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

FORM 8-K/A
(Amendment No. 1)

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

Date of Report (Date of earliest event reported): June 1, 2021

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

Delaware	1-08462	16-1194720
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

20 Florence Avenue, Batavia, New York	14020
(Address of principal executive offices)	(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))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.10 per share	**GHM**	**NYSE**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

EXPLANATORY NOTE

On June 3, 2021, Graham Corporation (the "Company") filed a Current Report on Form8-K (the "Original Report") to report the acquisition of Barber-Nichols LLC, a Colorado limited liability company ("BN"). The Company is hereby filing this Current Report on Form 8-K/A (the "Amendment") to amend Item 9.01 of the Original Report to present the required financial statements and pro forma financial information. Except for the filing of such financial statements and pro forma financial information this Amendment does not modify or update the Original Report.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited financial statements of BN as of and for the years ended December 26, 2020 and December 28, 2019, the related notes, and the related report of Plante & Moran, PLLC, independent registered public accounting firm, as set forth in their report thereon, and the financial statements of BN for the three months ended March 31, 2021 (unaudited), are filed herewith as Exhibit 99.1 and Exhibit 99.2, respectively, and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial statements of the Company, giving effect to the acquisition of BN, which includes the unaudited pro forma condensed consolidated balance sheet as of March 31, 2021 and the unaudited pro forma condensed consolidated statement of operations for the year ended March 31, 2021, and the related notes, are incorporated herein by reference as Exhibit 99.3 hereto.

The pro forma financial information included in this Amendment has been presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the acquisition of BN occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that the Company will experience after the acquisition of BN.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of Plante & Moran, PLLC
99.1	Audited financial statements of BN as of and for the year ended December 26, 2020 and December 28, 2019, the related notes, and the related report of the independent registered public accounting firm thereon
99.2	The financial statements of BN (unaudited) as of March 31, 2021 and December 26, 2020 and for the three months ended March 31, 2021 and March 31, 2020
99.3	The unaudited pro forma condensed combined financial information of the Company, giving effect to the acquisition of BN, which includes the unaudited pro forma condensed combined balance sheet as of March 31, 2021 and the unaudited pro forma condensed combined statement of operations for the year ended March 31, 2021 and the related notes.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

Graham Corporation

Date: August 11, 2021

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

Exhibit 23.1

CONSENT OF INDEPENDENT (REGISTERED)ACCOUNTING FIRM

We consent to the inclusion of our report dated March 26, 2021 on the financial statements of Barber-Nichols Inc. for the years ended December 26, 2020 and December 28, 2019 in the Amended Current Report on Form 8-K/A of Graham Corporation (Commission File No. 1-08462) filed August 11, 2021, related to its acquisition of Barber-Nichols Inc.

/s/ Plante & Moran, PLLC

Denver, Colorado
August 11, 2021

Barber-Nichols, Inc.

Financial Report
December 26, 2020

Contents

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Independent Auditor's Report

To the Board of Directors
Barber-Nichols, Inc.

We have audited the accompanying financial statements of Barber-Nichols, Inc. (the "Company"), which comprise the balance sheet as of December 26, 2020 and December 28, 2019 and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barber-Nichols, Inc. as of December 26, 2020 and December 28, 2019 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

March 26, 2021

Balance Sheet

December 26, 2020 and December 28, 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 4,856,149	$ 3,028,029
Restricted cash and cash equivalents	50,000	-
Accounts receivable - Net	6,745,744	4,548,743
Contract assets	7,670,964	5,731,306
Inventory - Net	4,046,363	2,965,807
Current portion of notes receivable - Related party	30,000	30,000
Prepaid expenses and other current assets	404,328	515,498
Total current assets	23,803,548	16,819,383
Property and Equipment - Net	14,221,497	4,567,513
Notes Receivable - Related party - Net of current portion	-	30,000
Total assets	**$ 38,025,045**	**$ 21,416,896**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 4,729,134	$ 2,279,877
Current portion of capital lease obligation	154,723	153,774
Contract liabilities - Current portion	6,494,787	2,559,869
Shareholder distribution payable	1,187,216	1,567,578
Current maturities of long-term debt	537,146	467,419
Accrued and other current liabilities	3,270,466	1,791,129
Total current liabilities	16,373,472	8,819,646
Long-term Debt - Net of current portion	6,478,048	370,542
Capital Lease Obligation - Net of current portion	-	156,722
Contract Liabilities - Net of current portion	-	966,295
Other Long-term Liabilities	321,606	-
Total liabilities	23,173,126	10,313,205
Stockholders' Equity		
Paid-in capital, 50,000 shares authorized $0 par value, 7,871 and 7,497 shares issued and outstanding at December 26, 2020 and December 28, 2019, respectively	837,067	36,599
Retained earnings	14,014,852	11,067,092
Total stockholders' equity	14,851,919	11,103,691
Total liabilities and stockholders' equity	**$ 38,025,045**	**$ 21,416,896**

See notes to financial statements.

Statement of Operations

Years Ended December 26, 2020 and December 28, 2019

	2020	2019
Net Sales	$ 56,300,074	$ 41,475,258
Cost of Goods Sold		
Salaries	7,513,787	6,948,307
Materials	18,009,280	11,135,101
Subcontractors	7,576,339	7,223,940
Total cost of goods sold	33,099,406	25,307,348
Gross Profit	23,200,668	16,167,910
Operating Expenses	15,900,792	12,026,087
Operating Income	7,299,876	4,141,823
Nonoperating Income (Expense)		
Interest income	13,200	79,343
Interest expense	(71,317)	(74,972)
Miscellaneous income	101,217	16,992
Total nonoperating income	43,100	21,363
Net Income	**$ 7,342,976**	**$ 4,163,186**

See notes to financial statements.

Statement of Stockholders' Equity

Years Ended December 26, 2020 and December 28, 2019

	Paid-in Capital	Retained Earnings	Total
Balance - December 30, 2018	$ 36,599	$ 12,314,660	$ 12,351,259
Net income	-	4,163,186	4,163,186
Distributions	-	(5,410,754)	(5,410,754)
Balance - December 28, 2019	36,599	11,067,092	11,103,691
Net income	-	7,342,976	7,342,976
Contributions	800,468	-	800,468
Distributions	-	(4,395,216)	(4,395,216)
Balance - December 26, 2020	**$ 837,067**	**$ 14,014,852**	**$ 14,851,919**

See notes to financial statements.

Statement of Cash Flows

Years Ended December 26, 2020 and December 28, 2019

	2020	2019
Cash Flows from Operating Activities		
Net income	$ 7,342,976	$ 4,163,186
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	765,119	731,761
Bad debt expense	-	11,318
Gain on sale	3,600	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(2,197,001)	1,919,088
Contract assets	(1,939,658)	362,464
Inventory	(1,080,556)	374,374
Prepaid expenses and other current assets	111,170	(393,921)
Accounts payable	2,449,257	1,113,090
Contract liabilities	2,968,623	(3,205,799)
Accrued and other liabilities	1,800,943	(634,043)
Net cash and cash equivalents provided by operating activities	10,224,473	4,441,518
Cash Flows from Investing Activities		
Purchase of property and equipment	(10,419,103)	(836,201)
Proceeds on note receivables - Related party	30,000	30,000
Proceeds from sale of assets	(3,600)	-
Net cash and cash equivalents used in investing activities	(10,392,703)	(806,201)
Cash Flows from Financing Activities		
Payments on long-term debt	(2,608,013)	(603,371)
Proceeds from long-term debt	8,996,000	-
Payments on capital lease obligations	(155,773)	(184,722)
Debt issuance costs	(210,754)	-
Contributions	800,468	-
Distributions to stockholders	(4,775,578)	(3,843,176)
Net cash and cash equivalents provided by (used in) financing activities	2,046,350	(4,631,269)
Net Increase (Decrease) in Cash and Cash Equivalents	1,878,120	(995,952)
Cash and Cash Equivalents - Beginning of year	3,028,029	4,023,981
Cash and Cash Equivalents - End of year	**$ 4,906,149**	**$ 3,028,029**
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 4,856,149	$ 3,028,029
Restricted cash	50,000	-
Total cash and cash equivalents	**$ 4,906,149**	**$ 3,028,029**
Supplemental Cash Flow Information - Interest paid	$ 62,531	$ 74,251
Significant Noncash Transactions - Distributions declared	$ 1,187,216	$ 1,567,578

See notes to financial statements.

