

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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2013

**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

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**GRAHAM CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**16-1194720**  
(I.R.S. Employer  
Identification No.)

**14020**  
(Zip Code)

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

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 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 26, 2013, there were outstanding 10,033,905 shares of the registrant's common stock, par value \$.10 per share.

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Graham Corporation and Subsidiaries

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As of June 30, 2013 and March 31, 2013 and for the Three-Month Periods  
Ended June 30, 2013 and 2012

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GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

JUNE 30, 2013

PART I—FINANCIAL INFORMATION

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## Item 1. Unaudited Condensed Consolidated Financial Statements

## GRAHAM CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited)

	Three Months Ended	
	June 30,	
	2013	2012
	(Amounts in thousands, except per share data)	
Net sales	\$ 28,256	\$ 22,533
Cost of products sold	18,241	16,297
Gross profit	10,015	6,236
Other expenses and income:		
Selling, general and administrative	4,346	4,028
Selling, general and administrative—amortization	57	56
Interest income	(11)	(11)
Interest expense	5	80
Total other expenses and income	4,397	4,153
Income before provision for income taxes	5,618	2,083
Provision for income taxes	1,810	693
Net income	3,808	1,390
Retained earnings at beginning of period	84,632	74,383
Dividends	(301)	(200)
Retained earnings at end of period	\$ 88,139	\$ 75,573
Per share data		
Basic:		
Net income	\$ 0.38	\$ 0.14
Diluted:		
Net income	\$ 0.38	\$ 0.14
Weighted average common shares outstanding:		
Basic	10,057	10,002
Diluted	10,086	10,028
Dividends declared per share	\$ 0.03	\$ 0.02

See Notes to Condensed Consolidated Financial Statements.

**GRAHAM CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

	Three Months Ended	
	June 30,	
	2013	2012
	(Amounts in thousands, except per share data)	
Net income	\$ 3,808	\$ 1,390
Other comprehensive income:		
Foreign currency translation adjustment	7	(15)
Defined benefit pension and other postretirement plans net of income tax of \$78 and \$78, respectively	143	143
Total other comprehensive income	150	128
Total comprehensive income	<u>\$ 3,958</u>	<u>\$ 1,518</u>

See Notes to Condensed Consolidated Financial Statements.

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**GRAHAM CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	June 30, 2013	March 31, 2013
(Amounts in thousands, except per share data)		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 25,693	\$ 24,194
Investments	27,499	27,498
Trade accounts receivable, net of allowances (\$37 and \$33 at June 30 and March 31, 2013, respectively)	17,236	9,440
Unbilled revenue	10,128	13,113
Inventories	9,518	11,171
Prepaid expenses and other current assets	1,421	783
Income taxes receivable	1,007	2,635
Deferred income tax asset	126	69
<b>Total current assets</b>	<b>92,628</b>	<b>88,903</b>
Property, plant and equipment, net	13,100	13,288
Prepaid pension asset	2,547	2,349
Goodwill	6,938	6,938
Permits	10,300	10,300
Other intangible assets, net	4,743	4,788
Other assets	11	167
<b>Total assets</b>	<b>\$ 130,267</b>	<b>\$ 126,733</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Current portion of capital lease obligations	\$ 86	\$ 87
Accounts payable	7,714	9,429
Accrued compensation	4,574	5,018
Accrued expenses and other current liabilities	3,727	3,051
Customer deposits	7,801	6,919
Deferred income tax liability	374	373
<b>Total current liabilities</b>	<b>24,276</b>	<b>24,877</b>
Capital lease obligations	107	127
Accrued compensation	314	308
Deferred income tax liability	7,298	7,131
Accrued pension liability	238	227
Accrued postretirement benefits	932	923
Other long-term liabilities	147	145
<b>Total liabilities</b>	<b>33,312</b>	<b>33,738</b>
<b>Commitments and contingencies (Note 11)</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$1.00 par value - Authorized, 500 shares		
Common stock, \$.10 par value - Authorized, 25,500 shares		
Issued, 10,361 and 10,331 shares at June 30 and March 31, 2013, respectively	1,036	1,033
Capital in excess of par value	18,896	18,596
Retained earnings	88,139	84,632
Accumulated other comprehensive loss	(7,883)	(8,033)
Treasury stock, 327 and 327 shares at June 30 and March 31, 2013, respectively	(3,233)	(3,233)
<b>Total stockholders' equity</b>	<b>96,955</b>	<b>92,995</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 130,267</b>	<b>\$ 126,733</b>

See Notes to Condensed Consolidated Financial Statements.

**GRAHAM CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Three Months Ended June 30,	
	2013	2012
<b>Operating activities:</b>		
Net income	\$ 3,808	\$ 1,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	493	464
Amortization	57	56
Amortization of unrecognized prior service cost and actuarial losses	221	222
Discount accretion on investments	(3)	(2)
Stock-based compensation expense	195	171
Loss on disposal or sale of property, plant and equipment	—	3
Deferred income taxes	183	(99)
(Increase) decrease in operating assets:		
Accounts receivable	(7,900)	2,039
Unbilled revenue	2,992	5,012
Inventories	1,843	(580)
Prepaid expenses and other current and non-current assets	(645)	(95)
Prepaid pension asset	(198)	(192)
Increase (decrease) in operating liabilities:		
Accounts payable	(1,731)	(340)
Accrued compensation, accrued expenses and other current and non-current liabilities	234	(274)
Customer deposits	797	(3,087)
Income taxes payable/receivable	1,628	783
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	26	6
Net cash provided by operating activities	2,000	5,477
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(295)	(300)
Purchase of investments	(22,999)	(20,996)
Redemption of investments at maturity	23,000	15,000
Net cash used by investing activities	(294)	(6,296)
<b>Financing activities:</b>		
Principal repayments on capital lease obligations	(21)	(21)
Issuance of common stock	48	—
Dividends paid	(301)	(200)
Excess tax benefit (deficiency) on stock awards	61	(11)
Net cash used by financing activities	(213)	(232)
Effect of exchange rate changes on cash	6	(11)
Net increase (decrease) in cash and cash equivalents	1,499	(1,062)
Cash and cash equivalents at beginning of year	24,194	25,189
Cash and cash equivalents at end of period	\$ 25,693	\$ 24,127

See Notes to Condensed Consolidated Financial Statements.

**GRAHAM CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Amounts in thousands, except per share data)

**NOTE 1 – BASIS OF PRESENTATION:**

Graham Corporation's (the "Company's") Condensed Consolidated Financial Statements include (i) its wholly-owned foreign subsidiary located in China and (ii) its wholly-owned domestic subsidiary located in Lapeer, Michigan. The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, each as promulgated by the Securities and Exchange Commission. The Company's Condensed Consolidated Financial Statements do not include all information and notes required by GAAP for complete financial statements. The unaudited Condensed Consolidated Balance Sheet as of March 31, 2013 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2013. For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013 ("fiscal 2013"). In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included in the Company's Condensed Consolidated Financial Statements.

The Company's results of operations and cash flows for the three months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2014 ("fiscal 2014").

**NOTE 2 – REVENUE RECOGNITION:**

The Company recognizes revenue on all contracts with a planned manufacturing process in excess of four weeks (which approximates 575 direct labor hours) using the percentage-of-completion method. The majority of the Company's revenue is recognized under this methodology. The percentage-of-completion method is determined by comparing actual labor incurred to a specific date to management's estimate of the 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 the contract value and estimated costs at completion. Losses on contracts are recognized immediately when evident. There is no reserve for credit losses related to unbilled revenue recorded for contracts accounted for on the percentage-of-completion method. Any reserve for credit losses related to unbilled revenue is recorded as a reduction to revenue.

Revenue on contracts not accounted for using the percentage-of-completion method is recognized utilizing the completed contract method. The majority of the Company's contracts (as opposed to revenue) have a planned manufacturing process of less than four weeks and the results reported under this method do not vary materially from the percentage-of-completion



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method. The Company recognizes revenue and all related costs on these contracts upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further material obligations under its contracts after the revenue is recognized.

### NOTE 3 – INVESTMENTS:

Investments consist solely of fixed-income debt securities issued by the U.S. Treasury with original maturities of greater than three months and less than one year. All investments are classified as held-to-maturity, as the Company has the intent and ability to hold the securities to maturity. The investments are stated at amortized cost which approximates fair value. All investments held by the Company at June 30, 2013 are scheduled to mature on or before September 26, 2013.

### NOTE 4 – INVENTORIES:

Inventories are stated at the lower of cost or market, using the average cost method. For contracts accounted for on the completed contract method, progress payments received 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 Condensed Consolidated Balance Sheets. Unbilled revenue in the Condensed Consolidated Balance Sheets represents revenue recognized that has not been billed to customers on contracts accounted for on the percentage-of-completion method. For contracts accounted for on the percentage-of-completion method, progress payments are netted against unbilled revenue to the extent the payment is less than the unbilled revenue for the applicable contract. Progress payments exceeding unbilled revenue are netted against inventory to the extent the payment is less than or equal to the inventory balance relating to the applicable contract, and the excess is presented as customer deposits in the Condensed Consolidated Balance Sheets.

Major classifications of inventories are as follows:

	June 30, 2013	March 31, 2013
Raw materials and supplies	\$ 2,737	\$ 2,865
Work in process	12,356	13,470
Finished products	<u>524</u>	<u>572</u>
	15,617	16,907
Less—progress payments	<u>6,099</u>	<u>5,736</u>
Total	<u>\$ 9,518</u>	<u>\$11,171</u>

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NOTE 5 – INTANGIBLE ASSETS:

Intangible assets are comprised of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<u>At June 30, 2013</u>			
Intangibles subject to amortization:			
Backlog	\$ 170	\$ 170	\$ —
Customer relationships	2,700	457	2,243
	<u>\$ 2,870</u>	<u>\$ 627</u>	<u>\$ 2,243</u>
Intangibles not subject to amortization:			
Permits	\$10,300	\$ —	\$10,300
Tradename	2,500	—	2,500
	<u>\$12,800</u>	<u>\$ —</u>	<u>\$12,800</u>
<u>At March 31, 2013</u>			
Intangibles subject to amortization:			
Backlog	\$ 170	\$ 170	\$ —
Customer relationships	2,700	412	2,288
	<u>\$ 2,870</u>	<u>\$ 582</u>	<u>\$ 2,288</u>
Intangibles not subject to amortization:			
Permits	\$10,300	\$ —	\$10,300
Tradename	2,500	—	2,500
	<u>\$12,800</u>	<u>\$ —</u>	<u>\$12,800</u>

Intangible assets are amortized on a straight line basis over the estimated useful lives. Intangible amortization expense for the three months ended June 30, 2013 and 2012 was \$45 and \$45, respectively. As of June 30, 2013, amortization expense is estimated to be \$135 for the remainder of fiscal 2014 and \$180 in each of the fiscal years ending March 31, 2015, 2016, 2017 and 2018.

NOTE 6 – STOCK-BASED COMPENSATION:

The Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 1,375 shares of common stock in connection with grants of incentive stock options, non-qualified stock options, stock awards and performance awards to officers, key employees and outside directors; provided, however, that no more than 250 shares of common stock may be used for awards other than stock options. Stock 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.

Stock option awards granted in the three months ended June 30, 2013 and 2012 were 0 and 49, respectively. The stock option awards granted in the first quarter of fiscal 2013 vest 33 1/3% per year over a three-year term and have a term of ten years from their grant date.

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Restricted stock awards granted in the three-month periods ended June 30, 2013 and 2012 were 32 and 26, respectively. Performance vested restricted stock awards of 14 and 18 granted to officers in fiscal 2014 and fiscal 2013, respectively, vest 100% on the third anniversary of the grant date, subject to the satisfaction of the performance metrics for the applicable three-year period. Time vested restricted stock awards of 12 granted to officers and key employees in fiscal 2014 vest 33 1/3% per year over a three-year period. Time vested restricted stock awards of 6 and 8 granted to directors in fiscal 2014 and fiscal 2013, respectively, vest 100% on the first anniversary of the grant date.

During the three months ended June 30, 2013 and 2012, the Company recognized stock-based compensation costs related to stock option and restricted stock awards of \$180 and \$156, respectively. The income tax benefit recognized related to stock-based compensation was \$63 and \$55 for the three months ended June 30, 2013 and 2012, respectively.

