

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended March 31, 1998.

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
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Page 1 of 62

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 or 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.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 15, 1998 was \$26,565,416.

As of June 15, 1998, there were outstanding 1,585,995 shares of common stock, \$.10 par value. As of June 15, 1998, there were outstanding 1,585,995 common stock purchase rights.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Notice of Meeting and Proxy Statement for the 1998 Annual Meeting of Stockholders is incorporated by reference into Part III of this filing.

An Exhibit Index is located at page 62 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 1998 Annual Meeting of Stockholders where the corresponding information appears.

Page 2 of 62

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 the Fiscal Year ended March 31, 1998 ("FY 1997-98") 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.

FY 1997-98 sales for GMC were \$51.8 million, the highest in the Company's history.

New orders in FY 1997-98 were \$59.7 million, up 19% from the last full fiscal year, with a strong fourth quarter contributing to a year end backlog of \$27.3 million, comparing to \$24.5 million in backlog on December 31, 1996 and \$21.0 million on March 31, 1997. This increase was due mainly to growth in the condenser business. These gains were augmented by marginally higher orders in FY 1997-98 for ejectors and significantly higher sales of plate heat exchangers. Sales of water heaters also showed significant growth. The chemical and refinery markets continued to be important, accounting for slightly less than half of the revenue for FY 1997-98. U.S. domestic power industry sales increased and smaller markets such as HVAC and fibers demonstrated an aggregate modest increase, with significant increase seen in the fertilizer market.

Margins were uniformly favorable across all products lines.

Page 3 of 62

GMC export sales reached 49% in FY 1997-98, off about 1% from the previous full fiscal year. More than half of these export sales went to Asia. Most of the growth in GMC's exports in recent years has been attributable to a significant increase in shipments to South America and Asia; in FY 1997-98 sales to South America declined, while sales to Asia were 61% higher than for the fiscal year 1996, the last previous full fiscal year. The Company expects exports to remain a significant part of its business in FY 1998-99, although export sales, and sales to Asia particularly, are expected to be affected by Asian financial uncertainties.

Employment at GMC as of March 31, 1998 was 341.

UNITED KINGDOM OPERATIONS:

During FY 1997-98, 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 (GPPL) has no employees.

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

Sales for FY 1997-98 stood at \$5,929,000. While it resulted in a profit, this figure was marginally down from the last full fiscal year. Sluggish bookings in the domestic U.K. and export markets reflect the high value of the pound sterling in relation to other currencies.

The contribution remained healthy and this, together with further cost reductions in addition to those imposed in 1996, yielded profitability in excess of the budget for the year.

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 March 31, 1998 employment stood at 63.

Page 4 of 62

CAPITAL EXPENDITURES

The Registrant's capital expenditures for FY 1997-98 amounted to \$1,400,000. Of this amount, \$1,334,000 was for GMC and \$66,000 was for GPPL.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

(1) INDUSTRY SEGMENTS AND (2) INFORMATION AS TO LINES OF BUSINESS

Graham Corporation operates in only one industry segment which is the design and manufacture of vacuum and heat transfer equipment. The information required under this item regarding this industry segment is set forth in statements contained in Notes 1 and 3 to the Consolidated Financial Statements on pages 23-26 and 28 of the 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. Its products include steam jet ejector vacuum systems, surface condensers for steam turbines, liquid ring vacuum pumps and compressors and various types of heat exchangers including helical coil exchangers marketed under the registered name "Heliflow" and plate and frame exchangers. These products function to produce a vacuum or to condense steam or otherwise transfer heat, or any combination of these tasks. They accomplish this without involving any moving parts and are available in all metals and in many non-metallic and corrosion resistant materials as well.

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

Page 5 of 62

(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 FY 1997-98.

(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 March 31, 1998 was \$28,199,000 compared to \$22,348,000 at March 31, 1997, \$25,578,000 at December 31, 1996 and \$21,837,000 at December 31, 1995.

(ix) GOVERNMENT CONTRACTS (Not Applicable)

Page 6 of 62

(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, 1995 and 1996, the three month transition period ending March 31, 1997 and in the fiscal year ended March 31, 1998, Registrant spent approximately \$277,000, \$375,000, \$91,000 and \$404,000 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 March 31, 1998, Registrant and its subsidiaries employed 404 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 28 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., owns and 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.

Page 7 of 62

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

The plant and office building have been pledged to secure certain domestic long-term borrowings.

Graham Manufacturing Co., Inc. leases 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 \$29,604,000 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 \$3,908,000.

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 March 31, 1998 was \$250,000 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)

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 48 of this Annual Report on Form 10-K.

Page 8 of 62

(b) On June 15, 1998, there were approximately 345 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 June 15, 1998, the closing price of the Registrant's common stock on the American Stock Exchange was \$16.75 per share.

(c) The Registrant has not paid a dividend since January 4, 1993, when it paid a dividend of \$.07 per share. Currently it does not have plans to resume paying a dividend in the foreseeable future. Restrictions on dividends are described in Note 7 to the Consolidated Financial Statements, to be found on pages 32 to 33 of this Report.

Page 9 of 62

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

GRAHAM CORPORATION - TEN YEAR REVIEW					
Operations: (1)	1998	1997	1996	1995 (1)	1994
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales	\$56,206,000	\$14,257,000	\$51,487,000	\$50,501,000	\$46,467,000
Gross Profit	18,083,000	4,080,000	15,463,000	13,257,000	12,153,000
Income (Loss) From Continuing Operations	3,766,000	621,000	3,102,000	1,361,000	9,000
Dividends					
Common Stock:					
Basic Earnings (Loss)					
From Continuing Operations Per Share .01	2.27	.39	1.96	.86	
Diluted Earnings (Loss) From Continuing Operations Per Share .01	2.21	.38	1.93	.86	
Dividends Per Share					
Financial Data:					
Working Capital	12,459,000	10,300,000	8,239,000	7,093,000	6,819,000
Capital Expenditures	1,400,000	237,000	1,291,000	204,000	412,000
Depreciation	905,000	249,000	892,000	927,000	1,027,000
Total Assets	37,030,000	31,224,000	30,494,000	29,499,000	29,927,000
Long-Term Debt	859,000	2,764,000	1,442,000	3,303,000	5,161,000
Shareholders' Equity	17,775,000	12,538,000	11,915,000	8,426,000	7,045,000

The financial data presented for 1998 is for the fiscal year ended March 31, 1998. The financial data presented for 1997 is for the three month transition period ended March 31, 1997. The financial data presented for 1996-1988 is for the respective calendar year ending December 31.

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

Page 10 of 62

<TABLE>
<CAPTION>

GRAHAM CORPORATION - TEN YEAR REVIEW					
1993	1992	1991	1990	1989	1988
<S>	<C>	<C>	<C>	<C>	<C>
\$44,592,000	\$47,514,000	\$70,368,000	\$68,042,000	\$62,226,000	\$62,360,000
11,661,000	9,234,000	18,825,000	16,739,000	16,661,000	16,768,000
481,000	(2,153,000)	2,421,000	1,195,000	3,980,000	1,843,000
	293,000	289,000	283,000	97,000	

1.25	.31	(1.37)	1.56	.79	2.70
1.25	.31	(1.37)	1.55	.77	2.65
	.28		.28	.28	.10

7,075,000	9,601,000	12,220,000	9,531,000	8,493,000	5,880,000
513,000	9,213,000	2,553,000	2,702,000	2,622,000	1,749,000
1,349,000	1,385,000	1,317,000	1,175,000	1,003,000	982,000
41,388,000	45,573,000	42,023,000	41,731,000	37,545,000	35,537,000
6,102,000	9,491,000	7,560,000	4,708,000	3,620,000	4,749,000
14,793,000	14,564,000	14,905,000	14,317,000	12,936,000	9,355,000

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 the years ended March 31, 1998, December 31, 1996 and 1995 and the three-month period ended March 31, 1997 and its financial condition at March 31, 1998. 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, and the Ten-Year Review.

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

1998 COMPARED TO 1996

Consolidated sales were \$56,206,000 for the fiscal year ended March 31, 1998 compared to \$51,487,000 for the twelve months ended December 31, 1996. Sales from U.S. operations were 11% greater for the current period as a result in increased surface condenser and ejector sales. Sales in 1998 were the highest in Graham Manufacturing Company's history and were particularly benefited by a few large condenser orders. Sales from U. K. operations were down about 2% for 1998. The strong Pound Sterling compared to other world currencies gave Graham Precision Pumps great difficulty. The Pound, compared to the Deutsche Mark and French Franc, reached a nine year high.

Consolidated gross profit margins were 32% in 1998 and 30% in 1996. Domestically, margins rose as a result of strong demand for the Company's products in general and, in particular, a few excellent large orders, among them a geothermal condenser order. Despite currency disadvantages, U.K. operations were able to maintain their gross profit margin percentages from 1996 to 1998. Sales per employee in the U.K. rose from \$84,000 to \$97,000.

Selling, general and administrative expenses remained steady from 1996 at 22% of sales.

Interest expense declined to about 0.4% of consolidated sales from 0.7% in 1996. Since 1994, when bank debt was equal to 77% of equity, the Company has managed to reduce this ratio to 9% in 1996 and 4% currently.

The effective income tax rate for 1998 was 31%, up from 22% but still below the statutory rate as a result of utilization of U.K. carryforward tax losses.

Net income for the current year was \$3,766,000 or \$2.21 diluted earnings per share. This compares to 1996 of \$3,102,000 and \$1.93 per share.

THREE MONTHS ENDED MARCH 1997

Effective April 1, 1997, the Company changed its year end from December 31 to March 31. The Company reported a transition period for the three months ended March 31, 1997.

Sales for the period were \$14,257,000. The product lines that attributed substantially to the stronger than usual first quarter of the calendar year were surface condensers, ejectors and vacuum pumps. The gross profit margin for the period was 29% and represented a continuation of the excellent cost to price relationship the Company enjoyed going into and following this period. Selling, general and administrative expenses were 22% of sales for the three months. Due to low levels of borrowing on the U.S. revolving credit facility, interest expense for the period was minimal. The income tax provision for the three months was 34% of pre-tax income. On twenty-eight percent higher sales, net income for the transition period rose 113% over net income earned for the same three-month period one year earlier. This increase resulted from continued productivity gains, and strong demand worldwide for Graham's products.

1996 COMPARED TO 1995

As noted above, consolidated net sales in 1996 were \$51,487,000, as compared to \$50,501,000 in 1995. Sales from U.S. operations rose 1%. Surface condenser 1996 sales increased significantly over 1995. This increase was largely offset, however, by a reduction in ejector sales. Graham Precision Pumps 1996 sales increased 10% over the prior year. Slightly more than one-half of this increase was due to increased sales of pump packages.

Consolidated gross profit margins were 30% in 1996 and 26% in 1995. Gross profit margins from U.S. operations were 29% and 25% for 1996 and 1995, respectively. Compared to 1995, direct material and labor costs as a percent of sales declined by 4.9%.

Page 13 of 62

In 1996 the gross profit percentage was improved 1% for out-of-period refunds in workers compensation insurance. Precision Pumps gross profit margins increased to 30% in 1996, up 2% over 1995. The improvement came as a result in reduced direct costs.

Selling, general and administrative expenses increased 11% in 1996. The increase was significantly attributed to incentive wage programs which vary subject to levels of profit. Included in SG&A expenses are Research & Development costs. Expenditures invested for product enhancements and new product development in 1996 increased substantially over 1995 and accounts for 11% of the overall SG&A increase over 1995.

Interest expense in 1996 decreased 42% from 1995 as a result of lower bank debt and the lower cost of money.

The effective income tax rate for 1996 was 22%. This exceptionally low rate was due to fuller utilization of U.K. tax benefits and a decrease in the deferred tax benefit valuation allowance. This reduction was attributed to the current pattern of generating taxable income on a consistent basis. The effective tax rate for 1995 of 43% was above the statutory rate of 39% due to an increase in state deferred tax assets.

Net income for 1996 was \$3,102,000 or \$1.93 per diluted share, as compared to \$1,179,000, or \$.75 per diluted share in 1995.

SHAREHOLDERS' EQUITY

Shareholders' Equity increased 42% in the current year. About 72% of this increase was due to net income and another 19% due to the exercise of stock options.

The three months ended March 31, 1997 resulted in increased equity of 5%, which was mostly due to earnings.

The year ended December 31, 1996 showed an increase in equity of 41% over December 31, 1995. Eighty-nine percent of this increase was due to earnings and 4% was generated from foreign currency translation adjustment.

During the three and one-quarter years ended March 31, 1998 the Company increased shareholders' equity 152%.

LIQUIDITY AND CAPITAL RESOURCES

1998 COMPARED TO 1996

As of March 31, 1998 the Company had consolidated working capital of \$12,459,000. This represents a 51% increase over December 31, 1996. Included in current assets was cash and marketable securities of \$6,495,000 or \$3.92 per share. EBITDA (earnings before interest, income taxes, depreciation and

Page 14 of 62

amortization) per share for the current year was \$4.03 compared to \$3.32 for 1996.

Net cash provided from operations in 1998 was \$7,259,000 compared to \$4,726,000 for 1996. The favorable position was due to improved profits and the ability to obtain progress payments on jobs in work-in-progress. Inventories increased over balances on hand at March 31, 1997 largely due to the accounting change recognizing certain sales on the percentage-of-completion method. Capital expenditures in 1998 were \$1,400,000 compared to 1996 of \$1,291,000. Ninety-five percent of the capital expenditures were invested in the U.S. facilities. Consolidated capital budgets for 1999 call for an increase in expenditures of between 11-13%. There were no major capital expenditure commitments at March 31, 1998.

At December 31, 1998 the U.S. operation had an unused bank line of credit available of \$10,947,000. The U.K. operation had an unused line of credit available of \$716,000.

Management expects that cash flow from operations and lines of credit will provide sufficient resources to fund the 1999 cash requirements.

THREE MONTHS ENDED MARCH 31, 1997

There were no significant changes in the financial condition of the Company during the period compared to the year ended December 31, 1996. Consolidated working capital at March 31, 1997 was \$10,300,000. Accounts receivable increased due to a 2% increase in sales in the first quarter compared to the fourth quarter of 1996. Current liabilities decreased mainly due to the timing of payments of accrued compensation benefits.

Total long-term debt increased \$1,314,000 due to additional borrowings on the U.S. revolving credit facility for short term working capital needs.

Capital expenditures for the three-month period were \$237,000.

1996 COMPARED TO 1995

Consolidated working capital increased 16% compared to 1995. The time taken to collect sales decreased 14% which resulted in an increase in cash and marketable securities at December 31, 1996 of \$1,597,000 over 1995.

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 an even quarterly sales pattern. Capital expenditures in 1996 and 1995 were \$1,291,000 and \$204,000, respectively. Cash resources in 1996 were used to retire U.S. long-term debt and invest in short-term bonds and commercial paper.

Page 15 of 62

In 1995, cash was used to finance higher amounts of inventory and to pay a legal judgment rendered against Graham.

OTHER MATTERS

The Company is modifying its computer software to accommodate the year 2000. Internal related computer costs are anticipated to be minor. The Company does not anticipate incurring any external costs to be Year 2000 compliant. Where appropriate, Graham is obtaining confirmation from its significant suppliers and customers that they, too, are actively making the required changes. Graham is not aware of any problems at this time. Although Graham believes it will be Year 2000 compliant, the Company cannot assure anyone that its customers, suppliers, or governmental agencies will be ready.

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 significant sales contracts negotiated in foreign currencies. Graham uses derivatives for no other reason.

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. The Company believes the costs to remediate its identified environmental project have been

Page 16 of 62

fully reserved for in the current financial statements (for additional information, see Note 13).

Graham Manufacturing sales to Asia over the past three years represented approximately 23% of the Company's consolidated sales. At present the Company believes doing business in Asia remains riskier than any other geographical area it sells to. It is believed Asia's economic and political problems will be resolved timely. For this reason, the Company plans to continue to vigorously pursue opportunities in this part of the world.

NEW ORDERS AND BACKLOG

Consolidated new orders in the current year were \$63,748,000 compared to \$55,041,000 and \$52,319,000 for the years ended December 31, 1996 and 1995.

In 1998, Graham Manufacturing's new orders were \$59,687,000, up from \$50,008,000 in 1996 and \$48,358,000 in 1995. New orders for export from the U.S. operation equaled about 37% of the total new orders. This is compared to 46% of the orders received in 1996 and about 50% in 1995. Orders received in the U.K. operation in 1998 were \$4,061,000. This is compared to \$5,033,000 in 1996 and \$3,961,000 in 1995.

New orders for the three months ended March 31, 1997 were \$11,150,000. New orders in the United States were \$9,739,000 and in the United Kingdom, \$1,411,000.

The consolidated backlog as of March 31, 1998 was \$28,199,000, up 10% over 1996 and 29% over 1995. The consolidated backlog as of December 31, 1996 was \$25,578,000 and \$21,837,000 on December 31, 1995. On March 31, 1997 the consolidated backlog was \$22,348,000. Individual subsidiary backlogs for the four accounting periods ended March 31, 1998, and 1997 and December 31, 1996 and 1995 were: Graham Manufacturing Co., Inc. - \$27,292,000, \$21,011,000, \$24,514,000 and \$21,136,000; Graham Precision Pumps Ltd. - \$907,000, \$1,337,000, \$1,064,000 and \$701,000, respectively.

The backlog at March 31, 1998 will be shipped before March 31, 1999 and represents orders from traditional markets in Graham's established product lines.

ACCOUNTING STANDARD CHANGES

The Company changed its method of recognizing sales on contracts with a duration of three months and with revenues of \$1,000,000 or greater from the completed contract method to the percentage-of-completion method in the fourth quarter of 1998. All years reported in the Ten-Year Review and appearing elsewhere in this annual report reflects this change (for additional information, see Note 1).

Page 17 of 62

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for reporting and disclosure of comprehensive income and its components in financial statement format. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997 and is not expected to have a material effect on the Company's financial statements. SFAS No. 131 establishes standards for reporting information about operating segments by public companies in their financial statements. It also establishes related disclosures about products and services, geographic areas and major customers. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997.

In February 1998, the Financial Accounting Standards Board issued SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. The Statement standardizes the disclosure requirements, requires additional information on changes in the benefit obligations and fair values of plan assets and eliminates certain disclosures. It does not change the measurement or recognition of the plans. The Company is currently studying the pronouncement. The Statement is effective for fiscal years beginning after December 15, 1997.

FORWARD LOOKING

Graham Corporation is anticipating revenue growth in 1999 in spite of less robust Asian markets, the strengthening of the Pound Sterling and greater competitive pricing pressures. The Asian fallout will influence the macro economic tone in 1998-1999 causing lower contributions per sales dollar. Management expects to continue to increase shareholder value, but expects net income from operations to decline for the year ending March 31, 1999. Graham Corporation is in the first part of its long term strategic plan. The initial phase of the plan requires spending above recent historical levels in order to better protect its present markets and to penetrate auxiliary ones. The plan acknowledges that being a low cost producer alone in a competitive business environment will not deliver the winning solution. Graham's focus going forward puts a concentrated emphasis on value and responding to the constantly changing market opportunities.

Page 18 of 62

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

<TABLE>

CONSOLIDATED STATEMENTS OF OPERATIONS

<CAPTION>

Ended	Year Ended	Three Months Ended	Year Ended	Year
	3/31/98	3/31/97	12/31/96	12/31/95
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>

Net sales.....	\$56,206,000	\$14,257,000	\$51,487,000	
\$50,501,000	-----	-----	-----	-----

Costs and expenses:				
Cost of products sold.....	38,123,000	10,177,000	36,024,000	
37,244,000				
Selling, general and administrative.....	12,367,000	3,071,000	11,122,000	
9,993,000				
Interest expense.....	242,000	65,000	355,000	
616,000				
Litigation provision.....				
276,000	-----	-----	-----	-----

	50,732,000	13,313,000	47,501,000	
48,129,000	-----	-----	-----	-----

Income from continuing operations before income taxes.....	5,474,000	944,000	3,986,000	
2,372,000				
Provision for income taxes.....	1,708,000	323,000	884,000	
1,011,000	-----	-----	-----	-----

Income from continuing operations.....	3,766,000	621,000	3,102,000	
1,361,000				
Loss from disposal of discontinued operations.....				
(182,000)	-----	-----	-----	-----

Net income	\$ 3,766,000	\$ 621,000	\$ 3,102,000	\$
1,179,000	=====	=====	=====	
=====				
Per Share Data				
Basic:				
Income from continuing operations.....	\$2.27	\$.39	\$1.96	
\$.86				
Loss from disposal of discontinued operations.....				
(.11)	-----	-----	-----	-----

Net income	\$2.27	\$.39	\$1.96	
\$.75	=====	=====	=====	
=====				
Diluted:				
Income from continuing operations.....	\$2.21	\$.38	\$1.93	
\$.86				
Loss from disposal of discontinued operations				
(.11)	-----	-----	-----	-----

Net income	\$2.21	\$.38	\$1.93	
\$.75	=====	=====	=====	
=====				

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

<CAPTION>

	March 31, 1998 ----	December 31, 1996 ----
Assets		
Current assets:		
<S>	<C>	<C>
Cash and equivalents.....	\$ 1,694,000	\$ 1,263,000
Marketable securities.....	4,801,000	745,000
Trade accounts receivable.....	6,791,000	9,235,000
Inventories.....	10,278,000	6,436,000
Deferred tax asset.....	881,000	787,000
Prepaid expenses and other current assets.....	468,000	530,000
	-----	-----
Property, plant and equipment, net.....	24,913,000	18,996,000
Deferred tax asset.....	10,026,000	9,572,000
Other assets.....	2,067,000	1,852,000
	24,000	74,000
	-----	-----
	\$37,030,000	\$30,494,000
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt due banks.....	\$ 40,000	
Current portion of long-term debt.....	505,000	\$ 487,000
Accounts payable.....	4,195,000	3,923,000
Accrued compensation.....	4,940,000	4,081,000
Accrued expenses and other liabilities.....	1,039,000	1,416,000
Customer deposits.....	779,000	382,000
Domestic and foreign income taxes payable.....	956,000	468,000
	-----	-----
	12,454,000	10,757,000
Long-term debt.....	859,000	1,442,000
Deferred compensation.....	1,007,000	1,067,000
Deferred tax liability.....		33,000
Other long-term liabilities.....	264,000	339,000
Deferred pension liability.....	1,464,000	1,729,000
Accrued postretirement benefits.....	3,207,000	3,212,000
	-----	-----
Total liabilities.....	19,255,000	18,579,000
	-----	-----
Shareholders' equity:		
Preferred stock, \$1 par value - Authorized, 500,000 shares		
Common stock, \$.10 par value - Authorized, 6,000,000 shares Issued, 1,690,595 shares in 1998 and 1,586,155 shares in 1996.....	169,000	159,000
Capital in excess of par value.....	4,521,000	3,210,000
Cumulative foreign currency translation adjustment.....	(1,781,000)	(1,748,000)
Retained earnings.....	15,362,000	10,975,000
	-----	-----
	18,271,000	12,596,000
Less:		
Treasury stock.....	(71,000)	(6,000)
Employee Stock Ownership Plan loan payable.....	(425,000)	(675,000)
	-----	-----
Total shareholders' equity.....	17,775,000	11,915,000
	-----	-----
	\$37,030,000	\$30,494,000
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

<TABLE>

<CAPTION>

Year Ended	Year Ended	Three Months	Year Ended	
	3/31/98	Ended	12/31/96	
12/31/95		3/31/97		-
-----	-----	-----	-----	-
<S>	<C>	<C>	<C>	
<C>				
Operating activities:				
Net income.....	\$ 3,766,000	\$ 621,000	\$ 3,102,000	\$
1,179,000	-----	-----	-----	-

Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Depreciation and amortization.....	957,000	253,000	913,000	
946,000				
(Gain) loss on sale of property, plant and equipment	44,000	(7,000)	(43,000)	
(24,000)				
(Increase) Decrease in operating assets:				
Accounts receivable.....	3,616,000	(1,197,000)	1,476,000	
1,260,000				
Inventories, net of customer deposits.....	(3,335,000)	(151,000)	(235,000)	
(1,673,000)				
Prepaid expenses and other current and non-current assets.....	48,000	18,000	9,000	
(140,000)				
Increase (Decrease) in operating liabilities:				
Accounts payable, accrued compensation, accrued expenses and other liabilities.....	1,882,000	(1,086,000)	(544,000)	
530,000				
Litigation reserve.....				
(1,247,000)				
Deferred compensation, deferred pension liability and accrued postretirement benefits.....	(438,000)	118,000	294,000	
134,000				
Domestic and foreign income taxes.....	1,021,000	(251,000)	230,000	
(17,000)				
Other long-term liabilities.....	(38,000)	(35,000)	(45,000)	
(119,000)				
Deferred income taxes.....	(264,000)	(79,000)	(431,000)	
815,000				
-----	-----	-----	-----	-
Total adjustments.....	3,493,000	(2,417,000)	1,624,000	
465,000	-----	-----	-----	-

Net cash provided (used) by operating activities.....	7,259,000	(1,796,000)	4,726,000	
1,644,000	-----	-----	-----	-

Investing activities:				
Purchase of property, plant and equipment.....	(1,400,000)	(237,000)	(1,291,000)	
(204,000)				
Proceeds from sale of property, plant and equipment.....	11,000	8,000	74,000	
33,000				
Purchase of marketable securities.....	(13,699,000)	(1,171,000)	(2,177,000)	
Proceeds from maturity of marketable securities.....	9,429,000	1,372,000	1,432,000	
-----	-----	-----	-----	-
Net cash used by investing activities	(5,659,000)	(28,000)	(1,962,000)	
(171,000)	-----	-----	-----	-

Financing activities:				
Increase (Decrease) in short-term debt.....	40,000		(209,000)	
14,000				
Proceeds from issuance of long-term debt.....	5,441,000	2,730,000	2,971,000	
11,888,000				
Principal repayments on long-term debt.....	(7,203,000)	(1,321,000)	(4,729,000)	
(13,418,000)				
Issuance of common stock.....	1,020,000	12,000	38,000	
11,000				
Purchase of treasury stock.....	(71,000)			

(6,000)				
Sale of treasury stock.....	13,000			

Net cash provided (used) by financing activities (1,511,000)	(760,000)	1,421,000	(1,929,000)	

Effect of exchange rate on cash..... (5,000)		(6,000)	17,000	

Net increase (decrease) in cash and equivalents (43,000)	840,000	(409,000)	852,000	

Cash and equivalents at beginning of year..... 454,000	854,000	1,263,000	411,000	

Cash and equivalents at end of year..... 411,000	\$ 1,694,000	\$ 854,000	\$ 1,263,000	\$
=====	=====	=====	=====	

</TABLE>

See Notes of Consolidated Financial Statements.

<TABLE>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<CAPTION>

	Common Shares	Stock Par Value	Capital in Excess of Par Value	Cumulative Foreign Currency Translation Adjustment	Retained Earnings
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1994	1,051,499	\$105,000	\$3,197,000	\$ (1,876,000)	\$ 6,694,000
Issuance of shares.....	2,500	1,000	22,000		
Foreign currency translation adjustment.....				(15,000)	
Net income.....					1,179,000
Acquisition of treasury stock					
Payments on Employee Stock Ownership Plan loan payable					
-----	-----	-----	-----	-----	-----
Balance at December 31, 1995	1,053,999	106,000	3,219,000	(1,891,000)	7,873,000
Issuance of shares.....	3,473		38,000		
Stock option tax benefit.....			6,000		
Stock split.....	528,683	53,000	(53,000)		
Foreign currency translation adjustment.....				143,000	
Net income.....					3,102,000
Payments on Employee Stock Ownership Plan loan payable					
-----	-----	-----	-----	-----	-----
Balance at December 31, 1996	1,586,155	159,000	3,210,000	(1,748,000)	10,975,000
Issuance of shares.....	1,500		12,000		
Stock option tax benefit.....			4,000		
Foreign currency translation adjustment.....				(64,000)	
Net income.....					621,000

Payments on Employee Stock Ownership Plan loan payable					
-					
Balance at March 31, 1997	1,587,655	159,000	3,226,000	(1,812,000)	11,596,000
Issuance of shares.....	102,940	10,000	1,010,000		
Stock option tax benefit.....			278,000		
Sale of treasury stock.....			7,000		
Foreign currency translation adjustment.....				31,000	
Net income.....					3,766,000
Acquisition of treasury stock Payments on Employee Stock Ownership Plan loan payable					
-					
Balance at March 31, 1998	1,690,595	\$169,000	\$4,521,000	\$ (1,781,000)	\$15,362,000

<CAPTION>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Treasury Stock	Employee Stock Ownership Plan Loan Payable	Shareholders' Equity
<S>	<C>	<C>	<C>
Balance at December 31, 1994		\$ (1,075,000)	\$ 7,045,000
Issuance of shares.....			23,000
Foreign currency translation adjustment.....			(15,000)
Net income.....			1,179,000
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	(6,000)	(875,000)	8,426,000
Issuance of shares.....			38,000
Stock option tax benefit.....			6,000
Stock split.....			
Foreign currency translation adjustment.....			143,000
Net income.....			3,102,000
Payments on Employee Stock Ownership Plan loan payable		200,000	200,000
Balance at December 31, 1996	(6,000)	(675,000)	11,915,000
Issuance of shares.....			12,000
Stock option tax benefit.....			4,000
Foreign currency translation adjustment.....			(64,000)
Net income.....			621,000
Payments on Employee Stock Ownership Plan loan payable		50,000	50,000
Balance at March 31, 1997	(6,000)	(625,000)	12,538,000
Issuance of shares.....			1,020,000
Stock option tax benefit.....			278,000
Sale of treasury stock.....	6,000		13,000
Foreign currency translation adjustment.....			31,000
Net income.....			3,766,000
Acquisition of treasury stock	(71,000)		(71,000)
Payments on Employee Stock Ownership Plan loan payable		200,000	200,000
Balance at March 31, 1998	\$ (71,000)	\$ (425,000)	\$17,775,000

</TABLE>

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

Graham Corporation and its subsidiaries are primarily engaged in the design and manufacture of vacuum and heat transfer equipment used in the chemical, petrochemical, petroleum refining, and electric power generating industries and 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

During the year ended March 31, 1998, the Company changed its method of accounting for revenue recognition and all related costs on contracts with a duration in excess of three months and with revenues of \$1,000,000 and greater from the completed contract method to the percentage-of-completion method. Since the Company has recently experienced a trend of obtaining more significant contracts with longer durations, it was determined that a change to the preferable method of percentage-of-completion was necessary to better match revenue and expense on these contracts in an

accounting period. The Company has established the systems and procedures essential to developing the estimates required to account for a contract using the percentage-of-completion method. The percentage-of-completion is determined by relating actual labor incurred to-date to management's estimate of total labor to be incurred on each contract. Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in contract value and estimated costs at completion. All contracts with values less than \$1,000,000 continue to be accounted for on the completed contract method and included in income upon substantial completion or shipment to the customer. This change has been applied to prior periods by retroactively restating the financial statements.