Note 1 - Nature of Business

Barber-Nichols, Inc. (the “Company”) was incorporated on December 29, 1967 under the laws of the State of Colorado. The Company designs, develops, and produces specialty turbines, pumps, and compressors, their electrical drives, and associated fluid and power systems for aerospace, defense, energy, cryogenic, and other markets.

Note 2 - Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year End Policy

The fiscal year end of the Company is the last Saturday of the calendar year. The years ended December 26, 2020 and December 28, 2019 were 52-week fiscal years.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of these investments.

Restricted Cash

Under the terms of its standby letter of credit agreement with a bank, the Company has agreed to maintain a compensating balance of $50,000. At December 26, 2020, $50,000 of cash is restricted for that purpose. At December 28, 2019, the Company did not have restricted cash.

Accounts Receivable

Accounts receivable are stated at invoice amounts. An allowance for doubtful accounts is established on an aggregate basis. The allowance is computed using historical loss rate factors applied to unpaid accounts stratified by the number of days payment is delinquent. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Company’s ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts on accounts receivable balances was $21,318 as of December 26, 2020 and December 28, 2019.

Credit Risk and Major Customers

The Company extends trade credit to its customers on terms that are generally practiced in the markets in which it competes. For the years ended December 26, 2020 and December 28, 2019, approximately $42,987,000 (76 percent) and $31,561,000 (76 percent), respectively, of the Company’s billable revenue was generated from contracts funded either directly or indirectly by the U.S. federal government. As of December 26, 2020 and December 28, 2019, trade accounts receivable of $5,729,000 (85 percent) and $3,290,000 (74 percent), respectively, were generated from the contracts funded either directly or indirectly by the U.S. federal government.

Note 2 - Significant Accounting Policies (Continued)

Contracts with the U.S. federal government and its prime contractors usually contain standard provisions for permitting the government to modify, curtail, or terminate the contract for convenience of the government if program requirements or budgetary constraints change. Upon such a termination, the Company generally is entitled to recover costs incurred, settlement expenses, and profit on work completed prior to termination.

For the years ended December 26, 2020 and December 28, 2019, approximately 48 percent and 54 percent of revenue was generated from two and three customers, respectively. As of December 26, 2020 and December 28, 2019, approximately 65 percent and 50 percent, respectively, of accounts receivable was due from three customers.

Inventory

Inventory is stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Inventoried costs primarily include costs of materials, labor, overhead, and freight. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable value.

Property and Equipment

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. The cost of leasehold improvements is depreciated (amortized) over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

	Depreciable Life - Years
Computer equipment	3-5
Vehicles	5
Shop equipment	5-7
Furniture and fixtures	7
Leasehold improvements	5-15

Revenue Recognition and Cost Recognition

Revenue is recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Note 2 - Significant Accounting Policies (Continued)

The Company is a designer and manufacturer of specialty turbines, pumps, and compressors, their electrical drives, and associated fluid and power systems for aerospace, defense, energy, cryogenic, and other markets. The business has two main revenue streams:

- Preproduction and production contracts - This includes a full spectrum of preproduction and production services for commercial and industrial projects, including developing, consulting, prototyping, and the manufacture, repair, and significant overhaul of machines. The Company earns revenue from these services using three contract delivery methods: fixed price, cost plus, and time and materials. Generally, the Company will have one performance obligation per contract; however, certain contracts may require the Company to perform multiple performance obligations. The Company breaks contracts into separate performance obligations to the extent that the contract obligates the Company to perform distinct activities for which the customer can individually benefit. These services are performed over time. For the years ended December 26, 2020 and December 28, 2019, approximately $51,270,000 and $37,790,000, respectively, or 91 percent, of the Company's revenue comes from these contracts.
- Standard product sales - The Company manufactures pumps that are sold to various companies throughout the world. Revenue from sales of pumps is recognized when the product is delivered to the customer. For the years ended December 26, 2020 and December 28, 2019, approximately $5,030,000 and $3,685,000, respectively, or 9 percent, of the Company's revenue comes from standard product sales.

The following economic factors affect the nature, amount, timing, and uncertainty of the Company's revenue and cash flows as indicated:

- Project change orders - Change orders often arise when unexpected costs to the existing contract are incurred or the customer wants to extend the scope of the project. These rarely create a separate project performance obligation and are accounted for as a modification to the contract price using the cumulative catch-up adjustment method.
- Type of contract - Contracts almost always include a signed contract with the customer. Preproduction and production contracts may be short or long term, depending on the scope of the contract. Long-term contracts are defined as contracts that extend beyond one year.

Contract Balances

A contract asset is recognized when the Company has a right to consideration for goods or services it transferred to the customer that is conditional on other than the passing of time, such as future performance of the Company. Contract assets are classified as receivables when the rights in their respect become unconditional.

A contract liability is recognized when the Company has an obligation to transfer goods or services to the customer for which it has received consideration (or the consideration is payable) from the customer.

The opening balances of the Company's accounts receivable, contract assets, and contract liabilities as of December 30, 2018 were $6,479,149, $6,093,770, and $6,731,963, respectively.

Timing of Satisfaction of Performance Obligations

The Company typically satisfies its performance obligations as goods are delivered and services are rendered.

Note 2 - Significant Accounting Policies (Continued)

The Company's preproduction and production contracts are typically performed over time, due to the continuous transfer of control to the customer. The transaction price of a contract is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. To determine the transaction price, the Company assumes that the goods or services will be transferred to the customer in accordance with the agreed-upon contractual terms.

Costs incurred in fulfilling a contract with a customer are recorded as contract costs, as these costs are considered necessary for progress toward completion on the contract. Direct contract costs include all direct subcontractor, material, and labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repair costs.

On fixed-price contracts, the Company recognizes revenue over time primarily using contract costs incurred to date compared to total estimated contract costs to measure progress toward the satisfaction of the performance obligations. This directly measures the value of the services transferred to the customer. There is usually one performance obligation under these contracts. Revenue for cost reimbursable (cost-plus and time and materials contracts) is recorded on the basis of cost incurred plus contractual cost markup.

Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance, conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which they are determined. Due to uncertainties inherent in the estimating process, it is at least reasonably possible that, in the near term, the Company will revise its cost and profit estimates related to contracts in progress.

Changes in estimates or contracts with customers in the current reporting period may result in changes to the revenue recognized for performance obligations that were previously fully or partially satisfied.

The Company satisfies its performance obligations for product sales at a point in time. Revenue from product sales is recognized upon delivery, which is considered the point the customer obtains control according to the contractual delivery term. The Company accounts for shipping and handling activities as a fulfillment costs rather than as a separate performance obligation.

