
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

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

Date of Report (Date of earliest event reported): March 20, 2014

Graham Corporation
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-8462
(Commission
File Number)

16-1194720
(IRS Employer
Identification No.)

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

14020
(Zip Code)

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

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

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

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

Amendment to Bank of America Loan Agreement. On March 24, 2014, Graham Corporation (the “Company”) and Bank of America, N.A. entered into Amendment No. 1 (the “Amendment”) to the Loan Agreement dated as of December 3, 2010 (the “Loan Agreement”). The Amendment facilitated the Company’s entry into the LOC Facility, as described below, by increasing the amount of Additional Contingent Liabilities (as defined in the Loan Agreement) that may be incurred by the Company to \$6,000,000. The terms of the Loan Agreement are described in the Company’s Current Report on Form 8-K dated December 3, 2010, which description is incorporated by reference herein.

The Amendment is attached to this Current Report on Form 8-K as Exhibit 99.1, and the preceding description of the Amendment is qualified in its entirety by reference to the full text of the Amendment.

Entry into Letter of Credit Facility. Also on March 24, 2014, the Company and HSBC Bank USA, National Association entered into a Continuing Letter of Credit Facility and a Letter Agreement with respect to such Continuing Letter of Credit Facility (together, the “LOC Facility”). The LOC Facility, which the Company entered into in order to support its international operations, provides the Company with a demand line of credit of up to \$5,000,000 to be used for the issuance of standby letters of credit. Under the LOC Facility, the Company incurs an annual facility fee in the amount of 0.375% of the maximum amount available under the LOC Facility, as well as a letter of credit issuance fee of between 0.75% and 1.25% of the face amount of all letters of credit issued. The amount of each letter of credit issuance fee will be based on the Company’s ratio of Funded Debt to EBITDA (as defined in the Letter Agreement). The LOC Facility requires that the Company maintain a Funded Debt to EBITDA ratio not greater than 3.5 to 1.0 and an Interest Coverage Ratio of not less than 4.0 to 1.0, in each case as defined in the Letter Agreement and based on a trailing 12 month period.

The Continuing Letter of Credit Facility and the Letter Agreement are attached to this Current Report on Form 8-K as Exhibits 99.2 and 99.3, respectively, and the preceding description of the LOC Facility is qualified in its entirety by reference to the full text of such agreements.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information disclosed in Item 1.01 of this Current Report on Form 8-K is incorporated into this Item 2.03 by reference.

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

On March 20, 2014, the Compensation Committee of the Company’s Board of Directors approved a 3% increase to the base salary of each of the Company’s below listed named executive officers:

<u>Named Executive Officer</u>	<u>Current Base Salary</u>	<u>New Base Salary</u>
James R. Lines, President and Chief Executive Officer	\$ 350,200	\$ 360,706
Jeff Glajch, Vice President – Finance & Administration and Chief Financial Officer	\$ 247,200	\$ 254,616
Alan Smith, Vice President of Operations	\$ 211,150	\$ 217,485
Jennifer Condame, Controller and Chief Accounting Officer	\$ 154,500	\$ 159,135

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Amendment No. 1 dated as of March 24, 2014 to the Loan Agreement dated as of December 3, 2010 between Graham Corporation and Bank of America, N.A.
99.2	Continuing Letter of Credit Facility dated as of March 24, 2014 between Graham Corporation and HSBC Bank USA, National Association.
99.3	Letter Agreement dated as of March 24, 2014, with respect to the Continuing Letter of Credit Facility dated as of March 24, 2014, between Graham Corporation and HSBC Bank USA, National Association.

SIGNATURES

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

Date: March 25, 2014

Graham Corporation

By: /s/ Jeff Glajch
Jeff Glajch
Vice President – Finance & Administration and
Chief Financial Officer



AMENDMENT NO. 1 TO LOAN AGREEMENT

This Amendment No. 1 (the "Amendment") dated as of March 24, 2014, is between Bank of America, N.A. (the "Bank") and Graham Corporation, a corporation formed under the laws of the State of Delaware with offices at 20 Florence Avenue, Batavia, New York 14020 (the "Borrower").