The effect of the restatement is as follows:

<TABLE>
<CAPTION>

Three months ended March 31, 1997	Year ended December 31, 1996	1995
-----	----	----

<S>	<C>	<C>	<C>
As reported - Net income.....	\$653,000	\$3,061,000	\$1,134,000
Effect of restatement.....	(32,000)	41,000	45,000
	-----	-----	-----
Restated - Net income.....	\$621,000	\$3,102,000	\$1,179,000
	=====	=====	=====
As reported - Basic earnings per share	\$.41	\$1.93	\$.72
Effect of restatement.....	(.02)	.03	.03
	----	----	----
Restated - Basic earnings per share.....	\$.39	\$1.96	\$.75
	=====	=====	=====
As reported - Diluted earnings per share	\$.40	\$1.90	\$.72
Effect of restatement.....	(.02)	.03	.03
	----	----	----
Restated - Diluted earnings per share.....	\$.38	\$1.93	\$.75
	=====	=====	=====

</TABLE>

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 which approximates fair value.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out method. Progress payments for orders are netted against inventory to the extent the payment is less than the inventory balance relating to the applicable contract. Progress payments that are in excess of the corresponding inventory balance are presented as customer deposits in the Consolidated Balance Sheets.

Page 24 of 62

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. Impairment losses are recognized when the carrying value of an asset exceeds its fair value. The Company regularly assesses all of its long-lived assets for impairment and determined that no impairment loss need be recognized in the periods reported.

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

In the third quarter of fiscal year 1998, the Company adopted Statement

of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). In accordance with this new standard, basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common and, when applicable, potential common shares outstanding during the period. All prior period earnings per share amounts have been restated to reflect this change. A reconciliation of the numerators and denominators of basic and diluted earnings per share is presented below.

Page 25 of 62

<TABLE>
<CAPTION>

	Year Ended 3/31/98	Three Months Ended 3/31/97	Year Ended 12/31/96	Year Ended 12/31/95
<S>	<C>	<C>	<C>	<C>
Basic earnings per share				
Numerator:				
Income from continuing operations.....	\$3,766,000	\$ 621,000	\$3,102,000	\$1,361,000
Denominator:				
Weighted common shares outstanding.....	1,653,000	1,586,000	1,584,000	1,578,000
Share equivalent units (SEU) outstanding.....	3,000			
Weighted average shares and SEU's outstanding.....	1,656,000	1,586,000	1,584,000	1,578,000
Basic earnings per share from continuing operations.....	\$2.27	\$.39	\$1.96	\$.86
Diluted earnings per share				
Numerator:				
Income from continuing operations.....	\$3,766,000	\$ 621,000	\$3,102,000	\$1,361,000
Denominator:				
Weighted average shares and SEU's outstanding.....	1,656,000	1,586,000	1,584,000	1,578,000
Stock options outstanding.....	42,000	33,000	24,000	1,000
Contingently issuable SEU's.....	2,000	4,000	3,000	
Weighted average common and potential common shares outstanding.....	1,700,000	1,623,000	1,611,000	1,579,000
Diluted earnings per share from continuing operations.....	\$2.21	\$.38	\$1.93	\$.86

</TABLE>

Options to purchase 55,200 shares of common stock at \$21.44 per share and 11,250 shares at \$21.25 were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

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 \$254,000 in 1998, \$65,000 for the three months ended March 31, 1997, \$384,000 in 1996, and \$631,000 in 1995. In addition, actual income taxes paid were \$951,000 in 1998, \$627,000 for the three months ended March 31, 1997, \$1,084,000 in 1996, and \$246,000 in 1995.

During 1998 and 1996, the Company recorded a liability for new capital lease agreements of \$68,000 and \$134,000, respectively. Bonus amounts payable to officers of Graham Corporation and its U.S. subsidiary were paid in Graham

 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. The disposal of GML was presented in the Consolidated Statement of Operations as a discontinued operation. 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.

 Note 3 - Operations by Geographic Area:

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 \$404,000, \$91,000, \$375,000 and \$277,000 in 1998, 1997, 1996 and 1995, respectively.

<TABLE>
 <CAPTION>

	Year Ended March 31, 1998	Three Months Ended March 31, 1997	Year Ended December 31, 1996	1995
	-----	-----	----	----
<S>	<C>	<C>	<C>	<C>
Net sales including inter-geographic sales:				
United States				
Customers.....	\$51,696,000	\$13,164,000	\$46,721,000	\$46,379,000
Inter-geographic.....	95,000	10,000	41,000	
24,000				
United Kingdom				
Customers.....	4,510,000	1,093,000	4,766,000	4,122,000
Inter-geographic.....	1,419,000	426,000	1,293,000	1,372,000
Inter-geographic sales.....	(1,514,000)	(436,000)	(1,334,000)	
(1,396,000)				
--	-----	-----	-----	-----
Net sales.....	\$56,206,000	\$14,257,000	\$51,487,000	\$50,501,000
=====	=====	=====	=====	=====
Operating profit:				
United States.....	\$ 7,801,000	\$ 1,569,000	\$6,296,000	\$ 4,384,000
United Kingdom.....	676,000	59,000	500,000	370,000
Eliminations.....	13,000	68,000	(95,000)	65,000
--	-----	-----	-----	-----
Total operating profit.....	8,490,000	1,696,000	6,701,000	4,819,000
Corporate expense.....	(2,774,000)	(687,000)	(2,360,000)	
(1,831,000)				
Interest expense.....	(242,000)	(65,000)	(355,000)	
(616,000)				
--	-----	-----	-----	-----
Income from continuing operations before income taxes.....	\$ 5,474,000	\$944,000	\$ 3,986,000	\$ 2,372,000
=====	=====	=====	=====	=====

Identifiable assets				
United States.....	\$32,834,000	\$27,048,000	\$25,942,000	\$25,433,000
United Kingdom.....	4,085,000	4,510,000	4,916,000	3,870,000
Eliminations.....	(854,000)	(719,000)	(1,028,000)	
(391,000)	-----	-----	-----	-----
--				
	36,065,000	30,839,000	29,830,000	
28,912,000				
Corporate assets.....	965,000	385,000	664,000	587,000
--	-----	-----	-----	-----
Total assets.....	\$37,030,000	\$31,224,000	\$30,494,000	\$29,499,000
	=====	=====	=====	

</TABLE>

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

<TABLE>
<CAPTION>

	Year Ended March 31, 1998	Three Months Ended March 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
	-----	-----	----	----
<S>	<C>	<C>	<C>	<C>
Asia.....	\$17,073,000	\$ 2,932,000	\$10,585,000	\$ 9,054,000
Australia & New Zealand.....	46,000		949,000	259,000
Canada.....	889,000	709,000	2,628,000	2,404,000
Middle East.....	2,230,000	1,299,000	3,757,000	3,742,000
South America.....	3,122,000	89,000	3,974,000	1,836,000
Mexico.....	495,000	52,000	371,000	1,578,000
Western Europe.....	1,006,000	148,000	770,000	568,000
Other.....	547,000	52,000	266,000	208,000
--	-----	-----	-----	-----
Total domestic export sales.....	\$25,408,000	\$ 5,281,000	\$23,300,000	\$19,649,000
	=====	=====	=====	

</TABLE>

28 of 62

Note 4 - Inventories:

Major classifications of inventories are as follows:

<TABLE>
<CAPTION>

	March 31, 1998	December 31, 1996
	----	----
<S>	<C>	<C>
Raw materials and supplies.....	\$ 2,707,000	\$ 2,411,000
Work in process.....	12,081,000	4,631,000
Finished products.....	1,131,000	1,168,000
	-----	-----
	15,919,000	8,210,000
Less - progress payments.....	5,641,000	1,774,000
	-----	-----
	\$10,278,000	\$ 6,436,000
	=====	=====

</TABLE>

29 of 62

 Note 5 - Property, Plant and Equipment:

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

<TABLE>
 <CAPTION>

	March 31, 1998 ----	December 31, 1996 ----
<S>	<C>	<C>
Land.....	\$ 250,000	\$ 252,000
Leasehold improvements.....	177,000	177,000
Buildings and improvements.....	10,528,000	10,430,000
Machinery and equipment.....	13,584,000	13,982,000
Construction in progress.....	705,000	25,000
	-----	-----
	25,244,000	24,866,000
Less - accumulated depreciation and amortization.....	15,218,000	15,294,000
	-----	-----
	\$10,026,000	\$ 9,572,000
	=====	=====

</TABLE>

 Note 6 - Leases:

The Company leases equipment and office space under various operating leases. Rent expense applicable to operating leases was \$191,000, \$38,000, \$148,000 and \$184,000 in 1998, 1997, 1996 and 1995, respectively.

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

<TABLE>
 <CAPTION>

	March 31, 1998 ----	December 31, 1996 ----
<S>	<C>	<C>
Machinery and equipment.....	\$ 1,668,000	\$ 1,644,000
Less accumulated amortization.....	784,000	605,000
	-----	-----
	\$ 884,000	\$ 1,039,000
	=====	=====

</TABLE>

Amortization of property, plant and equipment under capital lease amounted to \$158,000, \$39,000, \$59,000 and \$98,000 in 1998, 1997, 1996 and 1995, respectively, and is included in depreciation expense.

As of March 31, 1998, future minimum payments required under non-cancelable leases are:

<TABLE>
 <CAPTION>

	Operating Leases -----	Capital Leases -----
<S>	<C>	<C>
1999.....	\$ 132,000	\$ 239,000
2000.....	99,000	225,000
2001.....	53,000	202,000
2002.....	26,000	88,000

2003.....	8,000	5,000
Thereafter.....	12,000	
	-----	-----
Total minimum lease payments.....	\$ 330,000	\$ 759,000
	=====	
Less - amount representing interest.....		106,000

Present value of net minimum lease payments.....		\$ 653,000
		=====

</TABLE>

31 of 62

Note 7 - Debt:

Short-term Debt Due Banks

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

<TABLE>
<CAPTION>

	March 31, 1998 ----	December 31, 1996 ----
<S>	<C>	<C>
Borrowings of United Kingdom		
Subsidiary under line of credit		
at bank's rate plus 1 1/2% in		
1998 and 1996	\$ 40,000	\$
	-----	-----

</TABLE>

The United Kingdom subsidiary has a revolving credit facility agreement which provides a line of credit of 659,000 pounds sterling (\$1,100,000 at the March 31, 1998 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 7 1/4% and 6% at March 31, 1998 and December 31, 1996, respectively. The United Kingdom operations had available unused lines of credit of \$716,000 at March 31, 1998. The weighted average interest rate on short-term borrowings at March 31, 1998 was 10.8%.

Long-Term Debt

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

<TABLE>
<CAPTION>

	March 31, 1998 ----	December 31, 1996 ----
<S>	<C>	<C>
Employee Stock Ownership Plan		
Loan Payable.....	\$ 425,000	\$ 675,000
United Kingdom term loan due in 2000	286,000	412,000
Capital lease obligations (Note 6)	653,000	842,000
	-----	-----
	1,364,000	1,929,000
Less: current amounts, including		
amounts for capital leases of		
\$201,000 in 1998 and \$192,000 in 1996	505,000	487,000
	-----	-----
	\$ 859,000	\$ 1,442,000
	=====	=====

</TABLE>

The United States revolving credit facility agreement provides a line of credit of up to \$13,000,000 including letters of credit, through October 31, 1999. The agreement allows the Company to borrow at prime minus a variable percentage based upon certain financial ratios. The Company was able to borrow at a rate of prime minus 100 basis points at March 31, 1998 and prime minus 75 basis points at December 31, 1996.

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 no amounts outstanding on its revolving credit facility, excluding letters of credit, at March 31, 1998 and December 31, 1996. The bank's prime rate was 8.5% at March 31, 1998 and December 31, 1996. The United States subsidiary had available unused lines of credit of \$10,947,000 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.)

The United Kingdom term loan has 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: 1999 - \$304,000, 2000 - \$312,000, 2001 - \$95,000, 2002 - \$0 and 2003 - \$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 \$29,604,000 have been pledged to secure certain domestic long-term borrowings.

The United Kingdom short-term and long-term bank borrowings are secured by assets of the United Kingdom subsidiary which have a book value of \$3,908,000.

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 March 31, 1998.

 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, marketable securities and trade receivables. The Company places its temporary cash investments and marketable securities 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 March 31, 1998 and December 31, 1996, the Company had no significant concentrations of credit risk.

LETTERS OF CREDIT:

The Company has entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At March 31, 1998 and December 31, 1996, the Company was contingently liable on outstanding standby letters of credit aggregating \$2,111,000 and \$2,076,000, 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. At March 31, 1998 and December 31, 1996, there were no foreign exchange forward contracts held by the Company.

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:

34 of 62

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 values of credit facilities with variable rates of interest approximates fair values. The fair value of fixed rate debt, which approximates the carrying value, was estimated by discounting cash flows using rates currently available for debt of similar terms and remaining maturities.

35 of 62

Note 9 - Income Taxes:

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

<TABLE>
<CAPTION>

	Year Ended March 31, 1998	Three Months Ended March 31, 1997	Year Ended December 31, 1996	December 31, 1995
United States.....	\$ 5,112,000	\$ 954,000	\$ 3,808,000	\$ 2,168,000
United Kingdom.....	362,000	(10,000)	178,000	204,000
--				
2,372,000	\$ 5,474,000	\$ 944,000	\$ 3,986,000	\$
===== The provision for income taxes on continuing operations consists of:				
Current:				
Federal.....	\$ 1,839,000	\$ 376,000	\$ 1,279,000	\$ 97,000
State.....	113,000	26,000	77,000	16,000
United Kingdom.....	20,000		(41,000)	
84,000				
--				
197,000	1,972,000	402,000	1,315,000	
--				
Deferred:				
Federal.....	(130,000)	(88,000)	(4,000)	645,000
State.....	57,000	9,000	64,000	313,000
United Kingdom.....	(80,000)		(210,000)	
(1,000)				

Change in valuation allowance.....	(111,000)		(281,000)	
(143,000)				
--				
814,000	(264,000)	(79,000)	(431,000)	
--				
Total provision for income taxes.....	\$ 1,708,000	\$ 323,000	\$ 884,000	\$ 1,011,000
=====	=====	=====	=====	

</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>

	Year Ended March 31, 1998	Three Months Ended March 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
	-----	-----	----	----
<S>	<C>	<C>	<C>	<C>
Provision for income taxes at Federal rate.....	\$ 1,861,000	\$ 321,000	\$ 1,355,000	\$ 806,000
Recognition of tax benefit of prior year losses.....	(247,000)		(102,000)	
Difference between foreign and U.S. tax rates.....	(15,000)		(9,000)	
(2,000)				
State taxes.....	131,000	26,000	114,000	324,000
Charges not deductible for income tax purposes.....	24,000	14,000	59,000	
61,000				
Recognition of tax benefit generated by foreign sales corporation.....	(215,000)	(14,000)	(70,000)	
(67,000)				
Tax credits.....	(26,000)	(6,000)	(8,000)	
(18,000)				
Foreign losses for which no tax benefit was provided.....	117,000			
Adjustments to prior years' tax liabilities.....	200,000		(169,000)	62,000
Change in valuation allowance (143,000)	(111,000)		(281,000)	
Other.....	(11,000)	(18,000)	(5,000)	
(12,000)				
-----	-----	-----	-----	-----
--				
Provision for income taxes.....	\$ 1,708,000	\$ 323,000	\$ 884,000	\$ 1,011,000
=====	=====	=====	=====	

</TABLE>

The deferred income tax asset recorded in the Consolidated Balance Sheets results from differences between financial statement

and tax reporting of income and deductions. A summary of the composition of the deferred income tax asset follows:

<TABLE>
<CAPTION>

	1998	1996
	United States	United States
	-----	-----
<S>	<C>	<C>
Depreciation.....	\$ (415,000)	\$ (428,000)
Deferred compensation.....	522,000	446,000
Deferred pension liability.....	462,000	88,000
Accrued postretirement		94,000

benefits.....	1,298,000		1,299,000	
Compensated absences.....	571,000		527,000	
Inventories.....	152,000		117,000	
Warranty liability.....	58,000		78,000	
Accrued medical benefits.....	105,000		59,000	
Contingent liabilities.....	98,000		100,000	
Foreign loss carryforwards.....		696,000		662,000
New York State investment tax credit.....	60,000		154,000	
Other.....	26,000	4,000	(21,000)	9,000
-				
	2,937,000	704,000	2,785,000	638,000
Less: Valuation allowance.....		693,000	200,000	617,000
-				
Deferred tax asset.....	\$2,937,000	\$ 11,000	\$2,585,000	\$ 21,000
	=====	=====	=====	=====

</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 \$693,000 at March 31, 1998 is deemed adequate to reserve for the foreign net loss carryforwards which are not considered probable of realization.

The Company does not provide for additional U.S. income taxes on undistributed earnings considered permanently invested in its United Kingdom subsidiary. At March 31, 1998, such undistributed earnings totaled \$1,624,000. It is not practicable to determine the amount of income taxes that would be payable upon the remittance of assets that represent those earnings.

37 of 62

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>

	1998		1996		1995	
	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.....	\$ 362,000	\$ 156,000	\$ 307,000	\$ 104,000	\$ 261,000	\$ 175,000
Interest cost on projected benefit obligation.....	585,000	294,000	459,000	315,000	475,000	295,000
Actual return on assets.....	(1,210,000)	(118,000)	(477,000)	146,000	(1,600,000)	
(501,000)						
Net amortization and deferral.....	564,000	(326,000)	(135,000)	(474,000)	1,168,000	109,000
--						
Net pension cost.....	\$ 301,000	\$ 6,000	\$ 154,000	\$ 91,000	\$ 304,000	\$ 78,000

</TABLE>

The actuarial assumptions are:

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

Pension expense for the U.S. Plan and the U.K. Plan for the three month period ending March 31, 1997 was \$38,000 and \$2,000, respectively. The service cost for 1998, 1997, 1996 and 1995 is net of employee contributions to the United Kingdom plan of \$42,000, \$11,000, \$93,000, and \$49,000, respectively.

The funded status of the pension plan is presented below:

<TABLE>
<CAPTION>

	1998		1996	
	U.S. PLAN	U.K. PLAN	U.S. PLAN	U.K. PLAN
<S>	<C>	<C>	<C>	<C>
Vested benefit obligation.....	\$ 5,775,000	\$ 4,997,000	\$ 4,776,000	\$ 3,377,000
Accumulated benefit obligation.....	\$ 5,857,000	\$ 5,013,000	\$ 5,196,000	\$ 3,389,000
Plan assets at fair value.....	\$ 8,635,000	\$ 4,008,000	\$ 7,499,000	\$ 3,933,000
Projected benefit obligation for services rendered to date.....	9,212,000	5,169,000	7,275,000	3,389,000
Projected benefit obligation less than or (in excess of) plan assets.....	(577,000)	(1,161,000)	224,000	544,000
Unrecognized net loss from past experience different from that assumed and effect of changes in assumptions.....	(883,000)	969,000	(1,290,000)	(1,057,000)
Unrecognized prior service cost.....	(3,000)	225,000	(3,000)	265,000
Unrecognized net asset at transition.....	(280,000)	(30,000)	(335,000)	(38,000)
Pension (liability) asset.....	\$(1,743,000)	\$ 3,000	\$(1,404,000)	\$ (286,000)

</TABLE>

The current portion of the pension liability as of March 31, 1998 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 March 31, 1998 and December 31, 1996. 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 1998, 1997 and 1996 related to this plan was \$6,000, \$10,000 and \$39,000, respectively. At March 31, 1998 and December 31, 1996, the related liability was \$55,000 and \$39,000, respectively, 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 \$647,000, \$215,000, \$651,000, and \$320,000 in 1998, 1997, 1996 and 1995, 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 \$1,231,000 and \$1,104,000 at March 31, 1998 and December 31, 1996, 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 1998, 1997, 1996 and 1995 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, \$50,000, \$200,000 and \$200,000 in 1998, 1997, 1996 and 1995, respectively. The ESOP received no dividends on unallocated shares in 1998, 1997, 1996, and 1995. Interest expense in the amount of \$42,000, \$13,000, \$72,000 and \$97,000 was incurred in 1998, 1997, 1996 and 1995, 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:

	1998	1996	1995
	----	----	----
<S>	<C>	<C>	<C>
Service cost - benefits earned during the period.....	\$ 64,000	\$ 62,000	\$ 45,000
Interest cost on accumulated benefit obligation.....	166,000	173,000	156,000
Net amortization.....	(87,000)	(79,000)	(87,000)
	-----	-----	-----
Net postretirement benefit cost.....	\$143,000	\$156,000	\$114,000
	=====	=====	=====

Postretirement benefit cost for the three month period ending March 31, 1997 was \$40,000.

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

	1998	1996	1995
	----	----	----

<S>	<C>	<C>	<C>
Discount rate.....	7%	7%	7%
Medical care cost trend rate.....	8 1/2%	9%	9 1/2%

The medical care cost trend rate used in the actuarial computation ultimately reduces to 5% in 2005 and subsequent years. This was accomplished using 1/2% decrements for the years 1999 through 2005.

The table of actuarially computed benefit obligations is presented below:

<TABLE>
<CAPTION>

	1998 ----	1996 ----
<S>	<C>	<C>
Accumulated postretirement benefit obligation:		
Retirees.....	\$ 908,000	\$ 958,000
Fully eligible active plan participants.....	420,000	532,000
Other active plan participants.....	1,221,000	1,151,000
	-----	-----
Unfunded accumulated postretirement benefit obligation.....	2,549,000	2,641,000
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions.....	(178,000)	(374,000)
Unrecognized prior service cost.....	956,000	1,064,000
	-----	-----
Accrued postretirement benefit obligation.....	\$3,327,000	\$3,331,000
	=====	=====

</TABLE>

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.

41 of 62

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. The cost of performance units earned and charged to pre-tax income under this Plan in 1998, 1997 and 1996 was \$50,000, \$10,000 and \$40,000, respectively.

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>

		Year Ended 3/31/98 -----	Three Months Ended 3/31/97 -----	Year Ended 12/31/96 -----	Year Ended 12/31/95 -----
<S>	<C>	<C>	<C>	<C>	<C>
Net income.....	As reported	\$3,766,000	\$621,000	\$3,102,000	\$1,179,000
	Pro forma	3,381,000	620,000	3,060,000	1,065,000
Basic earnings per share.....	As reported	\$2.27	\$.39	\$1.96	\$.75
	Pro forma	\$2.04	\$.39	\$1.93	\$.67
Diluted earnings per share.....	As reported	\$2.21	\$.38	\$1.93	\$.75
	Pro forma	\$1.99	\$.38	\$1.90	\$.67

</TABLE>

The weighted average fair value of the options granted during 1998, 1996 and 1995 is estimated as \$8.30, \$4.62, and \$3.59, respectively, using the Black Scholes option pricing model with the following weighted average assumptions:

42 of 62

<TABLE>
<CAPTION>

	Year Ended 3/31/98 -----	Year Ended 12/31/96 -----	Year Ended 12/31/95 -----
<S>	<C>	<C>	<C>
Expected life.....	5 years	5 years	5 years
Volatility.....	31.40%	34.74%	44.28%
Risk-free interest rate.....	5.95%	6.35%	6.21%
Dividend yield.....	0%	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, 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
Exercised.....	\$8.08	(1,500)	8.08
Outstanding at March 31, 1997.....	\$6.58-13.17	187,840	10.49
Exercised.....	\$6.58-13.17	(102,940)	9.92
Granted.....	\$21.25-21.44	66,450	21.41
Cancelled.....	\$13.17	(5,250)	13.17
Outstanding at March 31, 1998.....	\$6.58-21.44	146,100	\$15.77

</TABLE>

At March 31, 1998, the options outstanding had a weighted average remaining contractual life of 7.07 years. There were 134,700 options exercisable

at March 31, 1998 which had a weighted average exercise price of \$16.30. 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 2007. The number of options available for future grants were 116,850 at March 31, 1998 and 178,050 at December 31, 1996.

43 of 62

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.

44 of 62

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 March 31, 1998 was \$250,000 and is included in the caption "Other Long-Term Liabilities" in the Consolidated Balance Sheet.

The Company expensed \$276,000 in 1995 for settlement of a litigation matter.

45 of 62

Note 14 - Subsequent Event:

In May 1998, the Company acquired 100,000 shares of its common stock at market price for \$1,700,000 from the estate of the Company's former Chairman of the Board. The Company will hold these shares as treasury stock.

 Note 15 - Fiscal Year End Change:

In 1997, the Company changed its fiscal year end to March 31. Fiscal 1997 is a three month transition period ended March 31, 1997. The unaudited Statement of Operations for the comparable three month period in 1996 was as follows:

<TABLE>
 <CAPTION>

	Unaudited -----
<S>	<C>
Net sales.....	\$11,164,000 -----
Costs and expenses:	
Cost of products sold.....	8,031,000
Selling, general and administrative.....	2,550,000
Interest expense.....	126,000

	10,707,000 -----
Income before income taxes.....	457,000
Provision for income taxes.....	165,000

Net income.....	\$ 292,000 =====
Basic earnings per share.....	\$.19 ====
Diluted earnings per share.....	\$.18 ====

</TABLE>

 Quarterly Financial Data:

A capsule summary of the Company's unaudited quarterly sales and earnings per share data for 1998 and 1996 is presented below:

<TABLE>
 <CAPTION>

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----	Total Year ----
1998 (1)					
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$11,855,000	\$14,618,000	\$11,914,000	\$17,819,000	\$56,206,000
Gross profit.....	3,683,000	4,962,000	3,638,000	5,800,000	18,083,000
Net income.....	433,000	945,000	309,000	2,079,000	3,766,000
Per share:					
Net income: Basic.....	.27	.58	.19	1.23	2.27
Diluted.....	.26	.56	.18	1.21	2.21
Market price range.....	13.63-18	16.88-19.75	13-22.88	13.38-18.50	13-22.88

1996 (1)

Net sales.....	\$11,164,000	\$14,060,000	\$12,275,000	\$13,988,000	\$51,487,000
Gross profit.....	3,133,000	4,009,000	3,729,000	4,592,000	15,463,000
Net income.....	292,000	577,000	481,000	1,752,000	3,102,000
Per share:					
Net income: Basic.....	.19	.36	.30	1.11	1.96
Diluted.....	.18	.36	.30	1.09	1.93
Market price range.....	9.42-12.17	9.17-12.25	9.25-12.58	9-11.38	9-12.58

Quarterly Financial Data Notes:

(1) The first three quarters of 1998 and the four quarters of 1996 were restated in the financial data presented to reflect the change in method in accounting for revenue recognition for certain long-term contracts.

48 of 62

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries as of March 31, 1998 and December 31, 1996, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended March 31, 1998, the three month period ended March 31, 1997, and for the years ended December 31, 1996 and 1995. 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 as of March 31, 1998 and December 31, 1996, and the results of their operations and their cash flows for the year ended March 31, 1998, for the three month period ended March 31, 1997, and for the years ended December 31, 1996 and 1995 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, for the year ended March 31, 1998 the Corporation changed its method of accounting for revenue recognition from the completed contract to the percentage-of-completion method for certain long-term contracts and, retroactively, restated all prior year financial statements for the change.

s\Deloitte & Touche LLP
Deloitte & Touche LLP
Rochester, New York
May 22, 1998

49 of 62

Item 9. Changes in and Disagreements with Accountants on Accounting

and Financial Disclosure

(Not Applicable)

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 and 7 of the Registrant's Proxy Statement for its 1998 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.)

Item 11. Executive Compensation

(The information called for under this Item is set forth in statements under "Directors' Fees" on pages 5 and 6 of Registrant's Proxy Statement for its 1998 Annual Meeting of Stockholders and also under "Compensation of Executive Officers" on pages 8 to 12 of such proxy statement, which statements are hereby incorporated herein by reference.)

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Beneficial Owners

(The information called for under this Item is set forth in statements under "Principal Stockholders" on page 2 of Registrant's Proxy Statement for its 1998 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 1998 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 1998 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.)

Item 14. Exhibits, Financial Statement Schedules and Reports on Form

8-K

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

<TABLE>
<CAPTION>

	Sequential Page Number -----
<S>	<C>
(A) Consolidated Statements of Operations for the Year ended March 31, 1998, the period January 1, 1997-March 31, 1997 and the Years ended December 31, 1996 and 1995;.....	19
(B) Consolidated Balance Sheets as of March 31, 1998 and December 31, 1996;.....	20
(C) Consolidated Statements of Cash Flows for the Year ended March 31, 1998, the period January 1, 1997-March 31, 1997 and the Years ended December 31, 1996 and 1995;.....	21
(D) Consolidated Statements of Changes In Shareholders' Equity for the Year ended March 31, 1998, the period January 1, 1997-March 31, 1997 and the Years ended December 31, 1996 and 1995;.....	22

(E)	Notes to Consolidated Financial Statements; and.....	23-47
(F)	Report of Independent Auditors.....	49

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

<TABLE>
<CAPTION>

	Sequential Page Number -----
<S>	<C>
(A)	The items set forth in Items 14(a)(1)(A) through (E) above; and.....
	19-47 -----
(B)	Independent Auditors' Report on Financial Statement Schedules.....
	53
	Financial Statement Schedules for the Year ended March 31, 1998, the period January 1, 1997- March 31, 1997 and the Years ended December 31, 1996 and 1995 as follows:
(i)	Condensed Financial Information of Registrant (Schedule I).....
	54-56
(ii)	Valuation and Qualifying Accounts (Schedule II).....
	57

</TABLE>

51 of 62

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.

52 of 62

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 March 31, 1998 and December 31, 1996, for the year ended March 31, 1998, for the three month period ended March 31, 1997, and for the years ended December 31, 1996 and 1995 and have issued our report thereon dated May 22, 1998 (which expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting for revenue recognition from the completed contract to the percentage-of-completion method for certain long-term contracts); 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.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
May 22, 1998

53 of 62

GRAHAM CORPORATION AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Year Ended 3/31/98 -----	Three Months Ended 3/31/97 -----	Year Ended 12/31/96 -----	Year Ended 12/31/95 -----
<S>	<C>	<C>	<C>	<C>
Costs and expenses:				
General and administrative.....	\$2,104,000	\$ 542,000	\$1,703,000	\$1,423,000
Interest expense.....	42,000	13,000	72,000	98,000
	-----	-----	-----	-----
Parent company operating loss before income tax benefit.....	2,146,000	555,000	1,775,000	1,521,000
Benefit for income taxes.....	(705,000)	(188,000)	(491,000)	(580,000)
	-----	-----	-----	-----
Net parent company operating loss.....	1,441,000	367,000	1,284,000	941,000
	-----	-----	-----	-----
Equity in earnings of continuing subsidiaries.....	8,024,000	1,590,000	6,135,000	4,169,000
Less expenses directly allocable to continuing subsidiaries:				
Research and development.....	404,000	91,000	375,000	276,000
Provision for income taxes.....	2,413,000	511,000	1,374,000	1,591,000
	-----	-----	-----	-----
Equity in net earnings of subsidiaries.....	5,207,000	988,000	4,386,000	2,302,000
	-----	-----	-----	-----
Income from continuing operations.....	3,766,000	621,000	3,102,000	1,361,000
	-----	-----	-----	-----
Equity in net losses of discontinued subsidiaries.....				(182,000)
	-----	-----	-----	-----
Net income	\$3,766,000	\$ 621,000	\$3,102,000	\$1,179,000
	=====	=====	=====	=====

</TABLE>

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 subsidiaries were \$2,729,000, \$829,000, \$3,650,000, and \$1,750,000 in 1998, 1997, 1996 and 1995, respectively.

