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 December 31, 1996

OR

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

For the transition period from ___________ to ___________

COMMISSION FILE NUMBER 1-8462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	16-1194720
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
20 FLORENCE AVENUE, BATAVIA, NEW YORK	14020
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including Area Code - 716-343-2216

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK (Par Value $.10)	American Stock Exchange
Title of Class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK PURCHASE RIGHTS

Title of Class

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 March 20, 1997 was $23,417,911.

As of March 20, 1997, there were outstanding 1,587,655 shares of common stock, $.10 par value. As of March 20, 1997, there were outstanding 1,587,655 common stock purchase rights.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Notice of Meeting and Proxy Statement for the 1997 Annual Meeting of Stockholders is incorporated by reference into Part III of this filing.

An Exhibit Index is located at page 57 of this filing under the sequential numbering system prescribed by Rule 0-3(b) of the Act.

A cross reference sheet appears as the final page of this filing setting forth item numbers and captions of Form 10-K and the pages of the Registrant's Proxy Statement for 1997 Annual Meeting of Stockholders where the corresponding information appears.

PART I

Item 1. Business

(a) General Development of Business

Registrant was organized in 1983 as a Delaware holding company and is the successor to Graham Manufacturing Co., Inc., now a wholly owned subsidiary of the Registrant. Graham Manufacturing Co., Inc. was organized in 1936 under the laws of the State of New York. The Registrant manages the activities of various subsidiaries that are located in the United States and the United Kingdom. It employs 11 people, which includes the Research and Development Group that serves each of the Registrant's subsidiaries.

UNITED STATES OPERATIONS:

During 1996 the Registrant's U.S. operations consisted of one independent subsidiary, namely, Graham Manufacturing Co., Inc. (GMC).

Graham Manufacturing Co., Inc. -- Batavia, New York

Graham Manufacturing Co., Inc. ("GMC") in Batavia, New York is a well recognized supplier of steam jet ejector vacuum systems, surface condensers for steam turbines, liquid ring vacuum pumps and compressors, and various types of heat exchangers such as Heliflow, plate and frame, and special types of nuclear shell and tube heat exchangers. GMC 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, and shipbuilding.

1996 sales for GMC were $46.7 million, which was marginally over budget for the year.

New orders in 1996 were $50 million, up 3.4% from 1995, with a strong fourth quarter contributing to a year end backlog of $24.5 million up 16% from the backlog at December 31, 1995. Significant growth was seen in the condenser business, attributable to vitality in the petrochemical market. These gains were only somewhat offset by lower orders in 1996 for ejectors and plate heat exchangers. The chemical and refinery markets continued to be important, accounting for half of the revenue for 1996. U.S. domestic power industry sales declined and smaller markets such as fertilizer, HVAC and fibers maintained a level consistent with the experience of recent years.

Margins were uniformly favorable across all products lines.

GMC export sales reached 50% in 1996, a new record. Approximately half of these export sales went to Asia. Most of the growth in GMC's exports since 1995 has been attributable to a significant increase in shipments to South America and Asia. The Company expects exports to remain a significant part of its business in 1997.

Employment at GMC as of December 31, 1996 was 307.

UNITED KINGDOM OPERATIONS:

During 1996, Graham Corporation owned one manufacturing subsidiary in the United Kingdom, Graham Precision Pumps Limited (GPPL) in Congleton, Cheshire. Ownership was through its U.K. holding company, Graham Vacuum & Heat Transfer Limited. Graham Vacuum and Heat Transfer Limited (GVHT) has no employees.

Graham Precision Pumps Limited - Congleton, Cheshire

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 1996 stood at $6,060,000, a result exceeding by 7% the business plan for the year. This performance represented an improvement over 1995. This reflected an improving order intake through the year resulting in new orders for the year at $6,482,000, 23% above 1995 with 42% to export markets. Sales growth was achieved in the domestic U.K. market with all major product lines.

Competitive pricing and delivery remained critical in 1996 to achieving most orders. In manufacturing, GPPL continued to maintain a flexible operation to support its customers' requirements.

The sales mix for 1996 resulted in an improved contribution which, together with a tight control of overheads, yielded an improved profit performance over 1995.

GPPL has forecasted some continued growth in selective markets which will be offset in part by the continuing uncertainty of the economies of specific countries. The Company will continue its marketing effort to further improve its position and increase its market share, primarily in the U.K. and the U.S. markets.

As of December 31, 1996 employment stood at 72.

Capital Expenditures

The Registrant's capital expenditures for 1996 amounted to $1,291,000. Of this amount, $604,000 was for GMC and $687,000 was for GPPL.

(b) Financial Information About Industry Segments

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

(The information called for under this Item is set forth in statements contained in Notes 1 and 3 to Consolidated Financial Statements, on pages 21-23 and 25 of this Annual Report on Form 10- K).

(c) Narrative Description of Business

(1) Business Done and Intended to be Done

(i) Principal Products and Markets

The Registrant designs and manufactures vacuum and heat transfer equipment, primarily custom built. The principal markets for this equipment are the chemical, petrochemical, petroleum refining, and electric power generating industries. The Registrant'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.

(ii) Status of Publicly Announced New Products or Segments

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

(iii) Sources and Availability of Raw Materials

Registrant experienced no serious material shortages in 1996.

(iv) Material Patents, Trademarks

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

(v) Seasonal Variations

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

(vi) Working Capital Practices (Not Applicable)

(vii) Principal Customers

Registrant's principal customers include the large chemical, petroleum and power companies, which are end users of Registrant'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 Registrant'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 Registrant's business.

No customer of Registrant or group of related customers regularly accounts for as much as 10% of Registrant's consolidated annual revenue.

(viii) Order Backlog

Backlog of unfilled orders at December 31, 1996 was $25,578,000, compared to $21,837,000 in 1995 and $18,997,000 in 1994.

(ix) Government Contracts (Not Applicable)

(x) Competition

Registrant's business is highly competitive and a substantial number of companies having greater financial resources are engaged in manufacturing similar products. Registrant is a relatively small factor in the product areas in which it is engaged with the exception of steam jet ejectors. Registrant believes it is one of the leading manufacturers of steam jet ejectors.

(xi) Research Activities

During the fiscal years ended December 31, 1994, 1995, and 1996, Registrant spent approximately $298,000, $277,000 and $375,000 respectively, on research activities relating to the development of new products or the improvement of existing products.

(xii) Environmental Matters

Registrant 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 Registrant and its subsidiaries.

(xiii) Number of Persons Employed

On December 31, 1996, Registrant and its subsidiaries employed 390 persons.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

(The information called for under this Item is set forth in Note 3 to Consolidated Financial Statements, on page 25 of this Annual Report on Form 10-K.)

Item 2. Properties

UNITED STATES: Registrant's corporate headquarters is located at 20 Florence Avenue, Batavia, New York.

Registrant's subsidiary, Graham Manufacturing Co., Inc., operates a plant on approximately thirty-three acres in Batavia consisting of about 204,000 square feet in several connected buildings built over a period of time to meet increased space requirements, 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. A 14,000 square foot extension to the Heavy Fabrication Building was completed in 1991.

Graham Manufacturing Co., Inc.'s principal offices are in a 45,000 square-foot building located in Batavia adjacent to its manufacturing facilities.

Graham Manufacturing Co., Inc. maintains U.S. sales offices in Clifton, New Jersey, Los Angeles and Houston.

UNITED KINGDOM: Registrant's subsidiary, Graham Precision Pumps Limited, has a 41,000 square-foot manufacturing facility located on 15 acres owned by that company in Congleton, Cheshire, England.

Assets of the Registrant with a book value of $22,898,000 have been pledged to secure certain domestic long-term borrowings. Short and long-term borrowings of Registrant's United Kingdom subsidiary are secured by assets of the subsidiary, which have a book value of $637,000.

Item 3. Legal Proceedings

The United States Environmental Protection Agency has notified the Company's wholly-owned subsidiary, Graham Manufacturing Co., Inc. ("GMC"), that it is a Potentially Responsible Party pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended, in connection with the Batavia Landfill Site in the Town of Batavia, New York. Total remediation expenses for the site are currently estimated at $10.4 million. Based on facts and circumstances currently known to GMC and the Company, GMC's contribution to the site of material deemed hazardous was minor. In 1996, the Company recorded a $260,000 provision for the estimated costs, including legal costs, in connection with this matter based on the currently available information and assuming a reasonable pro-rata allocation. The related liability at December 31, 1996 was $257,000 and is included in the caption "Other Long- Term Liabilities" in the Consolidated Balance Sheet.

Item 4. Submission of Matters to a Vote of Security Holders

(Not applicable)

Item 4.1. Executive Officers of the Registrant

The following information is given with respect to Registrant's executive officers, as defined by Rule 3b-7 of the Act.

<TABLE>
<CAPTION>

Name	Age	Office 1/	Prior Office	Total Years 2/ Served
<S>	<C>	<C>	<C>	<C>
Frederick D. Berkeley	68	Chairman, President, and Chief Executive Officer	Chairman and President of Graham Manu- facturing Co., Inc. ("GMC")	46
Alvaro Cadena	53	President & Chief Operating Officer, GMC	Executive Vice President, GMC	27

		Vice President of Registrant		
J. Ronald Hansen	49	Vice President Finance & Administration and Chief Financial Officer	Chief Financial Officer and Vice President-Finance of Al-Tech Specialty Steel Corp.	4
Joseph P. Gorman	53	Vice President-Sales of GMC		27
Stephen P. Northrup	45	Vice President-Engineering of GMC	Vice President-Operations	23

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<FN>

1 The term of office with Registrant for Mr. Berkeley began on August 1, 1983, the effective date of the reorganization of the Registrant and its predecessor, Graham Manufacturing Co., Inc.. The term of office of each executive officer extends to the first Meeting of Registrant's Board of Directors following the 1994 Annual Meeting of Shareholders or until his successor is chosen and shall have qualified. Mr. Hansen assumed his duties as Vice President-Finance & Chief Financial Officer in June 1993. Prior to his employment at Graham, Mr. Hansen was Chief Financial Officer and Vice President of Al Tech Specialty Steel Corp. Mr. Cadena was elected President of Graham Manufacturing Co., Inc. on March 11, 1991. Prior to his election to that office he served as Executive Vice President of Graham Manufacturing Co., Inc.