The Company has an Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock on the last day of a six-month offering period at a purchase price equal to the lesser of 85 percent of the fair market value of the common stock on either the first day or the last day of the offering period. A total of 200 shares of common stock may be purchased under the ESPP. During the three months ended June 30, 2013 and 2012, the Company recognized stock-based compensation costs of \$15 and \$15, respectively, related to the ESPP and \$5 and \$5, respectively, of related tax benefits.

### NOTE 7 – INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Common shares outstanding include share equivalent units, which are contingently issuable shares. Diluted income per share is calculated by dividing net income by the weighted average number of common shares outstanding and, when applicable, potential common shares outstanding during the period. A reconciliation of the numerators and denominators of basic and diluted income per share is presented below:

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	Three Months Ended	
	June 30,	
	2013	2012
Basic income per share		
Numerator:		
Net income	\$ 3,808	\$ 1,390
Denominator:		
Weighted common shares outstanding	10,014	9,960
Share equivalent units ("SEUs")	43	42
Weighted average common shares and SEUs	10,057	10,002
Basic income per share	\$ 0.38	\$ 0.14
Diluted income per share		
Numerator:		
Net income	\$ 3,808	\$ 1,390
Denominator:		
Weighted average shares and SEUs outstanding	10,057	10,002
Stock options outstanding	29	26
Weighted average common and potential common shares outstanding	10,086	10,028
Diluted income per share	\$ 0.38	\$ 0.14

Options to purchase a total of 14 and 23 shares of common stock were outstanding at June 30, 2013 and 2012, respectively, but were not included in the above computation of diluted income per share given their exercise prices as they would be anti-dilutive upon issuance.

NOTE 8 – PRODUCT WARRANTY LIABILITY:

The reconciliation of the changes in the product warranty liability is as follows:

	Three Months Ended	
	June 30,	
	2013	2012
Balance at beginning of period	\$ 408	\$ 215
(Income) expense for product warranties	(20)	11
Product warranty claims paid	(57)	(32)
Balance at end of period	\$ 331	\$ 194

The income of \$20 for product warranties in the three months ended June 30, 2013 resulted from the reversal of provisions made that were no longer required due to lower claims experience.

The product warranty liability is included in the line item "Accrued expenses and other current liabilities" in the Condensed Consolidated Balance Sheets.

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NOTE 9—CASH FLOW STATEMENT:

Interest paid was \$3 and \$3 for the three months ended June 30, 2013 and 2012, respectively. In addition, income taxes (refunded) paid for the three months ended June 30, 2013 and 2012 were \$(61) and \$29, respectively.

During the three months ended June 30, 2013 and 2012, respectively, stock option awards were exercised and restricted stock awards vested. In connection with such stock option exercises and vesting, the related income tax benefit realized exceeded (reduced) the tax benefit that had been recorded pertaining to the compensation cost recognized by \$61 and \$(11), respectively, for such periods. This excess tax benefit (deficiency) has been separately reported under “Financing activities” in the Condensed Consolidated Statements of Cash Flows.

At June 30, 2013 and 2012, respectively, there were \$10 and \$10 of capital purchases that were recorded in accounts payable and are not included in the caption “Purchase of property, plant and equipment” in the Condensed Consolidated Statements of Cash Flows.

NOTE 10 – EMPLOYEE BENEFIT PLANS:

The components of pension cost are as follows:

	Three Months Ended June 30,	
	2013	2012
Service cost	\$ 144	\$ 136
Interest cost	340	357
Expected return on assets	(682)	(684)
Amortization of:		
Unrecognized prior service cost	1	1
Actuarial loss	250	252
Net pension cost	<u>\$ 53</u>	<u>\$ 62</u>

The Company made no contributions to its defined benefit pension plan during the three months ended June 30, 2013 and does not expect to make any contributions to the plan for the balance of fiscal 2014.

The components of the postretirement benefit income are as follows:

	Three Months Ended June 30,	
	2013	2012
Service cost	\$ —	\$ —
Interest cost	8	9
Amortization of prior service benefit	(41)	(41)
Amortization of actuarial loss	11	10
Net postretirement benefit income	<u>\$ (22)</u>	<u>\$ (22)</u>

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The Company paid benefits of \$0 related to its postretirement benefit plan during the three months ended June 30, 2013. The Company expects to pay benefits of approximately \$107 for the balance of fiscal 2014.

### NOTE 11 – COMMITMENTS AND CONTINGENCIES:

The Company has been named as a defendant in certain lawsuits alleging personal injury from exposure to asbestos allegedly contained in products made by the Company. The Company is a co-defendant with numerous other defendants in these lawsuits and intends to vigorously defend itself against these claims. The claims are similar to previous asbestos suits that named the Company as defendant, which either were dismissed when it was shown that the Company had not supplied products to the plaintiffs' places of work or were settled for immaterial amounts.

As of June 30, 2013, the Company was subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business.

Although the outcome of the lawsuits to which the Company is a party cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made, management does not believe that the outcomes, either individually or in the aggregate, will have a material effect on the Company's results of operations, financial position or cash flows.

### NOTE 12 – INCOME TAXES:

The Company files federal and state income tax returns in several domestic and international jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. During fiscal 2012, the Company reached a resolution with the U.S. Internal Revenue Service (the "IRS") with regard to the research and development tax credits claimed during tax years 2006 through 2008. As a result of such resolution, the tax credits claimed during such years were reduced by approximately 40% and interest was assessed on the underpayment of tax. During fiscal 2013, the Company reached a resolution with the IRS that reduced the research and development tax credits claimed during tax years 2009 and 2010 by approximately 30%. In addition, in fiscal 2013, the Company paid all settlement amounts to the IRS for tax years 2006 through 2010.

The liability for unrecognized tax benefits related to research and development tax credits was \$134 and \$134 at June 30, 2013 and March 31, 2013, respectively. The Company had one additional unrecognized tax benefit of \$882 as of March 31, 2012 which was resolved with the IRS during the three months ended June 30, 2012, resulting in a reversal of the liability.

The Company is subject to examination in federal and state tax jurisdictions for tax years 2011 through 2012 and tax years 2008 through 2012, respectively. The Company is subject to examination in its international tax jurisdiction for tax years 2010 through 2012. It is the Company's policy to recognize any interest related to uncertain tax positions in interest expense and any penalties related to uncertain tax positions in selling, general and administrative expense. During the three months ended June 30, 2013 and 2012, the Company recorded \$2 and \$62, respectively, for interest related to its uncertain tax positions. No penalties related to uncertain tax positions were recorded in the three-month periods ended June 30, 2013 or 2012.

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NOTE 13 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS:

The changes in accumulated other comprehensive loss by component for the three months ended June 30, 2013 are as follows:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2013	\$ (8,443)	\$ 410	\$(8,033)
Other comprehensive income before reclassifications	—	7	7
Amounts reclassified from accumulated other comprehensive loss	143	—	143
Net current-period other comprehensive income	143	7	150
Balance at June 30, 2013	\$ (8,300)	\$ 417	\$(7,883)

The reclassifications out of accumulated other comprehensive loss by component for the three months ended June 30, 2013 are as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Condensed Consolidated Statements of Operations and Retained Earnings
<b>Pension and other postretirement benefit items:</b>		
Amortization of unrecognized prior service benefit	\$ 40 <sup>(1)</sup>	
Amortization of actuarial loss	(261) <sup>(1)</sup>	
	(221)	Income before provision for income taxes
	(78)	Provision for income taxes
	\$ (143)	Net income

<sup>(1)</sup> These accumulated other comprehensive loss components are included within the computation of net periodic pension and other postretirement benefit costs. See Note 10.

NOTE 14 – ACCOUNTING AND REPORTING CHANGES:

In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”), the Securities and Exchange Commission, the Emerging Issues Task Force, the American Institute of Certified Public Accountants or any other authoritative accounting body to determine the potential impact they may have on the Company’s consolidated financial statements.

In July 2012, the FASB amended its guidance related to periodic testing of indefinite-lived intangible assets for impairment. The amended guidance is intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The guidance also enhances the consistency of impairment testing among long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset’s fair value when testing

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an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. In accordance with the guidance, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more-likely-than-not that the asset is impaired. The provisions of the amended guidance are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company will perform its annual impairment testing of indefinite-lived intangible assets pursuant to this guidance during the third quarter of fiscal 2014. The adoption of the amended guidance is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued guidance related to the disclosure of amounts reclassified out of accumulated other comprehensive income. This guidance adds new disclosure requirements either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income ("AOCI") based on its source and the income statement line items affected by the reclassification. This guidance gives companies the flexibility to present the information either in the notes or parenthetically on the face of the financial statements provided that all of the required information is presented in a single location. This guidance is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. The Company adopted this guidance during the first quarter of fiscal 2014 and such adoption did not have a material impact on the Company's Condensed Consolidated Financial Statements as it only changed the disclosures surrounding AOCI (See Note 13).

Management does not expect any other recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company's consolidated financial statements.



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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

(Dollar amounts in thousands, except per share data)

#### **Overview**

We are a global business that designs, manufactures and sells equipment that is critical to the energy industry which includes the oil refining, petrochemical, cogeneration, nuclear and alternative power markets. With world-renowned engineering expertise in vacuum and heat transfer technology and extensive nuclear code accredited fabrication and specialty machining experience, we design and manufacture custom-engineered ejectors, pumps, surface condensers and vacuum systems as well as supplies and components for utilization both inside the reactor vessel and outside the containment vessel of nuclear power facilities. Our equipment is also used in nuclear propulsion power systems for the defense industry and can be found in other diverse applications such as metal refining, pulp and paper processing, water heating, refrigeration, desalination, food processing, pharmaceutical, heating, ventilating and air conditioning.

Our corporate headquarters is located in Batavia, New York and we have production facilities in both Batavia, New York and at our wholly-owned subsidiary, Energy Steel & Supply Co. ("Energy Steel"), located in Lapeer, Michigan. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("GVHTT"), located in Suzhou, China, which supports sales orders from China and provides engineering support and supervision of subcontracted fabrication.

Our current fiscal year (which we refer to as "fiscal 2014") ends March 31, 2014.

#### **Highlights**

Highlights for the three months ended June 30, 2013 include:

- Net sales for the first quarter of fiscal 2014 were \$28,256, an increase of 25% compared with \$22,533 for the first quarter of the fiscal year ended March 31, 2013 (we refer to the fiscal year ended March 31, 2013 as "fiscal 2013").
- Net income and income per diluted share for the first quarter of fiscal 2014 were \$3,808 and \$0.38, compared with net income of \$1,390 and income per diluted share of \$0.14 for the first quarter of fiscal 2013.
- Orders booked in the first quarter of fiscal 2014 were \$32,783, up 66% compared with the first quarter of fiscal 2013, when orders were \$19,721. Orders were particularly strong in the domestic market, with 87% of total orders coming from the U.S.
- Backlog increased to \$90,382 at June 30, 2013, representing a 5% increase compared with March 31, 2013, when backlog was \$85,768.
- Gross profit margin and operating margin for the first quarter of fiscal 2014 were 35% and 20%, respectively, compared with 28% and 10%, respectively, for the first quarter of fiscal 2013.
- Cash and short-term investments at June 30, 2013 were \$53,192 compared with \$51,692 at March 31, 2013.

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### **Forward-Looking Statements**

This report and other documents we file with the Securities and Exchange Commission include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results implied by the forward-looking statements. Such factors include, but are not limited to, the risks and uncertainties identified by us under the heading “Risk Factors” in Item 1A of our Annual Report on Form 10-K for fiscal 2013.

Forward-looking statements may also include, but are not limited to, statements about:

- the current and future economic environments affecting us and the markets we serve;
- expectations regarding investments in new projects by our customers;
- sources of revenue and anticipated revenue, including the contribution from the growth of new products, services and markets;
- expectations regarding achievement of revenue and profitability expectations;
- plans for future products and services and for enhancements to existing products and services;
- our operations in foreign countries;
- our ability to continue to pursue our acquisition and growth strategy;
- our ability to expand nuclear power work, including into new markets;
- our ability to successfully execute our existing contracts;
- estimates regarding our liquidity and capital requirements;
- timing of conversion of backlog to sales;
- our ability to attract or retain customers;
- the outcome of any existing or future litigation; and
- our ability to increase our productivity and capacity.