54 of 62

GRAHAM CORPORATION AND SUBSIDIARIES*

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED BALANCE SHEET

<TABLE>
<CAPTION>

	3/31/98 -----	12/31/96 -----
ASSETS		
<S>	<C>	<C>
Prepaid expenses.....	\$ 95,000	\$ 86,000
Due from subsidiaries.....	501,000	353,000
	-----	-----
Total current assets.....	596,000	439,000
Property, plant & equipment, net.....	400,000	339,000

Investment in subsidiaries.....	18,475,000	12,457,000
Other assets.....	5,000	21,000
	-----	-----
	\$19,476,000	\$13,256,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of long-term debt.....	\$ 206,000	\$ 200,000
Accounts payable.....	180,000	148,000
Other current liabilities.....	969,000	478,000
	-----	-----
Total current liabilities.....	1,355,000	826,000
Long-term debt.....	238,000	475,000
Deferred compensation.....	108,000	40,000
	-----	-----
	1,701,000	1,341,000
	-----	-----
Shareholders' equity:		
Preferred stock, \$1 par value - authorized, 500,000 shares		
Common stock, \$1.10 par value - authorized, 6,000,000 shares issued, 1,690,595 shares in 1998 and 1,586,155 shares in 1996.....	169,000	159,000
Capital in excess of par value.....	4,521,000	3,210,000
Cumulative foreign currency translation adjustment.....	(1,781,000)	(1,748,000)
Retained earnings.....	15,362,000	10,975,000
	-----	-----
	18,271,000	12,596,000
Less:		
Treasury stock.....	(71,000)	(6,000)
Employee Stock Ownership Plan loan payable.....	(425,000)	(675,000)
	-----	-----
Total shareholders' equity	17,775,000	11,915,000
	-----	-----
	\$19,476,000	\$13,256,000
	=====	=====

</TABLE>

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

* Information is presented for the parent company only.

55 of 62

GRAHAM CORPORATION AND SUBSIDIARIES*

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended 31/31/98 -----	Three Months Ended 3/31/97 -----	Year Ended 12/31/96 -----	Year Ended 12/31/95 -----
<S>	<C>	<C>	<C>	<C>
Net cash provided (used) by operating activities.....	\$ (860,000)	\$ (5,000)	\$ 76,000	\$ 3,000
	-----	-----	-----	-----
Investing activities:				
Purchase of property, plant and equipment.....	(102,000)	(8,000)	(112,000)	
Proceeds from sale of property, plant and equipment.....		1,000	6,000	
	-----	-----	-----	-----
Net cash used by investing activities	(102,000)	(7,000)	(106,000)	
	-----	-----	-----	-----
Financing Activities:				
Principal repayments of long-term debt			(8,000)	(8,000)
Issuance of common stock.....	1,020,000	12,000	38,000	11,000

Purchase of treasury stock.....	(71,000)			(6,000)
Sale of treasury stock.....	13,000			
	-----	-----	-----	-----
Net cash provided (used) by financing activities.....	962,000	12,000	30,000	(3,000)
	-----	-----	-----	-----
Net increase in cash and equivalents.....	0	0	0	0
Cash and equivalents at beginning of year.....	0	0	0	0
	-----	-----	-----	-----
Cash and equivalents at end of year	\$ 0	\$ 0	\$ 0	\$ 0
	=====	=====	=====	=====

</TABLE>

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

* Information is presented for the parent company only.

56 of 62

GRAHAM CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

<TABLE>					
<CAPTION>					
Balance at end of Description Period	Balance at beginning of Period	Charged to costs and Expenses	Charged to other Accounts	Deductions	
-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>
Year ended March 31, 1998					
Reserves deducted from the asset to which they apply:					
23,000	Reserve for doubtful accounts \$ 31,000	\$ 4,000	\$ 2,000 (d)	\$ (14,000)	\$
42,000	Reserve for inventory obsolescence 108,000	39,000	1,000 (b)	(106,000)	
250,000	Reserves included in the balance sheet caption Other Long-term liabilities: Reserve for contingencies 248,000	104,000		(102,000)	
0	Reserve for discontinued operations 271,000		(6,000) (c)	(265,000) (a)	
315,000	-----	-----	-----	-----	-----
	\$ 658,000	\$ 147,000	\$ (3,000)	\$ (487,000)	\$
	=====	=====	=====	=====	
Three months ended March 31, 1997					
Reserves deducted from the asset to which they apply:					
31,000	Reserve for doubtful accounts \$ 40,000	\$ 9,000	\$ (1,000) (b)	\$ (17,000)	\$
108,000	Reserve for inventory obsolescence 103,000	9,000	(4,000) (b)		
248,000	Reserves included in the balance sheet caption Other Long-term liabilities: Reserve for contingencies 257,000			(9,000)	
271,000	Reserve for discontinued operations 392,000		(16,000) (b)	(105,000) (a)	
	-----	-----	-----	-----	-----

-----		\$ 792,000	\$ 18,000	\$ (21,000)	\$ (131,000)	\$
658,000		=====	=====	=====	=====	

Year ended December 31, 1996						
Reserves deducted from the asset to which they apply:						
40,000	Reserve for doubtful accounts	\$ 81,000	\$ 26,000	\$ 11,000 (b)	\$ (78,000)	\$
	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:					
257,000	Reserve for contingencies		260,000		(3,000)	
	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:						
81,000	Reserve for doubtful accounts	\$ 119,000	\$ 42,000		\$ (80,000)	\$
	Reserve for inventory obsolescence	236,000	1,000	\$ (3,000) (b)	(12,000)	
222,000						
	Reserves included in the balance sheet caption Other Long-term 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		=====	=====	=====	=====	

</TABLE>

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

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

Exhibit No.

- *3.1 (i) Articles of Incorporation of Graham Corporation
- 3.2 (ii) By-laws of Graham Corporation
- *4.1 (a) Certificate of Incorporation of Graham Corporation (included as Exhibit 3.1)
- **4.2 (b) Shareholder Rights Plan of Graham Corporation

***10.1	1989 Stock Option and Appreciation Rights Plan of Graham Corporation
****10.2	1995 Graham Corporation Incentive Plan to Increase Shareholder Value
10.3	Graham Corporation Outside Directors' Long-Term Incentive Plan
10.4	Employment Contracts between Graham Corporation and Named Executive Officers
10.5	Senior Executive Severance Agreements with Named Executive Officers
11	Statement regarding computation of per share earnings <p style="margin-left: 40px;">Computation of per share earnings is included in Note 1 of the Notes to Consolidated Financial Statements</p>
18	Letter regarding change in accounting principles
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 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.

(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.

58 of 62

Cross Reference Sheet for Annual Report on Form 10-K for the year ended March 31, 1998, 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 1998 Annual Meeting of Stockholders where that information appears.

<TABLE> <CAPTION> FORM 10-K: PART NO Item No. and Caption -----	Regulation S-K Item No. and Caption -----	Proxy Statement for 1998 Annual Meeting of Stockholders ----- Caption:	Page: <C>
<S> Item 10. Directors and Executive Officers of Registrant	<C> Item 401. Directors and Executive Officers	Election of Directors	3-7
	Item 405. Directors and Executive Officers	Disclosure Pursuant to Item 405 of SEC Regulation S-K	7
Item 11. Executive Compensation	Item 401. Executive Compensation	Directors' Fees Compensation of Executive Officers	5-6 8-12
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 Election of Directors Executive Officers	2 3-6 7
Item 13. Certain Relationships and Related Transactions	Item 404(a). Transactions with Management and Others	Principal Stockholders Election of Directors	2 3-6

</TABLE>

59 of 62

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

GRAHAM CORPORATION

DATE: June 15, 1998

By /s/ J. Ronald Hansen

J. Ronald Hansen
Vice President-Finance & Administration
and Chief Financial Officer (Principal
Accounting Officer)

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

<TABLE>	<C>	<C>
<S>		
Signature		
/s/ Alvaro Cadena ----- Alvaro Cadena	President and Chief Executive Officer; Director	June 15, 1998
/s/ J. Ronald Hansen ----- J. Ronald Hansen	Vice President-Finance & Administration and Chief Financial Officer (Principal Accounting Officer)	June 15, 1998
/s/ Philip S. Hill ----- Philip S. Hill	Director	June 15, 1998
/s/ Cornelius S. Van Rees ----- Cornelius S. Van Rees	Director	June 15, 1998
/s/ Jerald D. Bidlack ----- Jerald D. Bidlack	Director; Chairman of the Board	June 15, 1998
/s/ Helen H. Berkeley ----- Helen H. Berkeley	Director	June 15, 1998
/s/ H. Russel Lemcke ----- H. Russel Lemcke	Director	June 15, 1998

</TABLE>

60 of 62

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

EXHIBITS

filed with

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)

of

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED March 31, 1998

GRAHAM CORPORATION

61 of 62

GRAHAM CORPORATION

FORM 10-K

March 31, 1998

EXHIBIT
NUMBER

DESCRIPTION OF DOCUMENT

3.2	By-laws of Graham Corporation
10.3	Graham Corporation Outside Directors' Long-Term Incentive Plan
10.4	Employment Contracts between Graham Corporation and Named Executive Officers
10.5	Senior Executive Severance Agreements with Named Executive Officers
18	Letter regarding change in accounting principles
21	Subsidiaries of the Registrant
23	Consent of Deloitte & Touche LLP
27	Financial Data Schedule

62 of 62

BY-LAWS
OF
GRAHAM CORPORATION
(a Delaware Corporation)

ARTICLE 1

DEFINITIONS

As used in these By-Laws, unless the context otherwise requires, the term:

1.1 "Board" means the board of directors of the Corporation.

1.2 "By-laws" means these by-laws of the Corporation, as amended from time to time.

1.3 "Certificate of Incorporation" means the original certificate of incorporation of the Corporation filed on March 7, 1983 to form the Corporation, as amended, supplemented or restated by certificates of amendment, merger or consolidation or other certificates or instruments filed or issued under any statute from time to time after the aforesaid date of filing of such original certificate.

1.4 "Corporation" means GRAHAM CORPORATION.

1.5 "Directors" means the directors of the Corporation.

1.6 "Principal Office of the Corporation" means the principal office of the Corporation located at 20 Florence Avenue, Batavia, New York 14020.

1.7 "Plurality Vote" means the greater number of votes cast for one nominee for an office than the votes cast for any other nominee for the same office.

1.8 "Shareholders" means the shareholders of the Corporation.

ARTICLE 2

OFFICES

2.1 Principal Office. In addition to the principal office, the Corporation may have offices and places of business at such other places, within or without the State of Delaware, as the Board may from time to time determine.

ARTICLE 3

SHAREHOLDERS

3.1 Place of Meetings. Every meeting of the shareholders shall be held at the principal office of the Corporation or at such other place within or without the State of Delaware as may be fixed from time to time, by the Board, which place shall be specified in the notice or waiver of notice thereof.

3.2 Annual Meeting for Election of Directors. The annual meeting of shareholders for the election of directors and the transaction of other business shall be held on the first Wednesday in May of each year at 12 o'clock noon (or at such other hour as may be designated in the notice of meeting), or, if the foregoing date falls on a legal holiday, on the first business day thereafter which is not a Saturday, Sunday or legal holiday, unless a different date and time be fixed, from time to time, by the Board.

3.3 Special Meetings. A special meeting of shareholders unless otherwise prescribed by statute, may be called at any time by the Chairman of the Board or the President or in the absence or disability of the Chairman of the Board and the President a meeting of shareholders may be called by the Secretary, and shall be called by the Secretary on the written request of at least seventy-five percent (75%) of the Directors, which written request shall state the purpose or purposes of such meeting. At a special meeting of shareholders, no business shall be transacted and no corporate action shall be taken other than that stated in the notice of meeting.

3.4 Fixing Record Date. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal

without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board may fix, in advance, a date as the record date for any such determination of shareholders. Such date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting nor more than sixty (60) days prior to any other action. If no record date is fixed: (i) the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (ii) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board of directors is necessary, shall be the day on which the first written consent is expressed; and (iii) the record date for determining shareholders for any purpose, other than those specified in clauses (i) and (ii) hereof, shall be at the close of business on the day on which the resolution of the Board relating thereto is adopted. When a determination has been made of shareholders entitled to notice of or to vote at a meeting of shareholders as herein provided, such determination shall apply to any adjournment of such meeting, unless the Board fixes a new record date for the adjourned meeting.

3.5 Notice of Meetings of Shareholders. Whenever under any provision of law or the Certificate of Incorporation or these By-Laws, shareholders are required or permitted to take any action at a meeting, the notice of that meeting shall state the place, date and hour of the meeting and unless it is the annual meeting, indicate that it is being issued by or at the direction of the person or persons calling the meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting is called. Notice of any annual or special meeting of shareholders shall be given, personally or by mail, not less than ten (10) nor more than sixty (60) days before the date of such meeting to each shareholder entitled to vote thereat. If mailed, such notices shall be deemed to be given when deposited in the United States Mail, with postage thereon prepaid, directed to the shareholder at his address as it appears on the record of shareholders, or, if he shall have filed with the Secretary of the Corporation a written request that notice to him be mailed to some other address, then directed to him at such other address. An affidavit of the Secretary or of the transfer agent of the Corporation that the notice required by this section has been given shall, in the absence of fraud, be prima facie evidence of the facts therein stated. When a meeting is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned is announced at the meeting at which the adjournment is taken, and at the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. However, if the adjournment is for more than thirty (30) days or if, after the adjournment, the Board fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record who is entitled to vote at the meeting.

3.6 Waiver of Notice. Notice of meeting need not be given to any shareholder who signs a waiver of notice, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, shall constitute a waiver of notice by him, except when the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

3.7 List of Shareholders at Meetings. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

3.8 Quorum of Shareholders. Except as otherwise provided in these By-Laws or in the Certificate of Incorporation, the holders of record of a majority of the shares entitled to vote thereat shall constitute a quorum at a meeting of shareholders for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series, voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such specified item of business. When a quorum is once present to

organize a meeting, it is not broken by the subsequent withdrawal of any shareholder. The shareholders present may adjourn the meeting despite the absence of a quorum.

3.9 Organization. At every meeting of the shareholders, the Chairman of the Board, or an individual appointed by him, who may be, but does not have to be, an officer of the Corporation, shall act as Chairman of the meeting. The Secretary of the Corporation, or in his absence one of the Assistant Secretaries of the Corporation, shall act as Secretary of the meeting.

3.10 Order of Business. The Chairman of the meeting shall conduct all meetings of the shareholders in accordance with the best interests of the Corporation. The order of business at all such meetings shall be as determined by the Chairman of the meeting. The Chairman of the meeting shall have the authority and discretion to establish reasonable procedural rules for the conduct of the meeting, including regulation of the manner of voting and the conduct of discussion as he or she shall deem appropriate. The Chairman of the meeting shall also have the authority to adjourn the meeting from time to time and place to place as he or she may deem necessary and in the best interests of the Corporation.

3.11 Inspectors of Election. The Board, in advance of any shareholders' meeting, may appoint one or more inspectors to act at the meeting or any adjournment thereof. If inspectors are not so appointed, the person presiding at a shareholders' meeting may, and on the request of any shareholder entitled to vote thereat shall, appoint inspectors. If appointed on the request of one or more shareholders, the holders of a majority of shares present and entitled to vote thereat shall determine the number of inspectors to be appointed. In case any person appointed fails to appear or act, the vacancy may be filled by appointment made by the Board in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his duties shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares outstanding, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

3.12 Voting; Proxies. Each shareholder entitled to vote at any meeting may vote either in person or by proxy. Unless otherwise specified in the Certificate of Incorporation or in a resolution, or resolutions, of the Board providing for the issuance of preferred stock, each shareholder entitled to vote shall be entitled to one vote for each share of capital stock registered in his or her name on the transfer books or records of the Corporation. Each shareholder entitled to vote may authorize another person or persons to act for him or her by proxy. All proxies shall be in writing, signed by the shareholder or by his or her duly authorized attorney-in-fact, and shall be filed with the Secretary before being voted. No proxy shall be valid after three (3) years

from the date of its execution unless otherwise provided in the proxy. The attendance at any meeting by a shareholder who shall have previously given a proxy applicable thereto shall not, as such, have the effect of revoking the proxy. The Corporation may treat any duly executed proxy as not revoked and in full force and effect until it receives a duly executed instrument revoking it, or a duly executed proxy bearing a later date. If ownership of a share of voting stock of the Corporation stands in the name of two or more persons, in the absence of written directions to the Corporation to the contrary, any one or more of such shareholders may cast all votes to which such ownership is entitled. If an attempt is made to cast conflicting votes by the several persons in whose names shares of stock stand, the vote or votes to which those persons are entitled shall be cast as directed by a majority of those holding such stock and present at such meeting. If such conflicting votes are evenly split on any particular matter, each faction may vote the securities in question proportionally, or any person voting the shares, or a beneficiary, if any, may apply to the Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the persons so voting the shares, which shall then be voted as determined by a majority of such persons and the person

appointed by the Court. Except for the election of directors or as otherwise provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of shareholders, all matters shall be determined by a vote of the holders of a majority of the number of votes eligible to be cast by the holders of the outstanding shares of capital stock of the Corporation present and entitled to vote thereat. Directors shall, except as otherwise required by law, these Bylaws or the Certificate of Incorporation, be elected by a plurality of the votes cast by each class of shares entitled to vote at a meeting of shareholders, present and entitled to vote in the election.

3.13 Written Consent of Shareholders. Any action required to be taken at any annual or special meeting of shareholders of the corporation, or any action which may be taken at any annual or special meeting of such shareholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those shareholders who have not consented in writing.

3.14 Procedure for Nominations. Subject to the provisions hereof, the Nominating Committee of the Board shall select nominees for election as directors. Except in the case of a nominee substituted as a result of the death, incapacity, withdrawal or other inability to serve of a nominee, the Nominating Committee shall deliver written nominations to the Secretary at least sixty (60) days prior to the date of the annual meeting. Provided the Nominating Committee makes such nominations, no nominations for directors except those made by the Nominating Committee shall be voted upon at the annual meeting of shareholders unless other nominations by shareholders are made in accordance with the provisions of this Section 3.14. Nominations of individuals for election to the Board at an annual meeting of shareholders may be made by any shareholder of record of the Corporation entitled to vote for the election of directors at such meeting who provides timely notice in writing to the Secretary as set forth in this Section 3.14. To be timely, a shareholder's notice must be delivered to or received by the Secretary not later

than the following dates: (i) with respect to an election of directors to be held at an annual meeting of shareholders, sixty (60) days in advance of such meeting if such meeting is to be held on a day which is within thirty (30) days preceding the anniversary of the previous year's annual meeting, or ninety (90) days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (ii) with respect to an election to be held at an annual meeting of shareholders held at a time other than within the time periods set forth in the immediately preceding clause (i), or at a special meeting of shareholders for the election of directors, the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to shareholders. For purposes of this Section 3.14, notice shall be deemed to first be given to shareholders when disclosure of such date of the meeting of shareholders is first made in a press release reported to Dow Jones News Services, Associated Press or comparable national news service, or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) such person's written consent to serve as a director, if elected, and (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission (whether or not the Corporation is then subject to such rules); and (b) as to the shareholder giving the notice (i) the name and address of such shareholder as they appear on the books and records of the Corporation, (ii) the class and number of shares of the Corporation which are owned of record by such shareholder and the dates upon which he or she acquired such shares, (iii) a description of all arrangements or understandings between the shareholder and nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the shareholder, and (iv) the identification of any person employed, retained, or to be compensated by the shareholder submitting the nomination or by the person nominated, or any person acting on his or her behalf to make solicitations or recommendations to shareholders for the purpose of assisting in the election of such director, and a brief description of the terms of such employment, retainer or arrangement for compensation. At the request of the Board, any person nominated by the Nominating Committee for election as a director shall furnish to the Secretary that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee together with the required written consent. No person shall be elected as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 3.14.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not properly brought before the meeting in accordance with the provisions hereof and, if he should so determine, he shall declare to the meeting that such nomination was not properly brought before the meeting and shall not be considered.

3.15 Substitution of Nominees. In the event that a person is validly designated as a nominee in accordance with Section 3.14 of this Article III and shall thereafter become unwilling or unable to stand for election to the Board, the Nominating Committee may designate a substitute nominee upon delivery, not fewer than five (5) days prior to the date of the meeting for

the election of such nominee, of a written notice to the Secretary setting forth such information regarding such substitute nominee as would have been required to be delivered to the Secretary pursuant to Section 3.14 of this Article III had such substitute nominee been initially proposed as a nominee. Such notice shall include a signed consent to serve as a director of the Corporation, if elected, of each such substituted nominee.

3.16 New Business. Any new business to be taken up at the annual meeting at the request of the Chairman of the Board, the President or by resolution of at least three-fourths of the entire Board shall be stated in writing and filed with the Secretary at least fifteen (15) days before the date of the annual meeting, and all business so stated, proposed and filed shall be considered at the annual meeting, but, except as provided in this Section 3.16, no other proposal shall be acted upon at the annual meeting. Any proposal offered by any shareholder may be made at the annual meeting and the same may be discussed and considered, but unless properly brought before the meeting such proposal shall not be acted upon at the meeting. For a proposal to be properly brought before an annual meeting by a shareholder, the shareholder must be a shareholder of record and have given timely notice thereof in writing to the Secretary. To be timely, a shareholder's notice must be delivered to or received by the Secretary not later than the following dates: (i) with respect to an annual meeting of shareholders, sixty (60) days in advance of such meeting if such meeting is to be held on a day which is within thirty (30) days preceding the anniversary of the previous year's annual meeting, or ninety (90) days in advance of such meeting if such meeting is to be held on or after the anniversary of the previous year's annual meeting; and (ii) with respect to an annual meeting of shareholders held at a time other than within the time periods set forth in the immediately preceding clause (i), the close of business on the tenth (10th) day following the date on which notice of such meeting is first given to shareholders. For purposes of this Section 3.16, notice shall be deemed to first be given to shareholders when disclosure of such date of the meeting of shareholders is first made in a press release reported to Dow Jones News Services, Associated Press or comparable national news service, or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended. A shareholder's notice to the Secretary shall set forth as to the matter the shareholder proposes to bring before the annual meeting (a) a brief description of the proposal desired to be brought before the annual meeting; (b) the name and address of the shareholder proposing such business as they appear on the books and records of the Corporation; (c) the class and number of shares of the Corporation which are owned of record by the shareholder and the dates upon which he or she acquired such shares; (d) the identification of any person employed, retained, or to be compensated by the shareholder submitting the proposal, or any person acting on his or her behalf, to make solicitations or recommendations to shareholders for the purpose of assisting in the passage of such proposal, and a brief description of the terms of such employment, retainer or arrangement for compensation; (e) any material interest of the shareholder in the business proposed; and (f) such other information regarding such proposal as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission or required to be delivered to the Corporation pursuant to the proxy rules of the Securities and Exchange Commission (whether or not the Corporation is then subject to such rules). This provision shall not prevent the consideration and approval or disapproval at an annual meeting of reports of officers, directors and committees of the Board or the management

of the Corporation, but in connection with such reports, no new business shall be acted upon at such annual meeting unless stated and filed as herein provided. This provision shall not constitute a waiver of any right of the Corporation under the proxy rules of the Securities and Exchange Commission or any other rule or regulation to omit a shareholder's proposal from the Corporation's proxy materials.

The Chairman of the meeting shall, if the facts warrant, determine and

declare to the meeting that any new business was not properly brought before the meeting in accordance with the provisions hereof and, if he should so determine, he shall declare to the meeting that such new business was not properly brought before the meeting and shall not be considered.

ARTICLE 4

DIRECTORS

4.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of its Board. The Board may adopt such rules and regulations, not inconsistent with applicable laws or the Certificate of Incorporation or these By-Laws as it may deem proper for the conduct of its meetings and the management of the Corporation.

4.2 Number; Qualification; Terms of Office. The number of directors constituting the entire Board shall not be less than three (3) nor more than twelve (12). Within said limits the number of directors shall be fixed from time to time by resolution adopted by a majority of the entire Board of Directors. Each director shall be at least 21 years of age.

Except as otherwise provided by law or by these By-Laws the directors shall be elected at the annual meeting of the shareholders in each year. The directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of one class expiring each year; i.e., as to the Corporation's First Board of Directors; at the 1983 annual meeting of shareholders, for directors of the first class; at the 1984 annual meeting, for directors of the second class; and at the 1985 annual meeting, for directors of the third class.

At each annual meeting of the shareholders successors to the directors whose terms shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting of shareholders.

The foregoing notwithstanding, each director shall serve until his successor has been elected and qualified, or until his earlier resignation, disqualification or removal.

4.3 Election. Directors shall, except as otherwise provided by applicable laws, be elected at the annual meeting of shareholders by a plurality vote of the holders of shares entitled to vote in the election.

4.4 Organization. Meetings of the Board shall be presided over by the Chairman of the Board or such other director or officer as the Chairman of the Board shall designate, and in the absence or incapacity of the Chairman of the Board, the presiding officer shall be the then senior member of the Board in terms of length of service on the Board (which length of service shall include length of service on the Board of Directors of Graham Manufacturing Co., Inc. and any predecessors thereto). The Secretary or, in his absence, a person appointed by the Chairman of the Board (or other presiding person), shall act as secretary of the meeting. The Chairman of the Board (or other person presiding) shall conduct all meetings of the Board in accordance with the best interests of the Corporation and shall have the authority and discretion to establish reasonable procedural rules for the conduct of Board meetings. At the discretion of the Chairman of the Board, any one or more directors may participate in a meeting of the Board or a committee of the Board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at any such meeting.

4.5 Place of Meeting, etc. The Board may hold its meetings within or without the State of Delaware at such places as the Board may from time to time by resolution determine or (unless contrary to resolution of the Board) at such place as shall be specified in the notice of the meeting.

4.6 Annual Meeting. After each annual election of directors, the Board may meet, without notice of such meeting, for the purposes of election of officers, and the transaction of other business, on the day when and at the place where such annual election is held, and as soon as practicable after such annual election. Such annual meeting may be held at any other time and place specified in a notice given as hereinafter provided for special meetings of the Board or in a consent and waiver of notice thereof.

4.7 Regular Meetings. Regular meetings of the Board may be held at such times and places as may be fixed from time to time by the Board; and, unless required by the Board, notice of any such meeting need not be given. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting, which would otherwise be held on that day, shall be held at the same hour at such place on the next succeeding business day which is not a Saturday or Sunday.

4.8 Special Meetings. Special meetings of the Board may be called for any

purpose at any time by or at the request of the Chairman of the Board or the President. Special meetings of the Board shall also be called by the Secretary upon the written request, stating the purpose or purposes of the meeting, of at least seventy-five percent (75%) of the directors then in office. The persons authorized to call special meetings of the Board shall give notice of such meetings in the manner prescribed by these Bylaws and may fix any place, within or without the Corporation's regular business area, as the place for holding any special meeting of the Board called by such persons. No business shall be conducted at a special meeting other than that specified in the notice of meeting.

4.9 Waivers of Notice of Meetings. Except as otherwise provided in this Article IV, at

least twenty-four (24) hours notice of meetings shall be given to each director if given in person or by telephone, telegraph, telex, facsimile or other electronic transmission and at least five (5) days notice of meetings shall be given if given in writing and delivered by courier or by postage prepaid mail. The purpose of any special meeting shall be stated in the notice. Such notice shall be deemed given when sent or given to any mail or courier service or company providing electronic transmission service. Any director may waive notice of any meeting by submitting a signed waiver of notice with the Secretary, whether before or after the meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

4.10 Telephonic Meetings. Any one or more members of the Board or any Committee thereof may participate in a meeting of the Board or such Committee by means of conference telephone or similar communication equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at such meeting.

4.11 Quorum and Manner of Acting. A majority of the members of the Board then in office shall constitute a quorum for the transaction of business and the vote of a majority of the directors present at the time of the vote, if a quorum is present at such time, shall be the act of the Board in all transactions, except those in which a greater vote is required by law, by the Certificate of Incorporation, or by the By-laws, and in such transactions the vote of such greater number of directors shall be the act of the Board. In the absence of a quorum a majority of the directors present may adjourn any meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

4.12 Resignations. Any directors of the Corporation may resign at any time by written notification addressed to the President or the Secretary of the Corporation. Such resignation shall take effect upon receipt, and, unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective.

4.13 Removal of Directors. Any or all of the directors may be removed at any time but only for cause by the shareholders at any meeting of shareholders, called for the purpose, by the affirmative vote of 75% of the shares of the Corporation entitled to vote and, if a corporation, person or other entity owns more than 50% of the shares of the Corporation entitled to vote, by the affirmative vote of the holders of a majority of the shares of the Corporation entitled to vote and not owned by the majority shareholder.

4.14 Vacancies. To the extent not inconsistent with the Certificate of Incorporation and subject to the limitations prescribed by law and the rights of holders of Preferred Stock, vacancies in the office of director, including vacancies created by newly created directorships resulting from an increase in the number of directors, shall be filled only by a vote of a majority of the directors then holding office, whether or not a quorum, at any regular or special meeting of the Board called for that purpose. Subject to the rights of holders of Preferred Stock, no person shall be so elected a director unless nominated by the Nominating Committee. Subject to the

rights of holders of Preferred Stock, any director so elected shall serve for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until his or her successor shall be elected and qualified.

4.15 Compensation. Each director, in consideration of his serving as such, shall be entitled to receive from the Corporation such reasonable amount per annum or such reasonable fees for attendance at directors' meetings, or both, as the Board shall from time to time determine, together with reimbursement for the reasonable expenses incurred by him in connection with the performance of his duties. Each director who shall serve as a member of the Executive Committee, if

any, or any other committee of the Board, in consideration of his serving as such, shall be entitled to such additional amount per annum or such fees for attendance at committee meetings, or both, as the Board shall from time to time determine. Nothing in this section contained shall preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation therefor.

4.16 Board Action Without a Meeting. Whenever any action is required or permitted to be taken by the Board or any committee thereof, such action may be taken without a meeting if all members of the Board or the committee consent in writing to the adopting of a resolution authorizing the action and the resolution and the written consents thereto by the members of the Board or committee are filed with the minutes of the proceedings of the Board or committee.

ARTICLE 5

COMMITTEES

5.1 How Constituted and Powers. By resolution adopted by a majority of the entire Board, the directors may designate from their number three or more directors to constitute an Executive Committee and other committees other than the Nominating Committee, each of which, to the extent provided in the resolution designating it, shall have the authority of the Board of Directors with the exception of any authority the delegation of which is prohibited by law.

5.2 Nominating Committee. By resolution adopted by at least seventy-five percent (75%) of the entire Board, the directors shall designate from their number at least three (3) but no more than four (4) directors, to constitute a Nominating Committee. No member of the Nominating Committee shall vote on his or her own nomination. The Nominating Committee shall review qualifications of and interview candidates for the Board and shall make nominations for election of board members in accordance with the provisions of these Bylaws. A quorum shall consist of at least one-third of the members of the Committee, and in no event less than two (2) members of the Committee. The Board may remove a member of the Nominating Committee from the Committee, with or without cause, only by a vote of at least seventy-five per cent (75%) of the entire Board at any regular or special meeting of the Board called for that purpose, provided that no ex-officio member of the Committee may be removed from the Committee as long as such member remains a director of the Corporation.