2 Includes the number of years served with the Registrant, Registrant's predecessor company, Graham Manufacturing Co., Inc., and any of the Registrant's subsidiaries.
</TABLE>

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 42 of this Annual Report on Form 10-K.

(b) On March 20, 1997, there were approximately 330 holders of the Registrant'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 March 20, 1997, the closing price of the Registrant's common stock on the American Stock Exchange was $14.75 per share.

(c) The Registrant has not paid a dividend since January 4, 1993, when it paid a dividend of $.07 per share. Restrictions on dividends are described in Note 7 to the Consolidated Financial Statements, to be found on pages 29 to 30 of this Report.

ITEM 6. Selected Financial Data

<TABLE>
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GRAHAM CORPORATION - TEN YEAR REVIEW

Operations:	1996	1995(1)	1994(1)	1993
<S>	<C>	<C>	<C>	<C>
Net Sales	$51,394,000	$49,480,000	$47,351,000	$45,180,000
Gross Profit	15,401,000	12,979,000	12,345,000	11,945,000
Selling, General & Administrative	11,122,000	9,993,000	10,098,000	10,918,000
Interest Expense	355,000	616,000	525,000	537,000
Unusual Items		276,000	1,502,000	(397,000)
Income (Loss) Before Taxes	3,924,000	2,094,000	220,000	887,000
Income Taxes	863,000	778,000	208,000	215,000
Income (Loss) From Continuing Operations	3,061,000	1,316,000	12,000	672,000
Income (Loss) From Discontinued Operations			(2,232,000)	(264,000)
Loss From Disposal of Discontinued Operations		(182,000)	(6,189,000)	
Cumulative Effect of Changes in Accounting Principles			(6,000)	
Net Income (Loss)	3,061,000	1,134,000	(8,415,000)	408,000
Dividends				

Common Stock:				
Income (Loss) From Continuing Operations	1.90	.83	.01	.64
Income (Loss) From Discontinued Operations			(1.41)	(.25)
Loss From Disposal of Discontinued Operations		(.11)	(3.93)	
Cumulative Effect of Changes in Accounting Principles			(.01)	
Net Income (Loss) Per Share	1.90	.72	(5.34)	.39
Dividends Per Share				
Shareholders' Equity Per Share	7.47	5.32	4.48	14.16
Market Price Per Share	9-12.58	6-10.67	6.42-9.92	10.13-16.88
Shares Outstanding (End of Year)	1,585,492	1,053,557	1,051,499	1,046,137

Financial Data:				
New Orders	55,041,000	52,319,000	49,527,000	40,156,000
Order Backlog	25,578,000	21,837,000	18,997,000	17,070,000
Working Capital	8,179,000	7,074,000	6,845,000	7,098,000
Current Ratio	1.76:1	1.60:1	1.59:1	1.52:1
Capital Expenditures	1,291,000	204,000	412,000	513,000
Depreciation	892,000	927,000	1,027,000	1,349,000
Total Assets	30,434,000	29,480,000	29,953,000	41,411,000
Long-Term Debt	1,442,000	3,303,000	5,161,000	6,102,000
Shareholders' Equity	11,855,000	8,407,000	7,071,000	14,816,000
Number of Employees (End of Year)	390	397	408	

<FN>
(1) Per share data has been adjusted to reflect a three-for-two stock split on July 25, 1996.
</TABLE>

<TABLE>
<CAPTION>

GRAHAM CORPORATION - TEN YEAR REVIEW

1992	1991	1990	1989	1988	1987
<S>	<C>	<C>	<C>	<C>	<C>
$46,542,000	$70,698,000	$68,053,000	$62,340,000	$62,350,000	$54,288,000
8,864,000	18,967,000	16,749,000	16,664,000	16,769,000	12,965,000
11,823,000	14,543,000	13,899,000	12,005,000	12,961,000	11,261,000
572,000	950,000	959,000	1,074,000	1,485,000	1,366,000
			(757,000)		
(3,531,000)	3,474,000	1,891,000	4,342,000	2,323,000	338,000
(1,100,000)	943,000	690,000	356,000	481,000	101,000
(2,431,000)	2,531,000	1,201,000	3,986,000	1,842,000	237,000
3,732,000	(645,000)	74,000	218,000	(854,000)	(1,272,000)
	(1,067,000)			(469,000)	
161,000				347,000	
1,462,000	819,000	1,275,000	4,204,000	866,000	(1,035,000)
293,000	289,000	283,000	97,000		
(2.32)	2.44	1.18	4.06	1.88	.24
3.56	(.62)	.07	.22	(.88)	(1.30)
	(1.03)			(.48)	
.16				.36	
1.40	.79	1.25	4.28	.88	(1.06)
.28	.28	.28	.10		
13.76	14.43	13.94	13.19	9.55	8.91
12.50-27.75	10.63-23	10.38-34.38	7-41	5.25-8.38	4.38-10.75
1,046,137	1,040,737	1,026,987	980,010	978,573	

978,573

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49,893,000	68,426,000	65,217,000	72,144,000	65,075,000	55,583,000
23,259,000	27,997,000	31,901,000	33,585,000	27,414,000	23,790,000
9,433,000	12,330,000	9,531,000	8,482,000	5,866,000	6,539,000
1.65:1	1.82:1	1.53:1	1.49:1	1.32:1	1.35:1
9,213,000	2,553,000	2,702,000	2,622,000	1,749,000	1,045,000
1,385,000	1,317,000	1,175,000	1,003,000	982,000	1,018,000
45,405,000	42,133,000	41,731,000	37,534,000	35,523,000	37,717,000
9,491,000	7,560,000	4,708,000	3,620,000	4,749,000	6,466,000
14,396,000	15,015,000	14,317,000	12,930,000	9,343,000	8,724,000
636	683	720	634	670	863

</TABLE>

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis reviews the Company's financial operating results for each of the three years in the period ended December 31, 1996 and its financial condition at December 31, 1996. The focus of this review is on the underlying business reasons for significant changes and trends affecting sales, net earnings, and financial condition. This review should be read in conjunction with the consolidated financial statements, the related Notes to Consolidated Financial Statements, the Ten- Year Review and all filings with the Securities and Exchange Commission.

Except for the historical information contained herein, the matters discussed in this annual report are forward-looking statements as defined in the Private Securities Litigation Reform Act (PSLRA) of 1995. The Company wishes to take advantage of the "safe harbor" provisions of the PSLRA by cautioning 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

Consolidated sales in 1996 were $51,394,000 as compared to $49,480,000 in 1995 and $47,351,000 in 1994. Graham Manufacturing 1996 sales were about 3% more than 1995 shipments and 11% greater than 1994. Sales for export constituted 50% of the U.S. operations in 1996 as compared to 41% in 1995 and 1994. Surface condenser sales in 1996 were up significantly over 1995. Offsetting the increase in surface condenser sales was a reduction in ejector sales. In 1995 as compared to 1994, ejector sales were up and condenser shipments were down. Graham Precision Pumps sales increased 10% over the prior year, but were down almost 9% from 1994. In 1996 the Company increased its revenue through increased sales of pump packages. In 1995 sales were down 17% below 1994 due to a lack of major project work. Oil exploration work was very active in 1994 which lead to an active offshore pump market.

Consolidated gross profit margins were 30% in 1996 as compared to 26% for 1995 and 1994. Gross profit margins from U.S. operations for 1996, 1995 and 1994 were 29%, 25% and 24%, respectively. Direct material and labor costs declined in 1996, as a percent of sales, by 4.8% compared to 1995 and 5.5% compared to 1994. The 1996 gross profit percent was improved approximately 1% for workers compensation insurance refunds expensed in prior years. Indirect production costs remained about 24% of sales over the past three years.

Precision Pumps gross profit margins increased to 30% in 1996, up

2% over 1995. Gross profit margins in 1994 were 36%. Direct costs decreased in 1996, as a percent of sales, by 2% compared to 1995 and approximately equalled 1994 costs. Indirect production costs, as a percent of sales, for 1996 were about the same as 1995 and were about 7% more than in 1994.

Selling, general and administrative expenses increased 11% over 1995. In 1995 SG&A expenses dropped 1% compared to 1994. The current year's increase was primarily attributed to incentive wage programs which vary subject to levels of profits. Included in SG&A expenses are Research & Development costs. Expenditures invested for product enhancements and new product development increased 46% in 1996 over 1995. In 1995, expenses were 7% less than the amount spent in 1994. SG&A U.K. expense represents 12%, 11% and 17% of consolidated costs for the respective years 1996, 1995 and 1994.

Interest expense in 1996 decreased 42% from 1995 as a result of lower bank debt and lower interest borrowing rates. Interest expense in 1995 increased 17% over 1994. Borrowings to finance unusually high fourth quarter 1994 work-in-process inventory and to settle an adverse litigation judgment increased debt through the second quarter of 1995. Bank debt as a percent of equity as of December 31, 1996, 1995 and 1994 was 9%, 45% and 77%, respectively.