Forward-looking statements are usually accompanied by words such as “anticipate,” “believe,” “estimate,” “may,” “might,” “intend,” “interest,” “appear,” “expect,” “suggest,” “plan,” “potential,” and similar expressions. Actual results could differ materially from historical results or those implied by the forward-looking statements contained in this report.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we undertake no obligation to update or announce any revisions to forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

### **Current Market Conditions**

We continued to see strong bidding activity during the first quarter of fiscal 2014. Bidding activity is a leading indicator of the direction and health of our markets. We believe the business environment is continuing to improve and that our customers are becoming more inclined to procure the equipment needed for their projects. This supports our belief that the oil refining, petrochemical and related markets we serve remain in the early stages of a business recovery. The current activity level within our pipeline continues to be more positive than in the past few years.

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We believe the following demand trends that are influencing our customers' investments include:

- Emerging economies, especially in Asia, continue to have relatively strong economic growth. We believe that this expansion is driving growing energy requirements and the need for more energy and energy related products.
- The expansion of the economies of oil-producing Middle Eastern countries, their desire to extract greater value from their oil and gas resources, and the continued global growth in demand for oil and refined products has renewed investment activity in that region. Moreover, the planned timeline of refinery and petrochemical projects in the major oil-producing Middle Eastern countries is encouraging.
- Asian countries, specifically China and India, are experiencing renewed demand for energy products such as transportation fuel and consumer products derived from petrochemicals. This renewed demand is driving increased investment in petrochemical and refining capacity. Although economic growth in Asia appears to be moderating to a lower level, we believe that it remains a fast-growing area and Chinese and Indian investments in refining, petrochemical and energy facilities appear to continue to be strong.
- South America, specifically Brazil, Venezuela and Colombia, is seeing increased refining and petrochemical investments that are driven by their expanding economies, and increased local demand for transportation fuels and other products that are made from oil as the feedstock. South American countries are also working to extract more value from their natural resources by supplying energy products into the global markets. However, the South American market can be unpredictable and has historically been slower to invest than other emerging markets.
- The U.S. refining market has recently exhibited improvement. We do not expect this market to return to the levels experienced during the last upcycle, but anticipate that this market will improve compared with its levels over the past few years. We expect that the U.S. refining markets will continue to be an important aspect of our business.
- We are beginning to see renewed signs of planned investments in the U.S. to convert greater percentages of crude oil to transportation fuels, such as revamping distillation columns to extract residual higher-value components from the low-value waste stream. We are also seeing renewed investment to expand the flexibility of facilities to allow them to utilize multiple feed stocks. Moreover, a trend to upgrade existing equipment in order to extend on-stream operation duration between planned shutdowns has emerged that in turn has resulted in an increase in demand for our equipment.
- Lower natural gas cost and a significant increase in supply is a relatively recent phenomena, having occurred over the past few years, and has been driven by technology advancements in drilling. The dramatic change in natural gas costs and expectation of steady supply in the U.S. has led to a revival in the U.S. petrochemical market and recent movements toward potential major investment. There are numerous new projects in planning or initial engineering phases for the construction of new petrochemical producing facilities,

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including ethylene, methanol, ammonia and urea facilities. In addition, existing petrochemical facilities are evaluating restarting idled process units or debottlenecking existing operations to increase throughput. We currently have a number of these projects in our pipeline and have begun to add new orders into backlog associated with the North American petrochemical/chemical markets. We historically have had strong market share within U.S. petrochemical facilities. Lower natural gas cost has also made the U.S. production of ethane, which is a by-product of natural gas production, favorably competitive with naphtha, which is a by-product of crude oil refining, as a feedstock for ethylene production. Proposed ethylene capacity expansion and re-opening of mothballed facilities in the U.S., as well as downstream products, are being discussed by petrochemical producers for the first time in well over a decade. We believe investment in U.S. petrochemical markets could be significant over the next several years.

- Investments, including foreign investments, in North American oil sands projects have occurred over the past few years. These investments suggest that downstream spending involving our equipment might increase in the next several years.
- The continued progress at the new U.S. nuclear reactor projects planned for the Summer (South Carolina) and Vogtle (Georgia) facilities suggest some growth in the domestic nuclear market. However, investment in new nuclear power capacity in the U.S. and internationally may remain uncertain due to political and social pressures, which were augmented by the tragic earthquake and tsunami that occurred in Japan in March 2011. Moreover, the low cost of domestic natural gas may shift investment away from the nuclear market in North America.
- The need for additional safety and back up redundancies at existing domestic nuclear plants driven by new regulatory requirements could increase demand for our products in the near-term.
- The desire to extend the life of the existing nuclear plants including new operating licenses and expanded output (re-rating) of the facilities will require investment and could increase demand for our products.

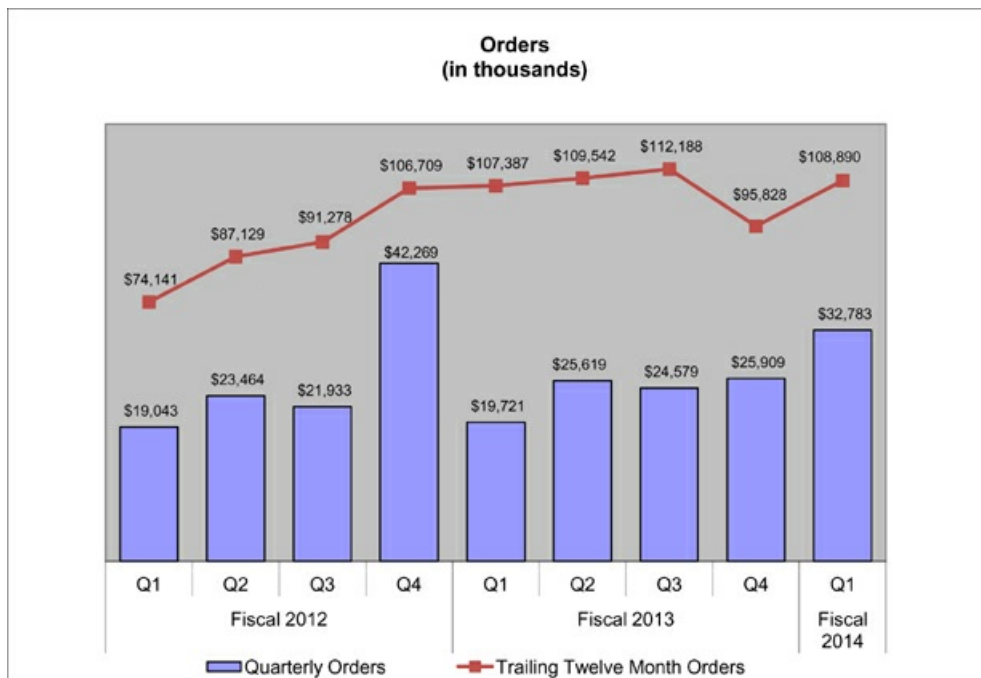
We expect that the consequences of the trends described above will drive revenue growth for us. As we look forward at margin potential in this cycle, we expect growth in emerging markets to result in increased pressure on pricing and gross margins, as these markets historically provided lower margins than North American refining markets. We do believe investments in new petrochemical capacity built in North America may provide a partial offset to this margin pressure. Adding these pieces together, we believe peak margins in the current cycle may be somewhat less than the previous cycle, which was driven by the domestic refining market.

Because of continued global economic and financial uncertainty and the risk associated with growth in emerging economies, we also expect that we will continue to experience volatility in our order pattern. We continue to expect our new order levels to remain volatile, resulting in both relatively strong and weak quarters. As the chart below indicates, quarterly orders can vary significantly.

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Looking at our order level in any one quarter does not provide an accurate indication of our future expectations or performance. Rather, we believe that looking at our orders and backlog over a trailing twelve-month period provides a better measure of our business. A good example of this is the first quarter of fiscal 2014, where 87% of total orders came from the U.S. We believe that the increase in domestic orders during our first quarter resulted from the timing of projects which closed in the current quarter. While the first quarter had a strong predominance of domestic orders, it is premature to suggest a trend or shift toward the U.S. market. However, it is possible that fiscal 2014 could see a heavier weighting of domestic orders than the past few years. We will discuss this further as the fiscal year continues.

Our quarterly order levels and trailing twelve-month order levels for the first quarter of fiscal 2014, and the four quarters of fiscal 2013 and fiscal year ended March 31, 2012 (which we refer to as “fiscal 2012”), respectively, are set forth in the chart below.



**Expected International Growth in Refining and Chemical Processing and Domestic Growth in Chemical Processing, Nuclear Power and U.S. Navy Projects**

We expect growth in refining capacity to be driven by emerging markets. We also expect incremental investments in the domestic market for the existing refining facilities. Investment in the chemical and petrochemical processing markets is expected to be split between North America and the international market. We believe our revenue opportunities in chemicals and petrochemicals will be balanced between the domestic and international markets. This compares with the previous cycle, which was almost exclusively driven by the international markets. We have also expanded our addressable markets with the expansion of our capabilities in the power market and our focus on the U.S. Navy nuclear propulsion projects.

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Over the long-term, we expect our customers' markets to regain their strength and, while remaining cyclical, continue to grow. We believe the long-term trends remain strong and that the drivers of future growth include:

- Global consumption of crude oil is estimated to expand significantly over the next two decades, primarily in emerging markets. This is expected to offset estimated flat to slightly declining demand in North America and Europe. In addition, an increased trend toward export supply of finished product from the Middle East to Europe is expected.
- Global oil refining capacity is projected to increase, and is expected to be addressed through new facilities, refinery upgrades, revamps and expansions.
- Increased demand is expected for power, refinery and petrochemical products, stimulated by an expanding middle class in Asia and the Middle East.
- More domestic refineries are expected to convert their facilities to use heavier, more readily available and lower cost crude oil as a feedstock.
- Lower costs and increased supply are expected to drive increased domestic use of natural gas in the U.S., as well as the ability to export liquefied natural gas to serve other regions.
- Shale gas development and the resulting availability and abundance of affordable natural gas as feedstock to U.S.-based chemical/petrochemical facilities is expected to lead to renewed investment in chemical/petrochemical facilities in the U.S.
- Construction of new petrochemical plants in the Middle East is expected to meet local demand.
- Increased development of geothermal electrical power plants in certain regions is expected to address projected growth in demand for electrical power.
- Increased investments in new power generation projects are expected in Asia and South America to meet projected consumer demand increases.
- Long-term growth potential is expected in alternative energy markets, such as geothermal, coal-to-liquids, gas-to-liquids and other emerging technologies, such as biodiesel, and waste-to-energy.
- Increased regulation worldwide, impacting the refining, petrochemical and nuclear power industries are expected to continue to drive requirements for capital investments.
- Increased focus on safety and redundancy is anticipated in existing nuclear power facilities.

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- Long-term increased project development of international nuclear facilities is expected.

We believe that all of the above factors offer us long-term growth opportunities to meet our customers' expected capital project needs. In addition, we believe we can continue to grow our less cyclical smaller product lines and aftermarket businesses.

Our domestic sales, as a percentage of aggregate product sales, were 53% in the first quarter of fiscal 2014. This is compared with 56% in the same quarter last year. In fiscal 2012 and fiscal 2013, domestic sales increased to 54% and 53%, respectively. We expect domestic sales to continue to comprise slightly more than half of our total sales, however, if domestic orders continue to be strong over the remaining part of fiscal 2014, the percentage of domestic business could increase compared with the past two years.