ARTICLE 6

OFFICERS

6.1 Officers. The Board shall, as soon as practicable after the annual meeting of shareholders in each year elect a Chairman of the Board, a President, a Treasurer and a Secretary, each to have such functions or duties as are provided in these By-laws or as the Board may from time to time determine and each to hold office for the term for which he is elected and until his successor shall have been duly chosen and shall qualify, or until his death, or until he shall resign or shall have been removed in the manner hereinafter provided. No officer need be a director. The Board may, from time to time, appoint other officers or assistant officers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these By-laws or as the Board may from time to time determine. Any two or more offices may be held by the same person, except the offices of President and Secretary.

6.2 Removal of Officers. Except for the Chairman of the Board, the Chief Executive Officer or the President, any officer may be removed at any regular meeting of the Board with or without cause by an affirmative vote of a majority of the entire Board. The Board may remove the Chairman of the Board, the Chief Executive Officer or the President at any time, with or without cause, only by a vote of seventy-five percent (75%) of the non-officer directors then holding office at any regular or special meeting of the Board called for that purpose. Removal of an officer, however effected, shall be without prejudice to his contract rights, if any. Appointment or election of an officer shall not of itself create contract rights.

6.3 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause may be filled for the unexpired portion of the term by the Board at any regular or special meeting provided notice of such intent is given.

6.4 Compensation. Salaries or other compensation of the officers may be fixed from time to time by the Board. No officer shall be prevented from receiving a salary or other compensation by reason of the fact that he is also a director of the Corporation.

6.5 Chairman of the Board. The Chairman of the Board shall preside at all meetings of the shareholders and at all meetings of the Board and shall have such other powers and duties as may from time to time be assigned to him by the

Board.

6.6 President. The President shall have general supervision over the business of the Corporation, subject, however, to the control of the Board and of any duly authorized committee of directors. He may, with the Treasurer or the Secretary or an Assistant Treasurer or an Assistant Secretary, sign certificates for shares of the Corporation. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by any duly authorized committee of directors or by these By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed, and, in general,

he shall perform all duties incident to the office of President and such other duties as from time to time may be assigned to him by the Board or by any duly authorized committee of directors. The President shall hire, appoint, discharge and fix the compensation of all employees, agents and representatives of the Corporation, other than the duly elected or appointed officers, subject to the general supervision of the Board.

6.7 Vice Presidents. At the request of the President, or in his absence or disability, at the request of the Board, the Vice Presidents in the order determined by the Board shall perform all the duties of the President and so acting shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may also, with the Treasurer or the Secretary or an Assistant Treasurer or an Assistant Secretary, sign certificates for shares of the Corporation; may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board or by any duly authorized committee of directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by any duly authorized committee of directors or by these By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and shall perform such other duties as from time to time may be assigned to him by the Board or by any duly authorized committee of directors or by the President.

6.8 Treasurer. The Treasurer shall, if required, by the Board, give a bond for the faithful discharge of his duties, in such sum and with such sureties as the Board shall determine. He shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with these By-laws; against proper vouchers cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined in accordance with any provision of these By-laws, and be responsible for the accuracy of the amounts of all money so disbursed; regularly enter or cause to be entered in books to be kept by him or under his direction full and adequate account of all moneys received or paid by him for the account of the Corporation; have the right to require, from time to time, reports or statements giving such information as he may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the President, the Board or any duly authorized committee of directors, whenever the President, the Board or any duly authorized committee of directors, respectively, shall require him so to do, an account of the financial condition of the Corporation and of all his transactions as Treasurer; exhibit at all reasonable times his books of account and other records to any of the directors of the Corporation, upon application at the office of the Corporation where such books and records are kept; and in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board or by any duly authorized committee of directors or by the President; and he may sign with the President or a Vice President certificates for stock of the Corporation.

6.9 The Secretary. The Secretary shall have the duty to record the proceedings of the meetings of the shareholders and directors in a book to be kept for that purpose; he shall see that

all notices required to be given by the Corporation are duly given and served; he may, with the President or any of the Vice Presidents, sign certificates for shares of the Corporation; he shall be custodian of the seal of the Corporation and shall affix the seal or cause it to be affixed to all certificates for shares of the Corporation and to all documents the execution of which on behalf of the Corporation under its corporate seal is duly authorized in accordance with the provisions of these By-laws; he shall have charge of the stock ledger and also of the other books, records and papers of the Corporation relating to its organization and management as a Corporation, and shall see that the reports, statements and other documents required by law are properly kept and filed; and shall, in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board or by any duly authorized committee of directors or by the President.

6.10 Assistant Treasurers and Assistant Secretaries. The Assistant Treasurers shall, respectively, if required by the Board, give bonds for the

faithful discharge of their duties in such sums and with such sureties as the Board shall require. Assistant Treasurers and Assistant Secretaries shall perform such duties as shall be assigned to each of them by the Treasurer and by the Secretary, respectively, or by the Board or by any duly authorized committee of directors or by the President. Assistant Treasurers and Assistant Secretaries may, with the President or a Vice President, sign certificates for stock of the Corporation.

ARTICLE 7

CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

7.1 Checks, Drafts, Etc. All checks, drafts and other orders for the payment of money out of the funds of the Corporation and all notes or other evidences of indebtedness of the Corporation shall be signed on behalf of the Corporation in such manner as shall from time to time be determined by resolution of the Board or of any duly authorized committee of directors.

7.2 Deposits. The funds of the Corporation not otherwise employed shall be deposited from time to time to the order of the Corporation in such banks, trust companies or other depositories as the Board or any duly authorized committee of directors may select or as may be selected by an officer or officers, agent or agents, of the Corporation to whom such power may from time to time be delegated by the Board or any duly authorized committee of directors.

ARTICLE 8

STOCK AND DIVIDENDS

8.1 Transfer Agent and Registrar. The Board shall have the power to appoint one or more Transfer Agents and Registrars for the transfer and registration of certificates of stock of any class, and may require that stock certificates be countersigned and registered by one or more

of such Transfer Agents and Registrars.

8.2 Registration and Transfer of Shares. Subject to the provisions of the Certificate of Incorporation of the Corporation, the name of each person owning a share of the capital stock of the Corporation shall be entered on the books of the Corporation together with the number of shares held by him or her, the numbers of the certificates covering such shares and the dates of issue of such certificates. Subject to the provisions of the Certificate of Incorporation of the Corporation, the shares of stock of the Corporation shall be transferable on the books of the Corporation by the holders thereof in person, or by their duly authorized attorneys or legal representatives, on surrender and cancellation of certificates for a like number of shares, accompanied by an assignment or power of transfer endorsed thereon or attached thereto, duly executed, with such guarantee or proof of the authenticity of the signature as the Corporation or its agents may reasonably require and with proper evidence of payment of any applicable transfer taxes. Subject to the provisions of the Certificate of Incorporation of the Corporation, a record shall be made of each transfer.

8.3 Lost, Destroyed, Stolen and Mutilated Certificates. The Board may direct that a new certificate be issued in place of any certificate theretofore issued claimed to have been lost or destroyed, provided it has received proof satisfactory to it by affidavit or otherwise of the facts surrounding the loss or destruction of the certificate and the ownership thereof at the time of such loss or destruction. As a condition precedent to the issuance of a new certificate, the Board may also require the alleged owner to advertise the fact of the loss or destruction in a newspaper chosen by the Board and/or furnish to the Corporation a surety bond in form and amount satisfactory to it indemnifying the Corporation and its directors and officers from all claims and expenses with respect to the certificate claimed to have been lost or destroyed and the duplicate certificate issued in place thereof.

8.4 Dividends, Surplus, Etc. Subject to the provisions of the Certificate of Incorporation and the law of the State of Delaware, the Board (i) may declare dividends on the shares of the Corporation in such amounts as, in its opinion, the condition of the affairs of the Corporation shall render advisable, (ii) may use and apply, in its discretion, any of the surplus of the Corporation or the net profits arising from its business in purchasing or acquiring any of the shares of stock of the Corporation or of purchase warrants therefor in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness, and (iii) may set aside from time to time out of such surplus or net profits such sum or sums as it in its absolute discretion may think proper, as a reserve fund to meet contingencies, or equalizing dividends, or for the purpose of maintaining or increasing the property or business of the Corporation, or for any other purpose it may think conducive to the best interest of the Corporation.

8.5 Holder of Record. Subject to the provisions of the Certificate of Incorporation of the Corporation, the Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder thereof in fact and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall

have express or other notice thereof, except as otherwise expressly provided by law.

ARTICLE 9

FORM OF RECORDS

Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, micro-photographs, or any other information storage device, provided that the records so kept can be converted into clearly legible written form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

ARTICLE 10

SEAL

The Board shall provide a corporate seal which shall be in the form of a circle and shall bear the full name of the Corporation and the year of its incorporation, 1983.

ARTICLE 11

FISCAL YEAR

The Fiscal Year of the Corporation shall be the calendar year unless otherwise determined by the Board of Directors.

ARTICLE 12

VOTING OF STOCK HELD

Unless otherwise provided by resolution of the Board, the President may, from time to time, appoint an attorney or attorneys or agent or agents of this Corporation, including himself, in the name and on behalf of the Corporation to cast the votes which the Corporation may be entitled to cast as a stockholder or otherwise in any other corporation, any of whose stock or securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing to any action by any such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation and under its corporate seal, or otherwise, such written proxies, consents, waivers or other instruments as he may deem necessary or proper in the premises; or the President may

himself attend any meeting of the holders of stock or other securities of any such other corporation and thereat vote or exercise any or all other powers of the Corporation as the holder of such stock or other securities of such other corporation.

ARTICLE 13

AMENDMENT

Except as otherwise provided by law or under the Corporation's Certificate of Incorporation, the By-laws of the Corporation may not be amended except (a) by resolution adopted by vote of seventy-five percent of the entire Board of Directors, (b) by the shareholders voting upon a proposal recommended by the affirmative vote of 75% of the entire Board of Directors, or (c) by the affirmative vote of (i) the holders of 75% of the shares of the Corporation entitled to vote and (ii) if any corporation, person, or other entity owns more than 50% of the shares of the Corporation entitled to vote, the holders of a majority of the shares of the Corporation entitled to vote and not owned by the majority shareholder. Any amendment made by the Board of Directors and any proposed amendment adopted by the Board of Directors for recommendation to the Shareholders shall be adopted at a regular meeting and may be adopted only if (a) a notice specifying the change or amendment shall have been given at a previous regular meeting and entered in the minutes of the Board; (b) a written statement describing the change or amendment shall be made in a notice mailed to the directors of the meeting at which the change or amendment shall be acted

upon. Notwithstanding the foregoing, any provision of these Bylaws that contains a supermajority voting requirement shall only be altered, amended, rescinded, or repealed by the Board by a vote not less than the supermajority specified in such provision.

GRAHAM CORPORATION
OUTSIDE DIRECTORS'
LONG TERM INCENTIVE PLAN

1. Share Equivalent Units ("SEUs") will be credited to each outside director's "LTIP Account" for every fiscal year in which Graham Corporation produces consolidated net income of at least \$500,000.
2. The value of each SEU will be the market value of 1 share of Graham Common Stock on the last day of trading on the AMEX of the first quarter following a fiscal year for which SEUs are to be credited.
3. The number of SEUs to be credited will be determined by dividing the value of 1 SEU as determined pursuant to Paragraph 2 above into an amount equal to the basic annual director's fee for the fiscal year for which the LTIP award is being calculated.

EXAMPLE: Stock at \$20.00 at end of fiscal year. Director's annual fee during that fiscal year was \$10,000. Number of SEUs = $10,000 \div 20 = 500$.

4. Upon termination of a Director's service on the Board, but not before, SEUs will be redeemable for either: (a) a commensurate number of shares of Graham Common Stock; or (b) subject to the prior written consent of Graham Corporation acting in its sole discretion, the cash value of a commensurate number of shares of Graham Common Stock as of the termination of service date. A Director may elect to take shares (or cash, if consented to by Graham Corporation) at once or to defer it over a period not to exceed 10 years. The lump sum, or the first installment if deferred, must be paid within 30 days of termination of service on Board.

(Tax considerations require lump sum payout to occur, and deferred payout period to begin, within 30 days of termination of service.)

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made and entered into as of September 16, 1996, by and among Graham Corporation, a Delaware corporation with offices at 20 Florence Avenue, Batavia, New York 14020 (the "Company"), Graham Manufacturing Co., Inc., a New York corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("GMC"), and ALVARO CADENA currently residing at 4 LePere Drive, Pittsford, New York 14534 (the "Executive").

The parties hereto, intending to be legally bound hereby, and in consideration of the mutual covenants herein contained, agree as follows:

1. EMPLOYMENT.

(a) The Company hereby employs the Executive and the Executive hereby accepts employment (such employment, together with the Executive's employment with GMC hereunder, the "Employment"), as Vice President of the Company and GMC hereby employs the Executive and the Executive hereby accepts employment as President and Chief Operating Officer of the Company's subsidiary, GMC, upon the terms and conditions hereinafter set forth. Failure in any year of either the Company Board at its Annual Meeting to elect the Executive to the offices of Vice President, or of the Board of Directors of GMC ("GMC Board") at its Annual Meeting to elect the Executive to the office of President and Chief Operating Officer, shall constitute termination of the Executive's employment without cause for purposes of this Agreement.

(b) The Company and GMC shall allocate between themselves all expenses of the Executive's employment pursuant to this Agreement.

(c) Except as otherwise specifically provided herein, all obligations of the Company referred to herein shall be joint and several obligations of the Company and GMC.

2. DUTIES. The Executive is engaged as Vice President of the Company and President and Chief Operating Officer of GMC. The Executive shall have authority and responsibility, on a day to day basis, for the overall management and direction of GMC and shall perform such duties consistent with Executive's title as may from time to time be required of Executive by the Board of Directors of Graham Corporation (the "Board"), or by the Chairman, President and Chief Executive Officer of the Company, to whom Executive shall be directly responsible. In his capacity as President and Chief Operating Officer of GMC, the Executive shall also report to the Chairman and Chief Executive Officer of GMC. The Executive's office shall be at the Company's headquarters office in, or within a reasonable commuting distance east of Batavia, New York. The Executive agrees to travel to the extent

reasonably necessary for the performance of his duties hereunder. The Executive shall devote his full business time to the business and affairs of the Company and GMC (to be allocated between them as the Company may determine) and shall use his best efforts, skill and ability in performing his duties on behalf of the Company and GMC.

3. TERM.

(a) Except as otherwise provided in this Agreement to the contrary, the terms and conditions of this Agreement shall be and remain in effect during the period of employment ("Term") established under this Section 3. The Term shall be for a term of one (1) year commencing on September 16, 1996, plus such extensions, if any, as are provided pursuant to Section 3(b).

(b) Except as provided in Section 3(c), beginning on the date of this Agreement, the Term shall be automatically extended for one (1) additional day each day, unless either the Company and GMC, or the Executive, elects not to extend the Term further by giving written notice to the other party, in which case the Term shall end on the later of (i) the first anniversary of the date of this Agreement, or (ii) the first anniversary of the date on which such written notice is given; provided, however, that in any event, the Term shall end on the last day of the month in which the Executive attains age sixty-five (65). Upon termination of the Executive's employment with the Company or GMC for any reason whatsoever, any daily extensions provided pursuant to this Section 3, if not theretofore discontinued, shall cease and the remaining unexpired Term under this Agreement shall be a fixed period ending on

the later of the fifth anniversary of the date of this Agreement or the first anniversary of the date on which the daily extensions were discontinued.

(c) Notwithstanding anything herein contained to the contrary: (i) the Executive's employment with the Holding Company or GMC may be terminated during the Term, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Executive's employment following the expiration of the Term upon such terms and conditions as the Company and the Executive may mutually agree upon.

4. BASE COMPENSATION. As the base compensation for all services to be rendered by the Executive in any capacity to the Company and GMC, the Company agrees to pay to the Executive, and the Executive shall accept, a salary at a rate of \$155,397 per annum, payable in arrears in equal monthly installments, subject to such deductions and withholdings as may be required by law. During the fourth quarter of each year, the Company will review the salary rate of the Executive, taking into consideration such factors as the Executive's performance during the preceding year and such other matters as it deems relevant and, in its sole discretion, may increase the salary of the Executive for the following calendar year, to be effective from January 1 of such

-3-

following year, to such rate and for such period of time as the Company deems proper, provided that the Company shall in no event be required to grant or to continue any such increase. However, in the event that any person or entity acquires twenty percent (20%) or more of the outstanding equity stock of the Company or GMC, who was not an owner of twenty percent of the equity stock of either the Company (in the case of an acquisition of Company stock) or GMC (in the case of an acquisition of GMC stock) prior to May 13, 1993, or in the event that any person or entity acquires twenty percent (20%) or more of the assets of either the Company or GMC who was not an owner of twenty percent of the assets of either the Company (in the case of an acquisition of Company assets) or of GMC (in the case of an acquisition of GMC assets) prior to September 16, 1996 then, subsequent to such acquisition of twenty percent stock or twenty percent asset ownership of either the Company or GMC by any such person or entity: (1) if for any calendar year a salary increase at least equal to the increase in the U.S. City All-Items Consumer Price Index for Urban Wage Earners and Clerical Workers during the previous twelve months, is not granted; or if (2) the Executive's base salary is decreased at any time, then in either event the Executive may in his sole discretion terminate this Agreement upon thirty days' written notice given at any time during the calendar year for which no such increase was granted, or during the twelve month period following any such decrease in salary, and thereupon the Company and GMC shall be obligated to pay the Executive the amounts, and provide the benefits, specified in Section 9.3 of this Agreement.

5. BONUSES. The Company shall pay Executive bonuses subject to The Executive Bonus Plan of Graham Corporation, as it may be amended from time to time, or such other bonus plans or arrangements of Company as may be in effect from time to time, as determined by the Company's Board of Directors or a committee thereof.

6. BENEFITS. During the term of this Agreement, the Company shall provide the following benefits to the Executive:

6.1 MEDICAL. The Company will provide the Executive health coverage for himself and his family in accordance with the Graham Manufacturing Co., Inc. Self Insured Medical/Dental Plan, as the same may be amended from time to time, or in accordance with such other health coverage plan as the Company may adopt.

6.2 VACATION. The Executive shall be entitled to 25 business days of paid vacation in calendar year 1996 with additional time to accrue thereafter in accordance with the Company's vacation policy, as the same may be in effect from time to time.

6.3 GENERAL BENEFITS. The Executive shall be entitled to participate in all employee benefit plans and arrangements of the Company and GMC that may from time to time be in effect and may from time to time be made available to the executive officers of the Company and of GMC, subject to and on a basis consistent with the terms, conditions and overall

-4-

administration of such plans and arrangements. Nothing in this Section 6.3 shall be construed to limit or restrict the complete discretion of the Board of

Directors of the Company or, as the case may be, the Board of Directors of GMC, to amend, modify or terminate employee benefit or bonus plan or plans of the Company or GMC where such action generally affects plan participants or employees, including the Executive.

6.4 LIFE INSURANCE. (a) The Executive agrees that the Company, in its discretion, may apply for and procure in its own name and for its own benefit, life insurance on his life in any amount or amounts considered advisable, and that he shall have no right, title or interest therein. The employee further agrees to submit to any medical or other examination and to execute and deliver any application or other instrument in writing, reasonably necessary to effectuate such insurance, provided such actions do not harm the Executive's ability to otherwise obtain or retain life insurance(s). (b) As soon as practical following the termination of employment for any reason, the Company and GMC will cause to be transferred, assigned or otherwise conveyed to the Executive any right, title and interest that either may have in and to any life insurance contract (other than any group-term life insurance contract) under which the Executive's life is insured, including full rights of ownership in and to the cash surrender value thereof (net of any loans obtained against such cash surrender value), and the Executive shall assume all obligations for the payment of any premiums which may become due with respect to such insurance contract after the termination of employment.

7. USE OF AUTOMOBILE.

7.1

7.2 Notwithstanding the provisions of Section 7.1 (b) above, the Executive represents that he now carries automobile liability insurance, with respect to any automobile owned by him, for injuries to persons and property.

8. EXPENSES. The Company shall pay or reimburse the Executive for all reasonable and necessary traveling and other expenses incurred or paid by the Executive in connection with the performance of his duties under this Agreement upon presentation of expense statements or vouchers and such other supporting information as it may from time to time request. However, the amount available for such traveling and other expenses may be fixed in advance by the Chairman, the President or Board of Directors of the Company.

9. TERMINATION. This Agreement shall terminate prior to the Term expiration date, hereinabove set forth, in the event that the Executive shall die or the Company shall determine that the Executive has become disabled, or if the Executive shall be dismissed for cause or without cause, as hereinafter provided.

-5-

9.1 DISABILITY. The Company or GMC may determine that the Executive has become disabled, for purposes of this Agreement, in the event that the Executive shall fail, because of illness or incapacity, to render for nine (9) successive months, or for shorter periods aggregating twelve (12) months or more in any period of eighteen (18) months, services of the character contemplated by this Agreement; and thereupon this Agreement and the employment and all rights of the Executive hereunder shall be deemed to have been terminated as of the end of the calendar month in which such determination was made.

9.2 FOR CAUSE. The Company or GMC may dismiss the Executive for cause in the event that it determines that there has been willful misconduct by the Executive in connection with the performance of his duties hereunder, or any other conduct on the part of the Executive which has been materially injurious to the Company or GMC; and thereupon this Agreement and the Employment shall terminate effective upon the delivery to the Executive of 90 day written notice that the Company Board or the GMC Board has made such determination. For purposes of this Agreement, "Cause" shall be determined only by a good faith finding thereof by the Company Board or the GMC Board, which shall afford the Executive the opportunity to appear before it prior to finalizing any such determination. If the Executive in good faith contests a termination for cause by the Company or GMC, the Company and GMC will pay all legal fees and other expenses incurred by the Executive, as the Executive is billed for such costs, within ten (10) days of periodic submission to the Company or GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such challenge; the Executive will reimburse the Company or GMC if it should be determined by a court of final adjudication that the Executive did not act in good faith in bringing such challenge.

9.3 WITHOUT CAUSE. The Company or GMC may dismiss the Executive without cause at any time upon thirty (30) days notice to the

Executive. In the event the Company or GMC dismisses the Executive other than for cause, or if the Executive resigns because of a material breach of this Agreement by the Company or GMC, the Company or GMC shall thereupon pay to the Executive (a) the compensation due him to the date of termination, plus (b) an additional lump sum in an amount equal to twelve months' salary at the rate specified in Section 4 hereinabove. At any time prior to the effective date of termination of employment, the Executive may in writing elect to receive the additional lump sum equal to twelve months' salary in monthly installments of up to, but not to exceed, thirty-six (36) successive months. In addition, the Company and GMC shall (a) provide the Executive with continuing health care coverage, as described in Section 6.1 hereof, for a period of thirty-six (36) months following the effective date of termination of employment; (b) shall pay for, or in the Executive's sole discretion, reimburse the Executive as the Executive is billed, within ten (10) days of periodic submission to the Company or GMC of statements of charges, for outplacement services of the Executive's choice until the sooner of (i) the Executive's commencement of employment with another employer or (ii) thirty-six (36) months following the effective date of termination of employment. In the event that the provisions of this Section 9.3 are triggered by discharge of the Executive without cause

-6-

by one of the Company or GMC, the Executive shall resign from all offices and directorships of the other entity and of all subsidiaries and affiliates of the Company, upon payment to the Executive of the amount referred to in subsection (a) of the second sentence of this Section 9.3, payment of the amount referred to in subsection (b) of the second sentence of this Section 9.3 (or the first installment thereof) and Accrued bonus, if any.

9.4 RETURN OF CONFIDENTIAL DOCUMENTATION. Upon termination of employment for any reason whatsoever, the Executive shall return to the Company all working papers, notebooks, strategic plans and other confidential documents and information, in any form whatsoever.

10. COVENANTS OF EXECUTIVE

The Executive acknowledges that: (a) the business of the Company and its affiliates, as currently conducted and as conducted from time to time throughout the term of this Agreement (collectively, the "Business"), is conducted by and is proposed to be conducted by the Company on a world wide basis (the "Company's Market"); (b) the Business involves providing design, engineering and manufacture of certain vacuum and heat transfer equipment, including but not limited to steam condensers, steam jet ejectors, shell and tube heat exchangers, plate and frame heat exchangers Heliflow heat exchangers, liquid ring vacuum pumps and rotary piston pumps; (c) the Company has developed trade secrets and confidential information concerning the Business; and (d) the agreements and covenants contained in this Section 10 are essential to protect the Business of the Company. In order to induce the Company to enter into this Employment Agreement, the Executive covenants and agrees that:

10.1 AGREEMENT NOT TO COMPETE. In the event that the Executive resigns (for reasons other than a material breach of this Agreement by the Company) or departs from the employ of the Company without the approval of the Board of Directors or is discharged for cause, then for a period of twelve (12) months after such resignation, departure or discharge (such period of time hereinafter the "Restricted Period"), neither the Executive nor any entity of which 20% or more of the beneficial ownership is held by the Executive or a person related to the Executive by blood or marriage ("Controlled Entity") will, anywhere in the Company's Market, directly or indirectly own, manage, operate, control, invest or acquire an interest in, or herewise engage or participate in, whether as a proprietor, partner, stockholder, director, officer or employee, any business which competes in the Company's Market with the Business, without the prior written consent of the Company. Notwithstanding any other provisions of this Agreement, the Executive may make a passive investment in any publicly-traded company or entity in an amount not to exceed 5% of the voting stock of any such company or entity.

10.2 AGREEMENT NOT TO INTERFERE IN BUSINESS RELATIONSHIPS. (a) During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly

-7-

solicit, induce or influence customer, or any other person which has a business relationship with the Company or any affiliate, or which had on the date of this

Agreement such a relationship with the Company or any affiliate, to discontinue or reduce the extent of such relationship with the Company or any affiliate in the Company's Market without the prior written consent of the Company. (b) During the Restricted Period, neither the Executive nor any Controlled Entity will (i) directly or indirectly recruit, solicit or otherwise induce or influence any shareholder or employee of the Company or any of its affiliates to discontinue such employment or other relationship with the Company or any affiliate without the prior written consent of the Company, or (ii) employ or seek to employ, or cause or permit any Competitive Business which competes in the Company's Markets to employ or seek to employ for any Competitive Business, any person who is then (or was at any time within six months prior to the date the Executive or the Competitive Business employs or seeks to employ such person) employed by the Company or any affiliate without the prior written consent of the Company. Nothing herein shall prevent the Executive from providing a letter of recommendation to an Employee with respect to a future employment opportunity, nor prohibit the Executive from making general employment advertisements in mass-circulation newspapers or other mass media.

10.3 CONFIDENTIALITY. During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly disclose to anyone, or use or otherwise exploit for the Executive's or any Controlled Entity's own benefit or for the benefit of anyone other than the Company, any confidential information, including, without limitation, any confidential "know-how", trade secrets, customer lists, details of customer contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans and new personnel acquisition plans of the Company or any affiliate related to the Business or any portion or phase of any scientific, engineering or technical information, design, process, procedure, formula, improvement, discovery, invention, machinery or device of the Company or any affiliate that is not generally known to the competitors of the Company whether or not in written or tangible form (hereinafter referred to as "Confidential Information"). The term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that becomes generally available to the public other than as a result of a disclosure by the Executive or a Controlled Entity or any agent or other representative thereof. Neither the Executive nor any Controlled Entity shall have any obligation hereunder to keep confidential any Confidential Information to the extent disclosure is required by law, or determined in good faith by the Executive to be necessary or appropriate to comply with any legal or regulatory order, regulation or requirement; provided, however, that in the event disclosure is required by law, the Executive or the Controlled Entity concerned shall provide the Company with prompt notice of such requirement so that the Company may seek an appropriate protective order. It is understood that in any new employment, the Executive may use his ordinary skill and non-confidential knowledge, even though said skill and non-confidential knowledge may have been gained at the Company. The Executive's obligations under this Section 10.3 shall be in addition to, not in substitution for, any common law fiduciary duties the Executive has to the Company or

-8-

GMC regarding information acquired during the course of his employment.

10.4 INTELLECTUAL PROPERTY. The Executive shall communicate to the Company full information concerning all inventions, improvements, discoveries, formulas, processes, systems of organization, management procedures, software or computer applications (hereinafter, collectively, "Intellectual Property") made or conceived by him either solely or jointly with others while in the employ of the Company, whether or not perfected during his period of employment and which shall be within the existing or contemplated scope of the Company's business during his employment. The Executive will assist the Company and its nominees in every way at the Company's expense in obtaining patents for such Intellectual Property as may be patentable in any and all countries and the Executive will execute all papers the Company may desire and assignments thereof to the Company or its nominees and said Intellectual Property shall be and remain the property of the Company and its nominees, if any, whether patented or not or assigned or not.

10.5 SURVIVAL OF COVENANTS. In the event of a termination of this Agreement, the covenants and agreements contained in this Section 10 shall survive, shall continue thereafter, and shall not expire unless and except as expressly set forth in such Section.

10.6 REMEDIES. The parties to this Agreement agree that (a) if either the Executive or any Controlled Entity breaches any provision of this Section 10, the damage to the Company and its affiliates will be substantial, although difficult to ascertain, and money damages will not afford an adequate remedy, and (b) if either the Executive or any Controlled Entity is in breach of this Agreement, or threatens a breach of this Agreement, the Company shall be entitled in its own right and/or on behalf of one or more of its affiliates, in addition to all other rights and remedies as may be available at law or in equity, to (i) injunctive and other equitable relief to prevent or restrain a breach of this Agreement and (ii) may require the breaching party to

pay damages as the result of any transactions constituting a breach hereof.

11. INDEMNIFICATION OF EXECUTIVE. In the event the Employment is terminated for any reason, (a) the Company will hold harmless and indemnify the Executive for all acts or omissions and for any suits it has at law or in equity, claims, actions or other proceedings against the Executive initiated either prior to the termination of employment or thereafter which relate to duties performed in good faith by the Executive while employed by the Company; and (b) The Company will retain the Executive as named insured under any directors' and officers' insurance policies it may have, for acts of the Executive during the time he served as an officer of the Company and GMC. Additionally, all legal and other costs incurred by the Executive to defend himself will be paid by the Company, as the Executive is billed for such costs, within ten (10) days of periodic submission to the Company or GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such defense.

-9-

12. EFFECT OF WAIVER. The waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

13. NOTICE. Any and all notices provided for herein shall be in writing and shall be physically delivered or mailed by registered or certified mail, return receipt requested to the parties at their respective addresses set forth hereinabove. Either party may from time to time designate a different address for notices to be sent to such party by giving the other party due notice of such different address.

14. VALIDITY. If any part of this Agreement shall be found to be invalid or unenforceable, the same shall be deemed to be severable and the remaining portions of this Agreement shall remain in full force and effect.