The effective income tax rates for 1996, 1995 and 1994 were 22%, 37% and 95%, respectively. The current year's provision was less than the statutory rates due to fuller utilization of U.K. corporate expenses and a decrease in the valuation allowance required under SFAS 109. It is anticipated that future effective tax rates will approximate statutory rates. The tax rate recognized in 1995 differs from the statutory rate mainly due to a reduction in state deferred tax assets. The unusually high effective rate computed in 1994 resulted from the disallowance of capital losses incurred with the disposal of Graham Manufacturing Ltd.

Net income for 1996 was $3,061,000 or $1.90 per share, as compared to $1,134,000 ($.72 per share) in 1995 and a loss of $8,415,000 in 1994. The 1994 loss was due to an unfavorable legal judgment, which together with legal costs, equalled $1,502,000, and the divestiture of a subsidiary which resulted in a 1994 charge of $8,421,000.

SHAREHOLDERS' EQUITY

Substantially due to earnings, shareholders' equity increased 41% in 1996 and 19% in 1995.

Signaling renewed confidence in its financial prospects in 1996 Graham declared a 3 for 2 stock split to increase liquidity of the stock. Earnings per share data for 1995 and 1994, reported in the accompanying financials have been restated to reflect the stock split.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided from operations in 1996 was $4,726,000 as compared to 1995 of $1,644,000. Cash generation was improved as a result of greater profits and a level quarterly sales pattern. Capital expenditures increased in 1996 over recent prior years. Expenditures were evenly divided between U.S. and U.K. operations. In addition, cash resources were used to retire U.S. long term debt and invest in short term bonds and commercial paper. In 1995, cash was used to finance higher amounts of inventory and to pay a legal judgment rendered against Graham. Inventories were selectively increased to support customer requests for shorter deliveries in certain "off the shelf" products. The net cash deficit created from operations in 1994 of $906,000 was due to a troubled subsidiary (now disposed of) and increased working capital needed because of significant shipments transacted late in the fourth quarter.

Working capital available to finance current operations increased 16% compared to 1995. Cash and marketable securities as of December 31, 1996 increased $1,597,000 over 1995. The time taken to collect sales decreased 16%. The prior year's current assets, net of current liabilities increased 3% compared to 1994.

In 1996, the United States subsidiary entered into a new revolving credit facility agreement which provides a line of credit up to $13,000,000, including letters of credit. The interest rate at which the Company can borrow ranges from prime to prime less 1.5 percent. The agreement allows the Company at anytime to convert borrowings greater than $2,000,000 and up to $9,000,000 into a two year term loan. In 1995, the United Kingdom operation entered into a new credit facility agreement which provides a line of credit of approximately $1,129,000 (pounds sterling exchange rate assumed, $1.71) for working capital, letters of credit and long term borrowing needs.

At December 31, 1996 the U.S. operation had an unused bank line of credit available of $10,955,000. The U.K. operation had an unused line of credit available of $686,000.

Management expects that cash flow from operations and lines of credit will provide sufficient resources to fund the 1996 cash requirements. Capital spending in 1997 is expected to be about 15% to 25% greater than 1996 with the majority of the investments being directed toward machinery and computers.

CONTINGENCIES

Increases in material and labor costs experienced in recent years 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, productivity improvements, and cost reductions.

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.

The Company enters into forward foreign exchange agreements to hedge its exposure against unfavorable changes in foreign currency values on applicable significant sales contracts. Graham uses derivatives for no other reason.

Decreased contribution margins, suffered as a result of U.S. and U.K. strengthening currencies as compared to other global competitors, is a potential threat. The Company will continue to explore the need for world sourcing of raw materials and, in limited and special circumstances, fabricating overseas.

The Company's U.S. 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. The Company is currently participating in an environmental assessment at one site under these laws. Future remediation expenses at this site are subject to a number of uncertainties, including the method and extent of remediation (dependent, in part, on existing laws and technology), the percentage and type of material attributable to the Company, the financial viability of site owners and the other parties, and the availability of state and federal funds. See Notes to Consolidated Financial Statements No. 13 for further information.

NEW ORDERS AND BACKLOG

Consolidated new orders in 1996 were $55,041,000 compared to $52,319,000 in 1995 and $49,527,000 in 1994. In 1996, Graham Manufacturing's bookings were $50,008,000, up from $48,358,000 in 1995 and $43,991,000 in 1994. New orders for export from the U.S. operation equalled about 46% of the total new orders. This is compared to 50% of the orders received in 1995 and about 46% in 1994. The increase in new orders in 1996 over 1995 was largely realized in surface condensers while ejector orders decreased 10%. In 1995 surface condenser orders dropped 5% as compared to 1994 whereas ejector orders climbed 30%. Orders received in the U.K. operation in 1996 were $5,033,000. This is compared to $3,961,000 in 1995 and $5,536,000 in 1994. New orders in 1996 for United Kingdom customer pump packages accounted for the increase in new orders over 1995. New orders for exports fell, in part, due to the strengthening of the pound sterling relative to other world currencies. Orders in 1995 decreased relative to 1994 due to fewer orders for offshore pumps.

The consolidated backlog as of December 31, 1996 was $25,578,000, up about 17% over 1995 and about 35% over 1994. The consolidated backlog as of December 31, 1995 was $21,837,000 and $18,997,000 on December 31, 1994. Graham Manufacturing Co., Inc.'s backlog equalled $24,514,000 for the current period as compared to $21,136,000 and $18,127,000 for 1995 and 1994, respectively. Graham Precision Pumps Limited's backlog was $1,064,000 as of December 31, 1996 and $701,000 in 1995 and $870,000 in 1994. The backlog at December 31, 1996 will be substantially shipped in 1997 and represents orders from traditional markets in Graham's established product lines.

ACCOUNTING CHANGES AND CHANGE IN FISCAL YEAR

The Company reviewed Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation and decided not to change its historical practice of accounting for stock options in accordance with APB No. 25. See Notes to Consolidated Financial Statements No. 11 for additional information. The essential assumption underlying probability-based models is that the price of the underlying stock behaves in such a way that possible future prices can be modeled by a probability distribution. Such assumptions do not wholly take into account changes in management, company culture, subsidiary structures, changing markets, products, or technology that impact future earnings and share values.

In 1995, the Company adopted Statement of Financial Accounting Standard No. 107, Disclosure About Fair Value of Financial Instruments. See Notes to Consolidated Financial Statements No. 8 for additional information.

Graham Corporation's accounting year will be April 1 to March 31, commencing April 1, 1997. The adoption of a natural business year will provide numerous operating advantages to Graham.

FORWARD LOOKING

The Company enters 1997 with a healthy consolidated backlog, a strong consolidated balance sheet and a low risk longer range growth strategy which concentrates on maximizing opportunities in its core businesses. Many of the industries Graham serves worldwide are in business segments which are strong and actively investing for their futures. Although the outlook could change as a result of unforeseen events, the outlook for 1997 and beyond appears bright, not withstanding periods of economic downturns along the way. It is anticipated that the year ending March 31, 1998 will be a successful one for the Corporation and the third consecutive year of growth in shareholders' value.

ITEM 8. Financial Statements and Supplementary Data

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

- --

CONSOLIDATED STATEMENTS OF OPERATIONS

- --

<TABLE>
<CAPTION>

	Year Ended December 31, 1996	1995	1994
Net sales	$51,394,000	$49,480,000	$47,351,000
Costs and expenses:			
Cost of products sold	35,993,000	36,501,000	35,006,000
Selling, general and administrative	11,122,000	9,993,000	10,098,000
Interest expense	355,000	616,000	525,000
Litigation provision		276,000	1,502,000
	47,470,000	47,386,000	47,131,000

Income from continuing operations before income taxes	3,924,000	2,094,000	220,000
Provision for income taxes	863,000	778,000	208,000
Income from continuing operations	3,061,000	1,316,000	12,000
Loss from discontinued operations			(2,232,000)
Loss from disposal of discontinued operations		(182,000)	(6,189,000)
Income(loss) before cumulative effect of change in accounting principle	3,061,000	1,134,000	(8,409,000)
Cumulative effect of change in accounting principle from continuing operations			(2,000)
Cumulative effect of change in accounting principle from discontinued operations			(4,000)
Net income(loss)	$ 3,061,000	$ 1,134,000	$(8,415,000)
PER SHARE DATA:			
Income from continuing operations	$1.90	$.83	$ 0.01
Loss from discontinued operations and disposal of discontinued operations		(.11)	(5.34)
Cumulative effect of change in accounting principle			(.01)
Net income(loss)	$1.90	$.72	$(5.34)
Average number of common and common equivalent shares outstanding	1,608,000	1,579,000	1,576,000

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

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<TABLE>
<CAPTION>

	December 31, 1996	1995
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<S>	<C>	<C>
Assets		
Current assets:		
Cash and equivalents	$ 1,263,000	$ 411,000
Marketable securities	745,000	
Trade accounts receivable	9,235,000	10,611,000
Inventories	6,343,000	6,621,000
Deferred tax asset	820,000	698,000
Prepaid expenses and other current assets	530,000	589,000
	18,936,000	18,930,000
Property, plant and equipment, net	9,572,000	8,918,000
Deferred tax asset	1,852,000	1,600,000
Other assets	74,000	32,000
	$30,434,000	$29,480,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt due banks		$ 206,000
Current portion of long-term debt	$ 487,000	355,000
Accounts payable	3,923,000	4,066,000
Accrued compensation	4,081,000	4,305,000
Accrued expenses and other liabilities	1,091,000	1,367,000
Customer deposits	382,000	966,000
Domestic and foreign income taxes payable	468,000	240,000
Estimated liabilities of discontinued operations	325,000	351,000
	10,757,000	11,856,000
Long-term debt	1,442,000	3,303,000
Deferred compensation	1,067,000	1,017,000
Deferred tax liability	33,000	111,000
Other long-term liabilities	339,000	373,000
Deferred pension liability	1,729,000	1,252,000
Accrued postretirement benefits	3,212,000	3,161,000
Total liabilities	18,579,000	21,073,000
Shareholders' equity:		
Preferred stock, $1 par value - Authorized, 500,000 shares		
Common stock, $.10 par value - Authorized, 6,000,000 shares		