RECITALS

- A. The Bank and the Borrower entered into a certain Loan Agreement dated as of December 3, 2010 (together with any previous amendments, the "Agreement").
- B. The Bank and the Borrower desire to amend the Agreement, effective as of the date of this Amendment.

AGREEMENT

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.

2. Amendments. The Agreement is hereby amended as follows:

3.1 Paragraph 8.7(f) is hereby amended to read in its entirety as follows:

- (f) Additional Contingent Liabilities (not including liabilities treated as Indebtedness under subsection (e)) which do not exceed an aggregate total principal amount of \$6,000,000 outstanding at any one time.

3. Representations and Warranties. When the Borrower signs this Amendment, the Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank, (b) the representations and warranties in the Agreement are true as of the date of this Amendment as if made on the date of this Amendment, (c) this Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound, and (d) this Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with any of the Borrower's organizational papers.

4. Effect of Amendment. Except as provided in this Amendment, all of the terms and conditions of the Agreement, including but not limited to the Dispute Resolution Provision, shall remain in full force and effect.

5. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

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

The parties executed this Amendment as of the date stated at the beginning of this Amendment, intending to create an instrument executed under seal.

Bank of America, N.A.

By: /s/ Colleen M. O'Brien
Typed Name: Colleen M. O'Brien
Title: Sr. Vice President

Graham Corporation

By: /s/ Jeffrey Glajch (Seal)
Typed Name: Jeffrey Glajch
Title: Chief Financial Officer



CONTINUING LETTER OF CREDIT AGREEMENT

between

GRAHAM CORPORATION

and

HSBC BANK USA, NATIONAL ASSOCIATION

Dated: As of March 24, 2014

CONTINUING LETTER OF CREDIT AGREEMENT

For the purpose of inducing HSBC Bank USA, National Association (“Bank”) to issue one or more letters of credit (individually “Credit”, collectively “Credits”) upon application by the undersigned (“Applicant”), Applicant agrees as follows:

1. Payment Obligation.

(a) Applicant shall pay to Bank in United States currency, on demand, at Bank’s office specified by Bank, the amount of each draft (whether sight or time) and acceptance drawn or payable in United States currency under the Credit, or purported to be so drawn or payable; also, in any event and without demand, Applicant shall make such payment respecting each such time draft or acceptance sufficiently in advance of its maturity date to enable Bank to arrange (in the usual course of the mails) for cover to reach the place where such time draft or such acceptance is payable not later than one business day prior to its maturity.

(b) Applicant shall pay to Bank in United States currency, on demand, at Bank’s office specified by Bank, the equivalent (at Bank’s then selling rate for cable transfers to the place where and in the currency in which the relevant draft, demand, receipt or acceptance is payable) of the amount of each draft (whether sight or time), demand, receipt and acceptance drawn or payable in other than United States currency under the Credit, or purported to be so drawn or payable; also, in any event and without demand, Applicant shall make such payment respecting each time draft, demand, receipt or acceptance sufficiently in advance of its maturity date to enable Bank to arrange (in the usual course of the mails) for cover to reach the place where such time draft, demand, receipt or acceptance is payable not later than one business day prior to its maturity. Applicant shall comply with any and all governmental exchange regulations now or hereafter applicable to any foreign exchange provided to Bank pursuant to this section, and will indemnify and hold Bank harmless from any failure to so comply.

(c) If no draft is to be presented under any Credit, Applicant agrees to pay to Bank, on demand, any amounts paid by Bank under any Credit substantially in conformity with the terms of such Credit.

(d) All payments to be made to Bank under the Credit and this Agreement shall be in immediately available funds.

2. Commission and Costs. Applicant agrees to pay to Bank, on demand, (a) Bank’s usual commission and all charges and expenses incurred by Bank or its correspondents in connection with the Credits or this Agreement, and (b) interest thereon at the rate customarily charged by Bank at the time in like circumstances, including costs of any reserve requirements. Applicant agrees to pay to Bank the annual facility fee pursuant to the letter agreement between Applicant and Bank dated as of the date hereof (the “Letter Agreement”). In addition, Applicant will pay to Bank, on demand, all costs and expenses of every kind paid or incurred by Bank or any of

Bank's correspondents in connection with this Agreement or in enforcing this Agreement. "Costs and expenses" as used in the preceding sentence shall include, without limitation, the actual and reasonable attorneys' fees incurred by Bank in retaining counsel for advice, suit, appeal, any insolvency or other proceedings under the Federal Bankruptcy Code or otherwise, or for any purpose specified in the preceding sentence.