15. MODIFICATION AND ASSIGNMENT. This Agreement shall not be modified or amended except by an instrument in writing signed by the parties hereto. This Agreement and all of its terms and conditions shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns, including but not limited to any corporation or other entity with or into which the Company is merged or consolidated or any other successor of the Company. The Executive agrees that he will not and may not assign, transfer or convey, pledge or encumber this Agreement or his right, title or interest therein, or his power to execute the same or any monies due or to become due hereunder, this Agreement being intended to secure the personal services of the Executive, and the Company shall not recognize any such assignment, transfer, conveyance, pledge or encumbrance.

16. APPLICABLE LAW. This agreement and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York, without giving effect to the conflict of laws provisions thereof.

17. PRIOR AGREEMENTS. This Agreement shall supersede any prior employment agreement between the Company and the Executive and shall be effective from the date specified hereinabove, PROVIDED, HOWEVER, that the Senior Executive Severance Agreement between the Company and the Executive as approved by the Board of Directors of the Company at its meeting on [DATE], as the same may from time to time be amended, shall remain in full force and effect and all obligations of either the Company or the Executive under the Senior Executive Severance Agreement are and shall be deemed separate and independent obligations in addition to any obligations created by this Agreement.

18. BUSINESS COMBINATIONS. In the event of any sale, merger or any form of business combination affecting the Company or GMC whatsoever, the Company and GMC will obtain the express written assumption of this Agreement by the acquiring or surviving entity from such combination, and failure of the Company and GMC to obtain such an assumption will

-10-

constitute a breach of this Agreement, entitling the Executive to all payments and other benefits to be provided in the event of termination without cause provided in Section 9.3 hereof.

19. HEADINGS. This section headings of this Agreement are for convenience of reference only and are not to be considered in the interpretation of the terms and conditions of this Agreement.

20. INVALIDITY OR UNENFORCEABILITY. If any term or provision of this Agreement is held to be invalid or unenforceable, for any reason, such

invalidity or unenforceability shall not affect any other term or provision hereof and this Agreement shall continue in full force and effect as if such invalid or unenforceable term or provision (to the extent of the invalidity or unenforceability) had not been contained herein. If any court determines that any provision of Section 10 hereof is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the scope or duration of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

21. COUNTERPARTS. This agreement may be executed in any number of counterparts, each of which for all purposes shall be deemed to be an original.

-11-

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement as of the day and year first above written.

(Corporate Seal)

GRAHAM CORPORATION

By /s/ F.D. Berkeley

Chairman, President & Chief Executive Officer

(Corporate Seal)

GRAHAM MANUFACTURING CO., INC.

By /s/ F.D. Berkeley

President

/s/ A. Cadena

ALVARO CADENA

Attest: /s/ Christine Jean Sabatino

-12-

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 27th day of September, 1996, before me personally came F. D. Berkeley, to me known, who, being by me duly sworn, did depose and say that he resides at 50 Old Mill Road, Rochester, New York; that he is Chairman, President and Chief Executive Officer of Graham Corporation described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 27th day of September, 1996, before me personally came Alvaro Cadena, to me known, who, being by me duly sworn, did depose and say that he resides at 4 LePere Drive, Pittsford, New York; that he is President of Graham Manufacturing Co., Inc. described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 27th day of September, 1996, before me personally came ALVARO CADENA, to me known to be the person described in and who executed the attached instrument and acknowledged that he executed the same.

/s/ Christine Jean Sabatino

Notary Public

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made and entered into as of May 13, 1993, by and among Graham Corporation, a Delaware corporation with offices at 20 Florence Avenue, Batavia, New York 14020 (the "Company"), Graham Manufacturing Co., Inc., a New York corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("GMC"), and J. Ronald Hansen, currently residing at 109 Central Avenue, Fredonia, New York 14063 (the "Executive").

The parties hereto, intending to be legally bound hereby, and in consideration of the mutual covenants herein contained, agree as follows:

1. EMPLOYMENT.

(a) The Company hereby employs the Executive and the Executive hereby accepts employment (such employment, together with the Executive's employment with GMC hereunder, the "Employment"), as Vice President-Finance and Chief Financial Officer of the Company and GMC hereby employs the Executive and the Executive hereby accepts employment as Vice President-Finance of the Company's subsidiary, GMC, upon the terms and conditions hereinafter set forth. Failure in any year of either the Company Board at its Annual Meeting to elect the Executive to the offices of Vice President-Finance and Chief Financial Officer, or of the Board of Directors of GMC ("GMC Board") at its Annual Meeting to elect the Executive to the office of Vice President-Finance, shall constitute termination of the Executive's employment without cause for purposes of this Agreement.

(b) The Company and GMC shall allocate between themselves all expenses of the Executive's employment pursuant to this Agreement.

(c) Except as otherwise specifically provided herein, all obligations of the Company referred to herein shall be joint and several obligations of the Company and GMC.

2. DUTIES. The Executive is engaged as Vice President-Finance and Chief Financial Officer of the Company and Vice President-Finance of GMC. The Executive shall have authority and responsibility for the financial operation and management, on a day to day basis, of the Company and its related entities and GMC, and shall perform such duties consistent with Executive's title as may from time to time be required of Executive by the Board of Directors of Graham Corporation (the "Board"), or by the Chairman, President and Chief Executive Officer of the Company, to whom Executive shall be directly responsible. In his capacity as Vice President-Finance of GMC, the Executive shall also report to the President of GMC. The Executive's office shall be at the Company's headquarters office in, or within a reasonable commuting distance of Batavia, New York. The Executive agrees to travel to the extent reasonably necessary for the performance of his duties hereunder. The Executive shall devote his full business time to the business and affairs of the Company and GMC (to be allocated between

them as the Company may determine) and shall use his best efforts, skill and

ability in performing his duties on behalf of the Company and GMC.

3. TERM.

(a) Except as otherwise provided in this Agreement to the contrary, the terms and conditions of this Agreement shall be and remain in effect during the period of employment ("Term") established under this Section 3. The Term shall be for a term of five (5) years commencing on May 13, 1993, plus such extensions, if any, as are provided pursuant to Section 3(b).

(b) Except as provided in Section 3(c), beginning on the fourth anniversary of the date of this Agreement, the Term shall be automatically extended for one (1) additional day each day, unless either the Company and GMC, or the Executive, elects not to extend the Term further by giving written notice to the other party, in which case the Term shall end on the later of (i) the fifth anniversary of the date of this Agreement, or (ii) the first anniversary of the date on which such written notice is given; provided, however, that in any event, the Term shall end on the last day of the month in which the Executive attains age sixty-five (65). Upon termination of the Executive's employment with the Company or GMC for any reason whatsoever, any daily extensions provided pursuant to this Section 3, if not theretofore discontinued, shall cease and the remaining unexpired Term under this Agreement shall be a fixed period ending on the later of the fifth anniversary of the date of this Agreement or the first anniversary of the date on which the daily extensions were discontinued.

(c) Notwithstanding anything herein contained to the contrary: (i) the Executive's employment with the Holding Company or GMC may be terminated during the Term, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Executive's employment following the expiration of the Term upon such terms and conditions as the Company and the Executive may mutually agree upon.

4. BASE COMPENSATION. As the base compensation for all services to be rendered by the Executive in any capacity to the Company and GMC, the Company agrees to pay to the Executive, and the Executive shall accept, a salary at a rate of \$105,000 per annum, payable in arrears in equal monthly installments, subject to such deductions and withholdings as may be required by law. During the fourth quarter of each year, the Company will review the salary rate of the Executive, taking into consideration such factors as the Executive's performance during the preceding year and such other matters as it deems relevant and, in its sole discretion, may increase the salary of the Executive for the following calendar year, to be effective from January 1 of such following year, to such rate and for such period of time as the Company deems proper, provided that the Company shall in no event be required to grant or to continue any such increase. However, in the event that any person or entity acquires twenty percent (20%) or more of the outstanding equity stock of the Company or GMC, who was not an owner of twenty percent of

-3-

the equity stock of either the Company (in the case of an acquisition of Company stock) or GMC (in the case of an acquisition of GMC stock) prior to May 13, 1993, or in the event that any person or entity acquires twenty percent (20%) or more of the assets of either the Company or GMC who was not an owner of twenty percent of the assets of either the Company (in the case of an acquisition of Company assets) or of GMC (in the case of an acquisition of GMC assets) prior to May 13, 1993 then, subsequent to such acquisition of twenty percent stock or twenty percent asset ownership of either the Company or GMC by any such person or entity: (1) if for any calendar year a salary increase at least equal to the increase in the U.S. City All-Items Consumer Price Index for Urban Wage Earners and Clerical Workers during the previous twelve months, is not granted; or if (2) the Executive's base salary is decreased at any time, then in either event the Executive may in his sole discretion terminate this Agreement upon thirty days' written notice given at any time during the calendar year for which no such increase was granted, or during the twelve month period following any such decrease in salary, and thereupon the Company and GMC shall be obligated to pay the Executive the amounts, and provide the benefits, specified in Section 9.3 of this Agreement.

5. BONUSES. The Company shall pay Executive bonuses subject to The Executive Bonus Plan of Graham Corporation, as it may be amended from time to time, or such other bonus plans or arrangements of Company as may be in effect from time to time, as determined by the Company's Board of Directors or a committee thereof.

6. BENEFITS. During the term of this Agreement, the Company shall provide the following benefits to the Executive:

6.1 MEDICAL. The Company will provide the Executive health coverage for himself and his family in accordance with the Graham Manufacturing Co., Inc. Self Insured Medical/Dental Plan, as the same may be amended from time to time, or in accordance with such other health coverage plan as the Company may adopt.

6.2 VACATION. The Executive shall be entitled to five (5) business days

of paid vacation in the period from September 1 through November 30, 1993, fifteen (15) business days in calendar year 1994 and twenty (20) business days each calendar year thereafter, with additional time to accrue in accordance with the Company's vacation policy, as the same may be in effect from time to time.

6.3 RELOCATION. The Executive's relocation expenses in moving from 109 Central Avenue, Fredonia, New York to the Batavia, New York area will be paid by the Company pursuant to the relocation policy of Graham Manufacturing Co., Inc. for new employees.

6.4 GENERAL BENEFITS. The Executive shall be entitled to participate in all employee benefit plans and arrangements of the Company and GMC that may from time to time be in effect and may from time to time be made available to the executive officers of the Company and of GMC, subject to and on a basis consistent with the terms, conditions and overall

-4-

administration of such plans and arrangements. Nothing in this Section 6.4 shall be construed to limit or restrict the complete discretion of the Board of Directors of the Company or, as the case may be, the Board of Directors of GMC, to amend, modify or terminate employee benefit or bonus plan or plans of the Company or GMC where such action generally affects plan participants or employees, including the Executive.

6.5 LIFE INSURANCE. (a) The Executive agrees that the Company, in its discretion, may apply for and procure in its own name and for its own benefit, life insurance on his life in any amount or amounts considered advisable, and that he shall have no right, title or interest therein. The employee further agrees to submit to any medical or other examination and to execute and deliver any application or other instrument in writing, reasonably necessary to effectuate such insurance, provided such actions do not harm the Executive's ability to otherwise obtain or retain life insurance(s). (b) As soon as practical following the termination of employment for any reason except for cause, the Company and GMC will cause to be transferred, assigned or otherwise conveyed to the Executive any right, title and interest that either may have in and to any life insurance contract (other than any group-term life insurance contract) under which the Executive's life is insured, including full rights of ownership in and to the cash surrender value thereof (net of any loans obtained against such cash surrender value), and the Executive shall assume all obligations for the payment of any premiums which may become due with respect to such insurance contract after the termination of employment.

7. USE OF AUTOMOBILE.

7.1 The Company shall, at its expense, provide the Executive with an automobile of the Executive's choice for use by the Executive in performance of his duties under this Agreement, provided that the annual lease payments made by the Company on such automobile shall not exceed in any year seven percent (7%) of the Executive's annual base salary for such year. The Company shall pay or reimburse the Executive for all reasonable and necessary expenses of maintenance and operation of such automobile incurred or paid for by the Executive, and shall obtain, and include the name of the Executive as one of the assureds under, a liability insurance policy for injuries to persons and property caused by the operation of such automobile. At the end of the term of any automobile lease entered into by the Company pursuant to this Section 7.1, the Company may, in its discretion, either (a) lease a new automobile for the Executive's use; or (b) provide the Executive with the continued use of the same automobile, at the Company's expense. In the event the Company elects to do neither, the Company shall permit the Executive to purchase the automobile from the lessor.

7.2 Notwithstanding the provisions of Section 7.1 (b) above, the Executive represents that he now carries automobile liability insurance, with respect to any automobile owned by him, for injuries to persons and property.

8. EXPENSES. The Company shall pay or reimburse the Executive for all reasonable and necessary traveling and other expenses incurred or paid by the Executive in

-5-

connection with the performance of his duties under this Agreement upon presentation of expense statements or vouchers and such other supporting information as it may from time to time request. However, the amount available for such traveling and other expenses may be fixed in advance by the Chairman, the President or Board of Directors of the Company.

9. TERMINATION. This Agreement shall terminate prior to the Term expiration date, hereinabove set forth, in the event that the Executive shall die or the Company shall determine that the Executive has become disabled, or if the Executive shall be dismissed for cause or without cause, as hereinafter provided.

9.1 DISABILITY. The Company or GMC may determine that the Executive has

become disabled, for purposes of this Agreement, in the event that the Executive shall fail, because of illness or incapacity, to render for nine (9) successive months, or for shorter periods aggregating twelve (12) months or more in any period of eighteen (18) months, services of the character contemplated by this Agreement; and thereupon this Agreement and the employment and all rights of the Executive hereunder shall be deemed to have been terminated as of the end of the calendar month in which such determination was made.

9.2 FOR CAUSE. The Company or GMC may dismiss the Executive for cause in the event that it determines that there has been willful misconduct by the Executive in connection with the performance of his duties hereunder, or any other conduct on the part of the Executive which has been materially injurious to the Company or GMC; and thereupon this Agreement and the Employment shall terminate effective upon the delivery to the Executive of 90 day written notice that the Company Board or the GMC Board has made such determination. For purposes of this Agreement, "Cause" shall be determined only by a good faith finding thereof by the Company Board or the GMC Board, which shall afford the Executive the opportunity to appear before it prior to finalizing any such determination. If the Executive in good faith contests a termination for cause by the Company or GMC, the Company and GMC will pay all legal fees and other expenses incurred by the Executive, as the Executive is billed for such costs, within ten (10) days of periodic submission to the Company or GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such challenge; the Executive will reimburse the Company or GMC if it should be determined by a court of final adjudication that the Executive did not act in good faith in bringing such challenge.

9.3 WITHOUT CAUSE. The Company or GMC may dismiss the Executive without cause at any time upon thirty (30) days notice to the Executive. In the event the Company or GMC dismisses the Executive other than for cause, or if the Executive resigns because of a material breach of this Agreement by the Company or GMC, the Company or GMC shall thereupon pay to the Executive (a) the compensation due him to the date of termination, plus (b) an additional lump sum in an amount equal to twelve months' salary at the rate specified in Section 4 hereinabove. At any time prior to the effective date of termination of employment, the Executive may in writing elect to receive the additional lump sum equal to twelve months' salary in monthly installments of up to, but not to exceed, thirty-six (36) successive months. In addition,

-6-

the Company and GMC shall (a) provide the Executive with continuing health care coverage, as described in Section 6.1 hereof, for a period of thirty-six (36) months following the effective date of termination of employment; (b) shall pay for, or in the Executive's sole discretion, reimburse the Executive as the Executive is billed, within ten (10) days of periodic submission to the Company or GMC of statements of charges, for outplacement services of the Executive's choice until the sooner of (i) the Executive's commencement of employment with another employer or (ii) thirty-six (36) months following the effective date of termination of employment; and (c) shall assign to the Executive its interest in the automobile lease in force at the time of termination of employment and shall reimburse the Executive for each remaining lease payment thereafter, within ten (10) days of the due date of each remaining lease payment; or in the event that termination of employment occurs following the expiration of automobile lease and prior to the Company or GMC extending such lease or leasing a new automobile for the Executive, the Company or GMC, if either then owns the automobile, shall, at the election of the Executive, sell the automobile to the Executive for the value for such automobile stated in the then-current edition of the NADA Official Used Car Guide for Domestic and Imported Cars and Trucks. In the event that the provisions of this Section 9.3 are triggered by discharge of the Executive without cause by one of the Company or GMC, the Executive shall resign from all offices and directorships of the other entity and of all subsidiaries and affiliates of the Company, upon payment to the Executive of the amounts referred to in the second sentence of this Section 9.3, and the performance by the Company and GMC of their obligations pursuant to the fourth sentence, subsections (c) and (d), of this Section 9.3.

9.4 RETURN OF CONFIDENTIAL DOCUMENTATION. Upon termination of employment for any reason whatsoever, the Executive shall return to the Company all working papers, notebooks, strategic plans and other confidential documents and information, in any form whatsoever.

10. COVENANTS OF EXECUTIVE

The Executive acknowledges that: (a) the business of the Company and its affiliates, as currently conducted and as conducted from time to time throughout the term of this Agreement (collectively, the "Business"), is conducted by and is proposed to be conducted by the Company on a world wide basis (the "Company's Market"); (b) the Business involves providing design, engineering and manufacture of certain vacuum and heat transfer equipment, including but not limited to steam condensers, steam jet ejectors, shell and tube heat exchangers, plate and frame heat exchangers, Heliflow heat exchangers, liquid ring vacuum pumps and rotary piston pumps; (c) the Company has developed trade secrets and confidential information concerning the Business; and (d) the

agreements and covenants contained in this Section 10 are essential to protect the Business of the Company. In order to induce the Company to enter into this Employment Agreement, the Executive covenants and agrees that:

10.1 AGREEMENT NOT TO COMPETE. In the event that the Executive resigns (for reasons other than a material breach of this Agreement by the Company) or departs from the

-7-

employ of the Company without the approval of the Board of Directors or is discharged for cause, then for a period of twelve (12) months after such resignation, departure or discharge (such period of time hereinafter the "Restricted Period"), neither the Executive nor any entity of which 20% or more of the beneficial ownership is held by the Executive or a person related to the Executive by blood or marriage ("Controlled Entity") will, anywhere in the Company's Market, directly or indirectly own, manage, operate, control, invest or acquire an interest in, or herewise engage or participate in, whether as a proprietor, partner, stockholder, director, officer or employee, any business which competes in the Company's Market with the Business, without the prior written consent of the Company. Notwithstanding any other provisions of this Agreement, the Executive may make a passive investment in any publicly-traded company or entity in an amount not to exceed 5% of the voting stock of any such company or entity.

10.2 AGREEMENT NOT TO INTERFERE IN BUSINESS RELATIONSHIPS. (a) During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly solicit, induce or influence customer, or any other person which has a business relationship with the Company or any affiliate, or which had on the date of this Agreement such a relationship with the Company or any affiliate, to discontinue or reduce the extent of such relationship with the Company or any affiliate in the Company's Market without the prior written consent of the Company. (b) During the Restricted Period, neither the Executive nor any Controlled Entity will (i) directly or indirectly recruit, solicit or otherwise induce or influence any shareholder or employee of the Company or any of its affiliates to discontinue such employment or other relationship with the Company or any affiliate without the prior written consent of the Company, or (ii) employ or seek to employ, or cause or permit any Competitive Business which competes in the Company's Markets to employ or seek to employ for any Competitive Business, any person who is then (or was at any time within six months prior to the date the Executive or the Competitive Business employs or seeks to employ such person) employed by the Company or any affiliate without the prior written consent of the Company. Nothing herein shall prevent the Executive from providing a letter of recommendation to an Employee with respect to a future employment opportunity, nor prohibit the Executive from making general employment advertisements in mass-circulation newspapers or other mass media.

10.3 CONFIDENTIALITY. During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly disclose to anyone, or use or otherwise exploit for the Executive's or any Controlled Entity's own benefit or for the benefit of anyone other than the Company, any confidential information, including, without limitation, any confidential "know-how", trade secrets, customer lists, details of customer contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans and new personnel acquisition plans of the Company or any affiliate related to the Business or any portion or phase of any scientific, engineering or technical information, design, process, procedure, formula, improvement, discovery, invention, machinery or device of the Company or any affiliate that is not generally known to the competitors of the Company whether or not in written or tangible form (hereinafter referred to as "Confidential Information"). The term "Confidential Information" does not include, and there shall be no obligation hereunder

-8-

with respect to, information that becomes generally available to the public other than as a result of a disclosure by the Executive or a Controlled Entity or any agent or other representative thereof. Neither the Executive nor any Controlled Entity shall have any obligation hereunder to keep confidential any Confidential Information to the extent disclosure is required by law, or determined in good faith by the Executive to be necessary or appropriate to comply with any legal or regulatory order, regulation or requirement; provided, however, that in the event disclosure is required by law, the Executive or the Controlled Entity concerned shall provide the Company with prompt notice of such requirement so that the Company may seek an appropriate protective order. It is understood that in any new employment, the Executive may use his ordinary skill and non-confidential knowledge, even though said skill and non-confidential knowledge may have been gained at the Company. The Executive's obligations under this Section 10.3 shall be in addition to, not in substitution for, any common law fiduciary duties the Executive has to the Company or GMC regarding information acquired during the course of his employment.

10.4 INTELLECTUAL PROPERTY. The Executive shall communicate to the Company full information concerning all inventions, improvements, discoveries,

formulas, processes, systems of organization, management procedures, software or computer applications (hereinafter, collectively, "Intellectual Property") made or conceived by him either solely or jointly with others while in the employ of the Company, whether or not perfected during his period of employment and which shall be within the existing or contemplated scope of the Company's business during his employment. The Executive will assist the Company and its nominees in every way at the Company's expense in obtaining patents for such Intellectual Property as may be patentable in any and all countries and the Executive will execute all papers the Company may desire and assignments thereof to the Company or its nominees and said Intellectual Property shall be and remain the property of the Company and its nominees, if any, whether patented or not or assigned or not.

10.5 SURVIVAL OF COVENANTS. In the event of a termination of this Agreement, the covenants and agreements contained in this Section 10 shall survive, shall continue thereafter, and shall not expire unless and except as expressly set forth in such Section.

10.6 REMEDIES. The parties to this Agreement agree that (a) if either the Executive or any Controlled Entity breaches any provision of this Section 10, the damage to the Company and its affiliates will be substantial, although difficult to ascertain, and money damages will not afford an adequate remedy, and (b) if either the Executive or any Controlled Entity is in breach of this Agreement, or threatens a breach of this Agreement, the Company shall be entitled in its own right and/or on behalf of one or more of its affiliates, in addition to all other rights and remedies as may be available at law or in equity, to (i) injunctive and other equitable relief to prevent or restrain a breach of this Agreement and (ii) may require the breaching party to pay damages as the result of any transactions constituting a breach hereof.

11. INDEMNIFICATION OF EXECUTIVE. In the event the Employment is terminated for any reason, (a) the Company will hold harmless and indemnify the Executive for all acts or

-9-

omissions and for any suits it has at law or in equity, claims, actions or other proceedings against the Executive initiated either prior to the termination of employment or thereafter which relate to duties performed in good faith by the Executive while employed by the Company; and (b) The Company will retain the Executive as named insured under any directors' and officers' insurance policies it may have, for acts of the Executive during the time he served as an officer of the Company and GMC. Additionally, all legal and other costs incurred by the Executive to defend himself will be paid by the Company, as the Executive is billed for such costs, within ten (10) days of periodic submission to the Company or GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such defense.

12. EFFECT OF WAIVER. The waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

13. NOTICE. Any and all notices provided for herein shall be in writing and shall be physically delivered or mailed by registered or certified mail, return receipt requested to the parties at their respective addresses set forth hereinabove. Either party may from time to time designate a different address for notices to be sent to such party by giving the other party due notice of such different address.

14. VALIDITY. If any part of this Agreement shall be found to be invalid or unenforceable, the same shall be deemed to be severable and the remaining portions of this Agreement shall remain in full force and effect.

15. MODIFICATION AND ASSIGNMENT. This Agreement shall not be modified or amended except by an instrument in writing signed by the parties hereto. This Agreement and all of its terms and conditions shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns, including but not limited to any corporation or other entity with or into which the Company is merged or consolidated or any other successor of the Company. The Executive agrees that he will not and may not assign, transfer or convey, pledge or encumber this Agreement or his right, title or interest therein, or his power to execute the same or any monies due or to become due hereunder, this Agreement being intended to secure the personal services of the Executive, and the Company shall not recognize any such assignment, transfer, conveyance, pledge or encumbrance.

16. APPLICABLE LAW. This agreement and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York, without giving effect to the conflict of laws provisions thereof.

17. PRIOR AGREEMENTS. This Agreement shall supersede any prior employment agreement between the Company and the Executive and shall be effective from the date specified hereinabove, PROVIDED, HOWEVER, that the Senior Executive Severance Agreement between the Company and the Executive as approved by the Board of Directors of the Company at its meeting on May 13, 1993, as the same

may from time to time be amended, shall remain in full force and

-10-

effect and all obligations of either the Company or the Executive under the Senior Executive Severance Agreement are and shall be deemed separate and independent obligations in addition to any obligations created by this Agreement.

18. BUSINESS COMBINATIONS. In the event of any sale, merger or any form of business combination affecting the Company or GMC whatsoever, the Company and GMC will obtain the express written assumption of this Agreement by the acquiring or surviving entity from such combination, and failure of the Company and GMC to obtain such an assumption will constitute a breach of this Agreement, entitling the Executive to all payments and other benefits to be provided in the event of termination without cause provided in Section 9.3 hereof.

19. HEADINGS. This section headings of this Agreement are for convenience of reference only and are not to be considered in the interpretation of the terms and conditions of this Agreement.

20. INVALIDITY OR UNENFORCEABILITY. If any term or provision of this Agreement is held to be invalid or unenforceable, for any reason, such invalidity or unenforceability shall not affect any other term or provision hereof and this Agreement shall continue in full force and effect as if such invalid or unenforceable term or provision (to the extent of the invalidity or unenforceability) had not been contained herein. If any court determines that any provision of Section 10 hereof is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the scope or duration of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

21. COUNTERPARTS. This agreement may be executed in any number of counterparts, each of which for all purposes shall be deemed to be an original.

-11-

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement as of the day and year first above written.

(Corporate Seal)

GRAHAM CORPORATION

/s/ F.D. Berkeley

By

Chairman, President &
Chief Executive Officer

(Corporate Seal)

GRAHAM MANUFACTURING CO., INC.

/s/ A. Cadena

By

President

/s/ J. Ronald Hansen

J. Ronald Hansen

Attest: /s/ Carole M. Anderson

-12-

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 1st day of December, 1993, before me personally came F. D. Berkeley to me known, who, being by me duly sworn, did depose and say that he resides at 50 Old Mill Road, Rochester, New York; that he is Chairman, President & Chief Executive Officer of Graham Corporation described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 1st day of December, 1993, before me personally came Alvaro Cadena, to me known, who, being by me duly sworn, did depose and say that he resides at 4 LePere Drive, Pittsford, New York; that he is President of Graham Manufacturing Co., Inc. described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 1st day of December, 1993, before me personally came J. Ronald Hansen, to me known to be the person described in and who executed the attached instrument and acknowledged that he executed the same.

/s/ Carole M. Anderson

Notary Public

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT
ENTERED INTO AS OF MAY 13, 1993 AMONG GRAHAM CORPORATION,
GRAHAM MANUFACTURING CO., INC. AND J. RONALD HANSEN

THIS AMENDMENT, is made and entered into as of September 26, 1996, by and among Graham Corporation, a Delaware corporation with offices at 20 Florence Avenue, Batavia, New York 14020 (the "Company"), Graham Manufacturing Co., Inc., a New York corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("GMC"), and J. Ronald Hansen currently residing at 9295 Fargo Road, Stafford, New York 14143 (the "Executive").

W I T N E S S E T H
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WHEREAS, the Company and GMC have entered into an Employment Agreement with the Executive entered into as of May 13, 1993 (the "Employment Agreement"); and

WHEREAS, the Company, GMC and the Executive wish to amend certain provisions of the Employment Agreement;

NOW, THEREFORE, the Company, GMC and the Executive, intending to be legally bound hereby, agree as follows:

1. The final sentence of Section 2 of the Employment Agreement be and hereby is amended to read in its entirety as follows:

"The Executive shall devote his full time during the Company's or GMC's hours of work to the business and affairs of the Company and GMC (to be allocated between them as the Company may determine) and shall use his best efforts, skill and ability in performing his duties on behalf of the Company and GMC."

2. Section 4 of the Employment Agreement be and hereby is amended to read in its entirety as follows:

"4. BASE COMPENSATION. As the base compensation for all services to be rendered by the Executive in any capacity to the Company and GMC, the Company and GMC agree to pay to the Executive, and the Executive shall accept, a salary at a rate of \$117,374 per annum, payable in arrears in equal monthly installments, subject to such deductions and withholdings as may be required by law. During the fourth quarter of each year, the Company and GMC will review the salary rate

-2-

of the Executive, taking into consideration such factors as the Executive's performance during the preceding year and such other matters as they deem relevant and, in their discretion alone, may increase the salary of the Executive for the following calendar year, to be effective from January 1 of such following year, to such rate and for such period of time as the Company and GMC deems proper, provided that the Company and GMC shall in no event be required to grant any such increase. However, in the event that any person or entity acquires twenty percent (20%) or more of the outstanding equity stock of the Company or GMC, who was not an owner of twenty percent of the equity stock of either the Company (in the case of an acquisition of Company stock) or GMC (in the case of an acquisition of GMC stock) prior to May 13, 1993, or in the event that any person or entity acquires twenty percent (20%) or more of the assets of either the Company or GMC who was not an owner of twenty percent of the assets of either the Company (in the case of an acquisition of Company assets) or of GMC (in the case of an acquisition of GMC assets) prior to May 13, 1993 then, subsequent to such acquisition of twenty percent stock or twenty percent asset ownership of either the Company or GMC by any such person or entity: (1) if for any calendar year a salary increase at least equal to the increase in the U.S. City All-Items Consumer Price Index for Urban Wage Earners and Clerical Workers during the previous twelve months, is not granted; or if (2) the Executive's base salary is decreased at any time, then in either event the Executive may in his sole discretion terminate this Agreement upon thirty days' written notice given at any time during the calendar year for which no such increase was granted, or during the twelve month period following any such decrease in salary, and thereupon the Company and GMC shall be obligated to pay the Executive the amounts, and provide the benefits, specified in Section 9.3 of this Agreement."

3. Section 5 of the Employment Agreement be and hereby is amended by replacing the words "The Executive Bonus Plan" with the words "The Incentive Compensation Plan (formerly the Executive Bonus Plan)".

4. Section 7 of the Employment Agreement be and hereby is amended to read in its entirety as follows:

"7. AUTOMOBILE ALLOWANCE."

"7.1 The Company and GMC shall pay the Executive an automobile allowance of \$8,550 per annum (the "Automobile Allowance"). Neither the Automobile

-3-

Allowance nor any portion of it shall be included as Base Compensation for the purpose of eligibility for possible increases in Base Compensation as provided by Section 4 of this Agreement. During the fourth quarter of each calendar year, the Company and GMC will review the automobile allowance amount of the Executive and, in their discretion, may increase the automobile allowance paid to the Executive for the following calendar year, to be effective from January 1 of the following year, to such increased rate and for such period of time as the Company and GMC deem proper, provided that neither the Company nor GMC shall be required to grant any such increase."