### **Results of Operations**

For an understanding of the significant factors that influenced our performance, the following discussion should be read in conjunction with our condensed consolidated financial statements and the notes to our condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

The following table summarizes our results of operations for the periods indicated:

	Three Months Ended June 30,	
	2013	2012
Net sales	\$ 28,256	\$ 22,533
Net income	\$ 3,808	\$ 1,390
Diluted income per share	\$ 0.38	\$ 0.14
Total assets	\$ 130,267	\$ 112,749

### **The First Quarter of Fiscal 2014 Compared With the First Quarter of Fiscal 2013**

Sales for the first quarter of fiscal 2014 were \$28,256, a 25% increase as compared with sales of \$22,533 for the first quarter of fiscal 2013. The increase in the current quarter's sales was driven by higher volume in the refining and power markets. International sales year-over-year increased \$3,343, or 34%, due to an increase of \$3,821 in Asia from the refining market in China. International sales accounted for 47% and 44% of total sales for the first quarter of fiscal 2014 and fiscal 2013, respectively. Domestic sales increased \$2,380, or 19%, in the first quarter of fiscal 2014 compared with the first quarter of fiscal 2013. Fluctuations in sales among products and geographic locations can vary measurably from quarter-to-quarter based on timing and magnitude of projects. Sales in the three months ended June 30, 2013 were 45% to the refining industry, 16% to the chemical and petrochemical industries, 27% to the power industry, including the nuclear market and 12% to other commercial and industrial applications. Sales in the three months ended June 30, 2012 were 23% to the refining industry, 25% to the chemical and petrochemical industries, 23% to the power industry, and 29% to other commercial and industrial applications. For additional information on future sales and our markets, see "Orders and Backlog" below.

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Our gross profit margin for the first quarter of fiscal 2014 was 35% compared with 28% for the first quarter of fiscal 2013. Gross profit dollars for the first quarter of fiscal 2014 increased 61% compared with fiscal 2013, to \$10,015 from \$6,236. Gross profit percentage and dollars increased primarily due to higher volume and capacity utilization, a greater level of short cycle sales that reflected stronger pricing and conversion of projects during the first quarter of fiscal 2014 which had more favorable pricing compared with the projects converted in the first quarter of fiscal 2013.

Selling, general and administrative (“SG&A”) expenses as a percent of sales for the three-month periods ended June 30, 2013 and 2012 were 16% and 18%, respectively. SG&A expenses in the first quarter of fiscal 2014 were \$4,403, an increase of \$319, or 8%, compared with the first quarter of fiscal 2013 SG&A of \$4,084. The increase in SG&A expenses was primarily due to compensation related costs and sales commissions, particularly in Asia, driven by higher volume.

Interest income for the three month-periods ended June 30, 2013 and 2012 was \$11 and \$11, respectively. Low levels of interest income resulted from the continuing low level of interest rates on short term U.S. government securities and money market rates.

Interest expense was \$5 for the quarter ended June 30, 2013, down from \$80 for the quarter ended June 30, 2012. The decrease was due to a reduction in interest recorded relating to our uncertain tax positions.

The tax rate in the first quarter of fiscal 2014 was 32%, which compares with 33% in the same period last year.

Net income for the first three months of fiscal 2014 compared with the first three months of fiscal 2013 was \$3,808 and \$1,390, respectively. Income per diluted share was \$0.38 and \$0.14, for the respective periods.

### **Liquidity and Capital Resources**

The following discussion should be read in conjunction with our Condensed Consolidated Statements of Cash Flows:

	June 30, 2013	March 31, 2013
Cash and investments	\$53,192	\$51,692
Working capital	68,352	64,026
Working capital ratio <sup>(1)</sup>	3.8	3.6

(1) Working capital ratio equals current assets divided by current liabilities.

Net cash generated by operating activities for the first quarter of fiscal 2014 was \$2,000, compared with \$5,477 of cash generated for the first quarter of fiscal 2013. The decrease in cash generated was due to higher levels of accounts receivable in the first quarter of fiscal 2014, driven by the timing of progress payment invoice schedules and higher sales. This was partly offset by higher net income, lower inventory and higher customer deposits.

Dividend payments and capital expenditures in the first quarter of fiscal 2014 were \$301 and \$295, respectively, compared with \$200 and \$300, respectively, for the first quarter of fiscal 2013. The higher dividend payment was due to the 50% increase in dividends per share announced in January 2013.



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Capital expenditures for fiscal 2014 are expected to be between approximately \$3,500 and \$4,500. We may exceed this range subject to market conditions. Approximately 75%—85% of our fiscal 2014 capital expenditures are expected to be for machinery and equipment, with the remaining amounts anticipated to be used for information technology and other items.

Cash and investments were \$53,192 on June 30, 2013 compared with \$51,692 on March 31, 2013, up \$1,500, or 3%.

We invest net cash generated from operations in excess of cash held for near-term needs in either a money market account or in U.S. government instruments, generally with maturity periods of up to 180 days. Our money market account is used to securitize our outstanding letters of credit and allows us to pay a lower cost on those letters of credit.

Our revolving credit facility with Bank of America, N.A. provides us with a line of credit of \$25,000, including letters of credit and bank guarantees. In addition, the agreement allows us to increase the line of credit, at our discretion, up to another \$25,000, for total availability of \$50,000. Borrowings under our credit facility are secured by all of our assets. Letters of credit outstanding under our credit facility on June 30, 2013 and March 31, 2013 were \$7,694 and \$12,354, respectively. There were no other amounts outstanding on our credit facility at June 30, 2013 and March 31, 2013. Our borrowing rate as of June 30 and March 31, 2013 was Bank of America's prime rate, or 3.25%. Availability under the line of credit was \$17,306 at June 30, 2013. We believe that cash generated from operations, combined with our investments and available financing capacity under our credit facility, will be adequate to meet our cash needs for the immediate future.

### **Orders and Backlog**

Orders for the three-month period ended June 30, 2013 were \$32,783 compared with \$19,721 for the same period last year, an increase of 66%. Orders represent written communications received from customers requesting us to supply products and services. Domestic orders were 87% of total orders, or \$28,635, and international orders were 13% of total orders, or \$4,148, in the current quarter compared with the first quarter of fiscal 2013, when domestic orders were 41%, or \$8,006, of total orders, and international orders were 59%, or \$11,715, of total orders. See "Current Market Conditions" for additional information.

Backlog was \$90,382 at June 30, 2013, compared with \$85,768 at March 31, 2013, a 5% increase. Backlog is defined as the total dollar value of orders received for which revenue has not yet been recognized. Approximately 70% to 75% of orders currently in backlog are expected to be converted to sales within the next twelve months. At June 30, 2013, 28% of our backlog was attributable to equipment for refinery project work, 24% for chemical and petrochemical projects, 19% for power projects, including nuclear, and 29% for other industrial or commercial applications (including the carrier order for the U.S. Navy). At June 30, 2012, 30% of our backlog was attributed to equipment for refinery project work, 18% for chemical and petrochemical projects, 26% for power projects, and 26% for other industrial or commercial applications. At June 30, 2013, we had no projects on hold.

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### **Outlook**

We believe that the refinery and petrochemical markets we serve continue to be in the early stages of a global recovery. Our pipeline has continued to expand throughout the last twelve months and appears to have stabilized at a historically high level, approximately double the size that it was at the start of the last cycle. We believe that the current quarter's order level of \$32,783 reflects the improved pipeline. As the current fiscal year continues to unfold, we believe the improved strength of the energy markets will become more evident. With our strong project pipeline, we anticipate improving quarterly order levels, though the timing of any improvements are still uncertain.

We expect revenue to be approximately \$100,000 to \$115,000 in fiscal 2014, a 5% decrease to a 10% increase as compared with fiscal 2013. Our expected growth range for fiscal 2014 assumes conversion of backlog as well as continued market improvement and investment by our customers. To achieve the upper end of the range, we will need to continue to see strong order levels in the first half of the year and the conversion of a significant portion of those orders into revenue. Although we achieved a strong order level in the first quarter of fiscal 2014, we will need to see those orders begin to convert to revenue in the second half of fiscal 2014. It is possible that some of the orders won in the first quarter of fiscal 2014 will have a longer than normal conversion period. The continued conversion to revenue of the U.S. Navy and two large nuclear projects is expected to contribute significantly to sales in fiscal 2014. Unexpected delays in any of these projects could negatively impact fiscal 2014 revenue and earnings.

We expect gross profit margin in fiscal 2014 to be in the 29% to 31% range. This margin range, which is below the margins achieved in the first quarter of fiscal 2014, will be driven by the utilization of our capacity. We have pre-invested in operations and engineering personnel to prepare for current and future growth opportunities, which has the effect of dampening short term margin improvement and increasing SG&A. However, reducing these costs in the short term, to achieve near term profitability gains, would be counter-productive to the larger expected benefits of the future growth opportunities.

SG&A spending during fiscal 2014 is expected to be between 15% and 16% of sales. We continue to invest in personnel as we prepare for increased opportunities in fiscal 2013 and beyond. Our effective tax rate during fiscal 2014 is expected to be between 33% and 34%.

Cash flow in fiscal 2014 is expected to be positive, driven primarily by net income, partly offset by capital spending as well as a minimal need for additional working capital.

### **Contingencies and Commitments**

We have been named as a defendant in certain lawsuits alleging personal injury from exposure to asbestos allegedly contained in our products. We are a co-defendant with numerous other defendants in these lawsuits and intend to vigorously defend ourselves against these claims. The claims are similar to previous asbestos lawsuits that named us as a defendant. Such previous lawsuits either were dismissed when it was shown that we had not supplied products to the plaintiffs' places of work or were settled by us for immaterial amounts.

As of June 30, 2013, we were subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business.

Although the outcome of the lawsuits to which we are a party cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made, we do not believe that the outcomes, either individually or in the aggregate, will have a material effect on our results of operations, financial position or cash flows.

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### **Critical Accounting Policies, Estimates, and Judgments**

Our unaudited condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. We believe that the most critical accounting estimates used in the preparation of our condensed consolidated financial statements relate to labor hour estimates used to recognize revenue under the percentage-of-completion method, accounting for business combinations, goodwill and intangible asset impairment, accounting for income taxes, accounting for contingencies, under which we accrue a loss when it is probable that a liability has been incurred and the amount can be reasonably estimated, and accounting for pensions and other postretirement benefits. For further information, refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8 “Financial Statements and Supplementary Data” included in our Annual Report on Form 10-K for the year ended March 31, 2013.

### **Off Balance Sheet Arrangements**

We did not have any off balance sheet arrangements as of June 30, 2013 or March 31, 2013, other than operating leases and letters of credit.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The principal market risks (i.e., the risk of loss arising from changes in the market) to which we are exposed are foreign currency exchange rates, price risk and project cancellation risk.

The assumptions applied in preparing the following qualitative and quantitative disclosures regarding foreign currency exchange rate, price risk and project cancellation risk are based upon volatility ranges experienced by us in relevant historical periods, our current knowledge of the marketplace, and our judgment of the probability of future volatility based upon the historical trends and economic conditions of the markets in which we operate.

#### **Foreign Currency**

International consolidated sales for the first three months of fiscal 2014 were 47% of total sales compared with 44% for the same period of fiscal 2013. Operating in markets throughout the world exposes us to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being our ability to compete for orders against foreign competitors that base their prices on relatively weaker currencies. Business lost due to competition for orders against competitors using a relatively weaker currency cannot be quantified. In addition, cash can be adversely impacted by the conversion of sales made by us in a foreign currency to U.S. dollars. In the first three months of each of fiscal 2014 and fiscal 2013, all sales by us and our wholly-owned subsidiaries, for which we were paid, were denominated in the local currency (U.S. dollars or Chinese RMB).

We have limited exposure to foreign currency purchases. In each of the first three months of fiscal 2014 and 2013, our purchases in foreign currencies represented 1% of the cost of products sold. At certain times, we may enter into forward foreign currency exchange agreements to hedge our exposure against potential unfavorable changes in foreign currency values on significant sales contracts negotiated in foreign currencies. Forward foreign currency exchange contracts were not used in the periods being reported on in this Quarterly Report on Form 10-Q and as of June 30, 2013 and March 31, 2013, we held no forward foreign currency contracts.

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### **Price Risk**

Operating in a global marketplace requires us to compete with other global manufacturers which, in some instances, benefit from lower production costs and more favorable economic conditions. Although we believe that our customers differentiate our products on the basis of our manufacturing quality and engineering experience and excellence, among other things, such lower production costs and more favorable economic conditions mean that certain of our competitors are able to offer products similar to ours at lower prices. Moreover, the cost of metals and other materials used in our products have experienced significant volatility. Such factors, in addition to the global effects of the recent volatility and disruption of the capital and credit markets, have resulted in pricing pressure on our products.