Significant Payment Terms

Payment for services performed by the Company is typically due within 30 days after an invoice is sent to the customer. Progress invoices for services performed are sent to customers throughout the month or based on milestones outlined in the contract. Invoices for services performed over a shorter range of time are typically sent to customers upon completion of the service. The Company does not offer discounts if the customer pays some or all of an invoiced amount prior to the due date.

Nature of Promises to Transfer

In most cases, performance obligations transfer to customers when performed by the Company. Some services are provided by subcontractors. The Company does not act as an agent (i.e., the Company does not provide a service of arranging for another party to transfer goods or services to the customer).

Warranties

The Company's warranties provide customers with assurance that contracts and services performed comply with agreed-upon specifications under the industry-standard workmanship warranty. The Company's contracts typically include a one-year warranty. At the time revenue is recognized, the Company estimates the cost of expected future warranty claims but does not exclude any amounts from revenue. The Company does not maintain separate warranty accounts, as warranty claims are infrequent and rare. The Company does not sell warranties separately.

Note 2 - Significant Accounting Policies (Continued)

Determining and Allocating the Transaction Price

The transaction price of a contract is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer.

To determine the transaction price of a contract, the Company considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, the Company assumes that the goods or services will be transferred to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified.

Most of the Company's contracts with customers have fixed transaction prices. For some contracts, the amount of consideration to which the Company will be entitled is variable. Variable consideration contracts are not common and can include performance bonuses and liquidated damages. Under these contracts, the Company uses the most likely amount method based on the range of possible outcomes, history with similar situations, and facts and circumstances as known.

The Company includes amounts of variable consideration in a contract's transaction price only to the extent that the Company has a relatively high level of confidence that the amounts will not be subject to significant reversals, that is, downward adjustments to revenue recognized for satisfied performance obligations. In determining amounts of variable consideration to include in a contract's transaction price, the Company relies on its experience and other evidence that supports its qualitative assessment of whether revenue would be subject to a significant reversal. The Company considers all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur.

At the end of each month, the Company updates the estimated transaction prices of contracts having unsatisfied performance obligations. At that time, revenue and related account balances are adjusted to reflect any changes in transaction prices.

If it is determined that there are multiple performance obligations, the appropriate amount of consideration is allocated to each separate performance obligation. The Company determines the stand-alone selling price at contract inception of the good or service underlying each separate performance obligation and allocates the transaction price on a relative stand-alone selling price basis. The stand-alone selling price is determined using the Company's internal estimate of selling price based on its expected cost plus expected margin for each performance obligation.

Income Taxes

Pursuant to provisions of the Internal Revenue Code, the Company has elected to be taxed as an S corporation. Generally, the income of an S corporation is not subject to federal income tax at the corporate level, but rather the stockholders are required to include a pro rata share of the corporation's taxable income or loss in their personal income tax returns, irrespective of whether dividends have been paid. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending December 31, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Company is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Company's financial statements as a result of the Company's operating leases, as disclosed in Note 11, that will be reported on the balance sheet at adoption. Upon adoption, the Company will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 26, 2021, which is the date the financial statements were available to be issued.

The COVID-19 outbreak has impacted millions of individuals and businesses worldwide. In response, many jurisdictions where the Company operates have implemented measures to combat the outbreak. During 2020, the Company has taken certain personnel-related actions. Although current performance in 2020 has not been significantly impacted by COVID-19, concern exists for continuing operations relating projects pushing out further into the future than originally planned, employees' ability to work on job sites, ability for suppliers to support production, and for timing of customer payments. Management has taken prudent and necessary employee protective measures, as advised by the CDC and local authorities.

On March 26, 2021, the Company entered into a sale-leaseback transaction with a related party. The Company sold the building recently constructed (see Note 9) and related equipment for approximately $9,765,000 and $978,000, respectively. The Company sold the assets at recorded cost; therefore, no gain was recognized. Subsequent to the sale, the Company entered into an agreement to lease all assets back from the related party. The building lease is a nine-year lease effective April 1, 2021 with a base rent of $476,000, subject to annual 3 percent increase. The equipment leases are an 84-month lease with fixed monthly payments ranging from $1,905 to $7,427.

Note 3 - Contracts in Progress

Costs and estimated earnings on contracts in progress at December 26, 2020 and December 28, 2019 are as follows:

	2020	2019
Direct costs incurred on uncompleted contracts	$ 110,442,445	$ 90,657,840
Estimated earnings	56,313,788	46,172,838
Total revenue to date	166,756,233	136,830,678
Billings to date	165,580,056	134,625,536
Total	$ 1,176,177	$ 2,205,142
Balance sheet classification:		
Contract asset - Costs and estimated earnings in excess of billings on uncompleted contracts	$ 7,670,964	$ 5,731,306
Contract liabilities - Billings in excess of costs and estimated earnings on uncompleted contracts	(6,494,787)	(3,526,164)
Total	$ 1,176,177	$ 2,205,142

Note 4 - Accounts Receivable and Contract Balances

The following is the detail of accounts receivable at December 26, 2020 and December 28, 2019:

	2020	2019
Trade receivables	$ 6,766,887	$ 4,560,036
Less allowance for doubtful accounts	21,318	21,318
Net accounts receivable	6,745,569	4,538,718
Employee accounts receivable	175	10,025
Total accounts receivable - Net	$ 6,745,744	$ 4,548,743
Contract assets	$ 7,670,964	$ 5,731,306
Contract liabilities	6,494,787	3,526,164

Note 5 – Inventory

Inventory at December 26, 2020 and December 28, 2019 consists of the following:

	2020	2019
Raw materials	$ 339,353	$ 240,376
Work in progress	715,896	911,888
Finished goods	3,267,849	1,861,160
Loss provision	(276,735)	(47,617)
Total	$ 4,046,363	$ 2,965,807

Note 6 - Property and Equipment

Property and equipment at December 26, 2020 and December 28, 2019 are summarized as follows:

	2020	2019
Land	$ 826,645	$ 1,114,128
Shop equipment	7,608,092	7,331,253
Transportation equipment	27,327	27,327
Furniture and fixtures	463,410	156,706
Computer equipment and software	536,438	473,716
Leasehold improvements	2,278,927	2,102,455
Construction in progress	9,883,849	-
Total cost	21,624,688	11,205,585
Accumulated depreciation	7,403,191	6,638,072
Net property and equipment	$ 14,221,497	$ 4,567,513

Depreciation expense for 2020 and 2019 was $765,119 and $731,761, respectively.

Note 7 - Related Party Notes Receivable

Notes receivable at December 26, 2020 and December 28, 2019 are as follows:

	2020	2019
Amounts due from three stockholders, due in annual installments of $10,000 each, including interest at the prime rate (an effective rate of 4.75 percent at December 26, 2020)	$ 30,000	$ 60,000
Less current portion	30,000	30,000
Long-term portion	$ -	$ 30,000

Note 8 - Accrued and Other Liabilities

The following is the detail of accrued and other liabilities as of December 26, 2020 and December 28, 2019:

	2020	2019
Accrued profit sharing	$ 960,052	$ 673,405
Accrued vacation	817,543	541,906
Accrued retainage - Construction in progress	477,393	-
FICA deferred - CARES Act	321,605	-
Accrued property taxes	211,900	209,685
Accrued payroll taxes and withholdings	188,913	111,729
Accrued payroll	154,773	161,981
Other	138,287	92,423
Total	$ 3,270,466	$ 1,791,129

The Company owes accrued retainage related to the construction in progress related to the bonds discussed in Note 9. Upon completion of the building, the accrued retainage will be reclassed to a long-term liability, as the amount will be funded by the bonds.