Issued, 1,586,155 shares in 1996 and 1,053,999 shares in 1995	159,000	106,000
Capital in excess of par value	3,210,000	3,219,000
Cumulative foreign currency translation adjustment	(1,748,000)	(1,891,000)
Retained earnings	10,915,000	7,854,000
	12,536,000	9,288,000
Less:		
Treasury Stock	(6,000)	(6,000)
Employee Stock Ownership Plan Loan Payable	(675,000)	(875,000)
Total shareholders' equity	11,855,000	8,407,000
	$30,434,000	$29,480,000

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1996	1995	1994
Operating activities:			
Net income (loss)	$ 3,061,000	$ 1,134,000	$(8,415,000)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	913,000	946,000	1,047,000
Gain on sale of property, plant and equipment	(43,000)	(24,000)	(94,000)
Loss on disposal of discontinued operations			7,097,000
(Increase) Decrease in operating assets:			
Accounts receivable	1,476,000	1,260,000	(4,973,000)
Inventories, net of customer deposits	(173,000)	(1,395,000)	432,000
Prepaid expenses and other current and non-current assets	9,000	(140,000)	56,000
Increase (Decrease) in operating liabilities:			
Accounts payable, accrued compensation, accrued expenses and other liabilities	(487,000)	565,000	

			3,319,000
Litigation reserve		(1,247,000)	
Estimated liabilities of discontinued operations	(57,000)	(35,000)	313,000
Deferred compensation, deferred pension liability and accrued postretirement benefits	294,000	134,000	(344,000)
Domestic and foreign income taxes	230,000	(17,000)	380,000
Other long-term liabilities	(45,000)	(119,000)	472,000
Deferred income taxes	(452,000)	582,000	(196,000)
Total adjustments	1,665,000	510,000	7,509,000
Net cash provided (used) by operating actitivies	4,726,000	1,644,000	(906,000)
Investing activities:			
Purchase of property, plant and equipment	(1,291,000)	(204,000)	(412,000)
Proceeds from sale of property, plant and equipment	74,000	33,000	8,000
Purchase of marketable securities	(2,177,000)		
Proceeds from maturity of marketable securities	1,432,000		
Proceeds from sale of L&A Engineering & Equipment, Inc.			880,000
Net cash provided (used) by investing activities	(1,962,000)	(171,000)	476,000
Financing activities:			
Increase (Decrease) in short-term debt	(209,000)	14,000	(295,000)
Proceeds from issuance of long-term debt	2,971,000	11,888,000	2,744,000
Principal repayments on long-term debt	(4,729,000)	(13,418,000)	(1,671,000)
Issuance of common stock	38,000	11,000	
Purchase of treasury stock		(6,000)	
Net cash provided (used) by financing activities	(1,929,000)	(1,511,000)	778,000
Effect of exchange rate on cash	17,000	(5,000)	7,000
Net increase (decrease) in cash and equivalents	852,000	(43,000)	355,000
Cash and equivalents at beginning of year	411,000	454,000	99,000
Cash and equivalents at end of year	$ 1,263,000	$ 411,000	$ 454,000

</TABLE>

See Notes to Consolidated Financial Statements.

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Consolidated Statements of Changes in Shareholders' Equity

- --

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value	Cumulative Foreign Currency Translation Adjustment	Retained Earnings	Treasury Stock	Employee Stock Ownership Plan Loan Payable	Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>		<C>	<C>
Balance at December 31, 1993	1,046,137	$105,000	$3,124,000	$(2,273,000)	$15,135,000		$(1,275,000)	$14,816,000
Issuance of shares.............	5,362		73,000					73,000
Foreign currency translation adjustment....................				397,000				397,000
Net loss........................					(8,415,000)			(8,415,000)
Payments on Employee Stock Ownership Plan Loan Payable...							200,000	200,000
Balance at December 31, 1994	1,051,499	105,000	3,197,000	(1,876,000)	6,720,000		(1,075,000)	7,071,000
Issuance of shares.............	2,500	1,000	22,000					23,000
Foreign currency translation adjustment....................				(15,000)				(15,000)
Net income......................					1,134,000			1,134,000
Acquisition of treasury stock...						(6,000)		(6,000)
Payments on Employee Stock Ownership Plan Loan Payable...							200,000	200,000
Balance at December 31, 1995	1,053,999	106,000	3,219,000	(1,891,000)	7,854,000	(6,000)	(875,000)	8,407,000
Issuance of shares.............	3,473		38,000					38,000
Stock option tax benefit........			6,000					6,000
Stock split.....................	528,683	53,000	(53,000)					
Foreign currency translation adjustment....................				143,000				143,000
Net income......................					3,061,000			3,061,000
Payments on Employee Stock Ownership Plan Loan Payable...							200,000	200,000
Balance at December 31, 1996	1,586,155	$159,000	$3,210,000	$(1,748,000)	$10,915,000	$(6,000)	$ (675,000)	$11,855,000

</TABLE>

See Notes to Consolidated Financial Statements.

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Notes To Consolidated Financial Statements
Note 1 - The Company and Its Accounting Policies:

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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 sells 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 majority-owned domestic and foreign subsidiaries. All significant intercompany balances, transactions and profits are eliminated in consolidation.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Certain amounts in prior periods have been reclassified to conform to the current presentation.

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. Gains and losses resulting from translation of foreign subsidiary balance sheets are reflected as a separate component of shareholders' equity.

REVENUE RECOGNITION

Revenues and all related costs on short-term contracts are accounted for on the completed contract method and included in income upon substantial completion or shipment to the customer.

MARKETABLE SECURITIES

Marketable securities consist primarily of fixed-income debt

securities with maturities of beyond three months and less than twelve months. All marketable securities are classified as held- to-maturity under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) as the Company has the positive intent and ability to hold the securities to maturity. In accordance with SFAS 115, the securities are stated at amortized cost.

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 Sheet.

PROPERTY 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. 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.

INCOME TAXES

The Company recognizes deferred 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 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.

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account 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

Earnings per share is computed by dividing net income by the weighted average number of common shares and, when applicable, common equivalent shares outstanding during the period.

STOCK SPLIT

On July 25, 1996, the Board of Directors authorized a three-for-two stock split distributed on August 23, 1996 to shareholders of record at the close of business on August 9, 1996. The Company distributed cash in lieu of fractional shares resulting from the stock split. The Company's par value of $.10 per share remained unchanged and as a result $53,000 was transferred from capital in excess of par value to common stock. All per share amounts have been restated to reflect the stock split.

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 $384,000 in 1996, $631,000 in 1995, and $500,000 in 1994. In addition, actual income taxes paid were $1,084,000 in 1996, $246,000 in 1995, and $39,000 in 1994.

During 1996, the Company recorded a liability for new capital lease agreements of $134,000. Bonus amounts payable to officers of Graham Corporation and its U.S. subsidiary were paid in Graham common stock valued at $12,000 and $73,000 in 1995 and 1994, respectively.

Note 2 - Discontinued Operations:

In September 1994, the Company approved a formal plan to dispose of its subsidiary, Graham Manufacturing Limited (GML), located in Gloucester, England, and subsequently sold the operation on January 24, 1995. GML manufactured shell and tube heat exchangers. In addition, GML manufactured air cooled exchangers through a joint venture known as Graham Exchanger Services Limited of which GML owned seventy-five percent of the issued and outstanding shares. This joint venture was sold in November 1994. The disposal of GML has been presented in the Consolidated Statement of Operations as a discontinued operation and accordingly, the results of operations for the prior years have been restated to reflect GML's operations separately from continuing operations.

Net sales for GML were $13,639,000 for the nine month operating period in 1994.

During 1995, the Company incurred a loss of $182,000 for additional expenses related to the disposal of GML. There were no tax attributes associated with this loss. The 1994 loss from GML's discontinued operations is presented net of related tax benefits of $8,000. The 1994 loss from disposal, which includes operating losses of $1,909,000 during the phase-out period, is presented net of related tax benefits of $160,000. The remaining accrued liabilities for this disposal totalled $392,000 at December 31, 1996.

In December 1994, the Company sold the property and plant of L&A Engineering & Equipment, Inc. (L&A), which was previously accounted for as a discontinued operation. A gain, net of related expenses, of $51,000 was recognized from the sale of the L&A property and plant. In addition, the remaining reserve for estimated net liabilities of L&A totalling $38,000 was reversed to income in 1994. The gain of $89,000, which is net of a $35,000 income tax provision, has been netted against the loss from disposal of discontinued operations in the 1994 Consolidated Statement of Operations.

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Note 3 - Operations by Geographic Area:

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The Company has operations in the United States and the United Kingdom.

Inter-geographic 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 operating profit, corporate and interest expense have been excluded. Included in corporate expense are research and development costs of $375,000, $277,000, and $298,000 in 1996, 1995 and 1994, respectively.