3. Interest. Applicant agrees that, if for any reason Bank makes payment under a Credit prior to Bank's receipt of funds from Applicant, Applicant will pay to Bank, on demand, interest on the amount paid by Bank at a per annum rate equal to the Prime Rate (as defined below), from the date of Bank's payment to the date on which Applicant makes payment to Bank. Interest will be calculated for each day at 1/360th of the foregoing per annum rate. "Prime Rate" means the rate of interest publicly announced by Bank from time to time as its prime rate and is a base rate for calculating interest on certain loans. In no event shall the interest rate under this Agreement exceed the maximum rate authorized by applicable law. Any change in the interest rate resulting from a change in the Prime Rate shall be effective on the date of such change.

4. Other Matters Pertaining to Credits.

(a) Applicant agrees that Bank and any of Bank's correspondents may receive and accept as "Bills of Lading" under the Credits, any documents issued or purporting to be issued by or on behalf of any carrier which acknowledge receipt of property for transportation, whatever the specific provisions of such documents. The date of each such document shall be deemed the date of shipment of the property mentioned therein; each such document shall be deemed in order if such date is within the time limit fixed by the relevant Credit.

(b) Bank may receive and accept as documents of insurance either insurance policies or insurance certificates.

(c) Users of the Credit shall be deemed Applicant's agents and Applicant assumes all risks for their acts or omissions.

(d) Neither Bank, nor Bank's correspondents, shall be liable to anyone for failure to pay or to accept if such failure is due to any restriction in force at time and place of presentment. Applicant agrees to indemnify Bank and hold Bank harmless from any consequences that may arise therefrom.

(e) Neither Bank, nor Bank's correspondents, shall be responsible and shall incur no liability for any matter respecting the documents covered by any Credit or the property relating to such documents, including, without limitation: the existence, character, quality, quantity, condition, packing, value, or delivery of the property purporting to be represented by documents; any difference in character, quality, quantity, condition, or value of the property from that expressed in documents; the validity, sufficiency or genuineness of documents, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; the time, place, manner or order in which shipment is made; partial or incomplete shipment, or failure or omission to ship any or all of the property referred to in the Credit; the

character, adequacy, validity, or genuineness of any insurance; the solvency or responsibility of any insurer, or any other risk connected with insurance; any deviation from instructions, delay, default or fraud by the shipper or anyone else in connection with the property or the shipping thereof; the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; delay in arrival or failure to arrive of either the property or any of the documents relating thereto; delay in giving or failure to give notice of arrival or any other notice; any breach of contract between the shippers or vendors and Applicant; failure of any draft to bear any reference or adequate reference to the relevant Credit, or failure of any person to note the amount of any draft on the reverse of the relevant Credit, or to surrender or take in any Credit, or to send forward documents apart from drafts as required by the terms of any Credit, or to accompany the drafts by a certificate that documents have been sent. Each of the foregoing provisions, if contained in any Credit, may be waived by Bank.

(f) Neither Bank, nor Bank's correspondents, shall be responsible for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they be in cipher; nor shall Bank be responsible for any error, neglect, or default of any of Bank's correspondents. None of the foregoing occurrences shall affect, impair, or prevent the vesting of any of Bank's rights or powers hereunder.

(g) In furtherance and extension and not in limitation of the specific provisions set forth in this section, Applicant agrees that Bank and Bank's correspondents shall incur no liability with respect to any action taken or not taken in good faith by Bank or by any of Bank's correspondents under or in connection with the Credits or the relevant drafts, documents or property, and that any such action taken or not taken shall be binding on Applicant.

(h) If Bank issues, or takes any action respecting, a Credit pursuant to any communication of any kind from an Authorized Officer (as hereafter defined) of Applicant, including, without limitation, (i) Applicant's written request other than on Bank's standard application, (ii) Bank's prescribed computerized entry format, or (iii) any written or oral telecommunication, then the provisions of this Agreement shall apply to such Credit or such action, notwithstanding any lack of reference to this Agreement in such communication. "Authorized Officer" as used in this Agreement shall mean the Applicant's President, Vice President-Finance or Chief Financial Officer.