### **Project Cancellation and Project Continuation Risk**

Open orders are reviewed continuously through communications with customers. If it becomes evident to us that a project is delayed well beyond its original shipment date, management will move the project into “placed on hold” (i.e., suspended) category. Furthermore, if a project is cancelled by our customer, it is removed from our backlog. We attempt to mitigate the risk of cancellation by structuring contracts with our customers to maximize the likelihood that progress payments made to us for individual projects cover the costs we have incurred. As a result, we do not believe we have a significant cash exposure to projects which may be cancelled. At June 30, 2013, we have no projects on hold.

### **Item 4. Controls and Procedures**

#### *Conclusion regarding the effectiveness of disclosure controls and procedures*

Our President and Chief Executive Officer (principal executive officer) and Vice President-Finance & Administration and Chief Financial Officer (principal financial officer) each have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, and as of such date, our President and Chief Executive Officer and Vice President-Finance & Administration and Chief Financial Officer concluded that our disclosure controls and procedures were effective in all material respects.

#### *Changes in internal control over financial reporting*

There has been no change to our internal control over financial reporting during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

June 30, 2013

PART II—OTHER INFORMATION

**Item 5. Other Information**

The below disclosure is being made pursuant to the instruction contained in Item 5 of Form 10-Q. The item numbers below refer to the applicable Current Report on Form 8-K Item numbers.

*Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officer.*

*Employment Agreement with Jennifer R. Condame.* On July 24, 2013, the Compensation Committee of the Board of Directors approved an employment agreement with Ms. Condame, who currently serves as our Controller and Chief Accounting Officer. The agreement provides that Ms. Condame will continue to receive an annual minimum base salary as well as other customary benefits. Ms. Condame's Employment Agreement automatically renews such that it always has a one-year term remaining, unless we or Ms. Condame elect not to extend the term further, in which case the term will end on the first anniversary of the date on which notice of election not to extend is given. If not terminated sooner, the Employment Agreement will end on the last day of the month in which Ms. Condame turns 65.

Pursuant to our employment agreement with Ms. Condame, if her employment with us is terminated for any reason, she will be subject to an 18-month covenant not to compete with us, not to interfere in certain of our business relationships, and not to disclose to anyone our confidential information. Our Employment Agreement with Ms. Condame also provides for us to make certain payments to her in the event we terminate her employment without cause, as such term is defined in the Employment Agreement, or in the event that she voluntarily terminates her employment due to our breach of the Employment Agreement. Those payments include payment of any earned and accrued compensation, including any earned but unpaid annual bonus from a prior year, as well as twelve months' severance. In addition, Ms. Condame's Employment Agreement provides that we will indemnify her for any actions brought against her that relate to duties she performed for us in good faith.

A copy of our Employment Agreement with Ms. Condame is attached to this Quarterly Report on Form 10-Q as Exhibit 10.4 and the above description of such Employment Agreement is qualified in its entirety by reference to the terms contained in such Exhibit.

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### Item 5.07 Submission of Matters to a Vote of Security Holders.

At our Annual Meeting of Stockholders held on July 25, 2013, our stockholders voted on the matters described below.

1. Our stockholders elected two directors, each for a three year term expiring at the Annual Meeting of Stockholders to be held in 2016. The number of shares that: (i) voted for the election of each such director; (ii) withheld authority to vote for each such director; and (iii) represented broker non-votes with respect to each such director is summarized in the table below.

Director Nominee	Votes For	Votes Withheld	Broker Non-Votes*
Jerald D. Bidlack	7,008,833	240,347	2,243,898
James J. Malvaso	7,047,538	201,642	2,243,898

2. On an advisory basis, our stockholders approved the compensation of the our named executive officers as such compensation information is disclosed in our definitive proxy statement filed with the Securities and Exchange Commission on June 17, 2013, including the Compensation Discussion and Analysis, compensation tables and other narrative disclosures included therein. The table below summarizes the number of shares that voted for, against and abstained from voting on the compensation of our named executive officers, as well as the number of shares representing broker non-votes with respect to such advisory vote.

Votes For	Votes Against	Abstentions	Broker Non-Votes*
6,976,921	171,008	101,251	2,243,898

3. Our stockholders ratified the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2014. The number of shares that voted for, against and abstained from voting for the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2014 is summarized in the table below.

Votes For	Votes Against	Abstentions
9,424,314	51,889	16,875

- \* Broker non-votes represent shares held by broker nominees for beneficial owners that were not voted with respect to a non-routine proposal because the broker nominee did not receive voting instructions from the beneficial owner and lacked discretionary authority to vote the shares. If a broker does not receive voting instructions from the beneficial owner, a broker may vote on routine matters but may not vote on non-routine matters. Broker non-votes are counted for the purpose of determining the presence of a quorum but are not counted for the purpose of determining the number of shares entitled to vote on non-routine matters such as an election of directors and the advisory vote on our named executive officer compensation.

### Item 6. Exhibits

See index to exhibits on page 32 of this report.

SIGNATURES

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

GRAHAM CORPORATION

By: /s/ Jeffrey Glajch  
Jeffrey Glajch  
Vice President-Finance & Administration and  
Chief Financial Officer

Date: July 30, 2013

INDEX TO EXHIBITS

(10)	Material Contracts	
#	10.1	Compensation information, including information regarding stock option and restricted stock grants made to the Company's named executive officers under the Amended and Restated Graham Corporation Incentive Plan to Increase Shareholder Value and named executive officer cash bonus information, previously filed on the Company's Current Report on Form 8-K dated May 30, 2013, is incorporated herein by reference.
+ #	10.2	Form of Employee Performance-Vested Restricted Stock Award Agreement
+ #	10.3	Form of Employee Time Vested Restricted Stock Award Agreement
+ #	10.4	Employment Agreement between Graham Corporation and Jennifer Condamine executed and effective on July 25, 2013.
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
+	31.1	Certification of Principal Executive Officer
+	31.2	Certification of Principal Financial Officer
(32)	Section 1350 Certification	
+	32.1	Section 1350 Certifications
(101)	Interactive Data File	
+	101.INS	XBRL Instance Document
+	101.SCH	XBRL Taxonomy Extension Schema Document
+	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
+	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
+	101.LAB	XBRL Taxonomy Extension Label Linkbase Document
+	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
+		Exhibit filed with this report.
#		Management contract or compensation plan.



## FORM OF

RESTRICTED STOCK AGREEMENT*(Employee – Performance Vesting)*

This RESTRICTED STOCK AGREEMENT (this “Agreement”) is made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ (the “Grant Date”), by and between Graham Corporation, a corporation organized and existing under the laws of the State of Delaware and having an office at 20 Florence Avenue, Batavia, New York 14020 (the “Company”) and \_\_\_\_\_ (the “RSA Holder”).

WITNESSETH:

WHEREAS, by action of its Board of Directors (the “Board”), the Company has adopted the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value (the “Plan”), pursuant to which Restricted Stock Awards (“RSAs”) with respect to shares of common stock of the Company (“Shares”) may be granted to the Company’s eligible officers and employees; and

WHEREAS, pursuant to Section 4 of the Plan, a Compensation Committee (the “Committee”) has been appointed to select the individuals to whom RSAs shall be granted and to prescribe the terms and conditions of such grants; and

WHEREAS, the Committee has determined that the RSA Holder is eligible to be granted an RSA and desires to grant an RSA to the RSA Holder, and the RSA Holder desires to accept such grant, on the terms and conditions hereinafter set forth;

NOW, THEREFORE, the Company and the RSA Holder hereby agree as follows:

Section 1. Grant of RSA. As of the date set forth above, the Company hereby grants, and the RSA Holder hereby accepts the Company’s grant of, an RSA of Shares (the “Restricted Shares”), on the terms and conditions hereinafter set forth.

Section 2. Restrictions and Vesting.

(a) Subject to the terms set forth in this Agreement, provided that the RSA Holder has remained a full-time employee of the Company through \_\_\_\_\_, 20\_\_\_\_, the last day of the Company’s \_\_\_\_\_ fiscal year (the “Employment Date”), the Payout Percentage of the number of Restricted Shares will vest on the date that the Compensation Committee of the Board ratifies the Company’s performance with respect to the Relative EBITDA Percentage and Absolute Consolidated Revenue Percentage following the last day of the Company’s \_\_\_\_\_ fiscal year (the “Vesting Date”). The Payout Percentage shall be the sum of the Relative EBITDA Percentage and the Absolute Consolidated Revenue Percentage.

(b) The Relative EBITDA Percentage shall be the Company’s EBITDA margin for the Company’s \_\_\_\_\_ fiscal year compared to the EBITDA margin of the Baird Industrial Company Composite for calendar year \_\_\_\_\_ as follows:

[Insert Table For Individual Awards]

If the Relative Fiscal Year \_\_\_\_\_ EBITDA Margin is equal to or greater than the level to have some Relative EBITDA Percentage, but less than or equal to the maximum level, and the Relative Fiscal Year \_\_\_\_\_ EBITDA Margin

actually attained is not represented in the table set forth above, then the Relative EBITDA Percentage shall be determined by straight-line interpolation from the amounts specified in such table immediately less than and greater than the Relative Fiscal Year EBITDA Margin actually attained.

(c) The Absolute Consolidated Revenue Percentage shall be based on the Company's consolidated revenue for the Company's fiscal year as follows:

[Insert Table For Individual Awards]

If the Fiscal Year Consolidated Revenue is equal to or greater than the level to have some Absolute Consolidated Revenue Percentage, but less than or equal to the maximum level, and the Fiscal Year Consolidated Revenue actually attained is not represented in the table set forth above, then the Absolute Consolidated Revenue Percentage shall be determined by straight-line interpolation from the amounts specified in such table immediately less than and greater than the Fiscal Year Consolidated Revenue actually attained.

(d) Upon the death or Disability of the RSA Holder prior to the Employment Date:

(i) the Relative Fiscal Year EBITDA Margin shall be deemed to have met performance at the Target level, and the Relative EBITDA Percentage shall be %;

(ii) the Fiscal Year Consolidated Revenue shall be deemed to have met performance at the Target level, and the Absolute Consolidated Revenue Percentage shall be %; and

(iii) the number of Restricted Shares that vest shall be equal to the number of outstanding Restricted Shares under this Agreement, multiplied by the Payout Percentage, multiplied by a fraction, the numerator of which shall be the number of days from the Grant Date through the date of the RSA Holder's death or Disability, over the number of days from the Grant Date through the last day of the Company's fiscal year.

(e) If there is an employment agreement (or other agreement providing for treatment of equity awards upon a Change in Control of the Company) by and between the RSA Holder and the Company on the date of the RSA Holder's termination of employment, then the terms of such agreement shall apply instead of the terms of this Section 2(e). Otherwise, in the event of the involuntary termination of the RSA Holder's employment by the Company other than for Cause within the 12-month period following a Change in Control, or the voluntary termination of the RSA Holder's employment by the RSA Holder for Good Reason within the 12-month period following a Change in Control, the Restricted Shares will become fully vested, with all applicable performance requirements, if any, being deemed to have been satisfied at the target level applicable to such Shares.

For purposes of this Agreement, "Cause" shall have the equivalent meaning as the term "Cause" or "for Cause" has in any employment agreement between the RSA Holder and the Company, or in the absence of such an agreement that contains such a defined term, shall mean the willful misconduct by the RSA Holder in connection with the performance of the RSA Holder's duties to the Company, or any other conduct on the part of the RSA Holder which has been materially injurious to the Company.