<TABLE>
<CAPTION>

	1996	1995	1994
Net sales including inter-geographic sales:			
United States			
Customers	$46,628,000	$45,358,000	$41,892,000
Inter-geographic	41,000	24,000	31,000
United Kingdom			
Customers	4,766,000	4,122,000	5,459,000
Inter-geographic	1,293,000	1,372,000	1,152,000
Inter-geographic sales	(1,334,000)	(1,396,000)	(1,183,000)
Net sales	$51,394,000	$49,480,000	$47,351,000
Operating profit:			
United States	$6,234,000	$ 4,106,000	$ 1,950,000
United Kingdom	500,000	370,000	745,000
Eliminations	(95,000)	65,000	(70,000)
Total operating profit	6,639,000	4,541,000	2,625,000
Corporate expense	(2,360,000)	(1,831,000)	(1,880,000)
Interest expense	(355,000)	(616,000)	(525,000)
Income from continuing operations before income taxes	$ 3,924,000	$ 2,094,000	$ 220,000
Identifiable assets			
United States	$25,882,000	$25,414,000	$25,640,000
United Kingdom	4,916,000	3,870,000	4,214,000
Eliminations	(1,028,000)	(391,000)	(284,000)
	29,770,000	28,893,000	29,570,000
Corporate assets	664,000	587,000	383,000
Total assets	$30,434,000	$29,480,000	$29,953,000

</TABLE>

The breakdown of total United States export sales by geographic area was:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Australia & New Zealand........................	$ 949,000	$ 259,000	$ 703,000
Asia...	10,677,000	7,926,000	10,210,000
Canada...	2,628,000	2,404,000	2,649,000
Middle East....................................	3,781,000	3,718,000	1,080,000
South America..................................	3,974,000	1,836,000	716,000
Mexico...	371,000	1,578,000	555,000
Western Europe.................................	770,000	568,000	538,000
Other..	266,000	208,000	627,000
Total domestic export sales......................	$23,416,000	$18,497,000	$17,078,000

</TABLE>

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Note 4 - Inventories:

- --

Major classifications of inventories are as follows:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Raw materials and supplies...................................	$ 2,411,000	$ 2,579,000
Work in process..	4,538,000	3,286,000
Finished products..	1,168,000	1,100,000
	8,117,000	6,965,000
Less - progress payments.....................................	1,774,000	344,000
	$ 6,343,000	$ 6,621,000

</TABLE>

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Note 5 - Property, Plant and Equipment:

- --

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

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>

Land	$ 252,000	$ 244,000
Leasehold improvements	177,000	165,000
Buildings and improvements	10,430,000	10,245,000
Machinery and equipment	13,982,000	12,748,000
Construction in progress	25,000	10,000
	24,866,000	23,412,000
Less - accumulated depreciation and amortization	15,294,000	14,494,000
	$ 9,572,000	$ 8,918,000

</TABLE>

Note 6 - Leases:

The Company leases equipment and office space under various operating leases. Rent expense applicable to operating leases was $148,000, $184,000 and $180,000 for years 1996, 1995 and 1994, respectively.

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

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Machinery and equipment	$1,644,000	$ 779,000
Less accumulated amortization	605,000	494,000
	$1,039,000	$ 285,000

</TABLE>

Amortization of property, plant and equipment under capital lease amounted to $59,000, $98,000 and $72,000 for years 1996, 1995 and 1994, respectively, and is included in depreciation expense.

As of December 31, 1996, future minimum payments required under non-cancelable leases are:

<TABLE>
<CAPTION>

<S>	Operating Leases <C>	Capital Leases <C>
1997	$ 144,000	$ 229,000
1998	104,000	226,000
1999	79,000	210,000
2000	54,000	196,000
2001	23,000	121,000
Thereafter	13,000	
Total minimum lease payments	$ 417,000	$ 982,000
Less - amount representing interest		140,000
Present value of net minimum lease payments		$ 842,000

</TABLE>

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Note 7 - Debt:

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Short-Term Debt Due Banks

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

	December 31, 1996	1995
Borrowings of United Kingdom Subsidiary under line of credit at bank's rate plus 1 1/2% in 1996 and 1995	$	$ 206,000

The United Kingdom subsidiary has a revolving credit facility agreement which provides a line of credit of 660,000 pounds sterling ($1,129,000 at the December 31, 1996 exchange rate) including letters of credit and long-term borrowings. The interest rate is the bank's rate plus 1 1/2%. The bank's base rate was 6% and 6 1/2% at December 31, 1996 and 1995, respectively. The United Kingdom operations had available unused lines of credit of $686,000 at December 31, 1996. The weighted average interest rate on short-term borrowings at December 31, 1996 and 1995 was 0% and 8%, respectively.

Long-term Debt

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

	December 31, 1996	1995
Employee Stock Ownership Plan Loan Payable	$ 675,000	$ 875,000
United Kingdom term loan due in 2000	412,000	387,000
United States revolving credit facility		2,282,000
Capital lease obligations (Note 6)	842,000	114,000
	1,929,000	3,658,000
Less: current amounts, including amounts for capital leases of $192,000 in 1996 and $36,000 in 1995	487,000	355,000
	$1,442,000	$3,303,000

In October 1996, the United States subsidiary entered into a new revolving credit facility agreement which provides a line of credit of up to $13,000,000, including letters of credit, through October 31, 1999. The agreement allows the Company to borrow at prime minus a variable percentage based upon certain financial ratios. At December 31, 1996 the Company was able to borrow at a rate of prime minus 75 basis points. Prior to the commencement of the new agreement, the Company was borrowing at prime plus 1% in 1996 and prime plus 1/2% in 1995.

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. This conversion feature is available through October 1999, at which time the Company may convert the principal outstanding on the revolving line of credit to a two-year term loan. The Company had $0 and $2,282,000 outstanding on its revolving credit facility, excluding letters of credit, at December 31, 1996 and 1995, respectively. As the Company has the intent and ability to maintain this balance on a long-term basis, the borrowings have been classified as long-term debt. The bank's prime rate was 8.25% and 8.5% at December 31, 1996 and 1995, respectively. The United States subsidiary had available unused lines of credit of $10,955,000 at year end.

The Employee Stock Ownership Plan Loan Payable requires quarterly payments of $50,000 through 2000. (See Note 10 for a description of the Plan.)

In 1995, the United Kingdom subsidiary entered into a term loan at a fixed rate of 9%. This term loan is due in 2000 and is repayable in equal monthly installments.

Long-term debt requirements over the next five years, excluding capital leases, are: 1997 - $295,000, 1998 - $303,000, 1999 - $313,000, 2000 - $177,000 and 2001 - $0.

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. Assets with a book value of $22,898,000 have been pledged to secure certain domestic long-term borrowings.

The United Kingdom short-term and long-term borrowings are secured by assets of the United Kingdom subsidiary which have a book value of $637,000.

Several of the loan agreements contain provisions pertaining to the maintenance of minimum working capital balances, tangible net worth, capital expenditures and financial ratios as well as restrictions on the payment of cash dividends to the parent company and shareholders and incurrence of additional long-term debt. The most restrictive dividend provision limits the payment of dividends to shareholders to the greater of $400,000 or 25% of consolidated net income. In addition, the United States subsidiary cannot make any loans or advances exceeding $500,000 to any affiliates without prior consent of the bank. The United States subsidiary may pay dividends to the parent company as long as the subsidiary remains in compliance with all financial covenants after payment of the dividends. Under the agreement, restricted net assets of the subsidiary may not be reduced below $5,000,000 at December 31, 1996.

Note 8 - 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 temporary cash investments and trade receivables. The Company places its temporary cash 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 receivables are limited due to the large number of customers comprising the Company's customer base and their geographic dispersion. At December 31, 1996 and 1995, 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 December 31, 1996 and 1995, the Company was contingently liable on outstanding standby letters of credit aggregating $2,076,000 and $2,127,000, 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 utilizes 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.

There were no foreign exchange forward contracts held by the Company at December 31, 1996. The table below summarizes the notional amounts of the foreign exchange forward contracts held by the Company at December 31, 1995. The amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies.

December 31,	1995
Canadian dollars	$391,000
	$391,000
Fair Value	$398,000

The Company entered into these foreign exchange forward contracts to hedge a sales commitment denominated in the currency of the sales contract. The term of the derivatives is less than one year.

At December 31, 1996 and 1995, the Company had deferred unrealized gains and (losses) of $0 and $(7,000), respectively, which are recognized in income as part of the hedged transaction. These amounts represent the gain or loss that would have been recognized had these contracts been liquidated at market value in their respective years. The fair values of the foreign exchange forward contracts are estimated based on dealer quotes.

Fair Value of Financial Instruments:

The differences between the carrying amounts and estimated fair values of the Company's marketable securities and short- and long-term debt are insignificant.

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

MARKETABLE SECURITIES - The fair value of investments in marketable securities is based on quoted market prices.

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

LONG-TERM DEBT - The carrying value of long-term debt excludes $842,000 and $114,000 of obligations under capital leases at December 31, 1996 and 1995, respectively. The carrying values of credit facilities with variable rates of interest approximates fair values. The fair value of fixed rate debt was estimated by discounting cash flows using rates currently available for debt of similar terms and remaining maturities.