(i) Applicant agrees that in the event of any extension of the maturity or time for presentment of drafts, acceptances or documents, or any other modification of the terms of any Credit, at the request of Applicant, with or without notice to others, or in the event of any increase in the amount of any Credit at Applicant's request, this Agreement shall be binding upon Applicant with regard to: such Credit so or otherwise modified; drafts, acceptances, documents and property covered thereby; and any action taken by Bank or any of Bank's correspondents in accordance with such extension, increase or other modification.

(j) Applicant agrees that Bank or any of Bank's correspondents may accept or pay any draft dated on or before the expiration of any time limit expressed in any Credit regardless of when drawn and when or wherever negotiated, provided any other required documents are dated prior to the expiration date of such Credit.

(k) The Applicant agrees that failure of the Applicant to object in writing to the Bank's payment and/or acceptance of any drawings under a Credit by the earlier of (A) 3 days after the date the Applicant receives the documents and (B) 3 days after the date the Applicant receives any notice including but not limited to advices of payment that the Bank has paid and/or accepted a conforming presentation under the Credit shall be conclusively deemed to be an acceptance by the Applicant that the presentation is in conformity with the terms and conditions of the Credit. Both the Bank and the Applicant agree that 3 days is a reasonable time.

5. Representations and Covenants.

(a) Applicant represents and warrants that Applicant is authorized to enter into this Agreement.

(b) So long as this Agreement is in effect, Applicant (i) will furnish to Bank financial statements in such form and at such intervals as set forth in the letter agreement between Applicant and Bank dated as of the date hereof (the "Letter Agreement"), and (ii) will keep, in accordance with generally accepted accounting principles consistently applied, accurate and complete books and records.

(c) Applicant represents and warrants that the transactions covered by the Credits are not prohibited under the Foreign Assets Control Regulations of the United States Treasury Department or Tax Reform Act of 1976, as amended, or the Export Administration Act of 1977, as amended, or related laws and regulations thereto, and that any transfer of moneys or importation covered by the Credits conforms in every respect with all existing United States Laws and government regulations.

6. Events of Default and Remedies.

(a) Any of the following events or conditions shall constitute an event of default hereunder: (i) nonpayment, when due, whether by acceleration or otherwise, of principal of or interest on any Indebtedness, or default by Applicant in the performance of any obligation, term or condition of this Agreement or any other agreement between Applicant and Bank; (ii) the filing by or against Applicant of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, relief as a debtor or other relief under the bankruptcy, insolvency or similar laws of the United States or any state or territory thereof or any foreign jurisdiction, now or hereafter in effect; (iii) the making of any general assignment by Applicant for the benefit of creditors; the appointment of a receiver or trustee for Applicant or for any assets of Applicant, including, without limitation, the appointment of or taking possession by a "custodian", as defined in the Federal Bankruptcy Code or the institution