"7.2 The Executive represents that he now carries automobile liability insurance, with respect to any automobile owned by him, for injuries to persons and property."

5. Section 9.3 of the Employment Agreement be and hereby is amended by deleting subsection (c) of the fourth sentence.

6. Section 9.3 of the Employment Agreement be and hereby is further amended by deleting the last sentence and adding the following sentences:

"In addition to other amounts payable to the Executive under this Section 9.3, the Company and GMC shall pay to the Executive Accrued Bonus as defined hereinafter. For purposes of this Section 9.3, Accrued Bonus shall mean any amount of bonus with respect to any year prior to the year in which dismissal without cause occurs ("Prior Bonus Year") calculable by applying the formula prescribed by the Incentive Compensation Plan (formerly the Executive Bonus Plan) of Graham Corporation as it existed on December 31 of such Prior Bonus Year and employing in the application of such formula the goals, ratios and weighting percentages and other variable figures which the Bonus Plan calls for the Company's Board or any Committee thereof to determine annually ("Bonus Plan Variables") which the Company's Board of Directors or any Committee thereof adopted for purposes of the Bonus Plan prior to December 31 of such Prior Bonus Year. With respect to any Prior Bonus Year for which neither the Company's Board nor any Committee thereof adopted Bonus Plan Variables prior to December 31 of such year, the Bonus Plan Variables adopted most recently prior to the commencement of the Prior Bonus Year in issue shall be employed for purposes of calculating the amount of Accrued Bonus payable pursuant to this Agreement. Notwithstanding any other provision of this Section, no Accrued Bonus shall be payable pursuant to Section 9.3 of this Agreement for any Prior Bonus Year with

-4-

respect to which a bonus amount was paid to and accepted by the Executive. In the event that the provisions of this Section 9.3 are triggered by discharge of the Executive without cause by one of the Company or GMC, the Executive shall resign from all offices and directorships of the other entity and of all subsidiaries and affiliates of the Company, upon payment to the Executive of the amount referred to in subsection (a) of the second sentence of this Section 9.3, payment of the amount referred to in subsection (b) of the second sentence of this Section 9.3 (or the first installment thereof) and Accrued Bonus, if any."

7. The Employment Agreement be and hereby is amended by adding the following section:

"9.5 NON-DUPLICATION. In the event that the Executive shall be a party to any other contract, agreement or arrangement providing termination payments (other than retirement or similar benefits or pursuant to any plan providing for stock options or appreciation rights) upon a cessation of service for the Company or GMC, any compensation or other benefits provided to the Executive under such other contract, agreement or arrangement and paid to the Executive shall be applied to offset the obligations of the Company and GMC to pay a lump sum equal to twelve months' salary as provided by Section 9.3 hereof, it being intended that such lump sum payment provided under Section 9.3 hereof not duplicate payments otherwise due to the Executive on account of his cessation of service."

8. Section 16 of the Employment Agreement be and hereby is amended by adding the following sentence:

"Any action or proceeding brought by either party against the other arising out of or related to the Agreement shall be brought only in a state court of competent jurisdiction located in the County of Monroe, State of New York or the Federal District Court for the Western District of New York located in Monroe County, New York and the parties hereby consent to the personal jurisdiction of said courts."

9. Section 17 of the Employment Agreement be and hereby is amended by replacing the date "May 13, 1993" with the date "July 27, 1995."

10. All other terms and conditions of the Employment Agreement remain unchanged and in full force and effect.

-5-

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement as of the day and year first above written.

(Corporate Seal)

GRAHAM CORPORATION

By /s/ F.D. Berkeley

Chairman, President & Chief Executive Officer

(Corporate Seal)

GRAHAM MANUFACTURING CO., INC.

By /s/ A. Cadena

President

/s/ J. Ronald Hansen

J. Ronald Hansen

Attest: /s/ Carole M. Anderson

-6-

STATE OF NEW YORK)
: ss.:
COUNTY OF GENESEE)

On the 27th day of September, 1996, before me personally came F. D. Berkeley, to me known, who, being by me duly sworn, did depose and say that he resides at 50 Old Mill Road, Rochester, New York; that he is Chairman, President and Chief Executive Officer of Graham Corporation described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
: ss.:
COUNTY OF GENESEE)

On the 27th day of September, 1996, before me personally came Alvaro Cadena, to me known, who, being by me duly sworn, did depose and say that he resides at 4 LePere Drive, Pittsford, New York; that he is President of Graham Manufacturing Co., Inc. described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Christine Jean Sabatino

Notary Public

STATE OF NEW YORK)
: ss.:
COUNTY OF GENESEE)

On the 27th day of September, 1996, before me personally came J. Ronald Hansen, to me known to be the person described in and who executed the attached instrument and -2- acknowledged that he executed the same.

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made and entered into as of September 26, 1996 by and among Graham Manufacturing Co., Inc., a New York corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("GMC"), Graham Corporation, a Delaware corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("Holding Company") and JOSEPH P. GORMAN, JR., currently residing at 20 LePere Drive, Pittsford, New York 14534 (the "Executive").

The parties hereto, intending to be legally bound hereby, and in consideration of the mutual covenants herein contained, agree as follows:

1. EMPLOYMENT.

GMC hereby employs the Executive and the Executive hereby accepts employment (such employment, hereafter, the "Employment") as Vice President - Sales of GMC upon the terms and conditions hereinafter set forth. Failure in any year of the Board of Directors of GMC ("GMC Board") at its Annual Meeting to elect the Executive to the office of Vice President Sales shall constitute termination of the Executive's employment without cause under Section 9.3 of this Agreement.

2. DUTIES. The Executive is engaged as Vice President - Sales of GMC. The Executive shall have authority and responsibility for the operation and management, on a day to day basis, for the Company's domestic and international sales efforts, including its sales offices and all sales agents and representatives, and shall perform such duties consistent with Executive's title as may from time to time be required of Executive by the GMC Board or by either the Chairman and Chief Executive Officer of GMC, or by the President of GMC to whom Executive shall be directly responsible. The Executive's office shall be at GMC's headquarters office in Batavia, New York, or within a reasonable commuting distance east of Batavia, New York. The Executive agrees to travel to the extent reasonably necessary for the performance of his duties hereunder. The Executive shall devote his full time during GMC's hours of work to the business and affairs of GMC and shall use his best efforts, skill and ability in performing his duties on behalf of GMC.

3. TERM.

(a) Except as otherwise provided in this Agreement to the contrary, the terms and conditions of this Agreement shall be and remain in effect during the period of employment ("Term") established under this Section 3. The Term shall be for a term of one (1)

-2-

year commencing on September 26, 1996, plus such extensions, if any, as are provided pursuant to Section 3(b).

(b) Except as provided in Section 3(c), beginning on the date of this Agreement, the Term shall be automatically extended for one (1) additional day each day, unless either GMC or the Executive elects not to extend the Term further by giving written notice to the other party, in which case the Term shall end on the first anniversary of the date on which such written notice is given; provided, however, that in any event, the Term shall end on the last day of the month in which the Executive attains age sixty-five (65). Upon termination of the Executive's employment with GMC for any reason whatsoever, any daily extensions provided pursuant to this Section 3, if not theretofore discontinued, shall cease and the remaining unexpired Term under this Agreement shall be a fixed period ending on the first anniversary of the date on which the daily extensions were discontinued.

(c) Notwithstanding anything herein contained to the contrary: (i) the Executive's employment with GMC may be terminated during the Term, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Executive's employment following the expiration of the Term upon such terms and conditions as GMC and the Executive may mutually agree upon.

4. BASE COMPENSATION. As the base compensation for all services to be rendered by the Executive in any capacity to GMC and its affiliates, GMC agrees to pay to the Executive, and the Executive shall accept, a salary at a rate of \$107,744 per annum and as such rate may be increased from time to time in accordance with this Section 4 or otherwise, payable in arrears in equal monthly installments, subject to such deductions and withholdings as may be required by law. During the fourth quarter of each year commencing in calendar year 1996, GMC will review the salary rate of the Executive, taking into consideration such

factors as the Executive's performance during the preceding year and such other matters as it deems relevant and, in its sole discretion, may increase the salary of the Executive for the following calendar year, to be effective from January 1 of such following year, to such rate and for such period of time as GMC deems proper, provided that GMC shall in no event be required to grant any such increase. However, in the event that any person or entity acquires twenty percent (20%) or more of the outstanding equity stock of GMC's parent, the Holding Company, or GMC, who was not an owner of twenty percent of the equity stock of either the Holding Company (in the case of an acquisition of Holding Company stock) or GMC (in the case of an acquisition of GMC stock) prior to September 26, 1996, or in the event that any person or entity acquires twenty percent (20%) or more of the assets of either the Holding Company or GMC who was not an owner of twenty percent of the assets of either the Company (in the case of an acquisition of Holding Company assets) or of GMC (in the case of an acquisition of GMC assets) prior to September 26, 1996, AND PROVIDED that in such event, such person or entity (i) initiated a tender offer for the capital stock of the Company or GMC other than at the invitation of either the Holding Company Board or the GMC Board; or (ii)

-3-

caused its nominee or nominees to be elected to the Holding Company Board or the GMC Board as a result of a proxy contest in which election of its nominees, or any of them, was not endorsed by management of the Holding Company or GMC in any proxy statement prepared for the purpose; or (iii) acquired its twenty percent or greater interest in either the Holding Company or GMC subsequent to and within two years of any other party or entity's initiation of a tender offer, initiation of a proxy contest, or offer to acquire all, or more than 20% of the outstanding capital stock of the Holding Company or GMC for a stated price or in exchange for any non-cash form of consideration, then, subsequent to such acquisition of twenty percent stock or twenty percent asset ownership of either the Holding Company or GMC by any such person or entity: (1) if for any calendar year a salary increase at least equal to the increase in the U.S. City All-Items Consumer Price Index for Urban Wage Earners and Clerical Workers during the previous twelve months, is not granted; or if (2) the Executive's base salary is decreased at any time, then in either event the Executive may in his sole discretion terminate this Agreement upon thirty days' written notice given at any time during the calendar year for which no such increase was granted, or during the twelve month period following any such decrease in salary, and thereupon GMC or any successor shall be obligated to pay the Executive the amounts, and provide the benefits, specified in Section 9.3 of this Agreement.

5. BONUSES. GMC shall pay Executive bonuses subject to The Incentive Compensation Plan (formerly the Executive Bonus Plan) of Graham Corporation, as it may be amended from time to time, or such other bonus plans or arrangements of GMC, or made available to GMC by the Holding Company, as may be in effect from time to time, as determined by GMC's or the Holding Company's Board of Directors or a committee of either.

6. BENEFITS. During the term of this Agreement, GMC shall provide the following benefits to the Executive:

6.1 MEDICAL. GMC will provide the Executive health coverage for himself and his family in accordance with the Graham Manufacturing Co., Inc. Self Insured Medical/Dental Plan, as the same may be amended from time to time, or in accordance with such other health coverage plan as GMC may adopt.

6.2 VACATION. The Executive shall be entitled to 25 business days of paid vacation in calendar year 1996 with additional time to accrue thereafter in accordance with GMC's vacation policy, as the same may be in effect from time to time.

6.3 GENERAL BENEFITS. The Executive shall be entitled to participate in all employee benefit plans and arrangements of the Holding Company and GMC that may from time to time be in effect and may from time to time be made available to the executive officers of GMC, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. Nothing in this Section 6.3 shall be construed to limit or restrict

-4-

the complete discretion of the Board of Directors of the Holding Company (with respect to employee benefit or bonus plan or plans of the Holding Company or the Board of Directors of GMC (with respect to employee benefit or bonus plan or plans of GMC, to amend, modify or terminate any of such plans, provided that such action generally affects plan participants or employees, including the Executive.

6.4 LIFE INSURANCE. (a) GMC will provide life insurance for the executive providing coverage in an amount equal to three times base salary. (b) The Executive agrees that GMC, in its discretion, may apply for and procure in its own name and for its own benefit, life insurance on his life in any amount

or amounts considered advisable, and that he shall have no right, title or interest therein. The employee further agrees to submit to any medical or other examination and to execute and deliver any application or other instrument in writing, reasonably necessary to effectuate such insurance, provided such actions do not harm the Executive's ability to otherwise obtain or retain life insurance(s). (c) As soon as practical following the termination of employment for any reason except for cause, GMC will cause to be transferred, assigned or otherwise conveyed to the Executive any right, title and interest that either may have in and to any life insurance contract (other than any group-term life insurance contract) under which the Executive's life is insured, including full rights of ownership in and to the cash surrender value thereof (net of any loans obtained against such cash surrender value), and the Executive shall assume all obligations for the payment of any premiums which may become due with respect to such insurance contract after the termination of employment.

7. USE OF AUTOMOBILE.

7.1 The Company shall pay the Executive an automobile allowance of \$8,550 per annum (the "Automobile Allowance") toward the Executive's use and maintenance of his own automobile. Neither the Automobile Allowance or any portion of it shall be included as Base Compensation for the purpose of any eligibility for possible increases in Base Compensation as provided by Section 4 of this Agreement. During the fourth quarter of each year, the Company will review the automobile allowance amount of the Executive and, in its sole discretion, may increase the automobile allowance paid to the Executive for the following calendar year, to be effective from January 1 of such following year, to such increased rate and for such period of time as the Company deems proper, provided that the Company shall in no event be required to grant any such increase.

7.2 The Executive represents that he now carries automobile liability insurance, with respect to any automobile owned by him, for injuries to persons and property.

8. EXPENSES. GMC shall pay or reimburse the Executive for all reasonable and necessary traveling and other expenses incurred or paid by the Executive in connection with the performance of his duties under this Agreement upon presentation of expense statements or vouchers and such other supporting information as it may from time to time request. However,

-5-

the amount available for such traveling and other expenses may be fixed in advance by the Chairman, the President or the Board of Directors of GMC.

9. TERMINATION. This Agreement shall terminate prior to the Term expiration date, hereinabove set forth, in the event that the Executive shall die or GMC shall determine that the Executive has become disabled, or if the Executive shall be dismissed for cause or without cause, as hereinafter provided.

9.1 DISABILITY. GMC may determine that the Executive has become disabled, for purposes of this Agreement, in the event that the Executive shall fail, because of illness or incapacity, to render for nine (9) successive months, or for shorter periods aggregating twelve (12) months or more in any period of eighteen (18) months, services of the character contemplated by this Agreement; and thereupon this Agreement and the employment and all rights of the Executive hereunder shall be deemed to have been terminated as of the end of the calendar month in which such determination was made.

9.2 FOR CAUSE. GMC may dismiss the Executive for Cause. For purposes of this Agreement, "Cause" shall mean willful misconduct by the Executive in connection with the performance of his duties hereunder or any other conduct on the part of the Executive which has been materially injurious to GMC or any affiliate. Existence of Cause as defined herein shall be determined only by a good faith finding thereof by the GMC Board, which shall afford the Executive the opportunity to appear before it, with the Executive's legal counsel if the Executive chooses, prior to finalizing any such determination. Following such a good faith determination by the GMC Board and upon the delivery to the Executive of written notice that the GMC Board has made such determination, the Employment shall terminate. If the Executive in good faith contests a termination for cause by GMC, GMC will pay all legal fees and other expenses incurred by the Executive, as the Executive is billed for such costs, within ten (10) days of periodic submission to GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such challenge; the Executive will reimburse GMC for the amount of legal fees and other expenses so paid if it should be determined by a court of final adjudication that the Executive did not act in good faith in bringing such challenge.

9.3 WITHOUT CAUSE. GMC may dismiss the Executive without cause at any time upon thirty (30) days notice to the Executive. In the event GMC dismisses the Executive other than for cause, or if the Executive resigns because of a material breach of this Agreement by GMC, GMC shall thereupon pay to the Executive (a) the compensation due him to the date of termination, plus (b) an

additional lump sum in an amount equal to twelve months' salary at the rate specified in Section 4 hereinabove. At any time prior to the effective date of termination of employment, the Executive may in writing elect to receive the additional lump sum equal to twelve months' salary in monthly installments of up to, but not to exceed, thirty-six (36) successive months. In addition, GMC shall (a) provide the Executive with continuing health care coverage,

-6-

as described in Section 6.1 hereof, for a period of thirty-six (36) months following the effective date of termination of employment; and (b) shall pay for, or in the Executive's sole discretion, reimburse the Executive as the Executive is billed, within ten (10) days of periodic submission to GMC of statements of charges, for outplacement services from a provider agreed to by the Executive and GMC until the sooner of (i) the Executive's commencement of employment with another employer or (ii) thirty-six (36) months following the effective date of termination of employment. In addition to other amounts payable to the Executive under this Section 9.3, the Company and GMC shall pay to the Executive Accrued Bonus as defined hereinafter. For purposes of this Section 9.3, Accrued Bonus shall mean any amount of bonus with respect to any calendar year prior to the calendar year in which dismissal without cause occurs ("Prior Bonus Year") calculable by applying the formula prescribed by the Executive Bonus Plan of Graham Corporation as it existed on December 31 of such Prior Bonus Year and employing in the application of such formula the goals, ratios and weighting percentages and other variable figures which the Bonus Plan calls for the Holding Company Board or any Committee thereof to determine annually ("Bonus Plan Variables") which the Holding Company's Board of Directors or any Committee thereof adopted for purposes of the Bonus Plan prior to December 31 of such Prior Bonus Year. With respect to any Prior Bonus Year for which neither the Holding Company Board nor any Committee thereof adopted Bonus Plan Variables prior to December 31 of such year, the Bonus Plan Variables adopted most recently prior to the commencement of the Prior Bonus Year in issue shall be employed for purposes of calculating the amount of Accrued Bonus payable pursuant to this Agreement. Notwithstanding any other provision of this Section, no Accrued Bonus shall be payable pursuant to Section 9.3 of this Agreement for any Prior Bonus Year with respect to which a bonus amount was paid to and accepted by the Executive. In the event that the provisions of this Section 9.3 are triggered by discharge of the Executive without cause by GMC, the Executive shall resign from all offices and directorships all subsidiaries and affiliates of GMC and of the Holding Company, upon payment to the Executive of the amounts referred to in subsection (a) of the second sentence of this Section 9.3, payment of the amount referred to in subsection (b) of the second sentence of this Section 9.3 (or the first installment thereof) and Accrued Bonus, if any.

9.4 RETURN OF CONFIDENTIAL DOCUMENTATION. Upon termination of employment for any reason whatsoever, the Executive shall return to GMC all working papers, notebooks, strategic plans, computer programs and files, and other confidential documents and information, in any form whatsoever.

10. COVENANTS OF EXECUTIVE

The Executive acknowledges that: (a) the business of GMC and its affiliates, as currently conducted and as conducted from time to time throughout the term of this Agreement (collectively, the "Business"), is conducted by and is proposed to be conducted on a world wide basis (the "Company's Market"); (b) the Business involves providing design,

-7-

engineering and manufacture of certain vacuum and heat transfer equipment, including but not limited to steam condensers, steam jet ejectors, shell and tube heat exchangers, plate and frame heat exchangers, Heliflow heat exchangers, liquid ring vacuum pumps and rotary piston pumps; (c) GMC and its affiliates have developed trade secrets and confidential information concerning the Business; and (d) the agreements and covenants contained in this Section 10 are essential to protect the Business. In order to induce GMC to enter into this Employment Agreement, the Executive covenants and agrees that:

10.1 AGREEMENT NOT TO COMPETE. In the event that the Executive resigns (for reasons other than a material breach of this Agreement by GMC) or departs from the employ of GMC without the approval of the GMC Board or is discharged for cause, then for a period of twelve (12) months after such resignation, departure or discharge (such period of time hereinafter the "Restricted Period"), neither the Executive nor any entity of which 20% or more of the beneficial ownership is held by the Executive or a person related to the Executive by blood or marriage ("Controlled Entity") will, anywhere the Market of GMC or any affiliate, directly or indirectly own, manage, operate, control, invest or acquire an interest in, or herewise engage or participate in, whether as a proprietor, partner, stockholder, director, officer or employee, any business which competes in the Market of GMC or any affiliate with the Business as such Business was conducted, or such other business as the Company had plans to conduct or had taken material steps toward conducting as of the date of termination of the Executive's employment with the Company, without the prior

written consent of GMC. Notwithstanding any other provisions of this Agreement, the Executive may make a passive investment in any publicly-traded company or entity in an amount not to exceed 5% of the voting stock of any such company or entity.

10.2 AGREEMENT NOT TO INTERFERE IN BUSINESS RELATIONSHIPS. (a) During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly solicit, induce or influence customer, or any other person which has a business relationship with GMC or any affiliate, or which had on the date of this Agreement such a relationship with GMC or any affiliate, to discontinue or reduce the extent of such relationship with GMC or any affiliate in the Market of GMC or any affiliate without the prior written consent of GMC. (b) During the Restricted Period, neither the Executive nor any Controlled Entity will (i) directly or indirectly recruit, solicit or otherwise induce or influence any shareholder or employee of GMC or any of its affiliates to discontinue such employment or other relationship with GMC or any affiliate without the prior written consent of GMC, or (ii) employ or seek to employ, or cause or permit any Competitive Business which competes in the Market of GMC or any affiliate to employ or seek to employ for any Competitive Business, any person who is then (or was at any time within six months prior to the date the Executive or the Competitive Business employs or seeks to employ such person) employed by GMC or any affiliate without the prior written consent of GMC. Nothing herein shall prevent the Executive from providing a letter of recommendation to an Employee with respect to a future employment opportunity, nor prohibit the Executive from making general employment advertisements in mass-circulation newspapers or other mass media.

-8-

10.3 CONFIDENTIALITY. During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly disclose to anyone, or use or otherwise exploit for the Executive's or any Controlled Entity's own benefit or for the benefit of anyone other than GMC, any confidential information, including, without limitation, any confidential "know-how", trade secrets, customer lists, details of customer contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans and new personnel acquisition plans of GMC or any affiliate related to the Business or any portion or phase of any scientific, engineering or technical information, design, process, procedure, formula, improvement, discovery, invention, machinery or device of GMC or any affiliate that is not generally known to the competitors of the Company whether or not in written or tangible form (hereinafter referred to as "Confidential Information"). The term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that becomes generally available to the public other than as a result of a disclosure by the Executive or a Controlled Entity or any agent or other representative thereof. Neither the Executive nor any Controlled Entity shall have any obligation hereunder to keep confidential any Confidential Information to the extent disclosure is required by law, or determined in good faith by the Executive to be necessary or appropriate to comply with any legal or regulatory order, regulation or requirement; provided, however, that in the event disclosure is required by law, the Executive or the Controlled Entity concerned shall provide the Company with prompt notice of such requirement so that GMC may seek an appropriate protective order. It is understood that in any new employment, the Executive may use his ordinary skill and non-confidential knowledge, even though said skill and non-confidential knowledge may have been gained at GMC. The Executive's obligations under this Section 10.3 shall be in addition to, not in substitution for, any common law fiduciary duties the Executive has to GMC regarding information acquired during the course of his employment.

10.4 INTELLECTUAL PROPERTY. The Executive shall communicate to GMC full information concerning all inventions, improvements, discoveries, formulas, processes, systems of organization, management procedures, software or computer applications (hereinafter, collectively, "Intellectual Property") made or conceived by him either solely or jointly with others while in the employ of GMC, whether or not perfected during his period of employment and which shall be within the existing or contemplated scope of the Business during his employment. The Executive will assist GMC and its nominees in every way at GMC's expense in obtaining patents for such Intellectual Property as may be patentable in any and all countries and the Executive will execute all papers GMC may desire and assignments thereof to GMC or its nominees and said Intellectual Property shall be and remain the property of GMC and its nominees, if any, whether patented or not or assigned or not.

10.5 SURVIVAL OF COVENANTS. In the event of a termination of this

-9-

Agreement, the covenants and agreements contained in this Section 10 shall survive, shall continue thereafter, and shall not expire unless and except as

expressly set forth in such Section.

10.6 REMEDIES. The parties to this Agreement agree that (a) if either the Executive or any Controlled Entity breaches any provision of this Section 10, the damage to GMC and its affiliates will be substantial, although difficult to ascertain, and money damages will not afford an adequate remedy, and (b) if either the Executive or any Controlled Entity is in breach of this Agreement, or threatens a breach of this Agreement, GMC shall be entitled in its own right and/or on behalf of one or more of its affiliates, in addition to all other rights and remedies as may be available at law or in equity, to (i) injunctive and other equitable relief to prevent or restrain a breach of this Agreement and (ii) may require the breaching party to pay damages as the result of any transactions constituting a breach hereof.

11. INDEMNIFICATION OF EXECUTIVE. In the event the Employment is terminated for any reason, (a) GMC will hold harmless and indemnify the Executive for all acts or omissions and for any suits it has at law or in equity, claims, actions or other proceedings against the Executive initiated either prior to the termination of employment or thereafter which relate to duties performed in good faith by the Executive while employed by GMC; and (b) GMC will retain the Executive as named insured under any directors' and officers' insurance policies it may have, for acts of the Executive during the time he served as an officer of GMC and any affiliate. Additionally, all legal and other costs incurred by the Executive to defend himself will be paid by GMC, as the Executive is billed for such costs, within ten (10) days of periodic submission to GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such defense.

12. EFFECT OF WAIVER. The waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

13. NOTICE. Any and all notices provided for herein shall be in writing and shall be physically delivered or mailed by registered or certified mail, return receipt requested to the parties at their respective addresses set forth hereinabove. Either party may from time to time designate a different address for notices to be sent to such party by giving the other party due notice of such different address.

14. VALIDITY. If any part of this Agreement shall be found to be invalid or unenforceable, the same shall be deemed to be severable and the remaining portions of this Agreement shall remain in full force and effect.

15. MODIFICATION AND ASSIGNMENT. This Agreement shall not be modified or amended except by an instrument in writing signed by the parties hereto. This Agreement and all of its terms and conditions shall be binding upon and shall inure to the benefit of the parties hereto

-10-

and their respective heirs, legal representatives, successors and assigns, including but not limited to any corporation or other entity with or into which GMC is merged or consolidated or any other successor of GMC. The Executive agrees that he will not and may not assign, transfer or convey, pledge or encumber this Agreement or his right, title or interest therein, or his power to execute the same or any monies due or to become due hereunder, this Agreement being intended to secure the personal services of the Executive, and GMC shall not recognize any such assignment, transfer, conveyance, pledge or encumbrance.

16. APPLICABLE LAW; VENUE. This agreement and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York, without giving effect to the conflict of laws provisions thereof. Any action or proceeding brought by either party against the other arising out of or related to the Agreement shall be brought only in a state court of competent jurisdiction located in the County of Monroe, State of New York or the Federal District Court for the Western District of New York located in Monroe County, New York and the parties hereby consent to the personal jurisdiction of said courts.

17. PRIOR AGREEMENTS. This Agreement shall supersede any prior employment agreement between GMC and the Executive and shall be effective from the date specified hereinabove.

18. BUSINESS COMBINATIONS. In the event of any sale, merger or any form of business combination affecting the Holding Company or GMC whatsoever, the Holding Company and GMC will obtain the express written assumption of this Agreement by the acquiring or surviving entity from such combination, and failure of the Holding Company and GMC to obtain such an assumption no later than the effective date of any such business combination will constitute a breach of this Agreement, entitling the Executive to all payments and other benefits to be provided in the event of termination without cause provided in Section 9.3 hereof.

19. HEADINGS. The section headings of this Agreement are for convenience of

reference only and are not to be considered in the interpretation of the terms and conditions of this Agreement.

20. INVALIDITY OR UNENFORCEABILITY. If any term or provision of this Agreement is held to be invalid or unenforceable, for any reason, such invalidity or unenforceability shall not affect any other term or provision hereof and this Agreement shall continue in full force and effect as if such invalid or unenforceable term or provision (to the extent of the invalidity or unenforceability) had not been contained herein. If any court determines that any provision of Section 10 hereof is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the scope or duration of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

-11-

21. COUNTERPARTS. This agreement may be executed in any number of counterparts, each of which for all purposes shall be deemed to be an original.

-12-

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement as of the day and year first above written.

(Corporate Seal)

GRAHAM CORPORATION

By /s/ F.D. Berkeley

Chairman, President and Chief
Executive Officer

(Corporate Seal)

GRAHAM MANUFACTURING CO., INC.

By /s/ A. Cadena

President

/s/ Joseph P. Gorman, Jr.

JOSEPH P. GORMAN, JR.

Attest: /s/ Carole M. Anderson

-13-

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 10th day of February, 1997, before me personally came F. D. Berkeley, to me known, who, being by me duly sworn, did depose and say that he resides at 50 Old Mill Road, Rochester, New York; that he is Chairman,

President and Chief Executive Officer of Graham Corporation described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, k and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 10th day of February, 1997, before me personally came Alvaro Cadena, to me known, who, being by me duly sworn, did depose and say that he resides at 4 LePere Drive, Pittsford, New York; that he is President of Graham Manufacturing Co., Inc. described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 10th day of February, 1997, before me personally came JOSEPH P. GORMAN, JR., to me known to be the person described in and who executed the attached instrument and acknowledged that he executed the same.

/s/ Carole M. Anderson

Notary Public

EMPLOYMENT AGREEMENT

THIS AGREEMENT, is made and entered into as of September 26, 1996 by and among Graham Manufacturing Co., Inc., a New York corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("GMC"), Graham Corporation, a Delaware corporation with offices at 20 Florence Avenue, Batavia, New York 14020 ("Holding Company") and STEPHEN P. NORTHRUP, currently residing at 5034 Barrville Road, Elba, New York 14058 (the "Executive").

The parties hereto, intending to be legally bound hereby, and in consideration of the mutual covenants herein contained, agree as follows:

1. EMPLOYMENT.

GMC hereby employs the Executive and the Executive hereby accepts employment (such employment, hereafter, the "Employment") as Vice President - Engineering of GMC upon the terms and conditions hereinafter set forth. Failure in any year of the Board of Directors of GMC ("GMC Board") at its Annual Meeting to elect the Executive to the office of Vice President - Engineering shall constitute termination of the Executive's employment without cause under Section 9.3 of this Agreement.

2. DUTIES. The Executive is engaged as Vice President - Engineering of GMC. The Executive shall have authority and responsibility for the operation and management, on a day to day basis, for the Company's contract engineering and quality assurance departments, and shall perform such duties consistent with Executive's title as may from time to time be required of Executive by the GMC Board or by either the Chairman and Chief Executive Officer of GMC, or by the President of GMC to whom Executive shall be directly responsible. The Executive's office shall be at GMC's headquarters office in Batavia, New York, or within a reasonable commuting distance of Batavia, New York. The Executive agrees to travel to the extent reasonably necessary for the performance of his duties hereunder. The Executive shall devote his full time during GMC's hours of work to the business and affairs of GMC and shall use his best efforts, skill and ability in performing his duties on behalf of GMC.

3. TERM.

(a) Except as otherwise provided in this Agreement to the contrary, the terms and conditions of this Agreement shall be and remain in effect during the period of employment ("Term") established under this Section 3. The Term shall be for a term of one (1) year commencing on September 26, 1996, plus such extensions, if any, as are provided pursuant

-2-

to Section 3(b).