Note 9 - Income Taxes:

An analysis of the components of pre-tax income from continuing operations is presented below:

	1996	1995	1994
United States	$ 3,746,000	$ 1,890,000	$ 59,000
United Kingdom	178,000	204,000	161,000
	$ 3,924,000	$ 2,094,000	$ 220,000

The provision for income taxes on continuing operations consists of:

Current -			
Federal	$ 1,279,000	$ 97,000	$ 208,000
State	77,000	16,000	56,000
United Kingdom	(41,000)	84,000	
	1,315,000	197,000	264,000
Deferred -			
Federal	(25,000)	489,000	(161,000)
State	64,000	236,000	(22,000)
United Kingdom	(210,000)	(1,000)	228,000
Change in valuation allowance	(281,000)	(143,000)	(101,000)
	(452,000)	581,000	(56,000)
Total provision for income taxes	$ 863,000	$ 778,000	$ 208,000

</TABLE>

The reconciliation of the provision calculated using the United States Federal tax rate with the provision for income taxes presented in the financial statements, excluding discontinued operations, is as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Provision for income taxes at Federal rate	$ 1,334,000	$ 712,000	$ 75,000
Recognition of tax benefit of prior year losses	(102,000)		
Difference between foreign and U.S. tax rates	(9,000)	(2,000)	(2,000)
State taxes	114,000	247,000	15,000
Charges not deductible for income tax purposes	59,000	61,000	131,000
Recognition of tax benefit generated by foreign sales corporation	(70,000)	(67,000)	(46,000)
Tax credits	(8,000)	(18,000)	
Net operating losses for which no tax benefit was provided			92,000
Adjustments to prior years' tax liabilities	(169,000)		
Change in valuation allowance	(281,000)	(143,000)	(101,000)
Other	(5,000)	(12,000)	44,000
Provision for income taxes	$ 863,000	$ 778,000	$ 208,000

</TABLE>

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

<TABLE>
<CAPTION>

	1996		1995	
<S>	United States <C>	United Kingdom <C>	United States <C>	United Kingdom <C>
Depreciation	$ (428,000)	$ (127,000)	$ (435,000)	$(118,000)
Deferred compensation	446,000		425,000	
Deferred pension liability	454,000	94,000	379,000	
Accrued postretirement benefits	1,299,000		1,281,000	
Compensated absences	527,000		519,000	
Inventories	117,000		85,000	
Warranty liability	78,000		98,000	

State and foreign loss carryforwards		662,000	46,000	573,000
New York State investment tax credit	154,000		195,000	
Alternative minimum tax credit			120,000	
Contingent liabilities	100,000			
Other	71,000	9,000	144,000	(84,000)
	2,818,000	638,000	2,857,000	371,000
Less: Valuation allowance	200,000	617,000	559,000	482,000
Deferred tax asset (liability)	$2,618,000	$ 21,000	$2,298,000	$ (111,000)

</TABLE>

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 2000 to 2004. In accordance with the provisions of SFAS 109, a valuation allowance of $817,000 at December 31, 1996 is deemed adequate to reserve for these and other items 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 December 31, 1996, such undistributed earnings totaled $1,301,000. 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 10 - Employee Benefit Plans:

Retirement Plans

The Company has defined benefit plans covering substantially all employees. The Company's plan covering employees in the United States 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 plan for employees in the United Kingdom is contributory with the employer's share being actuarially determined. Benefits are based on the employee's years of service and average earnings for the three highest years for the ten year period preceding retirement. The Company's funding policy for the United States plan is to contribute the amount required by the Employee Retirement Income Security Act of 1974. The pension obligations to employees covered by the Company's former domestic plan, terminated in 1986, were settled through the purchase of annuity contracts for each participant which guaranteed these future benefit payments.

The components of pension cost are:

<TABLE>
<CAPTION>

	1996		1995		1994	
	U. S. PLAN	U. K. PLAN	U. S. PLAN	U. K. PLAN	U. S. PLAN	U. K. PLAN
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost-benefits earned during the period	$ 307,000	$ 104,000	$ 261,000	$ 175,000	$ 350,000	$ 524,000
Interest cost on projected benefit obligation	459,000	315,000	475,000	295,000	505,000	453,000
Actual return on assets	(477,000)	146,000	(1,600,000)	(501,000)	(38,000)	(345,000)
Net amortization and deferral	(135,000)	(474,000)	1,168,000	109,000	(338,000)	(196,000)
Net pension cost	$ 154,000	$ 91,000	$ 304,000	$ 78,000	$ 479,000	$ 436,000

</TABLE>

The service cost for 1996, 1995 and 1994 is net of employee contributions to the United Kingdom plan of $93,000, $49,000 and $22,000, respectively.

The actuarial assumptions are:

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Discount rate used to determine projected benefit obligation........	7%	9%	7%	9%	8 3/4%	9 1/2%
Rate of increase in compensation levels.............................	3%	5 1/2%	3%	5 1/2%	4%	5 1/2%
Expected rate of return on plan assets.............................	8%	10%	8%	10%	8%	10%

</TABLE>

The funded status of the pension plans is presented below:

<TABLE>
<CAPTION>

	1996		1995	
	U. S. PLAN	U. K. PLAN	U. S. PLAN	U. K. PLAN
<S>	<C>	<C>	<C>	<C>
Vested benefit obligation......................	$ 4,776,000	$1,019,000	$ 4,262,000	$ 831,000
Accumulated benefit obligation.................	$ 5,196,000	$1,031,000	$ 4,636,000	$ 831,000
Plan assets at fair value......................	$ 7,499,000	$3,933,000	$ 6,258,000	$3,709,000
Projected benefit obligation for services rendered to date...................	7,275,000	3,389,000	7,539,000	3,461,000
Projected benefit obligation less than or (in excess of) plan assets...............	224,000	544,000	(1,281,000)	248,000
Unrecognized net loss from past experience different from that assumed and effect of changes in assumptions........	(1,290,000)	(1,057,000)	(528,000)	(752,000)
Unrecognized prior service cost................	(3,000)	265,000	(3,000)	265,000
Unrecognized net asset at transition.................................	(335,000)	(38,000)	(379,000)	(38,000)
Pension liability.............................	$(1,404,000)	$ (286,000)	$(2,191,000)	$ (277,000)

</TABLE>

The current portion of the pension liability as of December 31, 1995 is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets. As of December 31, 1996, the entire liability was long-term.

Assets of the United States plan consist primarily of equity securities at December 31, 1996 and 1995. At December 31, 1995, the plan assets included 70,425 shares of the Company's common stock. Assets of the United Kingdom plan consist of an investment contract with an insurance company which is primarily invested in equity securities. The vested benefit obligation of the United Kingdom plan is the actuarial present value of the vested benefits to which the employee is currently entitled but based on the employee's expected date of separation or retirement. The unrecognized net asset at transition is being amortized over the remaining service lives of the participants which approximates 19 years for the domestic plan and 13 years for the United Kingdom plan.

In 1996, the Company adopted a Supplemental Executive Retirement Plan for certain key executives. This unfunded plan provides retirement benefits associated with wages in excess of the legislated qualified plan maximums. Pension expense recorded in 1996 related to this plan was $39,000. At December 31, 1996, the related liability was $39,000 and is included in the caption "Deferred Pension Liability" in the Consolidated Balance Sheet.

The Company has a defined contribution plan covering substantially all domestic employees. Company contributions to this plan are based on the profitability of the Company and amounted to $651,000, $320,000 and $0 in 1996, 1995 and 1994, respectively. The Company also maintains a supplemental defined contribution plan which covers selected employees in the United Kingdom. The expense associated with this plan was $0, $4,000 and $13,000 for the years ended December 31, 1996, 1995 and 1994, 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 deferred compensation liability under this plan was $1,104,000 and $1,089,000 at December 31, 1996 and 1995, respectively.

Employee Stock Ownership Plan
- -----------------------------

The Company has a noncontributory Employee Stock Ownership Plan (ESOP) that covers substantially all employees in the United States. The Company borrowed $2,000,000 under loan and pledge agreements. The proceeds of the loans were used to purchase 87,454 shares of the Company's common stock. The purchased shares are pledged as security for the payment of principal and interest as provided in the loan and pledge agreements. It is anticipated that funds for servicing the debt payments will essentially be provided from contributions paid by the Company to the ESOP, from earnings attributable to such contributions, and from cash dividends paid to the ESOP on shares of the Company stock which it owns. During 1996, 1995, and 1994 the Company recognized expense associated with the ESOP using the shares allocated method. This method recognizes interest expense as incurred on all outstanding debt of the ESOP and compensation expense related to principal reductions based on shares allocated for the period. Dividends received on unallocated shares that are used to service the ESOP debt reduce the amount of expense recognized each period. The compensation expense associated with the ESOP was $200,000 for each of the years ended December 31, 1996, 1995 and 1994. The ESOP received no dividends on unallocated shares in 1996, 1995 and 1994. Interest expense in the amount of $72,000, $97,000, and $96,000 was incurred in 1996, 1995 and 1994, respectively. Dividends paid on allocated shares accumulate for the benefit of the employees.

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>	1996	1995	1994
Service cost - benefits earned during the period	$ 62,000	$ 45,000	$ 56,000
Interest cost on accumulated benefit obligation	173,000	156,000	165,000
Net amortization	(79,000)	(87,000)	(87,000)
Net postretirement benefit cost	$156,000	$114,000	$134,000

</TABLE>

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

<TABLE>
<CAPTION>

<S>	1996	1995	1994
Discount rate	7%	7%	8 3/4%
Medical care cost trend rate	9%	9 1/2%	10%

</TABLE>

The medical care cost trend rate used in the actuarial computation ultimately reduces to 5% in 2004 and subsequent years. This was accomplished using 1/2% decrements for the years 1997 through 2004.

The table of actuarially computed benefit obligations is presented below:

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	$ 958,000	$1,064,000
Fully eligible active plan participants	532,000	486,000
Other active plan participants	1,151,000	988,000
Unfunded accumulated postretirement benefit obligation	2,641,000	2,538,000
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	(374,000)	(403,000)
Unrecognized prior service cost	1,064,000	1,151,000
Accrued postretirement benefit obligation	$3,331,000	$3,286,000

The effect of a one percentage point increase in each future year's assumed medical care cost trend rate, holding all other assumptions constant, would not have a material effect on the net postretirement benefit cost or the accrued postretirement benefit obligation.

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.