by or against Applicant of any other type of insolvency proceeding (under the Federal Bankruptcy Code or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against or winding up of affairs of, Applicant; (iv) the sale, assignment, transfer or delivery of all or substantially all of the assets of Applicant; the cessation by Applicant as a going business concern; (v) the entry of judgment against Applicant, other than a judgment for which Applicant is fully insured or a judgment which will not have a material adverse effect on Applicant, if ten days thereafter such judgment is not satisfied, vacated, bonded or stayed pending appeal; or (vi) Applicant is generally not paying Applicant's debts as such debts become due; (vii) the occurrence of any event described in paragraph 7(a)(ii), (iii), (iv), (v) or (vi) hereof with respect to any indorser, guarantor or any other party liable for, or whose assets of any interest therein secures payment of any Indebtedness ("Third Party"), or the occurrence of any such event with respect to any general partner of Applicant, if Applicant is a partnership; (viii) if any certificate, statement, representation, warranty or audit heretofore or hereafter furnished by or on behalf of Applicant or any Third Party, pursuant to or in connection with this Agreement, or otherwise (including, without limitation, representations and warranties contained herein), or as an inducement to Bank to extend any credit to or to enter into this or any other agreement with Applicant, proves to have been false in any material respect at the time as of which the facts therein set forth were stated or certified, or to have omitted any substantial contingent or unliquidated liability or claim against Applicant or any such Third Party; or, if upon the date of execution of this Agreement there shall have been any materially adverse change in any of the facts disclosed by any such certificate, statement, representation, warranty or audit, which change shall not have been disclosed in writing to Bank at or prior to the time of such execution; (ix) nonpayment by Applicant when due of any indebtedness for borrowed money owing to any third party, the occurrence of which could result in acceleration of payment of any such indebtedness; or (x) the reorganization, merger or consolidation of Applicant (or the making of any agreement therefor) without the prior written consent of Bank. "Indebtedness" as used in this Agreement shall mean any and all obligations of Applicant under this Agreement and any and all indebtedness and other liabilities of Applicant to Bank of every kind and character and all extensions, renewals and replacements thereof, including, without limitation, all unpaid accrued interest thereon and all costs and expenses payable as hereinafter provided: (i) whether now existing or hereafter incurred; (ii) whether direct, indirect, primary, absolute, secondary, contingent, secured, unsecured, matured or unmatured; (iii) whether such indebtedness is from time to time reduced and thereafter increased, or entirely extinguished and thereafter reincurred; (iv) whether such indebtedness was originally contracted with Bank or with another or others; (v) whether or not such indebtedness is evidenced by a negotiable or non-negotiable instrument or any other writing; and (vi) whether such indebtedness is contracted by Applicant alone or jointly or severally with another or others.

(b) Bank, at its sole election, may declare all or any part of any Indebtedness not payable on demand to be immediately due and payable without demand or notice of any kind upon the happening of any event of default (other than an event of default under either paragraph 7(a)(ii), (iii), (iv) (v) or (vi) hereof), or if Bank in good faith believes that the prospect of payment of all or any part of the Indebtedness or performance of Applicant's obligations

under this Agreement or any other agreement now or hereafter in effect between Applicant and Bank is impaired. All or any part of any Indebtedness not payable on demand shall be immediately due and payable without demand or notice of any kind upon the happening of one or more events of default under paragraph 7(a)(ii), (iii), (iv), (v) or (vi) hereof. The provisions of this paragraph are not intended in any way to affect any rights of Bank with respect to any Indebtedness which may now or hereafter be payable on demand.

(c) Bank's rights and remedies under this Agreement shall be in addition to those rights granted in any other agreement now or hereafter in effect between Applicant and Bank, and to those rights otherwise available at law or equity.

(d) Without in any way requiring notice to be given in the following time and manner, Applicant agrees that any notice by Bank to Applicant, shall constitute reasonable notice if such notice is mailed by regular or certified mail, postage prepaid, at least five days prior to such action, to Applicant's address or to any other address which Applicant has specified in writing to Bank as the address to which notices hereunder shall be given to Applicant.

7. Miscellaneous.

(a) No course of dealing between Applicant and Bank and no delay or omission by Bank in exercising any right or remedy hereunder or with respect to any Indebtedness shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy. Bank may remedy any default by Applicant hereunder or with respect to any Indebtedness in any reasonable manner without waiving the default remedied and without waiving any other prior or subsequent default by Applicant. All of Bank's rights and remedies hereunder are cumulative.

(b) The rights and remedies of Bank hereunder shall, if Bank so directs, inure to any party acquiring any interest in all or any part of the Indebtedness or in this Agreement.

(c) Bank and Applicant as used herein shall include the heirs, executors or administrators, or successors or assigns, of those parties.

(d) If more than one party executes this Agreement, the term "Applicant" shall include each as well as all of them, and their obligations hereunder shall be joint and several. If a third party executes an Authorization and Agreement of Account Party with respect to this Agreement, the obligations of Applicant and such third party hereunder shall be joint and several.

(e) Each Credit shall be subject to the Uniform Customs and Practice for Documentary Credits ("UCP") published by the International Chamber of Commerce (ICC) as specified in such Credit, or if not specified in such Credit, by the UCP most recently published by the ICC. The provisions herein are supplemental to, and not in substitution of said UCP to

the extent consistent with the provisions of this Agreement. This Agreement shall be construed under the laws of New York State, as the same may be in effect from time to time, except to the extent such laws are inconsistent with said UCP.