Note 9 - Long-term Debt and Line of Credit

During 2020, the Company issued Series A and Series B bonds with a financial institution. The Series A and Series B bonds have maximum cumulative borrowings of $7,640,000 and $2,360,000, respectively. The bonds mature in January 2026. The funds were authorized and available for draw down to finance the expansion of the Company's manufacturing facility as reimbursable costs. The Series A and Series B bonds have cumulative borrowings outstanding of $6,750,000 and $0, respectively, as of December 26, 2020. The Company incurred debt issuance fees of $210,754 from the issuance of the Series A and Series B bonds. The Series A and Series B bonds require monthly installments, including principal and interest at 2.24 percent, beginning in March 2021 through April 2045. The Series B bonds require monthly installments, including principal and interest at 2.24 percent, beginning in March 2021 through December 2045.

The Series A and Series B bonds contain certain restrictive covenants concerning the maintenance of certain financial statement ratios, the incurrence of additional debt, and a requirement for the submission of audited financial statements by a specified date. The Series A and B bonds are collateralized by all business assets.

During 2020, the Company received a Paycheck Protection Program term note through its primary bank in the amount of $2,246,000. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and is administered by the Small Business Administration. Subsequently, although the Company received a PPP loan, management decided the Company would not seek forgiveness under the terms of the program and repaid the loan in full.

Long-term debt at December 26, 2020 and December 28, 2019 is as follows:

	2020	2019
The Series A bonds require monthly installments, including principal and interest at 2.24 percent beginning in March 2021 through December 2045. The Series A and B bonds are collateralized by all business assets	$ 6,750,000	$ -
Note to a former owner due in 10 semiannual payments of $176,509 in principal, plus accrued interest at prime (3.25 percent at December 26, 2020). The note is unsecured and due on January 1, 2023	132,383	176,509
Note to a financial institution due in 60 monthly payments of $9,107, including interest at 3.50 percent. The note is collateralized by all business assets and due on August 22, 2021	70,763	176,066
Note to a financial institution due in 60 monthly payments of $3,898, including interest at 3.70 percent. The note is collateralized by equipment and due on October 14, 2023	124,883	166,119
Note to individual due in 10 semiannual payments of $60,864 in principal, plus accrued interest at prime (3.25 percent at December 26, 2020). The note is unsecured and due on January 1, 2022	61,882	121,769
Note to a financial institution due in 84 monthly payments of $1,804, including interest at 4.41 percent. The note is collateralized by equipment and due on November 7, 2024	77,459	95,196
Note to a financial institution due in 60 monthly payments of $2,184, including interest at 3.03 percent. The note is collateralized by equipment and due on April 6, 2021	8,578	34,091
Note to a financial institution due in 60 monthly payments of $4,713, including interest at 3.30 percent. The note is collateralized by equipment and due on July 1, 2020	-	32,583

Note 9 - Long-term Debt and Line of Credit (Continued)

	2020	2019
Note to a financial institution due in 60 monthly payments of $6,016, including interest at 3.05 percent. The note is collateralized by equipment and due on April 21, 2020	$ -	$ 23,690
Note to a financial institution due in 60 monthly payments of $1,742, including interest at 3.30 percent. The note is collateralized by equipment and due on July 1, 2020	-	11,938
Unamortized debt issuance costs	(210,754)	-
Long-term debt	7,015,194	837,961
Less current portion	537,146	467,419
Long-term portion	$ 6,478,048	$ 370,542

The balance of the above debt matures as follows:

Years Ending	Amount
2021	$ 537,146
2022	309,683
2023	309,396
2024	276,023
2025 and thereafter	5,793,700
Total long-term debt	7,225,948
Unamortized debt discount	(210,754)
Total	$ 7,015,194

Interest expense for 2020 and 2019 was $71,317 and $74,972, respectively.

The Company has a line of credit agreement with a bank of up to $3,000,000 payable to a bank with a maturity date of June 2021. As of December 26, 2020 and December 28, 2019, the Company has no outstanding draws on line of credit. Interest is payable monthly at a variable rate (3.00 percent at December 26, 2020). The line of credit is collateralized by substantially all assets by the Company.

Note 10 - Capital Leases

The Company leases equipment under long-term lease arrangements that are classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, payments ranging from $6,052 to $13,916 are due monthly through December 20, 2021. The leases have been imputed with interest at an annual rate of 5.48 percent.

At December 26, 2020 and December 28, 2019, property under capital leases consists of equipment with a gross cost of $598,594. Accumulated depreciation on the property under capital leases was $359,157 and $239,438 as of December 26, 2020 and December 28, 2019, respectively.

Note 10 - Capital Leases (Continued)

The future minimum lease payments under capital leases are as follows:

Year Ending in December		Amount
2021	$	161,236
Less amount representing interest		6,513
Present value of net minimum lease payments	$	154,723

Note 11 - Operating Leases

The Company is obligated under operating leases primarily for facilities, warehouses, and equipment, expiring at various dates through 2028. The leases require the Company to pay taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $564,144 and $541,200 for 2020 and 2019, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending in December		Amount
2021	$	781,704
2022		698,845
2023		596,858
2024		614,764
2025		633,207
Thereafter		2,709,678
Total	$	6,035,056

Note 12 - Retirement Plans

The Company sponsors a 401(k) plan for all employees. The plan provides for the Company to make a matching or discretionary profit-sharing contributions. Contributions to the plan for matching totaled $537,808 and $762,192 and discretionary profit sharing totaled $752,192 and $534,071 for the years ended December 26, 2020 and December 28, 2019, respectively.

Barber-Nichols, Inc.

Financial Report
March 31, 2021

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Barber-Nichols, Inc.

Balance Sheet (unaudited)

	March 31, 2021	December 26, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 1,312,777	$ 4,856,149
Restricted cash and cash equivalents	50,000	50,000
Accounts receivable - Net	9,888,631	6,745,744
Contract assets	6,272,822	7,670,964
Inventory - Net	4,016,851	4,046,363
Current portion of notes receivable - Related party	55,629	30,000
Prepaid expenses and other current assets	776,105	404,328
Total current assets	22,372,815	23,803,548
Property and Equipment - Net	4,901,835	14,221,497
Notes Receivable- Related party- Net of current portion	55,629	—
Operating Lease Assets	9,215,771	—
Total assets	**$ 36,546,050**	**$ 38,025,045**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 1,786,997	$ 4,729,134
Current portion of finance lease obligation	114,161	154,723
Contract liabilities	7,599,176	6,494,787
Shareholder distribution payable	—	1,187,216
Current maturities of long-term debt	430,242	537,146
Accrued compensation	1,580,829	2,442,885
Accrued and other current liabilities	625,803	827,581
Operating lease liabilities	964,995	—
Total current liabilities	13,102,203	16,373,472
Long-term Debt - Net of current portion	125,289	6,478,048
Operating Lease Liabilities	8,268,765	—
Other Long-term Liabilities	1,174,039	321,606
Total liabilities	22,670,296	23,173,126
Stockholders' Equity		
Paid-in capital, 50,000 shares authorized $0 par value, and 7,871 shares issued and outstanding at March 31, 2021 and December 26, 2020, respectively	837,067	837,067
Retained earnings	13,038,687	14,014,852
Total stockholders' equity	13,875,754	14,851,919
Total liabilities and stockholders' equity	**$ 36,546,050**	**$ 38,025,045**

See notes to condensed financial statements.