Postemployment Benefits

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112 (SFAS 112), "Employers' Accounting for Postemployment Benefits." SFAS 112 requires that projected future costs of providing postemployment benefits be recognized as an expense as employees render service rather than when the benefits are paid. The adjustment to adopt SFAS 112 of $9,000, net of the related tax benefit of $3,000, or $.01 per share, is presented in the Consolidated Statement of Operations as the cumulative effect of changes in accounting principles from continuing and discontinued operations. The incremental costs of adopting this statement are insignificant on an ongoing basis.

Note 11 - Stock Compensation Plans:

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 1989 Stock Option and Appreciation Rights Plan provides for the issuance of up to 188,700 shares of common stock in connection with grants of non-qualified stock options and tandem stock appreciation rights to officers, key employees and certain 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.

In 1996 the Company adopted 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 payable in cash or stock upon retirement. In 1996, $40,000 was charged to pre-tax income for the cost of performance units earned under this Plan.

The Company applies APB 25 and related Interpretations in accounting for its plans. Accordingly, 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 and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

		1996	1995
<S>	<C>	<C>	<C>
Net income	- As reported	$3,061,000	$1,134,000
	- Pro forma	$3,003,000	$1,020,000
Earnings per share	- As reported	$1.90	$.72
	- Pro forma	$1.87	$.64

</TABLE>

The weighted average fair value of the options granted during 1996 and 1995 is estimated as $4.62, and $3.59, respectively, using the Black Scholes option pricing model with the following weighted average assumptions:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Expected life	5 years	5 years
Volatility	34.74%	44.28%
Risk-free interest rate	6.35%	6.21%
Dividend yield	0%	0%

</TABLE>

Information on options and rights 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 December 31, 1993	$5.00-13.17	142,650	
Granted	$8.00	6,900	
Cancelled	$13.17	(3,000)	
Outstanding at December 31, 1994	$5.00-13.17	146,550	11.49
Exercised	$5.00	(2,250)	5.00
Granted	$6.58-8.00	50,550	7.59
Cancelled	$7.67-13.17	(7,200)	12.25
Outstanding at December 31, 1995	$6.58-13.17	187,650	10.49
Exercised	$6.58-8.00	(5,210)	7.28
Granted	$10.42-11.33	21,600	11.07
Cancelled	$7.67-13.17	(14,700)	12.72
Outstanding at December 31, 1996	$6.58-13.17	189,340	10.47

</TABLE>

At December 31, 1996, the options outstanding had a weighted average remaining contractual life of 5.97 years. There were 171,340 options exercisable at December 31, 1996 which had a weighted average exercise price of $10.60. The remaining options are exercisable at a rate of 20 percent per year from the date of grant. The outstanding options expire December 1999 to October 2006. The number of options available for future grants were 178,050 at December 31, 1996 and 184,950 at December 31, 1995.

- --

Note 12 - Shareholder Rights Plan:

- --

On February 23, 1990 the Company adopted a Shareholder Rights Plan. Under the Plan, as of March 7, 1990, 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 an additional share of Common Stock for $46.67 per share, subject to adjustment. The Rights become exercisable upon certain events: (i) if a person or group of persons acquires 20% or more of the Company's outstanding Common Stock; or (ii) if a person or group commences a tender offer for 30% 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 close of business on the date when the Rights become exercisable.

After the Rights become exercisable, if the Company is acquired in a business combination transaction, or if at least half of the Company's assets or earning power are sold, then each Right would entitle its holder to purchase stock of the acquirer (or Graham, if it were the surviving company) at a discount of 50%. The number of shares that each Right would entitle its holder to acquire at discount would be the number of shares having a market value equal to twice the exercise price of the Right.

- --

Note 13 - Contingencies:

- --

The United States Environmental Protection Agency has notified the Company's wholly-owned subsidiary, Graham Manufacturing Co., Inc. ("GMC"), that it is a Potentially Responsible Party pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended, in connection with the Batavia Landfill Site in the Town of Batavia, New York. Total remediation expenses for the site are currently estimated at $10.4 million. Based on facts and circumstances currently known to GMC and the Company, GMC's contribution to the site of material deemed hazardous was minor. In 1996, the Company recorded a $260,000 provision for the estimated costs, including legal costs, in connection with this matter based on the currently available information and assuming a reasonable pro-rata allocation. The related liability at December 31, 1996 was $257,000 and is included in the caption "Other Long- Term Liabilities" in the Consolidated Balance Sheet.

Following an adverse jury verdict relating to a lawsuit filed against GMC in 1992, the Company charged $1,502,000 to pre-tax income in 1994 for the judgment amount and related defense costs. Following trial in 1995, the Company reached a settlement with the plaintiff and an additional $276,000 was expensed.

- --

Quarterly Financial Data:

- --

A capsule summary of the Company's unaudited quarterly sales and earnings per share data for 1996 and 1995 is presented below:

<TABLE>
<CAPTION>

1996(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<S>	<C>	<C>	<C>	<C>	<C>
Net sales..............................	$11,671,000	$13,409,000	$12,705,000	$13,609,000	$51,394,000

Gross Profit	3,247,000	3,837,000	3,845,000	4,472,000	15,401,000
Net income	364,000	472,000	557,000	1,668,000	3,061,000
Per share:					
Net income	.23	.29	.35	1.03	1.90
Market price range	9.42-12.17	9.17-12.25	9.25-12.58	9-11.38	9-12.58

</TABLE>

<TABLE>
<CAPTION>

1995(1)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 9,305,000	$12,007,000	$10,651,000	$17,517,000	$49,480,000
Gross Profit	2,500,000	2,666,000	3,068,000	4,745,000	12,979,000
Income from continuing operations	19,000	(137,000)	254,000	1,180,000	1,316,000
Loss from discontinued operations				(182,000)	(182,000)
Net income (loss)	19,000	(137,000)	254,000	998,000	1,134,000
Per share:					
Income from continuing operations	.01	(.09)	.16	.75	.83
Loss from discontinued operations				(.11)	(.11)
Net income (loss)	.01	(.09)	.16	.64	.72
Market price range	9.25-11.38	9-11.88	10.13-13.88	11.50-16	9-16

Quarterly Financial Data Notes:

<FN>
(1) Per share data has been adjusted to reflect a three-for-two stock split on July 25, 1996.
</TABLE>

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Graham Corporation
Batavia, New York

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. 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 generally accepted auditing standards. 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 at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Rochester, New York
February 24, 1997

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

(Not Applicable)

PART III

Item 10. Directors and Executive Officers

(The information called for under this Item pursuant to Item 401 of the Commission's Regulation S-K is set forth in statements under "Election of Directors" on pages 3 to 6 of the Registrant's Proxy Statement for its 1997 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference: except that the information regarding executive officers called for hereunder pursuant to Item 401(b) of Regulation S-K is furnished under a separate item captioned Executive Officers of the Registrant included in PART I of this annual report on Form 10-K pursuant to Instruction 3 to Item 401(b) of Regulation S-K and paragraph 3 of General Instruction G of Form 10-K.

Item 11. Executive Compensation

(The information called for under this Item is set forth in statements under "Compensation of Executive Officers" on pages 8 to 11 of Registrant's Proxy Statement for its 1997 Annual Meeting of Stockholders, 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 "Principal Stockholders" on page 2 of Registrant's Proxy Statement for its 1997 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 "Principal Stockholders" on page 2, "Election of Directors" on pages 3 to 6 and "Executive Officers" on page 7 of Registrant's Proxy Statement for its 1997 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 "Principal Stockholders" on page 2 and "Election of Directors" on pages 3 to 6 of Registrant's Proxy Statement for its 1997 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.)

PART IV

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>

</TABLE>

<TABLE>
<CAPTION>

</TABLE>

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.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Graham Corporation
Batavia, New York

We have audited the consolidated financial statements of Graham Corporation and subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996, and have issued our report thereon dated February 24, 1997; such report is included elsewhere in this Annual Report on Form 10-K. Our audits also included the consolidated financial statement schedules of Graham Corporation and subsidiaries, listed in Item 14 (a) 2. These financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Deloitte & Touche LLP
Rochester, New York
February 24, 1997

GRAHAM CORPORATION AND SUBSIDIARIES*

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Year Ended December 31, 1996	1995	1994
Costs and expenses:			
General and administrative	$1,703,000	$1,423,000	$ 1,117,000
Interest expense	72,000	98,000	97,000
Parent company operating loss before income tax benefit	1,775,000	1,521,000	1,214,000
Benefit for income taxes	(491,000)	(580,000)	(449,000)
Net parent company operating loss	1,284,000	941,000	765,000
Equity in earnings of continuing subsidiaries	6,073,000	3,891,000	1,719,000
Less expenses directly allocable to continuing subsidiaries:			
Research and development	375,000	276,000	285,000
Provision for income taxes	1,353,000	1,358,000	657,000
Equity in net earnings of subsidiaries	4,345,000	2,257,000	777,000
Income from continuing operations	3,061,000	1,316,000	12,000
Equity in losses of discontinued subsidiaries		(182,000)	(8,554,000)
Less expenses directly allocable to discontinued subsidiaries:			
Benefit for income taxes			(133,000)
Equity in net losses of discontinued subsidiaries		(182,000)	(8,421,000)
Income before cumulative effect of change in accounting principle	3,061,000	1,134,000	(8,409,000)
Cumulative effect of change in accounting principle for continuing subsidiary			(2,000)
Cumulative effect of change in accounting principle for discontinued subsidiaries			(4,000)
Net income (loss)	$3,061,000	$1,134,000	$(8,415,000)

<FN>
The Notes to Consolidated Financial Statements in Part II are an integral part of this schedule.

* Information is presented for the parent company only.