(f) Bank shall have no obligation to issue any Credit, or to accept any draft prior to maturity, issuance of any Credit and acceptance of any draft being in Bank's sole and absolute discretion. This Agreement shall remain in full force and effect until an appropriate officer of Bank shall actually receive from Applicant written notice of its discontinuance; provided, however, this Agreement shall remain in full force and effect thereafter until all Indebtedness outstanding, or contracted or committed for (whether or not outstanding and including, without limitation, any obligation arising under this Agreement), before the receipt of such notice by Bank, and any extensions or renewals thereof (whether made before or after receipt of such notice), together with interest accruing thereon after such notice, shall be finally and irrevocably paid in full.

(g) The obligations hereunder shall continue in force, notwithstanding any change in the membership of Applicant, if a partnership, whether arising from the death or retirement of one or more partners or the accession of one or more new partners.

(h) No modification, rescission, waiver, release or amendment of any provision of this Agreement shall be made, except by a written agreement subscribed by Applicant and a duly authorized officer of Bank.

(i) Captions of the paragraphs of this Agreement are solely for the convenience of Bank and Applicant, and are not an aid in the interpretation of this Agreement.

GRAHAM CORPORATION

By: /s/ Jeffrey Glajch

Name: Jeffrey Glajch

Title: Chief Financial Officer

**HSBC BANK USA, NATIONAL ASSOCIATION**

95 Washington Street
Buffalo, New York 14203

As of March 24, 2014

Graham Corporation
20 Florence Ave
Batavia, New York 14020
Attn: Jeffrey F. Glajch, Chief Financial Officer

Dear Mr. Glajch:

HSBC Bank USA, National Association ("Bank") is pleased to advise you that subject to the terms and conditions this letter agreement ("Letter" or "Agreement"), we are prepared to extend to Graham Corporation ("Company") an uncommitted discretionary demand line of credit of up to an aggregate amount of \$5,000,000.00 ("Maximum Amount") to be used solely for the issuance of standby letters of credit (the "Facility"). This Facility is subject to the provisions set forth in this Agreement and in the other documents entered into in connection with this Facility.

In no event shall the aggregate stated amount of all outstanding letters of credit issued pursuant to the Facility, at any time, exceed the Maximum Amount, provided, however, that the aggregate stated amount of all outstanding letters of credit issued pursuant to the Facility with terms greater than two years shall not, at any time, exceed \$750,000.00.

Each standby letter of credit issued for Company's account shall be issued only pursuant to Bank's standard form of application for standby letter of credit and Bank's standard form of standby letter of credit agreement (together, the "Application"), as executed by Company from time to time. The term of any standby letter of credit issued for Company's account pursuant to the Facility shall not exceed four years. Company shall pay: (i) an annual facility fee in the amount of 0.375% per annum of the Maximum Amount, which annual facility fee shall be payable annually in advance to Bank; and (ii) a letter of credit issuance fee in the amount of the Applicable Percentage, as set forth the Pricing Grid on **Schedule A** to this Agreement and based on the Company's ratio of Funded Debt to EBITDA as set forth in the most recent Covenant Compliance Certificate (as defined below) received by the Bank pursuant to this Agreement, of the face amount of any letter of credit, together with Bank's customary fees and charges in connection with the issuance or payment of standby letters of credit. Any amounts due to Bank from Company under the Application shall bear interest payable on demand as set forth in the Application.

The Bank shall not incur any liability to the Company in acting upon any notice referred to above or upon any telephonic notice which the Bank believes in good faith to have been given by the Company or by any person authorized to borrow on behalf of the Company.

If any law, regulation or guideline or any change therein or interpretation or application thereof by any regulatory body, court, administrative or governmental authority charged with the interpretation or administration thereof, or compliance with any request, directive, ruling, decree, judgment or recommendation of any regulatory body, court, administrative or governmental authority now existing or hereafter adopted (whether or not having the force of law) imposes, modifies or deems applicable any capital adequacy, increased capital adequacy or similar requirement and the result is to increase the cost of, or reduce the rate of return on, the Bank's capital as a consequence of this Facility, the Bank shall notify the Company of such fact. Upon notice from the Bank that there has been a change in such capital adequacy or similar requirements, the Company agrees to, and shall, pay to the Bank, on demand, such additional sums as will compensate the Bank for the effect of any change in such capital adequacy or similar requirements. No failure on the part of the Bank to demand compensation for any such increased costs shall constitute a waiver of the Bank's right to demand such compensation at any time.