Statement of Operations (unaudited)

	Three-Month Period Ended March 31, 2021	2020
Net sales	$ 12,733,398	$ 11,112,667
Cost of products sold	10,130,159	9,461,629
Gross profit	2,603,239	1,651,038
Other expenses and income:		
Selling, general and administrative	1,290,281	592,554
Other (expense) income	(14,268)	1,005
Interest income	—	8,544
Interest expense	(39,855)	(18,020)
Total other expenses and income	(54,124)	(8,471)
Net income	**$ 1,258,835**	**$ 1,050,013**

See notes to condensed financial statements.

	Three-Month Period Ended March 31, 2021 and March 31, 2020		
	Paid-in Capital	Retained Earnings	Total
Balance - December 26, 2020	$ 837,067	$ 14,014,852	$14,851,919
Net income		1,258,835	1,258,835
Distributions		(2,235,000)	(2,235,000)
Balance - March 31, 2021	**$ 837,067**	**$ 13,038,687**	**$13,875,754**
Balance - December 28, 2019	$ 36,599	$ 11,067,092	$11,103,691
Net income		1,050,013	1,050,013
Contributions	800,468		800,468
Balance - March 31, 2020	**$ 837,067**	**$ 12,117,105**	**$12,954,172**

See notes to condensed financial statements.

	Three-Month Period Ended March 31, 2021	2020
Cash Flows from Operating Activities		
Net income	$ 1,258,835	$ 1,050,013
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	210,610	189,584
Changes in operating assets and liabilities that used cash and cash equivalents		
Accounts receivable	(3,142,887)	920,206
Contract assets	1,398,142	(1,831,361)
Inventory	29,512	(469,852)
Prepaid expenses and other current assets	(371,777)	111,142
Operating lease assets	179,924	—
Accounts payable	(2,942,137)	(473,999)
Contract liabilities	1,104,389	463,799
Accrued compensation	(862,056)	—
Accrued and other liabilities	(326,964)	35,876
Operating lease liabilities	(161,935)	—
Net cash and cash equivalents used by operating activities	(3,626,344)	(4,593)
Cash Flows from Investing Activities		
Purchase of property and equipment	(323,101)	(478,452)
Increase in note receivables - Related party	(81,258)	—
Proceeds from sale of assets	4,057,013	—
Net cash and cash equivalents provided (used) by investing activities	3,652,654	(478,452)
Cash Flows from Financing Activities		
Payments on long-term debt	(106,904)	918,048
Payments on finance lease obligations	(40,562)	—
Contributions	—	800,468
Distributions to stockholders	(3,422,216)	(567,578)
Net cash and cash equivalents (used) provided by financing activities	(3,569,682)	1,150,938
Net Increase (Decrease) in Cash and Cash Equivalents	(3,543,372)	667,893
Cash and Cash Equivalents - Beginning of period	4,906,149	3,028,028
Cash and Cash Equivalents - End of period	$ 1,362,777	$ 3,695,921
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	1,312,777	3,645,921
Restricted cash	50,000	50,000
Total cash and cash equivalents	**$ 1,362,777**	**$ 3,695,921**
Supplemental Cash Flow Information - Interest paid	$ 34,558	$ 18,020

See notes to condensed financial statements.

Note 1 – Nature of Business and Basis of Presentation

Barber-Nichols, Inc. (the “Company”) was incorporated on December 29, 1967 under the laws of the State of Colorado. The Company designs, develops, and produces specialty turbines, pumps, and compressors, their electrical drives, and associated fluid and power systems for aerospace, defense, energy, cryogenic, and other markets.

The Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) for interim financial information. The Company’s Condensed Financial Statements do not include all information and notes required by GAAP for complete financial statements. The unaudited Condensed Balance Sheet as of December 26, 2020 presented herein was derived from the Company’s audited Balance Sheet as of December 26, 2020. Certain reclassifications have been made to the December 26, 2020 financial statements to conform to the current period presentation. For additional information, please refer to the financial statements and notes included in the Company’s December 26, 2020 audited financial report included within this Exhibit 99.1 to the Graham Corporation Current Report on Form 8-K/A dated June 1, 2021. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in the Company’s Condensed Financial Statements.

The Company’s results of operations and cash flows for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the current year, which ends on December 31, 2021.

Note 2 – Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The business has two main revenue streams:

- Preproduction and production contracts - This includes a full spectrum of preproduction and production services for commercial and industrial projects, including developing, consulting, prototyping, and the manufacture, repair, and significant overhaul of machines. The Company earns revenue from these services using three contract delivery methods: fixed price, cost plus, and time and materials. Generally, the Company will have one performance obligation per contract; however, certain contracts may require the Company to perform multiple performance obligations. The Company breaks contracts into separate performance obligations to the extent that the contract obligates the Company to perform distinct activities for which the customer can individually benefit. These services are performed over time. For the three months ended March 31, 2021 and March 31, 2020, approximately $ 11,728,000 and $ 10,022,000, respectively, or 92%, of the Company’s revenue comes from these contracts.
- Standard product sales - The Company manufactures pumps that are sold to various companies throughout the world. Revenue from sales of pumps is recognized when the product is delivered to the customer. For the three months ended March 31, 2021 and March 31, 2020, approximately $ 1,005,000 and $ 1,091,000, respectively, or 8%, of the Company’s revenue comes from standard product sales.

The following economic factors affect the nature, amount, timing, and uncertainty of the Company’s revenue and cash flows as indicated:

- Project change orders - Change orders often arise when unexpected costs to the existing contract are incurred or the customer wants to extend the scope of the project. These rarely create a separate project performance obligation and are accounted for as a modification to the contract price using the cumulative catch-up adjustment method.
- Type of contract - Contracts almost always include a signed contract with the customer. Preproduction and production contracts may be short or long term, depending on the scope of the contract. Long-term contracts are defined as contracts that extend beyond one year.

Note 2 – Revenue Recognition (Continued)

Contract Balances

A contract asset is recognized when the Company has a right to consideration for goods or services it transferred to the customer that is conditional on other than the passing of time, such as future performance of the Company. Contract assets are classified as receivables when the rights in their respect become unconditional.

A contract liability is recognized when the Company has an obligation to transfer goods or services to the customer for which it has received consideration (or the consideration is payable) from the customer.

Timing of Satisfaction of Performance Obligations

The Company typically satisfies its performance obligations as goods are delivered and services are rendered.

The Company's preproduction and production contracts are typically performed over time, due to the continuous transfer of control to the customer. The transaction price of a contract is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer. To determine the transaction price, the Company assumes that the goods or services will be transferred to the customer in accordance with the agreed-upon contractual terms.

Costs incurred in fulfilling a contract with a customer are recorded as contract costs, as these costs are considered necessary for progress toward completion on the contract. Direct contract costs include all direct subcontractor, material, and labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repair costs.

On fixed-price contracts, the Company recognizes revenue over time primarily using contract costs incurred to date compared to total estimated contract costs to measure progress toward the satisfaction of the performance obligations. This directly measures the value of the services transferred to the customer. There is usually one performance obligation under these contracts. Revenue for cost reimbursable (cost-plus and time and materials contracts) is recorded on the basis of cost incurred plus contractual cost markup.

Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Changes in job performance, conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which they are determined. Due to uncertainties inherent in the estimating process, it is at least reasonably possible that, in the near term, the Company will revise its cost and profit estimates related to contracts in progress.

Changes in estimates or contracts with customers in the current reporting period may result in changes to the revenue recognized for performance obligations that were previously fully or partially satisfied.

The Company satisfies its performance obligations for product sales at a point in time. Revenue from product sales is recognized upon delivery, which is considered the point the customer obtains control according to the contractual delivery term. The Company accounts for shipping and handling activities as fulfillment costs rather than as a separate performance obligation.