(b) Except as provided in Section 3(c), beginning on the date of this Agreement, the Term shall be automatically extended for one (1) additional day each day, unless either GMC or the Executive elects not to extend the Term further by giving written notice to the other party, in which case the Term shall end on the first anniversary of the date on which such written notice is given; provided, however, that in any event, the Term shall end on the last day of the month in which the Executive attains age sixty-five (65). Upon termination of the Executive's employment with GMC for any reason whatsoever, any daily extensions provided pursuant to this Section 3, if not theretofore discontinued, shall cease and the remaining unexpired Term under this Agreement shall be a fixed period ending on the first anniversary of the date on which the daily extensions were discontinued.

(c) Notwithstanding anything herein contained to the contrary: (i) the Executive's employment with GMC may be terminated during the Term, subject to the terms and conditions of this Agreement; and (ii) nothing in this Agreement shall mandate or prohibit a continuation of the Executive's employment following the expiration of the Term upon such terms and conditions as GMC and the Executive may mutually agree upon.

4. BASE COMPENSATION. As the base compensation for all services to be rendered by the Executive in any capacity to GMC and its affiliates, GMC agrees to pay to the Executive, and the Executive shall accept, a salary at a rate of \$109,595 per annum and as such rate may be increased from time to time in accordance with this Section 4 or otherwise, payable in arrears in equal monthly installments, subject to such deductions and withholdings as may be required by law. During the fourth quarter of each year commencing in calendar year 1996, GMC will review the salary rate of the Executive, taking into consideration such factors as the Executive's performance during the preceding year and such other matters as it deems relevant and, in its sole discretion, may increase the salary of the Executive for the following calendar year, to be effective from January 1 of such following year, to such rate and for such period of time as GMC deems proper, provided that GMC shall in no event be required to grant any such increase. However, in the event that any person or entity acquires twenty percent (20%) or more of the outstanding equity stock of GMC's parent, the Holding Company, or GMC, who was not an owner of twenty percent of the equity stock of either the Holding Company (in the case of an acquisition of Holding Company stock) or GMC (in the case of an acquisition of GMC stock) prior to September 26, 1996, or in the event that any person or entity acquires twenty percent (20%) or more of the assets of either the Holding Company or GMC who was not an owner of twenty percent of the assets of either the Company (in the case of an acquisition of Holding Company assets) or of GMC (in the case of an acquisition of GMC assets) prior to September 26, 1996, AND PROVIDED that in such event, such person or entity (i) initiated a tender offer for the capital stock of the Company or GMC other than at the invitation of either the Holding Company Board or the GMC Board; or (ii) caused its nominee or nominees to be elected to the Holding Company Board or the GMC Board

-3-

as a result of a proxy contest in which election of its nominees, or any of them, was not endorsed by management of the Holding Company or GMC in any proxy statement prepared for the purpose; or (iii) acquired its twenty percent or greater interest in either the Holding Company or GMC subsequent to and within two years of any other party or entity's initiation of a tender offer, initiation of a proxy contest, or offer to acquire all, or more than 20% of the outstanding capital stock of the Holding Company or GMC for a stated price or in exchange for any non-cash form of consideration, then, subsequent to such acquisition of twenty percent stock or twenty percent asset ownership of either the Holding Company or GMC by any such person or entity: (1) if for any calendar year a salary increase at least equal to the increase in the U.S. City All-Items Consumer Price Index for Urban Wage Earners and Clerical Workers during the previous twelve months, is not granted; or if (2) the Executive's base salary is decreased at any time, then in either event the Executive may in his sole discretion terminate this Agreement upon thirty days' written notice given at any time during the calendar year for which no such increase was granted, or during the twelve month period following any such decrease in salary, and thereupon GMC or any successor shall be obligated to pay the Executive the amounts, and provide the benefits, specified in Section 9.3 of this Agreement.

5. BONUSES. GMC shall pay Executive bonuses subject to The Incentive Compensation Plan (formerly the Executive Bonus Plan) of Graham

Corporation, as it may be amended from time to time, or such other bonus plans or arrangements of GMC, or made available to GMC by the Holding Company, as may be in effect from time to time, as determined by GMC's or the Holding Company's Board of Directors or a committee of either.

6. BENEFITS. During the term of this Agreement, GMC shall provide the following benefits to the Executive:

6.1 MEDICAL. GMC will provide the Executive health coverage for himself and his family in accordance with the Graham Manufacturing Co., Inc. Self Insured Medical/Dental Plan, as the same may be amended from time to time, or in accordance with such other health coverage plan as GMC may adopt.

6.2 VACATION. The Executive shall be entitled to 20 business days of paid vacation in calendar year 1996 with additional time to accrue thereafter in accordance with GMC's vacation policy, as the same may be in effect from time to time.

6.3 GENERAL BENEFITS. The Executive shall be entitled to participate in all employee benefit plans and arrangements of the Holding Company and GMC that may from time to time be in effect and may from time to time be made available to the executive officers of GMC, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. Nothing in this Section 6.3 shall be construed to limit or restrict the complete discretion of the Board of Directors of the Holding Company (with respect to

-4-

employee benefit or bonus plan or plans of the Holding Company or the Board of Directors of GMC (with respect to employee benefit or bonus plan or plans of GMC, to amend, modify or terminate any of such plans, provided that such action generally affects plan participants or employees, including the Executive.

6.4 LIFE INSURANCE. (a) GMC will provide life insurance for the executive providing coverage in an amount equal to three times base salary. (b) The Executive agrees that GMC, in its discretion, may apply for and procure in its own name and for its own benefit, life insurance on his life in any amount or amounts considered advisable, and that he shall have no right, title or interest therein. The employee further agrees to submit to any medical or other examination and to execute and deliver any application or other instrument in writing, reasonably necessary to effectuate such insurance, provided such actions do not harm the Executive's ability to otherwise obtain or retain life insurance(s). (c) As soon as practical following the termination of employment for any reason except for cause, GMC will cause to be transferred, assigned or otherwise conveyed to the Executive any right, title and interest that either may have in and to any life insurance contract (other than any group-term life insurance contract) under which the Executive's life is insured, including full rights of ownership in and to the cash surrender value thereof (net of any loans obtained against such cash surrender value), and the Executive shall assume all obligations for the payment of any premiums which may become due with respect to such insurance contract after the termination of employment.

7. USE OF AUTOMOBILE.

7.1 The Company shall pay the Executive an automobile allowance of \$8,550 per annum (the "Automobile Allowance") toward the Executive's use and maintenance of his own automobile. Neither the Automobile Allowance or any portion of it shall be included as Base Compensation for the purpose of any eligibility for possible increases in Base Compensation as provided by Section 4 of this Agreement. During the fourth quarter of each year, the Company will review the automobile allowance amount of the Executive and, in its sole discretion, may increase the automobile allowance paid to the Executive for the following calendar year, to be effective from January 1 of such following year, to such increased rate and for such period of time as the Company deems proper, provided that the Company shall in no event be required to grant any such increase.

7.2 The Executive represents that he now carries automobile liability insurance, with respect to any automobile owned by him, for injuries to persons and property.

8. EXPENSES. GMC shall pay or reimburse the Executive for all reasonable and necessary traveling and other expenses incurred or paid by the Executive in connection with the performance of his duties under this Agreement upon presentation of expense statements or vouchers and such other supporting information as it may from time to time request. However, the amount available for such traveling and other expenses may be fixed in advance by the

-5-

Chairman, the President or the Board of Directors of GMC.

9. TERMINATION. This Agreement shall terminate prior to the Term expiration date, hereinabove set forth, in the event that the Executive shall die or GMC shall determine that the Executive has become disabled, or if the Executive shall be dismissed for cause or without cause, as hereinafter provided.

9.1 DISABILITY. GMC may determine that the Executive has become disabled, for purposes of this Agreement, in the event that the Executive shall fail, because of illness or incapacity, to render for nine (9) successive months, or for shorter periods aggregating twelve (12) months or more in any period of eighteen (18) months, services of the character contemplated by this Agreement; and thereupon this Agreement and the employment and all rights of the Executive hereunder shall be deemed to have been terminated as of the end of the calendar month in which such determination was made.

9.2 FOR CAUSE. GMC may dismiss the Executive for Cause. For purposes of this Agreement, "Cause" shall mean willful misconduct by the Executive in connection with the performance of his duties hereunder or any other conduct on the part of the Executive which has been materially injurious to GMC or any affiliate. Existence of Cause as defined herein shall be determined only by a good faith finding thereof by the GMC Board, which shall afford the Executive the opportunity to appear before it, with the Executive's legal counsel if the Executive chooses, prior to finalizing any such determination. Following such a good faith determination by the GMC Board and upon the delivery to the Executive of written notice that the GMC Board has made such determination, the Employment shall terminate. If the Executive in good faith contests a termination for cause by GMC, GMC will pay all legal fees and other expenses incurred by the Executive, as the Executive is billed for such costs, within ten (10) days of periodic submission to GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such challenge; the Executive will reimburse GMC for the amount of legal fees and other expenses so paid if it should be determined by a court of final adjudication that the Executive did not act in good faith in bringing such challenge.

9.3 WITHOUT CAUSE. GMC may dismiss the Executive without cause at any time upon thirty (30) days notice to the Executive. In the event GMC dismisses the Executive other than for cause, or if the Executive resigns because of a material breach of this Agreement by GMC, GMC shall thereupon pay to the Executive (a) the compensation due him to the date of termination, plus (b) an additional lump sum in an amount equal to twelve months' salary at the rate specified in Section 4 hereinabove. At any time prior to the effective date of termination of employment, the Executive may in writing elect to receive the additional lump sum equal to twelve months' salary in monthly installments of up to, but not to exceed, thirty-six (36) successive months. In addition, GMC shall (a) provide the Executive with continuing health care coverage, as described in Section 6.1 hereof, for a period of thirty-six (36) months following the effective date of termination of employment; and (b) shall pay for, or in the Executive's sole discretion, reimburse the Executive as the Executive is billed, within ten (10) days of periodic submission to GMC of statements of charges, for outplacement services from a provider agreed to by the Executive and GMC until the sooner of (i) the Executive's commencement of employment with another employer or (ii) thirty-six (36) months following the effective

-6-

date of termination of employment. In addition to other amounts payable to the Executive under this Section 9.3, the Company and GMC shall pay to the Executive Accrued Bonus as defined hereinafter. For purposes of this Section 9.3, Accrued Bonus shall mean any amount of bonus with respect to any calendar year prior to the calendar year in which dismissal without cause occurs ("Prior Bonus Year") calculable by applying the formula prescribed by the Executive Bonus Plan of Graham Corporation as it existed on December 31 of such Prior Bonus Year and employing in the application of such formula the goals, ratios and weighting percentages and other variable figures which the Bonus Plan calls for the Holding Company Board or any Committee thereof to determine annually ("Bonus Plan Variables") which the Holding Company's Board of Directors or any Committee thereof adopted for purposes of the Bonus Plan prior to December 31 of such Prior Bonus Year. With respect to any Prior Bonus Year for which neither the Holding Company Board nor any Committee thereof adopted Bonus Plan Variables prior to December 31 of such year, the Bonus Plan Variables adopted most recently prior to the commencement of the Prior Bonus Year in issue shall be employed for purposes of calculating the amount of Accrued Bonus payable pursuant to this Agreement. Notwithstanding any other provision of this Section, no Accrued Bonus shall be payable pursuant to Section 9.3 of this Agreement for any Prior Bonus Year with respect to which a bonus amount was paid to and accepted by the Executive. In the event that the provisions of this Section 9.3 are triggered by discharge of the Executive without cause by GMC, the Executive shall resign from all offices and directorships all subsidiaries and affiliates of GMC and of the Holding Company, upon payment to the Executive of the amounts referred to in subsection (a) of the second sentence of this Section 9.3, payment of the amount referred to in subsection (b) of the second

sentence of this Section 9.3 (or the first installment thereof) and Accrued Bonus, if any.

9.4 RETURN OF CONFIDENTIAL DOCUMENTATION. Upon termination of employment for any reason whatsoever, the Executive shall return to GMC all working papers, notebooks, strategic plans, computer programs and files, and other confidential documents and information, in any form whatsoever.

10. COVENANTS OF EXECUTIVE

The Executive acknowledges that: (a) the business of GMC and its affiliates, as currently conducted and as conducted from time to time throughout the term of this Agreement (collectively, the "Business"), is conducted by and is proposed to be conducted on a world wide basis (the "Company's Market"); (b) the Business involves providing design, engineering and manufacture of certain vacuum and heat transfer equipment, including but not

-7-

limited to steam condensers, steam jet ejectors, shell and tube heat exchangers, plate and frame heat exchangers, Heliflow heat exchangers, liquid ring vacuum pumps and rotary piston pumps; (c) GMC and its affiliates have developed trade secrets and confidential information concerning the Business; and (d) the agreements and covenants contained in this Section 10 are essential to protect the Business. In order to induce GMC to enter into this Employment Agreement, the Executive covenants and agrees that:

10.1 AGREEMENT NOT TO COMPETE. In the event that the Executive resigns (for reasons other than a material breach of this Agreement by GMC) or departs from the employ of GMC without the approval of the GMC Board or is discharged for cause, then for a period of twelve (12) months after such resignation, departure or discharge (such period of time hereinafter the "Restricted Period"), neither the Executive nor any entity of which 20% or more of the beneficial ownership is held by the Executive or a person related to the Executive by blood or marriage ("Controlled Entity") will, anywhere the Market of GMC or any affiliate, directly or indirectly own, manage, operate, control, invest or acquire an interest in, or herewise engage or participate in, whether as a proprietor, partner, stockholder, director, officer or employee, any business which competes in the Market of GMC or any affiliate with the Business as such Business was conducted, or such other business as the Company had plans to conduct or had taken material steps toward conducting as of the date of termination of the Executive's employment with the Company, without the prior written consent of GMC. Notwithstanding any other provisions of this Agreement, the Executive may make a passive investment in any publicly-traded company or entity in an amount not to exceed 5% of the voting stock of any such company or entity.

10.2 AGREEMENT NOT TO INTERFERE IN BUSINESS RELATIONSHIPS. (a) During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly solicit, induce or influence customer, or any other person which has a business relationship with GMC or any affiliate, or which had on the date of this Agreement such a relationship with GMC or any affiliate, to discontinue or reduce the extent of such relationship with GMC or any affiliate in the Market of GMC or any affiliate without the prior written consent of GMC. (b) During the Restricted Period, neither the Executive nor any Controlled Entity will (i) directly or indirectly recruit, solicit or otherwise induce or influence any shareholder or employee of GMC or any of its affiliates to discontinue such employment or other relationship with GMC or any affiliate without the prior written consent of GMC, or (ii) employ or seek to employ, or cause or permit any Competitive Business which competes in the Market of GMC or any affiliate to employ or seek to employ for any Competitive Business, any person who is then (or was at any time within six months prior to the date the Executive or the Competitive Business employs or seeks to employ such person) employed by GMC or any affiliate without the prior written consent of GMC. Nothing herein shall prevent the Executive from providing a letter of recommendation to an Employee with respect to a future employment opportunity, nor prohibit the Executive from making general employment advertisements in mass-circulation newspapers or other mass media.

-8-

10.3 CONFIDENTIALITY. During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly disclose to anyone, or use or otherwise exploit for the Executive's or any Controlled Entity's own benefit or for the benefit of anyone other than GMC, any confidential information, including, without limitation, any confidential "know-how", trade secrets, customer lists, details of customer contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans and new personnel acquisition plans of GMC or any affiliate related to the Business or any portion or phase of any scientific, engineering or technical information, design, process, procedure, formula, improvement, discovery, invention, machinery or device of GMC or any affiliate that is not generally known to the competitors of

the Company whether or not in written or tangible form (hereinafter referred to as "Confidential Information"). The term "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that becomes generally available to the public other than as a result of a disclosure by the Executive or a Controlled Entity or any agent or other representative thereof. Neither the Executive nor any Controlled Entity shall have any obligation hereunder to keep confidential any Confidential Information to the extent disclosure is required by law, or determined in good faith by the Executive to be necessary or appropriate to comply with any legal or regulatory order, regulation or requirement; provided, however, that in the event disclosure is required by law, the Executive or the Controlled Entity concerned shall provide the Company with prompt notice of such requirement so that GMC may seek an appropriate protective order. It is understood that in any new employment, the Executive may use his ordinary skill and non-confidential knowledge, even though said skill and non-confidential knowledge may have been gained at GMC. The Executive's obligations under this Section 10.3 shall be in addition to, not in substitution for, any common law fiduciary duties the Executive has to GMC regarding information acquired during the course of his employment.

10.4 INTELLECTUAL PROPERTY. The Executive shall communicate to GMC full information concerning all inventions, improvements, discoveries, formulas, processes, systems of organization, management procedures, software or computer applications (hereinafter, collectively, "Intellectual Property") made or conceived by him either solely or jointly with others while in the employ of GMC, whether or not perfected during his period of employment and which shall be within the existing or contemplated scope of the Business during his employment. The Executive will assist GMC and its nominees in every way at GMC's expense in obtaining patents for such Intellectual Property as may be patentable in any and all countries and the Executive will execute all papers GMC may desire and assignments thereof to GMC or its nominees and said Intellectual Property shall be and remain the property of GMC and its nominees, if any, whether patented or not or assigned or not.

10.5 SURVIVAL OF COVENANTS. In the event of a termination of this Agreement, the covenants and agreements contained in this Section 10 shall survive, shall continue thereafter, and shall not expire unless and except as expressly set forth in such Section.

-9-

10.6 REMEDIES. The parties to this Agreement agree that (a) if either the Executive or any Controlled Entity breaches any provision of this Section 10, the damage to GMC and its affiliates will be substantial, although difficult to ascertain, and money damages will not afford an adequate remedy, and (b) if either the Executive or any Controlled Entity is in breach of this Agreement, or threatens a breach of this Agreement, GMC shall be entitled in its own right and/or on behalf of one or more of its affiliates, in addition to all other rights and remedies as may be available at law or in equity, to (i) injunctive and other equitable relief to prevent or restrain a breach of this Agreement and (ii) may require the breaching party to pay damages as the result of any transactions constituting a breach hereof.

11. INDEMNIFICATION OF EXECUTIVE. In the event the Employment is terminated for any reason, (a) GMC will hold harmless and indemnify the Executive for all acts or omissions and for any suits it has at law or in equity, claims, actions or other proceedings against the Executive initiated either prior to the termination of employment or thereafter which relate to duties performed in good faith by the Executive while employed by GMC; and (b) GMC will retain the Executive as named insured under any directors' and officers' insurance policies it may have, for acts of the Executive during the time he served as an officer of GMC and any affiliate. Additionally, all legal and other costs incurred by the Executive to defend himself will be paid by GMC, as the Executive is billed for such costs, within ten (10) days of periodic submission to GMC of statements of charges of attorneys and statements of other expenses incurred by the Executive in connection with such defense.

12. EFFECT OF WAIVER. The waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

13. NOTICE. Any and all notices provided for herein shall be in writing and shall be physically delivered or mailed by registered or certified mail, return receipt requested to the parties at their respective addresses set forth hereinabove. Either party may from time to time designate a different address for notices to be sent to such party by giving the other party due notice of such different address.

14. VALIDITY. If any part of this Agreement shall be found to be invalid or unenforceable, the same shall be deemed to be severable and the remaining portions of this Agreement shall remain in full force and effect.

15. MODIFICATION AND ASSIGNMENT. This Agreement shall not be modified or amended except by an instrument in writing signed by the parties hereto. This Agreement and all of its terms and conditions shall be

binding upon and shall inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns, including but not limited to any corporation or other entity with or into which GMC is merged or consolidated or any other successor of GMC. The Executive agrees that he will not and may not assign, transfer or convey,

-10-

pledge or encumber this Agreement or his right, title or interest therein, or his power to execute the same or any monies due or to become due hereunder, this Agreement being intended to secure the personal services of the Executive, and GMC shall not recognize any such assignment, transfer, conveyance, pledge or encumbrance.

16. APPLICABLE LAW; VENUE. This agreement and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York, without giving effect to the conflict of laws provisions thereof. Any action or proceeding brought by either party against the other arising out of or related to the Agreement shall be brought only in a state court of competent jurisdiction located in the County of Monroe, State of New York or the Federal District Court for the Western District of New York located in Monroe County, New York and the parties hereby consent to the personal jurisdiction of said courts.

17. PRIOR AGREEMENTS. This Agreement shall supersede any prior employment agreement between GMC and the Executive and shall be effective from the date specified hereinabove.

18. BUSINESS COMBINATIONS. In the event of any sale, merger or any form of business combination affecting the Holding Company or GMC whatsoever, the Holding Company and GMC will obtain the express written assumption of this Agreement by the acquiring or surviving entity from such combination, and failure of the Holding Company and GMC to obtain such an assumption no later than the effective date of any such business combination will constitute a breach of this Agreement, entitling the Executive to all payments and other benefits to be provided in the event of termination without cause provided in Section 9.3 hereof.

19. HEADINGS. The section headings of this Agreement are for convenience of reference only and are not to be considered in the interpretation of the terms and conditions of this Agreement.

20. INVALIDITY OR UNENFORCEABILITY. If any term or provision of this Agreement is held to be invalid or unenforceable, for any reason, such invalidity or unenforceability shall not affect any other term or provision hereof and this Agreement shall continue in full force and effect as if such invalid or unenforceable term or provision (to the extent of the invalidity or unenforceability) had not been contained herein. If any court determines that any provision of Section 10 hereof is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the scope or duration of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

21. COUNTERPARTS. This agreement may be executed in any number of counterparts, each of which for all purposes shall be deemed to be an original.

-11-

IN WITNESS WHEREOF, the parties hereto have duly executed this agreement as of the day and year first above written.

(Corporate Seal)

GRAHAM CORPORATION

By /s/ F.D. Berkeley

Chairman, President and Chief
Executive Officer

(Corporate Seal)

GRAHAM MANUFACTURING CO., INC.

By /s/ A. Cadena

President

/s/ Stephen P. Northrup

STEPHEN P. NORTHRUP

Attest: /s/ Carole M. Anderson

-12-

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 10th day of February, 1997, before me personally came F. D. Berkeley, to me known, who, being by me duly sworn, did depose and say that he resides at 50 Old Mill Road, Rochester, New York; that he is Chairman, President and Chief Executive Officer of Graham Corporation described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 10th day of February, 1997, before me personally came Alvaro Cadena, to me known, who, being by me duly sworn, did depose and say that he resides at 4 LePere Drive, Pittsford, New York; that he is President of Graham Manufacturing Co., Inc. described in and which executed the attached instrument; that he knows the seal of said corporation and that the seal affixed to said instrument is such corporate seal; that it was so affixed by authorizations of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Carole M. Anderson

Notary Public

STATE OF NEW YORK)
 : ss.:
COUNTY OF GENESEE)

On the 10th day of February, 1997, before me personally came STEPHEN P. NORTHRUP, to me known to be the person described in and who executed the attached instrument and acknowledged that he executed the same.

/s/ Carole M. Anderson

Notary Public

GRAHAM CORPORATION

SENIOR EXECUTIVE SEVERANCE AGREEMENT

AGREEMENT between Graham Corporation, a Delaware corporation (the "Corporation"), and Alvaro Cadena (the "Executive"), WITNESSETH:

WHEREAS, the Board of Directors (the "Board") of the Corporation has approved the Corporation entering into severance agreements with persons designated key executives of the Corporation or its Subsidiaries;

WHEREAS, the Executive has been designated as a key executive of the Corporation or one of its Subsidiaries by the Board to be a party to this Agreement; and

WHEREAS, should the Corporation receive any proposal from a person concerning any possible business combination with, or acquisition of equity securities of, the Corporation, the Board believes it imperative that the Corporation and the Board be able to rely upon the Executive to continue in his position, and that the Corporation be able to receive and rely upon his advice, if it requests it, as to the best interests of the Corporation and its shareholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Corporation receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, to advise management and the Board as to whether such proposals would be in the best interests

-2-

of the Corporation and its shareholders, and to take such other actions as the Board might determine to be appropriate;

NOW, THEREFORE, to assure the Corporation that it will have the continued dedication of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Corporation, and to induce the Executive to remain in the employ of the Corporation, and for other good and valuable consideration, the Corporation and the Executive agree as follows:

I. SERVICES DURING CERTAIN EVENTS. In the event a person begins a tender or exchange offer, circulates a proxy to shareholders, or takes other steps seeking to effect a Change in Control (as hereinafter defined), the Executive agrees that he will not voluntarily leave the employ of the Corporation, and will render the services contemplated in the recitals to this Agreement, until the person has abandoned or terminated his or its efforts to effect a Change in Control or until three months after a Change in Control has occurred.

II. TERMINATION AFTER CHANGE IN CONTROL. In the event of a Termination (as hereinafter defined) of the Executive's employment with the Corporation (including its Subsidiaries) either (a) within three years after a Change in Control of the Corporation; or (b) in any of the situations described in Sections III.G. (ii), III.G. (iii) or III.G. (iv) of this Agreement:

A. LUMP SUM CASH PAYMENT. On or before the Executive's last day of employment with the Corporation, the Corporation will pay to the Executive as compensation for services rendered to the Corporation a lump sum (subject to any applicable payroll or other taxes required to be withheld) in an amount equal to (i)

-3-

one dollar less than three times the Executive's annualized tax-includable compensation, including bonus compensation, for the five most recent taxable years ending before the date of the Change in Control; or (ii) if the Executive was employed by the Corporation for less than five years, one dollar less than three times the Executive's annualized tax includable compensation including bonus compensation for the period during which the individual was continuously employed by the Corporation and ending on the date of the Change in Control of the Corporation. In the event the Executive dies at any time prior to receiving the lump sum payment but following the occurrence of any event requiring the Corporation to pay it under the terms of this Agreement, the payments provided for by this paragraph shall be paid to the Executive's estate.

B. MONTHLY CASH PAYMENT. (i) At any time prior to the close of business on the Executive's last day of employment with the Corporation, the Executive may in writing elect to receive, instead of the lump sum cash

payment provided in Section II.A., consecutive monthly cash payments of a number to be specified by the Executive but not to exceed 36. In the event of such election, the Corporation will pay to the Executive as compensation for services rendered to the Corporation equal consecutive monthly cash payments (subject to any applicable payroll or other taxes required to be withheld) of the number specified by the Executive, such that the sum of the present value on the date of Termination of these payments in the aggregate, as determined pursuant to Section B. (ii), is equal to the amount

-4-

specified by either Section II.A. (i) if the Executive has been employed by the Corporation for five years or more, or Section II.A. (ii) if the Executive has been employed by the Corporation for less than five years. The Corporation will pay the Executive the first of such payments on or before the Executive's last day of employment with the Corporation, and will pay the remaining payments on the first day of each succeeding month until the number of payments specified by the Executive has been paid. In the event the Executive dies at any time prior to receiving all of the monthly payments in the number specified by the Executive but following the occurrence of any event requiring the Corporation to pay them under the terms of this Agreement, the payments provided for by this paragraph shall be paid to the Executive's estate. (ii) The present value of the amount payable under this section II.B. shall be determined using the interest rate prescribed by the Internal Revenue Code of 1986, as amended, (the "Code") Section 1274(b)(2) and applicable regulations and the method prescribed by Code Section 280G(d)(4) and regulations.

C. OTHER PROVISIONS.

(1) BONUS COMPENSATION. Any awards previously made to the Executive as bonus compensation and not previously paid shall immediately vest on the date of his Termination and shall be paid on that date. If the Executive's Termination date and the date of Change in Control are the same, then the bonus payment made on the date of termination shall be included as compensation in the month when

-5-

paid, for the purpose of determining the Executive's five-year annualized tax-includable compensation as provided in paragraph II(A) herein.

(2) SAVINGS AND OTHER PLANS. The Executive's participation in any applicable savings and/or profit sharing plan of the Corporation or any of its subsidiaries, and any terminating distributions and/or vested rights under such plans shall be governed by the terms of those respective plans.

(3) STOCK INCENTIVE PLAN; STOCK OPTION AND STOCK APPRECIATION RIGHTS. Upon Termination of the Executive's employment the Corporation agrees to accelerate and make immediately exercisable in full all unmatured installments of all options which the Executive then holds to acquire securities. Such options shall be exercisable by the Executive in accordance with their terms.

(4) RETIREMENT BENEFITS. (a) The Executive shall be entitled to the total retirement benefits actually payable to him or his beneficiaries under the Corporation's retirement plans or any successor plans of the Corporation, and in the amount and manner prescribed by such plans.

(b) Upon Termination of the Executive's employment with the Corporation following a Change in Control, the Corporation shall pay and provide to the Executive (or, in the event of his death, to his estate) within twenty (20) days following his termination of employment with the Corporation, a lump sum payment in an amount equal to the excess, if any, of:

(i) the present value of the aggregate benefits to

-6-

which he would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by, or covering employees of, the Corporation if he were 100% vested thereunder, such benefits to be determined as of the date of termination of employment; over

(ii) the present value of the benefits to which he is actually entitled under such defined benefit pension plans

as of the date of his termination;

where such present values are to be determined using the mortality tables prescribed under section 415(b)(2)(E)(v) of the Code and a discount rate, compounded monthly, equal to the annualized rate of interest prescribed under section 415 of the Code for the valuation of lump sum payments for the month in which the Executive's termination of employment occurs; provided, however, that if the Executive so requests by notifying the Corporation prior to the close of business on the Executive's last day of employment with the Corporation, the above payment will be made in equal monthly cash payments of a number to be specified by the Executive (but not to exceed thirty-six (36)), and the present value of such monthly payments will equal the above lump sum amount.

D. OTHER EMPLOYMENT. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any

-7-

provision of this Agreement, nor shall any payments under this Agreement be reduced on account of any compensation, benefits or service credits for benefits from any employment that the Executive may obtain following his Termination.

E. DEFINITIONS.

(1) "CHANGE IN CONTROL". For the purposes of this Agreement, a "Change in Control" shall be deemed to have taken place if:

(a) as the result of, or in connection with, any cash tender or exchange offer, consolidation, merger or other business combination, sale of assets or contested election or elections, or any combination of the foregoing transactions (a "Transaction"), the persons who were directors of the Corporation before the Transaction shall cease for any reason to constitute a majority of the Board of Directors of the Corporation or any successor to the Corporation (including any entity acquiring substantially all the assets of the Corporation); OR

(b) a "person" (as that term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act") as in effect on the date hereof), including a "group" as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner, directly or indirectly, of shares of the Corporation having 25% or more of the total number of votes that may be cast for the election of Directors of the Corporation; OR

(c) any event occurs with respect to the Corporation that would be required

-8-

to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A, or to Item 1 of Form 8-K, under the Securities Exchange Act of 1934, as amended.

(2) "TERMINATION". For the purposes of this Agreement, the term "Termination" shall mean termination by the Corporation of the employment of the Executive with the Corporation (including its subsidiaries) for any reason other than death, disability or cause (as defined below), or resignation of the Executive upon the occurrence of either of the following events:

(a) A change in the nature or scope of the Executive's authority from that prior to a Change in Control, a reduction in the Executive's total compensation (including all and any base compensation, bonuses, incentive compensation and benefits of any kind or nature whatsoever and including but not limited to the benefits referred to in Paragraph C of this Section II) from that prior to a Change in Control, or failure of the Corporation to make any increase in compensation to which the Executive may be entitled under any employment agreement, or a change requiring the Executive to perform services other than in Batavia, New York or in any location more than thirty miles distant from Rochester, New York by road, except for required travel on the Corporation's business to an extent substantially consistent with the Executive's present business travel obligations; or

(b) A reasonable determination (as defined below) by the Executive

-9-

that, as a result of a Change in Control and a change in circumstances thereafter significantly affecting his position, he is unable to exercise the authority, powers, function or duties attached to his position.