THE CONTINUING AVAILABILITY OF THIS FACILITY IS AT ALL TIMES SUBJECT TO BANK'S CONTINUING SATISFACTION, AS DETERMINED BY BANK IN ITS SOLE AND ABSOLUTE DISCRETION, WITH (a) THE BUSINESS, AFFAIRS AND FINANCIAL CONDITION OF THE COMPANY AND (b) COMPLIANCE BY THE COMPANY AND EACH PARTY EXECUTING AND DELIVERING DOCUMENTS TO US HEREUNDER OR OTHERWISE IN CONNECTION WITH THIS FACILITY, WITH THE TERMS AND PROVISIONS OF THIS LETTER AND EACH OF THE DOCUMENTS REFERRED TO HEREIN.

In addition, the continuing availability of this Facility is subject to:

(a) the Company furnishing to Bank:

i. Quarterly, within 50 days of each fiscal quarter-end:

- (A) Internally-prepared quarterly financial statements of the Company prepared on a consolidated basis; and
- (B) Covenant Compliance Certificate in accordance with the Bank's format, certified by the President, Chief Financial Officer or Chief Executive Officer of the Company (each a "Covenant Compliance Certificate").

ii. Annually, within 120 days of the Company's fiscal year-end, audited financial statements of the Company prepared on a consolidated basis.

iii. Annually, within 60 days of the Company's fiscal year-end, an annual operating budget of the Company, including financial projections, in form acceptable to the Bank.

iv. Such other information, including interim financial statements, concerning Company's business, affairs, or financial condition as Bank may request from time to time; and

(b) Company's compliance, on a consolidated basis, with the following covenants:

- i. Company shall maintain a ratio of Funded Debt to EBITDA (each as defined in **Schedule B** to this Letter) of not greater than 3.5 to 1.0, as of the end of each of the Company's fiscal quarters, using the results of the twelve-month period ending with such fiscal quarter; and
- ii. Company shall maintain an Interest Coverage Ratio (as defined in **Schedule B** to this Letter) of not less than 4.0 to 1.0, as of the end of each of the Company's fiscal quarters, using the results of the twelve-month period ending with such fiscal quarter.

All payments of principal, interest and fees payable by Company under this Facility shall be made in immediately available funds at Bank's office at 95 Washington Street, Buffalo, New York and may be charged to any account Company maintains with us.

This Facility is further subject to Bank's receipt in form satisfactory to Bank of (a) a certified copy of resolutions of Company's Board of Directors authorizing Company's execution, delivery and performance of this agreement (and the documents hereinafter referred to); (b) signature cards for Company's authorized signatories; (c) an executed copy of Bank's standard form of Standby Letter of Credit Agreement; and (d) all other documents, instruments and other agreements requested by Bank in form and substance satisfactory to Bank.

NO AMENDMENT, MODIFICATION OR WAIVER OF ANY PROVISION OF THIS AGREEMENT NOR CONSENT TO ANY DEPARTURE BY BANK THEREFROM SHALL BE EFFECTIVE, IRRESPECTIVE OF ANY COURSE OF DEALING, UNLESS THE SAME SHALL BE IN WRITING AND SIGNED BY BANK AND THEN SUCH WAIVER OR CONSENT SHALL BE EFFECTIVE ONLY IN THE SPECIFIC INSTANCE AND FOR THE SPECIFIC PURPOSE FOR WHICH GIVEN.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. PLEASE NOTE THAT TO THE EXTENT ANY OF THE TERMS OR PROVISIONS OF THIS AGREEMENT CONFLICT WITH THOSE CONTAINED IN ANY OF THE ABOVE-MENTIONED DOCUMENTS, THE TERMS AND PROVISIONS OF SUCH OTHER DOCUMENTS SHALL GOVERN.

COMPANY AND BANK AGREE THAT ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS AGREEMENT OR ANY OTHER DOCUMENTS RELATING TO THIS FACILITY MAY BE INITIATED AND PROSECUTED IN THE STATE OR FEDERAL COURTS, AS THE CASE MAY BE, LOCATED IN ERIE COUNTY, NEW YORK.