Significant Payment Terms

Payment for services performed by the Company is typically due within 30 days after an invoice is sent to the customer. Progress invoices for services performed are sent to the customers throughout the month or based on milestones outlined in the contract. Invoices for services performed over a shorter range of time are typically sent to customers upon completion of the service. The Company does not offer discounts if the customer pays some or all of an invoiced amount prior to the due date.

Nature of Promises to Transfer

In most cases, performance obligations transfer to customers when performed by the Company. Some services are provided by subcontractors. The Company does not act as an agent (i.e., the Company does not provide a service of arranging for another party to transfer goods or services to the customer).

Note 2 – Revenue Recognition (Continued)

Determining and Allocating the Transaction Price

The transaction price of a contract is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer.

To determine the transaction price of a contract, the Company considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, the Company assumes that the goods or services will be transferred to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified.

Most of the Company’s contracts with customers have fixed transaction prices. For some contracts, the amount of consideration to which the Company will be entitled is variable. Variable consideration contracts are not common and can include performance bonuses and liquidated damages. Under these contracts, the Company uses the most likely amount method based on the range of possible outcomes, history with similar situations, and facts and circumstances as known.

The Company includes amounts of variable consideration in a contract’s transaction price only to the extent that the Company has a relatively high level of confidence that the amounts will not be subject to significant reversals, that is, downward adjustments to revenue recognized for satisfied performance obligations. In determining amounts of variable consideration to include in a contract’s transaction price, the Company relies on its experience and other evidence that supports its qualitative assessment of whether revenue would be subject to a significant reversal. The Company considers all the facts and circumstances associated with both the risk of a revenue reversal arising from an uncertain future event and the magnitude of the reversal if that uncertain event were to occur.

At the end of each month, the Company updates the estimated transaction prices of contracts having unsatisfied performance obligations. At that time, revenue and related account balances are adjusted to reflect any changes in transaction prices.

If it is determined that there are multiple performance obligations, the appropriate amount of consideration is allocated to each separate performance obligation. The Company determines the stand-alone selling price at contract inception of the good or service underlying each separate performance obligation and allocates the transaction price on a relative stand-alone selling price basis. The stand-alone selling price is determined using the Company’s internal estimate of selling price based on its expected cost plus expected margin for each performance obligation.

Note 3 - Contracts in Progress

Costs and estimated earnings on contracts in progress are as follows:

	March 31, 2021	December 26, 2020
Direct costs incurred or uncompleted contracts	$116,544,129	$ 110,442,445
Estimated earnings	59,924,668	56,313,788
Total revenue to date	176,468,797	166,756,233
Billing to date	177,795,151	165,580,056
Total	$ (1,326,354)	$ 1,176,177
Balance sheet classification:		
Contract asset - Costs and estimated earnings in excess of billings on uncompleted contracts	$ 6,272,822	$ 7,670,964
Contract liabilities - Billings in excess of costs and estimated earnings on uncompleted contracts	(7,599,176)	(6,494,787)
Total	$ (1,326,354)	$ 1,176,177

Note 4 – Inventory

Major classifications of inventories are as follows:

	March 31, 2021	December 26, 2020
Raw materials	$ 333,691	$ 339,353
Work in progress	3,250,997	3,487,614
Finished goods	432,163	219,396
Total	$ 4,016,851	$ 4,046,363

Note 5 – Warranties

The Company’s warranties provide customers with assurance that contracts and services performed comply with agreed-upon specifications under the industry-standard workmanship warranty. The Company’s contracts typically include a one-year warranty. At the time revenue is recognized, the Company estimates the cost of expected future warranty claims but does not exclude any amounts from revenue. The Company does not sell warranties separately.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Balance at beginning of period	$ 111,933	$ 91,702
Expense for warranties	19,492	50,454
Warranty claims paid	(19,492)	(30,223)
Balance at end of period	$ 111,933	$ 111,933

Note 6 – Leases and Long-term Debt

The Company accounts for leases in accordance with Accounting Standard Codification 842, "Leases," which it adopted on January 1, 2021 using the modified retrospective approach. See Note 8 to the Condensed Financial Statements for further discussion of this adoption.

The Company leases certain manufacturing facilities and equipment. An arrangement is considered to contain a lease if it conveys the right to use and control an identified asset for a period of time in exchange for consideration. If it is determined that an arrangement contains a lease, then a classification of a lease as operating or finance is determined by evaluating the five criteria outlined in the lease accounting guidance at inception. Leases generally have remaining terms of less than 10 years, whereas leases with an initial term of twelve months or less are not recorded on the Condensed Balance Sheets. The depreciable life of leased assets related to finance leases is limited by the expected term of the lease, unless there is a transfer of title or purchase option that the Company believes is reasonably certain of exercise. Certain leases include options to renew or terminate. Renewal options are exercisable per the discretion of the Company and vary based on the nature of each lease. The term of the lease includes renewal periods only if the Company is reasonably certain that it will exercise the renewal option. When determining if a renewal option is reasonably certain of being exercised, the Company considers several factors, including but not limited to, the cost of moving to another location, the cost of disrupting operations, whether the purpose or location of the leased asset is unique and the contractual terms associated with extending the lease. The Company's lease agreements do not contain any residual value guarantees or any material restrictive covenants and the Company does not sublease to any third parties. As of March 31, 2021, the Company did not have any material leases that have been signed but not commenced.

Right-of-use ("ROU") lease assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make payments in exchange for that right of use. Finance lease ROU assets and operating lease ROU assets are included in the line items "Property, plant and equipment, net" and "Operating lease assets", respectively, in the Condensed Balance Sheets. The current portion and non-current portion of finance and operating lease liabilities are all presented separately in the Condensed Balance Sheets.

The discount rate implicit within the Company's leases is generally not readily determinable, and therefore, the Company uses an incremental borrowing rate in determining the present value of lease payments based on rates available at commencement.

The weighted average remaining lease term and discount rate for finance and operating leases are as follows:

	March 31, 2021
Finance Leases	
Weighted-average remaining lease term in years	.75
Weighted-average discount rate	5.48%
Operating Leases	
Weighted-average remaining lease term in years	8.49
Weighted-average discount rate	3.29%

Note 6 – Leases and Long-term Debt (Continued)

The components of lease expense are as follows:

	Three Months Ended March 31, 2021
Finance lease cost:	
Amortization of right-of-use assets	$ 29,930
Interest on lease liabilities	1,906
Operating lease cost	207,759
Short-term lease cost	5,616
Total lease cost	$ 245,211

Operating lease costs during the three months ended March 31, 2021 were included within the cost of sales and selling, general and administrative expenses.

As of March 31, 2021, future minimum payments required under non-cancelable leases are:

	Operating Leases	Finance Leases
Remainder of 2021	$ 926,316	$ 116,606
2022	1,197,621	—
2023	1,094,036	—
2024	1,126,857	—
2025	1,160,663	—
2026 and thereafter	5,152,201	—
Total lease payments	$ 10,657,694	$ 116,606
Less - amount representing interest	1,423,935	2,445
Present value of net minimum lease payments	$ 9,233,759	$ 114,161

The Company's future minimum lease commitments for operating leases as of March 31, 2021 through 2026 were $926,316, $1,197,621, $1,094,036, $1,126,857, and $1,160,663, respectively. Future minimum lease commitments for finance leases as of March 31, 2021 through 2026 were $240,892, $161,873, $161,873, $161,873, 161,873, $361,333, respectively.

ROU assets obtained in exchange for new operating lease liabilities were $4,171,943 in the three months ended March 31, 2021.

