial Code or any other equivalent statute or federal law, and expressly waives notice thereof except as provided herein; and

(c) set off against any or all liabilities of Guarantor all money owed by Bank or any of its agents or affiliates in any capacity to Guarantor, whether or not due, and also set off against all other liabilities of Guarantor to Bank all money owed by Bank in any capacity to Guarantor. If exercised by Bank, Bank shall be deemed to have exercised such right of setoff and to have made a charge against any such money immediately upon the occurrence of such default although made or entered on the books subsequent thereto.

20. Notices. All notices required under this Guaranty shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Guaranty, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as Bank and Guarantor may specify from time to time in writing. Notices sent by (a) first class mail shall be deemed delivered on the earlier of actual receipt or on the fourth business day after deposit in the U.S. mail, postage prepaid, (b) overnight courier shall be deemed delivered on the next business day, and (c) telecopy shall be deemed delivered when transmitted.

21. Successors and Assigns. This Guaranty (a) binds Guarantor and Guarantor's executors, administrators, successors, and assigns, provided that Guarantor may not assign its rights or obligations under this Guaranty without the prior written consent of Bank, and (b) inures to the benefit of Bank and Bank's indorsees, successors, and assigns. Bank may, without notice to Guarantor and without affecting Guarantor's obligations hereunder, sell, assign, grant participations in, or otherwise transfer to any other person, firm, or corporation the Indebtedness and this Guaranty, in whole or in part. Guarantor agrees that Bank may disclose to any assignee or purchaser, or any prospective assignee or purchaser, of all or part of the Indebtedness any and all information in Bank's possession concerning Guarantor, this Guaranty, and any security for this Guaranty.

22. Amendments, Waivers, and Severability. No provision of this Guaranty may be amended or waived except in writing. No failure by Bank to exercise, and no delay in exercising, any of its rights, remedies, or powers shall operate as a waiver thereof, and no single or partial exercise of any such right, remedy, or power shall preclude any other or further exercise thereof or the exercise of any other right, remedy, or power. The unenforceability or invalidity of any provision of this Guaranty shall not affect the enforceability or validity of any other provision of this Guaranty.

23. Costs and Expenses. Guarantor agrees to pay all reasonable attorneys' fees, and all other out of pocket costs and expenses that may be incurred by Bank (a) in the enforcement of this Guaranty or (b) in the preservation, protection, or enforcement of any rights of Bank in any case commenced by or against Guarantor or Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute.

24. Governing Law and Jurisdiction. This Guaranty shall be governed by and construed and enforced in accordance with federal law and the law of the State of New York. Jurisdiction and venue for any action or proceeding to enforce this Guaranty shall be the forum appropriate for such action or proceeding against Borrower, to which jurisdiction Guarantor irrevocably submits and to which venue Guarantor waives to the fullest extent permitted by law any defense asserting an inconvenient forum in connection therewith. It is provided, however, that if Guarantor owns property in another state, notwithstanding that the forum for enforcement action is elsewhere, Bank may commence a collection proceeding in any state in which Guarantor owns property for the purpose of enforcing provisional remedies against such property. Service of process by Bank in connection with such action or proceeding shall be binding on Guarantor if sent to Guarantor by registered or certified mail at its address specified below.

25. Enforcement/Waiver of Jury Trial. GUARANTOR AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS GUARANTY MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK LOCATED IN MONROE COUNTY OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON GUARANTOR BY MAIL AT THE ADDRESS SET FORTH FOR NOTICES GIVEN BELOW. GUARANTOR HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT FORUM.

GUARANTOR AND BANK (BY ACCEPTANCE OF THIS GUARANTY) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS GUARANTY OR ANY OTHER LOAN DOCUMENTS OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF BANK RELATING TO THE ADMINISTRATION OR ENFORCEMENT OF THE GUARANTY, AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, GUARANTOR HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE, OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. GUARANTOR CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A

MATERIAL INDUCEMENT FOR BANK TO ACCEPT THIS GUARANTY AND MAKE THE LOAN GUARANTEED HEREBY.

26. FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS DOCUMENT REPRESENTS THE FINAL AGREEMENT BETWEEN PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THIS DOCUMENT SUPERSEDES ANY COMMITMENT LETTER, TERM SHEET, OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS RELATING TO THE SUBJECT MATTER HEREOF, UNLESS SUCH COMMITMENT LETTER, TERM SHEET, OR OTHER WRITTEN OUTLINE OF TERMS AND CONDITIONS EXPRESSLY PROVIDES TO THE CONTRARY, (C) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (D) THIS DOCUMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

The parties executed this agreement as of Sept. 20, 2006, intending to create an instrument executed under seal.

GRAHAM CORPORATION

By: Ron Hansen **(Seal)**
Printed Name: Ron Hansen
Title: Vice President

Address for notices to Bank:

One East Avenue
Rochester, New York 14635
Facsimile: 585-546-9278

Address for notices to Guarantor:

20 Florence Avenue
Batavia, New York 14020
Facsimile: 585-343-6242