For purposes of this Agreement, "Good Reason" shall have the equivalent meaning as the term "Good Reason" or "Reasonable Determination" has in any employment agreement between the RSA Holder and the Company, or in the absence of such

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an agreement that contains such a defined term, shall mean the occurrence of any one of the following events without either the RSA Holder's express prior written consent or substantial cure by the Company within 30 days after the RSA Holder gives written notice to the Company describing the event and requesting cure, provided RSA Holder has given notice within 30 days after he or she became aware of any one or more of the following events constituting Good Reason:

(i) A change in the nature or scope of the RSA Holder's authority from that prior to a Change in Control, a reduction in the RSA Holder's total compensation (including all and any base compensation, bonuses, incentive compensation and benefits of any kind or nature whatsoever) from that prior to a Change in Control, or failure of the Company to make any increase in compensation to which the RSA Holder may be entitled under any employment agreement, or a change requiring the RSA Holder to perform services other than in Batavia, New York, except for required travel on the Company's business to an extent substantially consistent with the RSA Holder's present business travel obligations; or

(ii) subsequent to a Change in Control of the Company, and without the RSA Holder's express written consent, the assignment to the RSA Holder of any duties inconsistent with the RSA Holder's positions, duties, responsibilities and status with the Company immediately prior to a Change in Control, or a change in the RSA Holder's reporting responsibilities, titles, or offices as in effect immediately prior to a Change in Control, or any removal of the RSA Holder from or any failure to re-elect the RSA Holder to any of such positions, except in connection with the termination of employment for Cause, death, disability or retirement; or

(iii) subsequent to a Change in Control of the Company, a reduction by the Company in the RSA Holder'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 Company to make an increase in compensation to which the RSA Holder may be entitled under any employment agreement; or

(iv) subsequent to a Change in Control of the Company, a failure by the Company to continue any bonus plans in which the RSA Holder 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 Company to continue the RSA Holder as a participant in the Bonus Plans on at least the same basis as the RSA Holder presently participates in accordance with the Bonus Plans; or

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

(vi) prior to a Change in Control of the Company, the failure by the Company to obtain the assumption by any successor of any employment agreement between the Company and the RSA Holder, if assumption of such agreement is required by its terms.

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(f) Except as otherwise provided by Section 2(d) or Section 2(e), or unless the Committee determines otherwise, if the RSA Holder's employment terminates before the Employment Date for any reason, the unvested Restricted Shares as of such date shall be forfeited and cancelled immediately.

Section 3. Rights as a Stockholder. The RSA Holder will have the rights of a stockholder with respect to the Restricted Shares, including, but not limited to, the right to receive such cash dividends, if any, as may be declared on such Shares from time to time and the right to vote (in person or by proxy) such Restricted Shares at any meeting of stockholders of the Company. Notwithstanding the foregoing, the RSA Holder shall repay to the Company any dividends or other distributions paid to the RSA Holder on any Restricted Shares that do not become vested Shares under Section 2.

Section 4. Restrictions on Transfer of Restricted Shares. The Restricted Shares, and the right to vote the Restricted Shares and to receive dividends thereon, may not, except as otherwise provided in the Plan, be sold, assigned, transferred, pledged or encumbered in any way prior to the Vesting Date, whether by operation of law or otherwise, except by will or the laws of descent and distribution. The RSA Holder agrees that until the Vesting Date, any certificate representing the Restricted Shares (or any portion thereof) will be held by the Company's stock transfer agent or other representative of the Company (the "RSA Agent") until the applicable performance is satisfied and the Company's provides written authorization to such RSA Agent.

Section 5. Registration and Delivery of Restricted Shares. The Company's obligation to deliver Shares under this Agreement and/or authorize the RSA Agent to release Restricted Shares shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the RSA Holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be reasonably necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under this Agreement prior to (a) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the Committee shall determine to be necessary or advisable.

Section 6. Adjustments in the Event of Reorganization. In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each person who is then a shareholder of record, the number of Restricted Shares shall be adjusted to account for such event. Such adjustment shall be effected by multiplying such number of Restricted Shares by an amount equal to the number of Shares that would be owned after such event by a person who, immediately prior to such event, was the holder of record of one Share.

Section 7. No Right to Continued Employment. Nothing in this Agreement nor any action of the Board or Committee with respect to this Agreement shall be held or construed to confer upon the RSA Holder any right to a continuation of employment by the Company or any of its affiliates which employ the RSA Holder. The RSA Holder may be dismissed or otherwise dealt with as though this Agreement had not been entered into.

Section 8. Taxes. Where any person is entitled to receive Shares pursuant to the RSA granted hereunder, the Employer shall have the right to require such person to pay to the Employer the amount of any tax which the Employer is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Section 9. No Assignment. The RSA granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such RSA be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the RSA Holder other than by will or by the laws of descent and distribution.

Section 10. Notices. Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

(a) If to the Committee:

Graham Corporation  
20 Florence Avenue  
Batavia, New York 14020  
Attention: Chief Accounting Officer

(b) If to the RSA Holder, to the RSA Holder's then current residential address as set forth in the Company's personnel records.

Section 11. Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the Company and the RSA Holder and their respective heirs, successors and assigns.

Section 12. Construction of Language. Whenever appropriate in the Agreement, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a section shall be a reference to a section of this Agreement, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

Section 13. Governing Law. This Agreement shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal law.

Section 14. Amendment. This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time by written agreement between the Company and the RSA Holder.

Section 15. Plan Provisions Control. This Agreement and the rights and obligations created hereunder shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms of the

Plan, which are incorporated herein by reference, shall control. By signing this Agreement, the RSA Holder acknowledges receipt of a copy of the Plan.

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Section 16. Acceptance by RSA Holder. By executing this Agreement and returning a fully executed copy hereof to the Committee at the address specified in section 10, the RSA Holder signifies his acceptance of the terms and conditions of this RSA. If a fully executed copy of this Agreement is not received by the Committee within forty-five (45) days after the date when it is presented to the RSA Holder, the Committee may revoke the RSA granted, and thereby avoid all obligations, hereunder.

Section 17. Recoupment. This Agreement (and any Shares or dividends payable hereunder) shall be subject to recovery by the Company under any incentive compensation recoupment policy maintained by the Company, as such policy may be amended from time to time. In addition, notwithstanding any other provision of the Plan or this Agreement to the contrary, in order to comply with Section 10D of the Securities Exchange Act of 1934, as amended, and any regulations promulgated, or national securities exchange listing conditions adopted, with respect thereto (collectively, the "Clawback Requirements"), if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirements under the securities laws, then the RSA Holder shall return to the Company, or forfeit if not yet paid, the Shares under this Agreement received during the three-year period preceding the date on which the Company is required to prepare the accounting restatement, based on the erroneous data, in excess of the number of shares that would have vested based on the accounting restatement, as determined by the Committee, in accordance with the Clawback Requirements and any policy adopted by the Committee pursuant to the Clawback Requirements.

Section 18. Golden Parachute Limitation.

(a) In the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any payment by the Company to or for the benefit of the RSA Holder would be nondeductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in Section 280G of the Code, then the total amount of all payments by the Company shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be the amount that maximizes the total amount of the payments without causing any payment to be nondeductible by the Company because of Section 280G of the Code.

(b) If the Auditors determine that any payment by the Company would be nondeductible by the Company because of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), then the Company shall promptly give the RSA Holder notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the RSA Holder may then elect, in his or her sole discretion and in compliance with the requirements of Section 409A of the Code, which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall advise the Company in writing of his or her election within ten days of receipt of notice. If no such election is made by the RSA Holder within such ten-day period, then the Company may elect which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall notify the RSA Holder promptly of such election. All determinations made by the Auditors shall be binding upon the Company and the RSA Holder and shall be made within 60 days of the date when a payment becomes payable.

(c) As a result of uncertainty in the application of Section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that payments will have been made by the Company that should not have been made (an "Overpayment") or that additional payments that will not have been made by the Company could have been made (an

“Underpayment”), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the RSA Holder that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the RSA Holder which he or she shall repay to the Company, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the RSA Holder to the Company if and to the extent that such payment would not reduce the amount subject to taxation under Section 4999 of the Code or to the extent that such loan would be prohibited under Section 402 of the Sarbanes-Oxley Act of 2002. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the RSA Holder, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code.

Section 19. Prior Performance-Vesting Restricted Stock Awards. For the avoidance of doubt, the continuing employment requirement for the performance-vesting restricted stock awards granted to the RSA Holder on May 20, 2010, May 26, 2011 and May 30, 2012 is the last day of the last fiscal year in the performance period applicable to each such award; provided, however, that the number of Restricted Shares that become vested under such performance-vesting restricted stock awards will not be determinable until the date that the Company’s performance attainment with respect to the applicable performance goals under each such award is ratified by the Committee following the end of the performance period applicable to each such award.

IN WITNESS WHEREOF, the RSA Holder has executed, and the Company has caused its duly authorized representative to execute, this Agreement as of the date first above written.

GRAHAM CORPORATION

By: \_\_\_\_\_  
James R. Lines  
President and Chief Executive Officer

ATTEST:

\_\_\_\_\_  
Corporate Secretary

RSA HOLDER

\_\_\_\_\_  
Name:

## FORM OF

RESTRICTED STOCK AGREEMENT*(Employee – Time Vesting)*

This RESTRICTED STOCK AGREEMENT (this “Agreement”) is made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ (the “Grant Date”), by and between Graham Corporation, a corporation organized and existing under the laws of the State of Delaware and having an office at 20 Florence Avenue, Batavia, New York 14020 (the “Company”) and \_\_\_\_\_ (the “RSA Holder”).

WITNESSETH:

WHEREAS, by action of its Board of Directors (the “Board”), the Company has adopted the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value (the “Plan”), pursuant to which Restricted Stock Awards (“RSAs”) with respect to shares of common stock of the Company (“Shares”) may be granted to the Company’s eligible officers and employees; and

WHEREAS, pursuant to Section 4 of the Plan, a Compensation Committee (the “Committee”) has been appointed to select the individuals to whom RSAs shall be granted and to prescribe the terms and conditions of such grants; and

WHEREAS, the Committee has determined that the RSA Holder is eligible to be granted an RSA and desires to grant an RSA to the RSA Holder, and the RSA Holder desires to accept such grant, on the terms and conditions hereinafter set forth;

NOW, THEREFORE, the Company and the RSA Holder hereby agree as follows:

Section 1. Grant of RSA. As of the date set forth above, the Company hereby grants, and the RSA Holder hereby accepts the Company’s grant of, an RSA of Shares (the “Restricted Shares”), on the terms and conditions hereinafter set forth.

Section 2. Restrictions and Vesting.

(a) Subject to the terms set forth in this Agreement, provided that the RSA Holder has remained a full-time employee of the Company through that date, the Restricted Shares will vest on the following dates (each, a “Vesting Date”) as follows:

- (i) \_\_\_\_\_ ( \_\_\_\_\_ of the Restricted Shares) Shares on the \_\_\_\_\_ anniversary of the Grant Date;
- (ii) an additional \_\_\_\_\_ ( \_\_\_\_\_ of the Restricted Shares) Shares on the \_\_\_\_\_ anniversary of the Grant Date; and
- (iii) the remaining \_\_\_\_\_ ( \_\_\_\_\_ of the Restricted Shares) on the \_\_\_\_\_ anniversary of the Grant Date.

(b) Upon the death or Disability of the RSA Holder, all outstanding Restricted Shares under this Agreement shall immediately vest in full.



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(c) If there is an employment agreement (or other agreement providing for treatment of equity awards upon a Change in Control of the Company) by and between the RSA Holder and the Company on the date of the RSA Holder's termination of employment, then the terms of such agreement shall apply instead of the terms of this Section 2(c). Otherwise, in the event of the involuntary termination of the RSA Holder's employment by the Company other than for Cause within the 12-month period following a Change in Control, or the voluntary termination of the RSA Holder's employment by the RSA Holder for Good Reason within the 12-month period following a Change in Control, the Restricted Shares will become fully vested, with all applicable performance requirements, if any, being deemed to have been satisfied at the target level applicable to such Shares.

For purposes of this Agreement, "Cause" shall have the equivalent meaning as the term "Cause" or "for Cause" has in any employment agreement between the RSA Holder and the Company, or in the absence of such an agreement that contains such a defined term, shall mean the willful misconduct by the RSA Holder in connection with the performance of the RSA Holder's duties to the Company, or any other conduct on the part of the RSA Holder which has been materially injurious to the Company.