On March 26, 2021, the Company entered into a sale-leaseback transaction with a related party. The Company sold the building recently constructed and related equipment for $ 9,765,612 and $ 977,619, respectively. The Company sold the assets at recorded cost; therefore, no gain was recognized. The related party assumed the long-term debt outstanding on the Series A and Series B bonds that was used to finance the expansion of the Company's manufacturing facility. Subsequent to the sale, the Company entered into agreements to lease all assets back from the related party, however, the lease agreements for the equipment did not meet the required criteria to account for the transaction as a sales leaseback. As a result, the current portion of the related liability is recorded in the line item "Accrued and other current liabilities" and the long-term portion is included in the line item "Other long-term liabilities" in the unaudited Condensed Balance Sheet as of March 31, 2021. The building lease, which is classified as an operating lease, is a nine-year lease effective April 1, 2021 with a base rent of $476,000, subject to annual 3 percent increase. The equipment agreements each require 84 fixed monthly payments ranging from $1,905 to $7,427.

The Company has a line of credit agreement with a bank of up to $3,000,000 payable to a bank with a maturity date of June 2021. As of March 31, 2021 and December 26, 2020, the Company had no outstanding draws on line of credit. Interest is payable monthly at a variable rate (3.25 percent at March 31, 2021 and December 26, 2020, respectively). The line of credit is collateralized by substantially all assets of the Company.

Note 7 – Income Taxes

Pursuant to provisions of the Internal Revenue Code, the Company has elected to be taxed as an S corporation. Generally, the income of an S corporation is not subject to federal income tax at the corporate level, but rather the stockholders are required to include a pro rata share of the corporation's taxable income or loss in their personal income tax returns, irrespective of whether dividends have been paid. Accordingly, no provision for federal income taxes has been made in the accompanying condensed financial statements.

Note 8 – 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 Emerging Issues Task Force, the American Institute of Certified Public Accountants or any other authoritative accounting bodies to determine the potential impact they may have on the Company's financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU")No. 2016-02, "Leases (Topic 842)," which requires companies to recognize all leases as assets and liabilities on the balance sheet. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. This ASU retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous accounting guidance. The guidance is effective for the Company's year ending December 31, 2022. Earlier application is permitted.

The Company adopted the new standard using the modified retrospective approach on January 1, 2021. The Company elected the available transition method that uses the effective date of the amended guidance as the date of initial application. The guidance provided for several practical expedients. The Company elected the package of practical expedients permitted under the transition guidance which allows entities to carry forward historical lease classification. The Company made an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. The Company recognizes those lease payments in the Condensed Statements of Operations on a straight-line basis over the lease term. On January 1, 2021, the Company recognized the cumulative effect of initially applying the amended guidance which resulted in the recognition of operating lease ROU assets of $5,223,752 and operating lease liabilities of $5,223,752.

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 financial statements.

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information combines the individual historical audited results of Graham Corporation ("Graham", "our" or "the Company") and Barber-Nichols, LLC ("BN") adjusted to give effect to the June 1, 2021 acquisition of BN. The unaudited pro forma condensed combined statement of operations for the year ended March 31, 2021 gives effect to the acquisition as if it had occurred on April 1, 2020 and the unaudited pro forma condensed combined balance sheet as of March 31, 2021 gives effect to the acquisition as if it had occurred on that day.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the BN acquisition, (2) factually supportable and (3) with respect to the unaudited pro forma condensed combined statement of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information has been derived from and should be read in conjunction with the historical audited consolidated financial statements of Graham Corporation contained in its Annual Report on Form 10-K for the year ended March 31, 2021 and the historical audited financial statements of BN for the year ended December 26, 2020 contained in Exhibit 99.1 of this Current Report on Form 8-K. Since Graham and BN have different fiscal year ends, the BN statement of operations included in the unaudited pro forma condensed combined financial information was derived by adding the unaudited statement of operations for the three-month period ending March 31, 2021 and subtracting the unaudited statement of operations for the three-month period ending March 31, 2020 from the historical audited financial statements of BN for the year ended December 26, 2020. The unaudited historical financial statements of BN for the three months ended March 31, 2021 and 2020 are contained in Exhibit 99.2 of the Current Report on Form 8-K.

The unaudited pro forma condensed combined financial information has been prepared by management in accordance with Article 11, Pro Forma Financial Information, under Regulation S-X of the Exchange Act, and is for illustrative and informational purposes only. The unaudited pro forma condensed combined financial information is not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the acquisition been consummated as of the dates indicated. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the combined company.

GRAHAM CORPORATION AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of March 31, 2021

(Dollars in thousands)

	Historical				
	Graham Corporation Historical	BNI Historical	Transaction Accounting Adjustments		Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	$ 59,532	$ 1,313	$ (41,300)	(a), (h), (i)	$ 19,545
Restricted cash and cash equivalents	—	50			50
Investments	5,500	—			5,500
Trade accounts receivable, net of allowances	17,378	9,889			27,267
Unbilled revenue	19,994	6,273			26,267
Inventories	17,332	4,017	97	(d)	21,446
Current portion of notes receivable - Related party	—	55	(55)	(k)	—
Prepaid expenses and other current assets	512	776			1,288
Total current assets	120,248	22,373	(41,258)		101,363
Property, plant and equipment, net	17,618	4,902	2,518	(e)	25,038
Prepaid pension asset	6,216	—			6,216
Notes receivable - Related party	—	55	(55)	(k)	—
Operating lease assets	95	9,216			9,311
Goodwill	—	—	21,644	(f)	21,644
Customer relationships	—	—	11,800	(g)	11,800
Technology and technical know how	—	—	10,100	(g)	10,100
Other intangible assets, net	—	—	11,200	(g)	11,200
Other assets	103	—	150	(i)	253
Total assets	$ 144,280	$36,546	$ 16,099		$196,925
Liabilities and stockholders' equity					
Current liabilities:					
Current portion of long-term debt	$ —	$ 430	$ 1,570	(h)	$ 2,000
Current portion of finance lease obligations	21	114			135
Accounts payable	17,972	1,787			19,759
Accrued compensation	6,106	1,581			7,687
Accrued expenses and other current liabilities	4,628	626	2,102	(c), (h), (l)	7,356
Customer deposits	14,059	7,599			21,658
Operating lease liabilities	46	965			1,011

Income taxes payable	741	—			741
Total current liabilities	43,573	13,102	3,672		60,347
Long-term debt	—	125	17,875	(h)	18,000
Finance lease obligations	34	—			34
Operating lease liabilities	37	8,269			8,306
Deferred income tax liability	635	—	(47)	(l)	588
Accrued pension liability	1,557	—			1,557
Accrued postretirement benefits	515	—			515
Other long-term liabilities	—	1,174	(322)		852
Total liabilities	46,351	22,670	21,178		90,199
Stockholders' equity:					
Preferred stock					
Common stock	1,075	—	3	(j)	1,078
Capital in excess of par value	27,272	837	(1,034)	(b), (j), (k)	27,075
Retained earnings	89,372	13,039	(13,206)	(k), (l)	89,205
Accumulated other comprehensive loss	(7,397)	—			(7,397)
Treasury stock	(12,393)	—	9,158	(b)	(3,235)
Total stockholders' equity	97,929	13,876	(5,079)		106,726
Total liabilities and stockholders' equity	$144,280	$36,546	$ 16,099		$196,925

See accompanying notes to unaudited pro forma condensed combined financial statements.