** Cash dividends paid to the parent company by consolidated subsidiarires were $3,650,000, $1,750,000 and $1,968,000 in 1996, 1995 and 1994,

respectively.
</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES*

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31, 1996	December 31, 1995
ASSETS		
Prepaid expenses	$ 86,000	$ 92,000
Due from subsidiaries	353,000	188,000
Total current assets	439,000	280,000
Property, plant & equipment, net	339,000	275,000
Investment in subsidiaries	12,397,000	9,142,000
Other assets	21,000	28,000
	$13,196,000	$ 9,725,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of long-term debt	$ 200,000	$ 208,000
Accounts payable	148,000	216,000
Other current liabilities	478,000	219,000
Total current liabilities	826,000	643,000
Long-term debt	475,000	675,000
Deferred compensation	40,000	
	1,341,000	1,318,000
Shareholders' equity:		
Preferred stock, $1 par value - authorized, 500,000 shares		
Common stock, $.10 par value - authorized, 6,000,000 shares issued, 1,586,155 shares in 1996 and 1,053,999 shares in 1995	159,000	106,000
Capital in excess of par value	3,210,000	3,219,000
Cumulative foreign currency translation adjustment	(1,748,000)	(1,891,000)
Retained earnings	10,915,000	7,854,000
	12,536,000	9,288,000
Less:		
Treasury stock	(6,000)	(6,000)
Employee Stock Ownership Plan Loan Payable	(675,000)	(875,000)
Total shareholders' equity	11,855,000	8,407,000
	$13,196,000	$ 9,725,000

<FN>
The Notes to Consolidated Financial Statements in Part II are an integral part of this Schedule.

* Information is presented for the parent company only.
</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES*

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended December 31, 1996	1995	1994
<S>	<C>	<C>	<C>
Net cash provided by operating activities	$ 76,000	$ 3,000	$ 19,000
Investing activities:			
Purchase of property, plant and equipment	(112,000)		(13,000)
Proceeds from sale of property, plant and equipment	6,000		
Net cash (used) by investing activities	(106,000)		(13,000)
Financing activities:			
Principal repayments of long-term debt	(8,000)	(8,000)	(6,000)
Issuance of common stock	38,000	11,000	
Purchase of treasury stock		(6,000)	
Net cash provided (used) by financing activities	30,000	(3,000)	(6,000)
Net increase in cash and equivalents	0	0	0
Cash and equivalents at beginning of year	0	0	0
Cash and equivalents at end of year	$ 0	$ 0	$ 0

<FN>
The Notes to Consolidated Financial Statements in Part II are an integral part of this schedule.

* Information is presented for the parent company only.
</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
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Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1996					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts	$ 81,000	$ 26,000	$ 11,000 (b)	$ (78,000)	$ 40,000
Reserve for inventory obsolescence	222,000	91,000	11,000 (b)	(221,000)	103,000
Reserves included in the balance sheet caption Other long-term liabilities:					
Reserve for contingencies		260,000		(3,000)	257,000
Reserve for discontinued					

operations	711,000	64,000	41,000 (b)	(424,000) (a)	392,000
	$1,014,000	$ 441,000	$ 63,000	$ (726,000)	$ 792,000
Year ended December 31, 1995					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts	$ 119,000	$ 42,000		$ (80,000)	$ 81,000
Reserve for inventory obsolescence	236,000	1,000	$ (3,000) (b)	(12,000)	222,000
Reserves included in the balance sheet caption Accrued expenses and other liabilities:					
Reserve for contingencies	1,247,000	101,000		(1,348,000)	
Reserve for discontinued operations	883,000	182,000	(9,000) (b)	(345,000) (a)	711,000
	$2,485,000	$ 326,000	$(12,000)	$(1,785,000)	$1,014,000
Year ended December 31, 1994					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts	$ 80,000	$ 51,000	$ 2,000 (b)	$ (14,000)	$ 119,000
Reserve for inventory obsolescence	38,000	192,000	6,000 (b)		236,000
Reserves included in the balance sheet caption Accrued expenses and other liabilities:					
Reserve for penalties	223,000	(61,000)	(62,000) (c)	(100,000)	
Reserve for contingencies	384,000	946,000		(83,000)	1,247,000
Reserve for discontinued operations	80,000	847,000	16,000 (b)	(60,000) (a)	883,000
	$ 805,000	$1,975,000	$(38,000)	$ (257,000)	$2,485,000

<FN>
Notes: (a) Represents costs charged against the reserve associated with the discontinued operation.
(b) Represents foreign currency translation adjustment.
(c) Represents a reversal of the reserve and a foreign currency translation adjustment.
</TABLE>

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

Exhibit No.

*3 (i) Articles of Incorporation of Graham Corporation

*****3 (ii) By-laws of Graham Corporation

*4 (a) Certificate of Incorporation of

		Graham Corporation (included as Exhibit 3.1)
**4	(b)	Shareholder Rights Plan of Graham Corporation
***10		1989 Stock Option and Appreciation Rights Plan of Graham Corporation
****10		1995 Graham Corporation Incentive Plan to Increase Shareholder Value
11		Statement regarding computation of per share earnings
21		Subsidiaries of the registrant
23		Consent of Experts and Counsel
27		Financial Data Schedule

- ---------------------------

* 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 February 26, 1991, as amended by Registrant's Amendment No. 1 on Form 8 dated June 8, 1991.

*** 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.

***** Incorporated herein by reference from the Annual Report of Registrant on Form 10-K for the year ended December 31, 1995.

(b) The Registrant filed no reports on Form 8-K during the last quarter of the fiscal year covered by this Annual Report on Form 10-K.

Cross Reference Sheet for Annual Report on Form 10-K for the year ended December 31, 1996, setting forth item numbers and captions of Form 10-K (and related Items of Regulation S-K referred to therein) under which information is incorporated by reference and the pages in the Registrant's Proxy Statement for the 1997 Annual Meeting of Stockholders where that information appears.

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FORM 10-K: PART No. Item No. and Caption	Regulation S-K Item No. and Caption	Proxy Statement for 1997 Annual Meeting of Stockholders Caption:	Page:
<S>	<C>	<C>	<C>
Item 10. Directors and Executive Officers of Registrant	Item 401. Directors and Executive Officers	Election of Directors	3-6
	Item 405. Directors and Executive Officers	Disclosure Pursuant to Item 405 of SEC Regulation S-K	

7

Item 11. Executive Compensation	Item 402. Executive Compensation	Compensation of Executive Officers	8-11
Item 12. Security Ownership of Certain Beneficial Owners and Management	Item 403(a). Security Ownership of Certain Beneficial Owners	Principal Stockholders	2
	Item 403(b). Security Ownership of Management	Principal Stockholders	2
		Election of Directors	3-6
		Executive Officers	7
Item 13. Certain Relationships and Related Transactions	Item 404(a). Transactions with Management and Others	Principal Stockholders	2
		Election of Directors	3-6
	Item 404(b). Certain Business Relations	Principal Stockholders	2
		Election of Directors	3-6

</TABLE>

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

(Registrant)

DATE: March 27, 1997

By s\ J. Ronald Hansen

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

<TABLE>
<CAPTION>
Signature

<S>	<C>	<C>
s\ Frederick D. Berkeley - -------------------------------- Frederick D. Berkeley	Chairman and Chief Executive Officer; Director	March 27, 1997
s\ J. Ronald Hansen - -------------------------------- J. Ronald Hansen	Vice President-Finance & Administration and Chief Financial Officer	March 27, 1997
s\ Philip S. Hill - -------------------------------- Philip S. Hill	Director	March 27, 1997
s\ Cornelius S. Van Rees - -------------------------------- Cornelius S. Van Rees	Director	March 27, 1997
s\ Jerald D. Bidlack - -------------------------------- Jerald D. Bidlack	Director	March 27, 1997

s\ Robert L. Tarnow - -------------------------------- Robert L. Tarnow	Director	March 27, 1997
s\ A. Cadena - -------------------------------- A. Cadena	Director	March 27, 1997
s\ H. Russel Lemcke - -------------------------------- H. Russel Lemcke	Director	March 27, 1997

</TABLE>

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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 DECEMBER 31, 1996

GRAHAM CORPORATION

==

GRAHAM CORPORATION

FORM 10-K

DECEMBER 31, 1996

<TABLE>
<CAPTION>

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EXHIBIT 11

GRAHAM CORPORATION AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE

	1996	1995	1994
Calculation of common and common equivalent shares:			
Shares outstanding at beginning of the year	1,580,283	1,577,196	1,569,153
Weighted average number of shares issued during the year:			
Issuance of shares		681	6,435
Exercise of stock options	4,194	638	
Weighted average shares outstanding	1,584,477	1,578,515	1,575,588
Common equivalent shares if stock options were exercised	23,742	944	
Average number of common and common equivalent shares outstanding	1,608,219	1,579,459	1,575,588
Calculation of earnings per share:			
Net income (loss)	$3,061,000	$1,134,000	$(8,415,000)
Average number of common and common equivalent shares outstanding	1,608,219	1,579,459	1,575,588
Earnings (loss) per common and common equivalent share	$1.90	$.72	$(5.34)

Fully diluted earnings per share is equivalent to primary earnings per share as the year-end market price of common stock does not result in greater dilution.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT IN 1996

United States

Graham Manufacturing Co., Inc.
20 Florence Avenue
Batavia, New York 14020

United Kingdom

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

INDEPENDENT AUDITORS' CONSENT

Graham Corporation

We consent to the incorporation by reference in Registration Statement No.'s 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 February 24, 1997, appearing in this Annual Report on Form 10-K of Graham Corporation and subsidiaries for the year ended December 31, 1996.

Deloitte & Touche LLP
Rochester, New York
March 26, 1997

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE GRAHAM CORPORATION CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF OPERATIONS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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