For purposes of this Agreement, "Good Reason" shall have the equivalent meaning as the term "Good Reason" or "Reasonable Determination" has in any employment agreement between the RSA Holder and the Company, or in the absence of such an agreement that contains such a defined term, shall mean the occurrence of any one of the following events without either the RSA Holder's express prior written consent or substantial cure by the Company within 30 days after the RSA Holder gives written notice to the Company describing the event and requesting cure, provided RSA Holder has given notice within 30 days after he or she became aware of any one or more of the following events constituting Good Reason:

(i) A change in the nature or scope of the RSA Holder's authority from that prior to a Change in Control, a reduction in the RSA Holder's total compensation (including all and any base compensation, bonuses, incentive compensation and benefits of any kind or nature whatsoever) from that prior to a Change in Control, or failure of the Company to make any increase in compensation to which the RSA Holder may be entitled under any employment agreement, or a change requiring the RSA Holder to perform services other than in Batavia, New York, except for required travel on the Company's business to an extent substantially consistent with the RSA Holder's present business travel obligations; or

(ii) subsequent to a Change in Control of the Company, and without the RSA Holder's express written consent, the assignment to the RSA Holder of any duties inconsistent with the RSA Holder's positions, duties, responsibilities and status with the Company immediately prior to a Change in Control, or a change in the RSA Holder's reporting responsibilities, titles, or offices as in effect immediately prior to a Change in Control, or any removal of the RSA Holder from or any failure to re-elect the RSA Holder to any of such positions, except in connection with the termination of employment for Cause, death, disability or retirement; or

(iii) subsequent to a Change in Control of the Company, a reduction by the Company in the RSA Holder'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 Company to make an increase in compensation to which the RSA Holder may be entitled under any employment agreement; or

(iv) subsequent to a Change in Control of the Company, a failure by the Company to continue any bonus plans in which the RSA Holder 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 Company to continue the RSA Holder as a participant in the Bonus Plans on at least the same basis as the RSA Holder presently participates in accordance with the Bonus Plans; or

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

(vi) prior to a Change in Control of the Company, the failure by the Company to obtain the assumption by any successor of any employment agreement between the Company and the RSA Holder, if assumption of such agreement is required by its terms.

(c) Except as otherwise provided by Section 2(b) or Section 2(c), or unless the Committee determines otherwise, if the RSA Holder's employment terminates before a Vesting Date for any reason, the unvested Restricted Shares as of such date shall be forfeited and cancelled immediately.

Section 3. Rights as a Stockholder. The RSA Holder will have the rights of a stockholder with respect to the Restricted Shares, including, but not limited to, the right to receive such cash dividends, if any, as may be declared on such Shares from time to time and the right to vote (in person or by proxy) such Restricted Shares at any meeting of stockholders of the Company. Notwithstanding the foregoing, the RSA Holder shall repay to the Company any dividends or other distributions paid to the RSA Holder on any Restricted Shares that do not become vested Shares under Section 2.

Section 4. Restrictions on Transfer of Restricted Shares. The Restricted Shares, and the right to vote the Restricted Shares and to receive dividends thereon, may not, except as otherwise provided in the Plan, be sold, assigned, transferred, pledged or encumbered in any way prior to the applicable Vesting Date, whether by operation of law or otherwise, except by will or the laws of descent and distribution. The RSA Holder agrees that any certificate representing the Restricted Shares (or any portion thereof) will be held by the Company's stock transfer agent or other representative of the Company (the "RSA Agent") until the applicable Vesting Dates are satisfied and the Company's provides written authorization to such RSA Agent.

Section 5. Registration and Delivery of Restricted Shares. The Company's obligation to deliver Shares under this Agreement and/or authorize the RSA Agent to release Restricted Shares shall, if the Committee so requests, be conditioned upon the receipt of a representation as to the investment intention of the RSA Holder to whom such Shares are to be delivered, in such form as the Committee shall determine to be reasonably necessary or advisable to comply with the provisions of applicable federal, state or local law. It may be provided that any such representation shall become inoperative upon a registration of the Shares or upon the occurrence of any other event eliminating the necessity of such representation. The Company shall not be required to deliver any Shares under this Agreement prior to (a) the admission of such Shares to listing on any stock exchange on which Shares may then be listed, or (b) the completion of such registration or other qualification under any state or federal law, rule or regulations as the Committee shall determine to be necessary or advisable.

Section 6. Adjustments in the Event of Reorganization. In the event of any merger, consolidation, or other business reorganization in which the Company is the surviving entity, and in the event of any stock split, stock dividend or other event generally affecting the number of Shares held by each person who is then a shareholder of record, the number of Restricted Shares shall be adjusted to account for such event. Such adjustment shall be effected by multiplying such number of Restricted Shares by an amount equal to the number of Shares that would be owned after such event by a person who, immediately prior to such event, was the holder of record of one Share.

Section 7. No Right to Continued Employment. Nothing in this Agreement nor any action of the Board or Committee with respect to this Agreement shall be held or construed to confer upon the RSA Holder any right to a continuation of employment by the Company or any of its affiliates which employ the RSA Holder. The RSA Holder may be dismissed or otherwise dealt with as though this Agreement had not been entered into.

Section 8. Taxes. Where any person is entitled to receive Shares pursuant to the RSA granted hereunder, the Employer shall have the right to require such person to pay to the Employer the amount of any tax which the Employer is required to withhold with respect to such Shares, or, in lieu thereof, to retain, or to sell without notice, a sufficient number of Shares to cover the amount required to be withheld.

Section 9. No Assignment. The RSA granted hereunder shall not be subject in any manner to anticipation, alienation or assignment, nor shall such RSA be liable for or subject to debts, contracts, liabilities, engagements or torts, nor shall it be transferable by the RSA Holder other than by will or by the laws of descent and distribution.

Section 10. Notices. Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

(a) If to the Committee:

Graham Corporation  
20 Florence Avenue  
Batavia, New York 14020  
Attention: Chief Accounting Officer

(b) If to the RSA Holder, to the RSA Holder's then current residential address as set forth in the Company's personnel records.

Section 11. Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the Company and the RSA Holder and their respective heirs, successors and assigns.

Section 12. Construction of Language. Whenever appropriate in the Agreement, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a section shall be a reference to a section of this Agreement, unless the

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context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings assigned to them under the Plan.

Section 13. Governing Law. This Agreement shall be construed, administered and enforced according to the laws of the State of New York without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by the federal law.

Section 14. Amendment. This Agreement may be amended, in whole or in part and in any manner not inconsistent with the provisions of the Plan, at any time and from time to time by written agreement between the Company and the RSA Holder.

Section 15. Plan Provisions Control. This Agreement and the rights and obligations created hereunder shall be subject to all of the terms and conditions of the Plan. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms of the Plan, which are incorporated herein by reference, shall control. By signing this Agreement, the RSA Holder acknowledges receipt of a copy of the Plan.

Section 16. Acceptance by RSA Holder. By executing this Agreement and returning a fully executed copy hereof to the Committee at the address specified in section 10, the RSA Holder signifies his acceptance of the terms and conditions of this RSA. If a fully executed copy of this Agreement is not received by the Committee within forty-five (45) days after the date when it is presented to the RSA Holder, the Committee may revoke the RSA granted, and thereby avoid all obligations, hereunder.

Section 17. Recoupment. This Agreement (and any Shares or dividends payable hereunder) shall be subject to recovery by the Company under any incentive compensation recoupment policy maintained by the Company, as such policy may be amended from time to time. In addition, notwithstanding any other provision of the Plan or this Agreement to the contrary, in order to comply with Section 10D of the Securities Exchange Act of 1934, as amended, and any regulations promulgated, or national securities exchange listing conditions adopted, with respect thereto (collectively, the "Clawback Requirements"), if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirements under the securities laws, then the RSA Holder shall return to the Company, or forfeit if not yet paid, the Shares under this Agreement received during the three-year period preceding the date on which the Company is required to prepare the accounting restatement, based on the erroneous data, in excess of the number of shares that would have vested based on the accounting restatement, as determined by the Committee, in accordance with the Clawback Requirements and any policy adopted by the Committee pursuant to the Clawback Requirements.

Section 18. Golden Parachute Limitation.

(a) In the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any payment by the Company to or for the benefit of the RSA Holder would be nondeductible by the Company for federal income tax purposes because of the provisions concerning "excess parachute payments" in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), then the total amount of all payments by the Company shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be the amount that maximizes the total amount of the payments without causing any payment to be nondeductible by the Company because of Section 280G of the Code.

(b) If the Auditors determine that any payment by the Company would be nondeductible by the Company because of Section 280G of the Code, then the Company shall promptly give the RSA Holder notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the RSA Holder may then elect, in his or her sole discretion and in compliance with the requirements of Section 409A of the Code, which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall advise the Company in writing of his or her election within ten days of receipt of notice. If no such election is made by the RSA Holder within such ten-day period, then the Company may elect which and how much of the payments shall be eliminated or reduced (as long as after such election the aggregate present value of the payments equals the Reduced Amount) and shall notify the RSA Holder promptly of such election. All determinations made by the Auditors shall be binding upon the Company and the RSA Holder and shall be made within 60 days of the date when a payment becomes payable.

(c) As a result of uncertainty in the application of Section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that payments will have been made by the Company that should not have been made (an "Overpayment") or that additional payments that will not have been made by the Company could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the RSA Holder that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the RSA Holder which he or she shall repay to the Company, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the RSA Holder to the Company if and to the extent that such payment would not reduce the amount subject to taxation under Section 4999 of the Code or to the extent that such loan would be prohibited under Section 402 of the Sarbanes-Oxley Act of 2002. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the RSA Holder, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code.

IN WITNESS WHEREOF, the RSA Holder has executed, and the Company has caused its duly authorized representative to execute, this Agreement as of the date first above written.

GRAHAM CORPORATION

By: \_\_\_\_\_  
James R. Lines  
President and Chief Executive Officer

ATTEST:

\_\_\_\_\_  
Corporate Secretary

RSA HOLDER

\_\_\_\_\_  
Name:

**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT (this "Agreement"), is made and entered into as of July 25, 2013, by and between Graham Corporation, a Delaware corporation with its principal place of business at 20 Florence Avenue, Batavia, New York 14020 (the "Company"), and Jennifer Condame, currently residing at (the "Executive").

WHEREAS, the Company and the Executive desire to enter into this Agreement to describe the employment relationship and obligations of the parties.

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

1. Employment. The Company hereby agrees to continue to employ the Executive and the Executive hereby accepts continued employment as the Controller and Chief Accounting Officer of the Company, upon the terms and conditions hereinafter set forth.

2. Duties.

(a) The Executive shall have authority and responsibility for the efficient and effective functioning of the day-to-day financial and accounting operations, including establishing and maintaining financial policies, procedures, controls, and reporting systems as the Company's Chief Accounting Officer, and shall report directly to the Company's Chief Financial Officer. The Executive shall perform such duties generally consistent with Executive's title and as may from time to time be required of the Executive by the Chief Financial Officer, the President and Chief Executive Officer or the Board of Directors (the "Board") of the Company. The Executive's office shall be located at the Company's principal place of business in Batavia, New York. The Executive agrees to travel to the extent reasonably necessary for the performance of her duties. The Executive shall devote her full time to the business and affairs of the Company and shall use her best efforts, skill and ability in performing her duties on behalf of the Company.

(b) 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 the life of the Executive in any amount or amounts considered advisable, and that she shall have no right, title or interest therein. The Executive 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 materially harm the Executive's ability to otherwise obtain or retain personal life insurance.

3. Term.

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

(b) Except as provided in Section 3(c), beginning on the effective date of this Agreement, the Term shall be for one year and shall be automatically extended for one additional year each day (such that while this Agreement is in effect the remaining Term shall never be less or greater than one year) that this Agreement is in effect, unless either the Company, or the Executive, respectively, 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

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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 the age of 65.

(c) Notwithstanding anything herein contained to the contrary, (i) this Agreement may be terminated during the Term as provided for herein 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 to the Company, the Company agrees to pay to the Executive, and the Executive shall accept, a salary at a rate of \$154,500 per annum, payable in arrears in equal monthly installments of \$12,875 each, subject to such deductions and withholdings as may be required by law. Periodically, the President and Chief Executive Officer and the Board will review the salary of the Executive, taking into consideration such factors as the Executive's performance and such other matters as it deems relevant and, in its discretion alone, may increase the salary of the Executive to such rate as the Board deems proper; provided that the Company shall in no event be required to grant any such increase.

5. Incentive Compensation.

(a) *Bonus.* The Executive shall be eligible to receive bonuses and awards under the Company's bonus plans or arrangements as may be in effect from time to time, including the Company's Annual Executive Cash Bonus Plan, as may be from time to time determined by the Board or a committee thereof.

(b) *Long-Term Incentive Compensation.* The Executive shall be eligible to participate in any long-term incentive compensation plan generally made available to similarly situated executive officers of the Company in accordance with and subject to the terms of such plans, including the Company's Annual Stock-Based Long-Term Incentive Award Plan for Senior Executives, as may from time to time be determined by the Board or a committee thereof.