(3) "CAUSE". The term "cause" means fraud, misappropriation or intentional material damage to the property or business of the Corporation or commission of a felony.

(4) "DISABILITY" The term "disability" means the Executive's absence from his duties with the Corporation on a full time basis for 6 successive months, or for shorter periods aggregating 7 months or more in any year, as a result of the Executive's incapacity due to physical or mental illness, unless within 30 days after the Corporation gives written notice of termination following such absence the Executive shall have returned to the full time performance of his duties.

(5) "REASONABLE DETERMINATION". Termination of employment by the Executive in his "reasonable determination" shall mean termination based on:

(a) subsequent to a Change in Control of the Corporation, and without the Executive's express written consent, the assignment to him of any duties inconsistent with his positions, duties, responsibilities and status with the Corporation immediately prior to a Change in Control, or a change in the Executive's reporting responsibilities, titles, or offices as in effect immediately prior to a Change in Control, or any removal of the Executive from or any failure to re-elect him to any of such positions, except in

-10-

connection with the termination of his employment for cause, Disability or Retirement or as a result of his death or by the Executive other than in a Reasonable Determination; or

(b) subsequent to a Change in Control of the Corporation, a reduction by the Corporation in the Executive's base salary as in effect on the date hereof or as the same may be increased from time to time, or failure of the Corporation to make an increase in compensation to which the Executive may be entitled under any employment agreement; or

(c) subsequent to a Change in Control of the Corporation, a failure by the Corporation to continue any bonus plans in which the Executive is presently entitled to participate (the "Bonus Plans") as the same may be modified from time to time but substantially in the forms currently in effect, or a failure by the Corporation to continue the Executive as a participant in the Bonus Plans on at least the same basis as he presently participates in accordance with the Bonus Plans; or

(d) subsequent to a Change in Control of the Corporation, the failure by the Corporation to continue in effect (subject to such changes as may be required by law from time to time) any benefit or compensation plan, stock ownership plan, stock purchase plan, stock option plan, life insurance plan, health-and-accident plan or disability plan in which the Executive is participating at the time of Change in Control of the Corporation (or plans

-11-

providing him with substantially similar benefits), the taking of any action by the Corporation which would adversely affect the Executive's participation in or materially reduce his benefits under any of such plans or deprive him of any material fringe benefit enjoyed by him at the time of the Change in Control, or the failure by the Corporation to provide him with the number of paid vacation days to which he is then entitled in accordance with the Corporation's normal vacation policy in effect on the date hereof; or

(e) prior to a Change in Control of the Corporation, the failure by the Corporation to obtain the assumption of the agreement to perform this Agreement by any successor as contemplated in Section III(D) hereof.

III. GENERAL.

A. INDEMNIFICATION. (1) The Corporation shall indemnify the Executive for all reasonable attorney fees and other expenses incurred in connection with enforcement or interpretation of this Agreement or any provision contained herein, such indemnification to be payable as and when the Executive is billed for such attorney fees or other expenses. The

Indemnification provided for hereunder shall be payable notwithstanding any judgment or decision adverse to the Executive resulting from any litigation or arbitration ("Proceeding") in connection with this agreement provided that, if such Proceeding is commenced by the Executive, the Executive acted in good faith in commencing the Proceeding. The Corporation hereby agrees to pay pre-judgment interest on any money judgment or award obtained by the Executive in

-12-

connection with this agreement, calculated at the prime interest rate of the Fleet Bank of New York in effect from time to time from the date that payment(s) to him should have been made under this Agreement.

(2) (a) If, following a Change in Control, for any taxable year the Executive shall be liable for the payment of an excise tax under Section 4999 of the Code or any successor provision of the Code thereto (Section 4999 of the Code and any successor provision thereto hereinafter collectively "Section 4999 of the Code"), with respect to any payment of money or property made by the Corporation or any direct or indirect subsidiary or affiliate of the Corporation to (or for the benefit of) the Executive, the Corporation shall pay to the Executive an amount equal to X determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

X = the amount to be paid to the Executive under this section III.A(2) (a);

E = the rate at which the excise tax is assessed under Section 4999 of the Code;

P = the amount with respect to which such excise tax is assessed, determined without regard to this section III.A(2);

FI = the highest marginal rate of income tax applicable to the Executive under the Code for the taxable year in question; and

SLI = the sum of the highest marginal rates of income tax applicable to the Executive under applicable state and local laws for the taxable year in question; and

M = the highest marginal rate of Medicare tax applicable to the Executive under the Code for the taxable year in question.

-13-

With respect to any payment that is made to the Executive under the terms of this Agreement, or otherwise, and on which an excise tax under Section 4999 of the Code will be assessed, the payment determined under this section III.A(2) shall be made to the Executive not later than the earlier of (i) the date the Corporation or any direct or indirect subsidiary or affiliate of the Corporation is required to withhold such tax, or (ii) the date the tax is required to be paid by the Executive. With respect to any payment made under the terms of this Agreement in any other year and on which an excise tax under Section 4999 of the Code will be assessed, the payment under this section III.A(2) shall be made to the Executive not later than December 31st of the year in which the payment on which such excise tax will be assessed is made to the Executive.

(b) Notwithstanding anything in this section III.A(2) to the contrary, in the event that the Executive's liability for the excise tax under Section 4999 of the Code for a taxable year is subsequently determined to be different than the amount determined by the formula $(X + P) \times E$, where X, P and E have the meanings provided in section III.A(2) (a), the Executive or the Corporation, as the case may be, shall pay to the other party at the time that the amount of such excise tax is finally determined, an appropriate amount, plus interest, such that the payment made under section III.A(2) (a), when increased by the amount of the payment made to the Executive under this section III.A(2) (b) by the Corporation, or when reduced by the amount of the payment made to the Corporation under this section III.A(2) (b) by the Executive, equals the amount that should have been properly paid to the Executive under section III.A(2) (a). The interest paid under this Section III.A(2) (b) shall be determined at the rate provided under Section 1274(b) (2) (B) of the Code. To confirm that the proper amount, if any, was paid to the

-14-

Executive under this Section III.A(2), the Executive shall furnish to the Corporation a copy of each tax return which reflects a liability for an

excise tax payment under Section 4999 of the Code with respect to a payment made by the Corporation, at least twenty (20) days before the date on which such return is required to be filed with the Internal Revenue Service.

B. PAYMENT OBLIGATIONS ABSOLUTE. The Corporation's obligation hereunder shall be considered severance pay in consideration of the Executive's past service, and pay in consideration of his continued service from the date hereof and shall not be affected in any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right that the Corporation may have against him or anyone else, or any duty by the Executive to mitigate his damages by seeking further employment. All amounts payable by the Corporation hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Corporation shall be final and the Corporation will not seek to recover all or any part of such payment from the Executive or from whomsoever may be entitled thereto, for any reason whatsoever.

C. CONTINUING OBLIGATIONS. The Executive shall retain in confidence any confidential information known to him concerning the Corporation and its subsidiaries and their respective businesses as long as such information is not publicly disclosed.

D. SUCCESSORS. This Agreement shall be binding upon and inure to the benefit of the Executive and his estate, and the Corporation and any successors of the Corporation, but neither this Agreement nor any rights arising hereunder may be assigned or pledged by the Executive. The Corporation will require any successor (whether direct or indirect, by purchase,

-15-

merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation, including the stock or assets of any subsidiary, by agreement to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place, a copy of which agreement shall be delivered to the Executive prior to or contemporaneously with such succession. Failure of the Corporation to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation in the same amount and on the same terms as he would be entitled hereunder in the event of a Termination as herein provided. As used in this Agreement, "Corporation" shall include any successor to substantially all of the business and/or assets of the Corporation.

E. SEVERABILITY. Any provision in this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions hereof, and any such prohibition or enforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

F. CONTROLLING LAW. This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of New York, without reference to conflict of law principles.

G. TERMINATION. This Agreement shall terminate if the Board determines, prior to any Termination of the employment of the Executive, that the Executive is no longer to be

-16-

designated a key executive of the Corporation and so notifies the Executive in writing; EXCEPT THAT such determination shall not be made, and if made shall have no effect, (i) within three years after a Change in Control or (ii) during any period of time when the Corporation has or should have knowledge that any person has taken steps, or plans to or has proposed to take steps, reasonably calculated to effect a Change in Control until, in the opinion of the Board, the person has abandoned or terminated his or its efforts to effect a Change in Control or (iii) following the commencement of any discussions with any person that ultimately result in the occurrence of a Change in Control or (iv) if undertaken at the instance or upon the suggestion of any participant in a prospective Change in Control or any agent or other person acting on behalf of or in conjunction with any such participant in a prospective Change in Control. For purposes of section (ii) of the preceding sentence, any decision by the Board that a person has abandoned or terminated his or its efforts to effect a Change in Control shall be conclusive and binding on the Executive, EXCEPT THAT no such decision of the Board shall have effect if, within three years following such decision being made by the Board, any person with respect to whose abandonment or termination of an effort to cause a Change in Control a Board determination was made, or any affiliate or agent of such a person, effects or participates, directly or indirectly, in any activity causing or assisting in the occurrence of, a Change in Control.

H. FRAUDULENT CONVEYANCE. Should the Corporation be unable to make any payment called for by this Agreement, as a result of the whole or partial transfer from its control, by whatever means, of the stock and/or assets of Graham Manufacturing Co., Inc. or any successor thereto, such transfer shall be deemed a fraudulent conveyance of assets, voidable to the

-17-

extent necessary to fully discharge all of the obligations of the Corporation to the Executive under this Agreement.

IV. PRIOR AGREEMENT. This instrument contains the entire agreement of the parties hereto relating to the subject matter hereof and supersedes in its entirety any and all prior agreements, understandings, representations, whether or not in writing, relating to the subject matter hereof, but shall not affect any Employment Agreement between the Executive and the Corporation and/or any of its subsidiaries.

-18-

IN WITNESS WHEREOF, the parties have executed this Agreement on the 28th day of July, 1995.

GRAHAM CORPORATION

By: /s/ F.D. Berkeley

F.D. Berkeley
Chairman and Chief Executive Officer

ATTEST:

/s/ Cornelius S. Van Rees

Secretary

[SEAL]

EXECUTIVE

/s/ A. Cadena

Alvaro Cadena

GRAHAM CORPORATION
SENIOR EXECUTIVE SEVERANCE AGREEMENT

AGREEMENT between Graham Corporation, a Delaware corporation (the "Corporation"), and J. Ronald Hansen (the "Executive"), WITNESSETH:

WHEREAS, the Board of Directors (the "Board") of the Corporation has approved the Corporation entering into severance agreements with persons designated key executives of the Corporation or its Subsidiaries;

WHEREAS, the Executive has been designated as a key executive of the Corporation or one of its Subsidiaries by the Board to be a party to this Agreement; and

WHEREAS, should the Corporation receive any proposal from a person concerning any possible business combination with, or acquisition of equity securities of, the Corporation, the Board believes it imperative that the Corporation and the Board be able to rely upon the Executive to continue in his position, and that the Corporation be able to receive and rely upon his advice, if it requests it, as to the best interests of the Corporation and its shareholders without concern that he might be distracted by the personal uncertainties and risks created by such a proposal; and

WHEREAS, should the Corporation receive any such proposals, in addition to the Executive's regular duties, he may be called upon to assist in the assessment of such proposals, to advise management and the Board as to whether such proposals would be in the best interests

-2-

of the Corporation and its shareholders, and to take such other actions as the Board might determine to be appropriate;

NOW, THEREFORE, to assure the Corporation that it will have the continued dedication of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Corporation, and to induce the Executive to remain in the employ of the Corporation, and for other good and valuable consideration, the Corporation and the Executive agree as follows:

I. SERVICES DURING CERTAIN EVENTS. In the event a person begins a tender or exchange offer, circulates a proxy to shareholders, or takes other steps seeking to effect a Change in Control (as hereinafter defined), the Executive agrees that he will not voluntarily leave the employ of the Corporation, and will render the services contemplated in the recitals to this Agreement, until the person has abandoned or terminated his or its efforts to effect a Change in Control or until three months after a Change in Control has occurred.

II. TERMINATION AFTER CHANGE IN CONTROL. In the event of a Termination (as hereinafter defined) of the Executive's employment with the Corporation (including its Subsidiaries) either (a) within three years after a Change in Control of the Corporation; or (b) in any of the situations described in Sections III.G. (ii), III.G. (iii) or III.G. (iv) of this Agreement:

A. LUMP SUM CASH PAYMENT. On or before the Executive's last day of employment with the Corporation, the Corporation will pay to the Executive as compensation for services rendered to the Corporation a lump sum (subject to any applicable payroll or other taxes required to be withheld) in an amount equal to (i)

-3-

one dollar less than three times the Executive's annualized tax-includable compensation, including bonus compensation, for the five most recent taxable years ending before the date of the Change in Control; or (ii) if the Executive was employed by the Corporation for less than five years, one dollar less than three times the Executive's annualized tax includable compensation including bonus compensation for the period during which the individual was continuously employed by the Corporation and ending on the date of the Change in Control of the Corporation. In the event the Executive dies at any time prior to receiving the lump sum payment but following the occurrence of any event requiring the Corporation to pay it under the terms of this Agreement, the payments provided for by this paragraph shall be paid to the Executive's estate.

B. MONTHLY CASH PAYMENT. (i) At any time prior to the close of business on the Executive's last day of employment with the Corporation, the Executive may in writing elect to receive, instead of the lump sum cash payment provided in Section II.A., consecutive monthly cash payments of a number to be specified by the Executive but not to exceed 36. In the event of such election, the Corporation will pay to the Executive as compensation for services rendered to the Corporation equal consecutive monthly cash payments (subject to any applicable payroll or other taxes required to be withheld) of the number specified by the Executive, such that the sum of the present value on the date of Termination of these payments in the aggregate, as determined pursuant to Section B. (ii), is equal to the amount

-4-

specified by either Section II.A. (i) if the Executive has been employed by the Corporation for five years or more, or Section II.A. (ii) if the Executive has been employed by the Corporation for less than five years. The Corporation will pay the Executive the first of such payments on or before the Executive's last day of employment with the Corporation, and will pay the remaining payments on the first day of each succeeding month until the number of payments specified by the Executive has been paid. In the event the Executive dies at any time prior to receiving all of the monthly payments in the number specified by the Executive but following the occurrence of any event requiring the Corporation to pay them under the terms of this Agreement, the payments provided for by this paragraph shall be paid to the Executive's estate. (ii) The present value of the amount payable under this section II.B. shall be determined using the interest rate prescribed by the Internal Revenue Code of 1986, as amended, (the "Code") Section 1274(b)(2) and applicable regulations and the method prescribed by Code Section 280G(d)(4) and regulations.

C. OTHER PROVISIONS.

(1) BONUS COMPENSATION. Any awards previously made to the Executive as bonus compensation and not previously paid shall immediately vest on the date of his Termination and shall be paid on that date. If the Executive's Termination date and the date of Change in Control are the same, then the

bonus payment made on the date of termination shall be included as compensation in the month when

-5-

paid, for the purpose of determining the Executive's five-year annualized tax-includable compensation as provided in paragraph II(A) herein.

(2) SAVINGS AND OTHER PLANS. The Executive's participation in any applicable savings and/or profit sharing plan of the Corporation or any of its subsidiaries, and any terminating distributions and/or vested rights under such plans shall be governed by the terms of those respective plans.

(3) STOCK INCENTIVE PLAN; STOCK OPTION AND STOCK APPRECIATION RIGHTS. Upon Termination of the Executive's employment the Corporation agrees to accelerate and make immediately exercisable in full all unmatured installments of all options which the Executive then holds to acquire securities. Such options shall be exercisable by the Executive in accordance with their terms.

(4) RETIREMENT BENEFITS. (a) The Executive shall be entitled to the total retirement benefits actually payable to him or his beneficiaries under the Corporation's retirement plans or any successor plans of the Corporation, and in the amount and manner prescribed by such plans.

(b) Upon Termination of the Executive's employment with the Corporation following a Change in Control, the Corporation shall pay and provide to the Executive (or, in the event of his death, to his estate) within twenty (20) days following his termination of employment with the Corporation, a lump sum payment in an amount equal to the excess, if any, of:

(i) the present value of the aggregate benefits to

-6-

which he would be entitled under any and all qualified and non-qualified defined benefit pension plans maintained by, or covering employees of, the Corporation if he were 100% vested thereunder, such benefits to be determined as of the date of termination of employment; over

(ii) the present value of the benefits to which he is actually entitled under such defined benefit pension plans as of the date of his termination;

where such present values are to be determined using the mortality tables prescribed under section 415(b)(2)(E)(v) of the Code and a discount rate, compounded monthly, equal to the annualized rate of interest prescribed under section 415 of the Code for the valuation of lump sum payments for the month in which the Executive's termination of employment occurs; provided, however, that if the Executive so requests by notifying the Corporation prior to the close of business on the Executive's last day of employment with the Corporation, the above payment will be made in equal monthly cash payments of a number to be specified by the Executive (but not to exceed thirty-six (36)), and the present value of such monthly payments will equal the above lump sum amount.

D. OTHER EMPLOYMENT. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any

-7-

provision of this Agreement, nor shall any payments under this Agreement be reduced on account of any compensation, benefits or service credits for benefits from any employment that the Executive may obtain following his Termination.

E. DEFINITIONS.

(1) "CHANGE IN CONTROL". For the purposes of this Agreement, a "Change in Control" shall be deemed to have taken place if:

(a) as the result of, or in connection with, any cash tender or exchange offer, consolidation, merger or other business combination, sale of assets or contested election or elections, or any combination of the foregoing transactions (a "Transaction"), the persons who were directors of the Corporation before the Transaction shall cease for any reason to constitute a majority of the Board of Directors of the Corporation or any successor to the Corporation (including any entity acquiring substantially all the assets of the Corporation); OR

(b) a "person" (as that term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act") as in effect on the date hereof), including a "group" as defined in Section 13(d)(3) of the Exchange Act, becomes the beneficial owner, directly or indirectly, of shares of the Corporation having 25% or more of the total number of votes that may be cast for the election of Directors of the Corporation; OR

(c) any event occurs with respect to the Corporation that would be required

-8-

to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A, or to Item 1 of Form 8-K, under the Securities Exchange Act of 1934, as amended.

(2) "TERMINATION". For the purposes of this Agreement, the term "Termination" shall mean termination by the Corporation of the employment of the Executive with the Corporation (including its subsidiaries) for any reason other than death, disability or cause (as defined below), or resignation of the Executive upon the occurrence of either of the following events:

(a) A change in the nature or scope of the Executive's authority from that prior to a Change in Control, a reduction in the Executive's total compensation (including all and any base compensation, bonuses, incentive compensation and benefits of any kind or nature whatsoever and including but not limited to the benefits referred to in Paragraph C of this Section II) from that prior to a Change in Control, or failure of the Corporation to make any increase in compensation to which the Executive may be entitled under any employment agreement, or a change requiring the Executive to perform services other than in Batavia, New York or in any location more than thirty miles distant from Rochester, New York by road, except for required travel on the Corporation's business to an extent substantially consistent with the Executive's present business travel obligations; or

(b) A reasonable determination (as defined below) by the Executive

-9-

that, as a result of a Change in Control and a change in circumstances thereafter significantly affecting his position, he is unable to exercise the authority, powers, function or duties attached to his position.

(3) "CAUSE". The term "cause" means fraud, misappropriation or intentional material damage to the property or business of the Corporation or commission of a felony.

(4) "DISABILITY". The term "disability" means the Executive's absence from his duties with the Corporation on a full time basis for 6 successive months, or for shorter periods aggregating 7 months or more in any year, as a result of the Executive's incapacity due to physical or mental illness, unless within 30 days after the Corporation gives written notice of termination following such absence the Executive shall have returned to the full time performance of his duties.

(5) "REASONABLE DETERMINATION". Termination of employment by the Executive in his "reasonable determination" shall mean termination based on:

(a) subsequent to a Change in Control of the Corporation, and without the Executive's express written consent, the assignment to him of any duties inconsistent with his positions, duties, responsibilities and status with the Corporation immediately prior to a Change in Control, or a change in the Executive's reporting responsibilities, titles, or offices as in effect immediately prior to a Change in Control, or any removal of the Executive from or any failure to re-elect him to any of such positions, except in

-10-

connection with the termination of his employment for cause, Disability or Retirement or as a result of his death or by the Executive other than in a Reasonable Determination; or

(b) subsequent to a Change in Control of the Corporation, a reduction by the Corporation in the Executive's base salary as in effect on the date hereof or as the same may be increased from time to time, or failure of the Corporation to make an increase in compensation to which the Executive may be entitled under any employment agreement; or

(c) subsequent to a Change in Control of the Corporation, a failure by the Corporation to continue any bonus plans in which the Executive is

presently entitled to participate (the "Bonus Plans") as the same may be modified from time to time but substantially in the forms currently in effect, or a failure by the Corporation to continue the Executive as a participant in the Bonus Plans on at least the same basis as he presently participates in accordance with the Bonus Plans; or

(d) subsequent to a Change in Control of the Corporation, the failure by the Corporation to continue in effect (subject to such changes as may be required by law from time to time) any benefit or compensation plan, stock ownership plan, stock purchase plan, stock option plan, life insurance plan, health-and-accident plan or disability plan in which the Executive is participating at the time of Change in Control of the Corporation (or plans

-11-

providing him with substantially similar benefits), the taking of any action by the Corporation which would adversely affect the Executive's participation in or materially reduce his benefits under any of such plans or deprive him of any material fringe benefit enjoyed by him at the time of the Change in Control, or the failure by the Corporation to provide him with the number of paid vacation days to which he is then entitled in accordance with the Corporation's normal vacation policy in effect on the date hereof; or

(e) prior to a Change in Control of the Corporation, the failure by the Corporation to obtain the assumption of the agreement to perform this Agreement by any successor as contemplated in Section III(D) hereof.

III. GENERAL.

A. INDEMNIFICATION. (1) The Corporation shall indemnify the Executive for all reasonable attorney fees and other expenses incurred in connection with enforcement or interpretation of this Agreement or any provision contained herein, such indemnification to be payable as and when the Executive is billed for such attorney fees or other expenses. The Indemnification provided for hereunder shall be payable notwithstanding any judgment or decision adverse to the Executive resulting from any litigation or arbitration ("Proceeding") in connection with this agreement provided that, if such Proceeding is commenced by the Executive, the Executive acted in good faith in commencing the Proceeding. The Corporation hereby agrees to pay pre-judgment interest on any money judgment or award obtained by the Executive in

-12-

connection with this agreement, calculated at the prime interest rate of the Fleet Bank of New York in effect from time to time from the date that payment(s) to him should have been made under this Agreement.

(2) (a) If, following a Change in Control, for any taxable year the Executive shall be liable for the payment of an excise tax under Section 4999 of the Code or any successor provision of the Code thereto (Section 4999 of the Code and any successor provision thereto hereinafter collectively "Section 4999 of the Code"), with respect to any payment of money or property made by the Corporation or any direct or indirect subsidiary or affiliate of the Corporation to (or for the benefit of) the Executive, the Corporation shall pay to the Executive an amount equal to X determined under the following formula:

$$X = \frac{E \times P}{1 - [(FI \times (1 - SLI)) + SLI + E + M]}$$

where

- X = the amount to be paid to the Executive under this section III.A(2) (a);
- E = the rate at which the excise tax is assessed under Section 4999 of the Code;
- P = the amount with respect to which such excise tax is assessed, determined without regard to this section III.A(2);
- FI = the highest marginal rate of income tax applicable to the Executive under the Code for the taxable year in question; and
- SLI = the sum of the highest marginal rates of income tax applicable to the Executive under applicable state and local laws for the taxable year in question; and

M = the highest marginal rate of Medicare tax applicable to the Executive under the Code for the taxable year in question.

-13-

With respect to any payment that is made to the Executive under the terms of this Agreement, or otherwise, and on which an excise tax under Section 4999 of the Code will be assessed, the payment determined under this section III.A(2) shall be made to the Executive not later than the earlier of (i) the date the Corporation or any direct or indirect subsidiary or affiliate of the Corporation is required to withhold such tax, or (ii) the date the tax is required to be paid by the Executive. With respect to any payment made under the terms of this Agreement in any other year and on which an excise tax under Section 4999 of the Code will be assessed, the payment under this section III.A(2) shall be made to the Executive not later than December 31st of the year in which the payment on which such excise tax will be assessed is made to the Executive.

(b) Notwithstanding anything in this section III.A(2) to the contrary, in the event that the Executive's liability for the excise tax under Section 4999 of the Code for a taxable year is subsequently determined to be different than the amount determined by the formula $(X + P) \times E$, where X, P and E have the meanings provided in section III.A(2) (a), the Executive or the Corporation, as the case may be, shall pay to the other party at the time that the amount of such excise tax is finally determined, an appropriate amount, plus interest, such that the payment made under section III.A(2) (a), when increased by the amount of the payment made to the Executive under this section III.A(2) (b) by the Corporation, or when reduced by the amount of the payment made to the Corporation under this section III.A(2) (b) by the Executive, equals the amount that should have been properly paid to the Executive under section III.A(2) (a). The interest paid under this Section III.A(2) (b) shall be determined at the rate provided under Section 1274(b) (2) (B) of the Code. To confirm that the proper amount, if any, was paid to the

-14-

Executive under this Section III.A(2), the Executive shall furnish to the Corporation a copy of each tax return which reflects a liability for an excise tax payment under Section 4999 of the Code with respect to a payment made by the Corporation, at least twenty (20) days before the date on which such return is required to be filed with the Internal Revenue Service.

B. PAYMENT OBLIGATIONS ABSOLUTE. The Corporation's obligation hereunder shall be considered severance pay in consideration of the Executive's past service and agreement to accept employment with the Corporation, and pay in consideration of his continued service from the date hereof and shall not be affected in any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right that the Corporation may have against him or anyone else, or any duty by the Executive to mitigate his damages by seeking further employment. All amounts payable by the Corporation hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Corporation shall be final and the Corporation will not seek to recover all or any part of such payment from the Executive or from whomsoever may be entitled thereto, for any reason whatsoever.

C. CONTINUING OBLIGATIONS. The Executive shall retain in confidence any confidential information known to him concerning the Corporation and its subsidiaries and their respective businesses as long as such information is not publicly disclosed.

D. SUCCESSORS. This Agreement shall be binding upon and inure to the benefit of the Executive and his estate, and the Corporation and any successors of the Corporation, but neither this Agreement nor any rights arising hereunder may be assigned or pledged by the Executive. The Corporation will require any successor (whether direct or indirect, by purchase,

-15-

merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation, including the stock or assets of any subsidiary, by agreement to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place, a copy of which agreement shall be delivered to the Executive prior to or contemporaneously with such succession. Failure of the Corporation to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation in the same amount and on the same terms as he would be entitled hereunder in the event of a Termination as herein provided. As used in this Agreement, "Corporation" shall include any successor to substantially all of the business and/or assets of the

Corporation.

E. SEVERABILITY. Any provision in this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions hereof, and any such prohibition or enforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

F. CONTROLLING LAW. This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of New York, without reference to conflict of law principles.

G. TERMINATION. This Agreement shall terminate if the Board determines, prior to any Termination of the employment of the Executive, that the Executive is no longer to be

-16-

designated a key executive of the Corporation and so notifies the Executive in writing; EXCEPT THAT such determination shall not be made, and if made shall have no effect, (i) within three years after a Change in Control or (ii) during any period of time when the Corporation has or should have knowledge that any person has taken steps, or plans to or has proposed to take steps, reasonably calculated to effect a Change in Control until, in the opinion of the Board, the person has abandoned or terminated his or its efforts to effect a Change in Control or (iii) following the commencement of any discussions with any person that ultimately result in the occurrence of a Change in Control or (iv) if undertaken at the instance or upon the suggestion of any participant in a prospective Change in Control or any agent or other person acting on behalf of or in conjunction with any such participant in a prospective Change in Control. For purposes of section (ii) of the preceding sentence, any decision by the Board that a person has abandoned or terminated his or its efforts to effect a Change in Control shall be conclusive and binding on the Executive, EXCEPT THAT no such decision of the Board shall have effect if, within three years following such decision being made by the Board, any person with respect to whose abandonment or termination of an effort to cause a Change in Control a Board determination was made, or any affiliate or agent of such a person, effects or participates, directly or indirectly, in any activity causing or assisting in the occurrence of, a Change in Control.

H. FRAUDULENT CONVEYANCE. Should the Corporation be unable to make any payment called for by this Agreement, as a result of the whole or partial transfer from its control, by whatever means, of the stock and/or assets of Graham Manufacturing Co., Inc. or any successor thereto, such transfer shall be deemed a fraudulent conveyance of assets, voidable to the

-17-

extent necessary to fully discharge all of the obligations of the Corporation to the Executive under this Agreement.

IV. PRIOR AGREEMENT. This instrument contains the entire agreement of the parties hereto relating to the subject matter hereof and supersedes in its entirety any and all prior agreements, understandings, representations, whether or not in writing, relating to the subject matter hereof, but shall not affect any Employment Agreement between the Executive and the Corporation and/or any of its subsidiaries.

-18-

IN WITNESS WHEREOF, the parties have executed this Agreement on the 28th day of July, 1995.

GRAHAM CORPORATION

By: /s/ F.D. Berkeley

F.D. Berkeley
Chairman and Chief Executive Officer

ATTEST:

/s/ Cornelius S. Van Rees

Secretary

[SEAL]

EXECUTIVE

/s/ J. Ronald Hansen

J. Ronald Hansen

May 22, 1998

Board of Directors
Graham Corporation
Batavia, New York

Dear Sirs/Madam:

We have audited the consolidated financial statements of Graham Corporation (the "Company) as of March 31, 1998 and December 31, 1996, and for the year ended March 31, 1998, the three month period ended March 31, 1997 and for the years ended December 31, 1996 and 1995, included in your Annual Report on Form 10-K to the Securities and Exchange Commission and have issued our report thereon dated May 22, 1998. Note 1 to such consolidated financial statements contains a description of your adoption during the year ended March 31, 1998 of a change in the Company's method of revenue recognition from the completed-contract to the percentage-of-completion method of revenue recognition for certain long term contracts. In our judgment, such change is to an alternative accounting principle that is preferable under the circumstances.

Yours truly,

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York

UNITED STATES

- - - - -

Graham Manufacturing Co., Inc.
20 Florence Avenue
Batavia, New York 10420

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

INDEPENDENT AUDITORS' REPORT

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 May 22, 1998 (which express an unqualified opinion and includes an explanatory paragraph relating to a change in accounting for revenue recognition from the completed contract to the percentage-of-completion method for certain long-term contracts), appearing in this Annual Report on Form 10-K of Graham Corporation and subsidiaries for the year ended March 31, 1998.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
June 23, 1998

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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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