ANYTHING IN THIS AGREEMENT OR ANY OTHER DOCUMENTS RELATING TO THIS FACILITY TO THE CONTRARY NOTWITHSTANDING, THE ENUMERATION IN THIS AGREEMENT OR IN SUCH OTHER DOCUMENTS OF SPECIFIC OBLIGATIONS TO BANK AND/OR CONDITIONS TO THE AVAILABILITY OF THIS FACILITY SHALL NOT BE CONSTRUED TO QUALIFY, DEFINE OR OTHERWISE LIMIT BANK'S RIGHT, POWER OR ABILITY, AT ANY TIME, UNDER APPLICABLE LAW, TO MAKE DEMAND FOR PAYMENT OF THE ENTIRE OUTSTANDING PRINCIPAL OF AND INTEREST DUE UNDER THIS FACILITY OR BANK'S RIGHT NOT TO MAKE ANY EXTENSION OF CREDIT UNDER THIS FACILITY AND COMPANY AGREES THAT COMPANY'S BREACH OF OR DEFAULT UNDER ANY SUCH ENUMERATED OBLIGATIONS OR CONDITIONS IS NOT THE ONLY BASIS FOR DEMAND TO BE MADE OR FOR A REQUEST FOR AN EXTENSION OF CREDIT TO BE DENIED, AS COMPANY'S OBLIGATION TO MAKE PAYMENT SHALL AT ALL TIMES REMAIN A DEMAND OBLIGATION. NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, THIS AGREEMENT DOES NOT CREATE A COMMITMENT OR OBLIGATION TO LEND BY BANK AND COMPANY ACKNOWLEDGES THAT BANK HAS NO OBLIGATION TO LEND.

EACH OF COMPANY AND BANK HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY OR AGAINST IT IN ANY MATTERS WHATSOEVER, IN CONTRACT OR IN TORT, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT OR ANY OTHER DOCUMENTS RELATING TO THIS FACILITY. COMPANY ALSO HEREBY WAIVES THE RIGHT TO INTERPOSE ANY DEFENSE BASED UPON ANY CLAIM OF LACHES OR SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE, AND ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.

Bank hereby notifies Company that pursuant to the requirements of the USA Patriot Act of 2001 (the "USA Patriot Act"), Bank is required to obtain, verify and record information that identifies Company, which information includes the name and address of Company and other information that will allow Bank to identify Company in accordance with the USA Patriot Act, and Company agrees to provide such information from time to time to Bank.

Company represents that Company and its subsidiaries is in compliance, in all material respects, with (i) the Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto and (ii) the USA Patriot Act. Company hereby agrees that no part of the proceeds of the Facility will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

Neither Company nor any director, officer, agent, employee or affiliate or subsidiary of Company, (i) is a person on the list of “Specially Designated Nationals and Blocked Persons” or (ii) is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”); and Company will not directly or indirectly use the proceeds of the Facility or otherwise knowingly make available such proceeds to any person, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

[Signature Page Follows]

SCHEDULE A

<u>Level</u>	<u>Funded Debt to EBITDA Ratio</u>	<u>Applicable Percentage</u>
Level I	≥ 3.00	1.25%
Level II	≥ 2.25 and < 3.00	1.00%
Level III	≥ 1.50 and < 2.25	1.00%
Level IV	≥ 1.00 and < 1.50	0.85%
Level V	< 1.00	0.75%

SCHEDULE B

Definitions

“EBIT” shall mean, for any period, net income, less income or plus loss from discontinued operations and extraordinary items, plus income taxes, plus interest expense, in each case for such period, computed and calculated in accordance with GAAP.

“EBITDA” shall mean, for any period, net income, plus interest expense, plus income taxes, plus depreciation, depletion, and amortization of intangible assets, plus other non-cash expenses, less non-cash income or plus loss from discontinued operations and extraordinary items, in each case for such period, computed and calculated in accordance with GAAP.

“Funded Debt” shall mean all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long term debt.

“GAAP” shall mean generally accepted accounting principles in effect from time to time in the United States.

“Interest Coverage Ratio” shall mean the ratio of EBIT to interest expense.