(c) *Other Compensation.* The Company may, upon recommendation of the Board or a committee thereof, award to the Executive such other bonuses and compensation as it deems appropriate and reasonable.

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

(a) *Medical.* The Company will provide the Executive health coverage for herself and her family in accordance with the Company's health and medical insurance plans, as the same may be in effect from time to time. The Executive shall be responsible for paying the employee portion of the premiums for such health and medical insurance plans.

(b) *Vacation.* The Executive shall be entitled to vacation in accordance with the Company's general vacation policies and practices as may be in effect from time to time.

(c) *General Benefits.* The Executive shall be entitled to participate in all employee benefit plans and arrangements of the Company that may be in effect from time to time and as may from time to time be made available to the other similarly situated executive officers of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements.

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(d) *No Limitation of Company's Rights.* Nothing in this Section 6 shall be construed to limit or restrict the complete discretion of the Company to amend, modify or terminate any employee benefit plan or plans of the Company where such action generally affects plan participants or employees, including the Executive.

(e) *Insurance.* The Company shall provide Executive with \$2,500 per annum for the purpose of Executive procuring a term insurance policy that names such person(s) of Executive's choosing as beneficiary(ies).

7. *Travel 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 her duties under this Agreement upon presentation of expense statements or vouchers and such other supporting information as the Company may from time to time reasonably request. However, the amount available for such traveling and other expenses may be fixed in advance by the Company.

8. *Termination.* This Agreement shall terminate prior to the Term expiration date, hereinabove set forth, in the event that the Executive shall die or the Board shall reasonably determine that the Executive has become disabled, or if the Executive's employment shall be terminated for cause or without cause, as hereinafter provided.

(a) *Disability.* The Board 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 three successive months, or for shorter periods aggregating three months or more in any period of twelve months, services of the character contemplated by this Agreement; and thereupon this Agreement 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 is made.

(b) *For Cause.* The Board 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 her duties hereunder, or any other conduct on the part of the Executive which has been materially injurious to the Company; and thereupon this Agreement shall terminate effective upon the delivery to the Executive of 30-day written notice that the Board has made such determination. For purposes of this Agreement, "cause" shall be determined only by a good faith finding thereof by the 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, the Company will pay all reasonable legal fees and other expenses incurred by the Executive, as the Executive is billed for such costs, within ten days of periodic submission to the Company 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 for all such costs if it should be determined by a court of final adjudication that the Executive did not act in good faith in bringing such challenge.

(c) *Without Cause.* The Executive may resign without cause at any time upon 30 days' written notice to the Company, in which event the Company's obligation to compensate her ceases on the effective date of her termination except as to amounts due to her under Section 8(c)(i). The Company may dismiss the Executive without cause at any time upon 30-days' written notice to the Executive. In the event that the Company dismisses the Executive other than for cause, or if the Executive resigns because of a material breach of this Agreement by the Company (which Executive may do only if such breach remains materially uncured after the Executive has provided 30 days prior written notice to the Board), and the Executive's dismissal or resignation qualifies as a "separation from service" for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the



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Treasury Regulations and other official guidance issued thereunder (collectively, "Section 409A"), then the Company shall provide to the Executive:

(i) payment of the compensation due to her through the effective date of the termination of the Executive's employment, within ten business days following such effective date of the termination of the Executive's employment;

(ii) continuation of the Executive's salary for twelve months following the effective date of the termination of the Executive's employment at the higher of the rate specified in Section 4 or the Executive's then-current annualized salary, which salary continuation shall be paid monthly in accordance with the Company's regular payroll practices; and

(iii) payment of any Accrued Bonus (as defined below), to be paid as soon as administratively practicable after the six-month anniversary of the effective date of the termination of the Executive's employment. 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 Company's incentive compensation plan 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. Notwithstanding any other provision of this Section, no Accrued Bonus shall be payable pursuant to this Section 8(c) for any Prior Bonus Year with respect to which a bonus amount was paid to and accepted by the Executive.

Notwithstanding anything to the contrary, to the extent that any payments under Section 8(c) are subject to a six-month waiting period under Section 409A, any such payments that would be payable before the expiration of six months following the Executive's separation from service but for the operation of this sentence shall be made during the seventh month following the Executive's separation from service.

(d) In the event that the provisions of this Section 8(c) are triggered, the Executive shall resign from all offices and directorships of the Company and of all subsidiaries and affiliates of the Company, upon payment to the Executive of the amount referred to in Section 8(c)(i).

(e) *Release of Claims.* The Company's obligation to provide the payments under this Section 8 is conditioned upon the Executive's execution of an enforceable release of all claims (and upon the expiration of all applicable rescission periods contained in such release) and her compliance with all provisions of this Agreement. If the Executive chooses not to execute such a release (or rescinds such release) or fails to comply with these provisions, then the Company's obligation to compensate her ceases on the effective date of her termination except as to amount due to her under Section 8(c)(i).

(f) *Return of Confidential Documentation.* Upon termination of her employment for any reason whatsoever, the Executive shall return to the Company all working papers, computer equipment, notebooks, strategic plans and other confidential documents and information, in any form whatsoever.

9. Change in Control. In the event a person begins a tender or exchange offer, circulates a proxy to stockholders, or takes other steps seeking to effect a Change in Control (as defined below), the Executive agrees that she will not voluntarily leave the employ of the Company, and will render the services contemplated under this Agreement, until such person has either abandoned or terminated his or its efforts to effect a Change in Control or until three months after a Change in Control has occurred. For the purposes of this Agreement, the term "Change in Control" shall mean:

(a) any "person" within the meaning of Section 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Company, a subsidiary, or any employee benefit plan(s) sponsored by the Company or any subsidiary, is or has become the "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, directly or indirectly, of 25 percent or more of the combined voting power of the outstanding securities of the Company ordinarily having the right to vote at the election of directors;

(b) individuals who constitute the Board on the effective date of this Agreement (the "Incumbent Board") have ceased for any reason to constitute at least a majority thereof (or a majority of the Board as then constituted), provided that any person becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director without objection to such nomination) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board;

(c) the closing of a reorganization, merger or consolidation of the Company, other than one with respect to which all or substantially all of those persons who were the beneficial owners, immediately prior to such reorganization, merger or consolidation, of outstanding securities of the Company ordinarily having the right to vote in the election of directors own, immediately after such transaction, more than three-quarters of the outstanding securities of the resulting corporation ordinarily having the right to vote in the election of directors;

(d) the closing of a sale or other disposition of all or substantially all of the assets of the Company, other than to a subsidiary; or

(e) the complete liquidation and dissolution of the Company.

10. Covenants of Executive. The Executive acknowledges that: (i) 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"); (ii) 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; (iii) the Company has developed trade secrets and confidential information concerning the Business; and (iv) the agreements and covenants contained in this Section 10 are essential to protect the Business. In order to induce the Company to enter into this Employment Agreement, the Executive covenants and agrees that:

(a) *Agreement Not To Compete*. For a period of 18 months after the termination of Executive's employment with the Company for any reason (such period of time hereinafter referred to as the "Restricted Period"), neither the Executive nor any entity of which 20 percent or more of the beneficial ownership is held by the Executive or a person related to the Executive by blood

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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 otherwise engage or participate in, whether as a proprietor, partner, stockholder, director, officer, member manager, employee or otherwise 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 five percent of the voting stock of any such company or entity.

(b) *Agreement Not To Interfere in Business Relationships.*

(i) During the Restricted Period, neither the Executive nor any Controlled Entity will directly or indirectly solicit, induce or influence any 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.

(ii) During the Restricted Period, neither the Executive nor any Controlled Entity will (1) directly or indirectly recruit, solicit or otherwise induce or influence any stockholder or employee of the Company or any of its affiliates to discontinue such employment or other relationship with the Company or any affiliate, or (2) employ or seek to employ, or cause any business which competes in the Company's Markets to employ or seek to employ for any reason, any person who is then (or was at any time within six months prior to the date the Executive or such business employs or seeks to employ such person) employed by the Company or any affiliate without the prior written consent of the Company.

(c) *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, whether or not in written or tangible form (all of the preceding is 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 or the Company's competitors 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 advance written 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 her 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(c) shall be in addition to, not in substitution for,

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any common law fiduciary duties the Executive has to the Company regarding information acquired during the course of her employment.

(d) *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 her either solely or jointly with others while in the employ of the Company, whether or not perfected during her period of employment and which shall be within the existing or contemplated scope of the Company's business during her 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.

(e) *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 this Section.

(f) *Remedies*. The parties to this Agreement agree that (i) 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 (ii) 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 (1) injunctive and other equitable relief to prevent or restrain a breach of this Agreement and (2) 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 Executive is terminated for any reason, (a) the Company will hold harmless and indemnify the Executive for all third party 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 she served as an officer of the Company. Additionally, all reasonable legal and other costs incurred by the Executive to defend herself will be paid by the Company, as the Executive is billed for such costs, within ten days of periodic submission to the Company 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.

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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 she will not and may not assign, transfer or convey, pledge or encumber this Agreement or her right, title or interest therein, or her 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. 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 and venue of said courts.

17. Prior Agreements. This Agreement shall supersede any prior employment agreement, arrangement or understanding between the Company and the Executive, without limitation, 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 Company, including without limitation the purchase of assets or any other form of business combination, the Company will obtain the express written assumption of this Agreement by the acquiring or surviving entity from such combination, and failure of the Company 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 8.

19. Section 409A. This Agreement is intended to comply with Section 409A of the Code to the extent its provisions are subject to that law. The parties agree that they will negotiate in good faith regarding amendments necessary to bring this Agreement into compliance with the terms of that Section or an exemption therefrom as interpreted by guidance issued by the Internal Revenue Service, taking into account any limitations on amendments imposed by Section 409A or Internal Revenue Service guidance. The parties further agree that to the extent the terms of this Agreement fail to qualify for exemption from or satisfy the requirements of Section 409A, this Agreement may be operated in compliance with Section 409A pending amendment to the extent authorized by the Internal Revenue Service. In such circumstances the Company and the Executive will administer the Agreement in a manner which adheres as closely as possible to the existing terms and intent of the Agreement while complying with Section 409A.

20. 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.

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21. 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.

22. Counterparts. This Agreement may be executed in any number of counterparts, each of which for all purposes shall be deemed to be an original.

*[Remainder of page intentionally left blank.]*

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

GRAHAM CORPORATION

By: /s/ James R. Lines  
Name: James R. Lines  
Title: President and Chief Executive Officer

/s/ Jennifer Condame  
Jennifer Condame

STATE OF NEW YORK )

ss:

COUNTY OF MONROE )

On this 24th day of July, 2013, before me personally came James R. Lines, to me known, who, being by me duly sworn did depose and say that the above-named person resides in Lancaster, NY, that said person is the President and the Chief Executive Officer of Graham Corporation, the corporation described in and which executed the foregoing instrument; and that the above-named person signed thereto by order of the Board of Directors of said corporation.

Notary Public  
[notary stamped]

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STATE OF NEW YORK )

ss:

COUNTY OF MONROE )

On the 24th day of July, in the year 2013, before me, the undersigned, a Notary Public in and for said State, personally appeared Jennifer Condame, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her capacity, and that by her signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public  
[notary stamped]

*[Signature Page to the Employment Agreement of Jennifer Condame]*



CERTIFICATION OF  
PRINCIPAL EXECUTIVE OFFICER

I, James R. Lines, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Graham Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2013

/S/ JAMES R. LINES

James R. Lines  
President and Chief Executive Officer

CERTIFICATION OF  
PRINCIPAL FINANCIAL OFFICER

I, Jeffrey Glajch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Graham Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2013

/S/ JEFFREY GLAJCH

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Jeffrey Glajch  
Vice President-Finance & Administration and  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graham Corporation (the "Company") on Form 10-Q for the period ending June 30, 2013 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JAMES R. LINES

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James R. Lines  
President and Chief Executive Officer  
(Principal Executive Officer)  
Date: July 30, 2013

/S/ JEFFREY GLAJCH

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Jeffrey Glajch  
Vice President-Finance & Administration and  
Chief Financial Officer  
(Principal Financial Officer)  
Date: July 30, 2013

A signed original of this written statement required by Section 906 has been provided to Graham Corporation and will be retained by Graham Corporation and furnished to the Securities and Exchange Commission or its staff upon request.