GRAHAM CORPORATION AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2021

(Dollars in thousands, except for share amounts)

	Historical				
	Graham Corporation	BNI	Transaction Accounting Adjustments		Pro Forma Combined
Net sales	$ 97,489	$57,920	$ —		$155,409
Cost of products sold	77,020	33,767	14,635	(a), (b), (c), (d)	125,422
Gross profit	20,469	24,153	(14,635)		29,987
Other expenses and income:					
Selling, general and administrative	17,471	16,598	(12,425)	(a), (e), (g)	21,644
Selling, general and administrative - amortization	—	—	1,095	(b)	1,095
Other income	(113)	(86)	86	(a)	(113)
Interest income	(167)	1	6	(h)	(160)
Interest expense	11	88	244	(f)	343
Total other expenses and income	17,202	16,601	(10,994)		22,809
Income before provision for income taxes	3,267	7,552	(3,641)		7,178
Provision for income taxes	893	—	873	(i)	1,766
Net income	$ 2,374	$ 7,552	$ (4,514)		$ 5,412
Per share data:					
Basic:					
Net income	$ 0.24				$ 0.51(j)
Diluted:					
Net income	$ 0.24				$ 0.51(j)
Average common shares outstanding:					
Basic	9,959				10,569(j)
Diluted	9,959				10,569(j)

See accompanying notes to unaudited pro forma condensed combined financial statements.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

Note 1. Description of the Transaction

On June 1, 2021, the Company completed its acquisition of Barber-Nichols, LLC ("BN"), a privately-owned designer and manufacturer of turbomachinery products, located in Arvada, Colorado, that serves the defense and aerospace industry as well as the energy and cryogenic markets.

The purchase price of $72,014 was comprised of 610 shares of the Company's common stock, representing a value of $8,964 at $14.69 per share, and cash consideration of $61,150, subject to certain potential adjustments, including a customary working capital adjustment. The cash consideration was funded through cash on-hand and debt proceeds. The purchase agreement also includes a contingentearn-out dependent upon certain financial measures of BN post-acquisition, in which the sellers are eligible to receive up to $14,000 in additional cash consideration. As of June 30, 2021, a liability of $1,900 was recorded for the contingent earn-out and is treated as additional purchase price. If achieved, theearn-out will be payable in fiscal year 2025. The fair value of the contingent consideration liability was based on an option pricing model using a Monte Carlo simulation and is estimated by discounting contingent payments expected to be made, and may increase or decrease based on changes in earnings before income tax, depreciation and amortization estimates and discount rates.

Note 2. Basis of Presentation

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method in accordance with Financial Accounting Standards Board Accounting Standards Codification 805, Business Combinations ("ASC 805"). Under the acquisition method of accounting, the Company allocates the purchase price of a business acquisition based on the fair value of the identifiable tangible and intangible assets. Goodwill is recognized to the extent that the purchase consideration exceeds the assets acquired and liabilities assumed. The Company uses its best estimate and third party valuation specialists to determine the fair value of the assets acquired and liabilities assumed. During the measurement period, which can be up to one year after the acquisition date, the Company can make adjustments to the fair value of the assets acquired and liabilities assumed, with the offset being an adjustment to goodwill.

Note 3. Accounting Policies

The unaudited pro forma condensed combined financial statements do not reflect any differences in accounting policies. Graham has completed the review of BN's accounting policies and has concluded that differences between the accounting policies of the two companies are not material. However, historically BN classified certain expenses related to cost of products sold as selling, general and administrative expenses. This difference in classification was addressed in the accompanying unaudited proforma condensed combined Statement of Operations and is described in (a) under Note 6.

Note 4. Estimate of Consideration Transferred and Preliminary Purchase Price Allocation

The transaction was accounted for as a business combination in accordance with ASC 805, and as such, assets acquired, liabilities assumed, and consideration transferred were recorded at their estimated fair values on the acquisition date. The fair value of the assets and liabilities in the unaudited pro forma condensed combined financial statements are based upon a preliminary assessment of fair value and may change as valuations for certain tangible assets, intangible assets and contingent liabilities are finalized. The Company expects to finalize the purchase price allocation as soon as practicable, but no longer than one year from the acquisition date. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the future results of operations and financial position of the combined company.

The following table summarizes the preliminary allocation of the consideration paid for BN to the preliminary estimated fair value of the assets acquired and liabilities assumed at the acquisition date, with the excess recorded to goodwill.

Consideration:	
Cash	$61,150
Value of Graham common stock issued at close(a)	8,964
Contingent earn-out	1,900
Fair value of total consideration transferred	$72,014
Preliminary estimate of the assets acquired and liabilities assumed	
Cash and cash equivalents	$ 1,587
Trade accounts receivable	8,154
Unbilled revenue	7,068
Inventories	3,669
Other current assets	409
Property, plant & equipment	8,037
Operating lease asset	9,026
Goodwill	22,923
Customer relationships	11,800
Technology and technical know how	10,100
Other intangible assets (b)	11,200
Total assets acquired	93,973
Liabilities assumed:	
Accounts payable	2,736
Accrued compensation	1,341
Other current liabilities	665
Customer deposits	6,048
Operating lease liabilities	9,066
Other long-term liabilities	2,103
Total liabilities assumed	21,959
Fair value of total consideration transferred	$72,014

(a) The Company issued 610 shares of Graham common stock which was valued at $14.69 per share on June 1, 2021.
(b) Intangible assets acquired includes backlog and trade name with an estimated fair value of $3,800 and $7,400, respectively.

The fair value of backlog was determined using a net realizable value methodology and was computed as the present value of the expected sales attributable to backlog less the remaining costs to fulfill the backlog. The estimated life of four years was based upon the period of time in which the backlog is expected to be converted to sales. Customer relationships were valued using an income approach, specifically the Multi Period Excess Earnings method, which incorporates assumptions regarding retention rate, new customer growth and customer related costs. The customer relationships will be amortized using the straight line method over an expected useful life of 20 years. The trade name and technology and technical know how were both valued using a Relief from Royalty method, which develops a market based royalty rate used to reflect the after tax royalty savings attributable to owning the intangible asset. The trade name is classified as an indefinite lived intangible asset and the technology and technical know how will be amortized using the straight line method over an expected useful life of 20 years.

The preliminary purchase price allocation above, which is as of the acquisition date of June 1, 2021, has been used to prepare the transaction accounting adjustments in the unaudited pro forma condensed combined balance sheet and unaudited pro forma condensed combined statement of operations.

Note 5. Notes to Unaudited Pro Forma Condensed Combined Balance Sheet

The following is a description of the preliminary transaction accounting adjustments reflected in the unaudited pro forma condensed combined balance sheet.

(a) Cash consideration transferred

Represents the adjustment to record the cash portion of the consideration of $61,150

(b) Fair value of share consideration transferred

Represents the adjustment to record the equity portion of the consideration of $8,964 ($9,158 of treasury stock issued and decrease of $194 to capital in excess of par value).

(c) Contingent earn-out

Represents the adjustment to record the estimated fair value of the contingentearn-out of $1,900.

(d) Inventories

Represents the adjustment of $97 to step up inventories to their fair market value. The fair value ofwork-in-progress and finished goods inventory was determined using the comparative sales method and raw materials was determined using the replacement cost method.

(e) Property, plant and equipment

Represents the adjustment of $2,518 to record the property, plant and equipment acquired at their estimated fair value.

(f) Goodwill

Represents the adjustment to record the purchase price paid in excess of the preliminary estimated fair value of assets acquired and liabilities assumed. See Note 4 for further details on the purchase price allocation and goodwill.

(g) Intangible assets

Represents the adjustment to record the intangible assets at their estimated fair value of $33,100.

(h) Long-term debt

Represents the adjustment to record the cash portion of the consideration financed with borrowings from a $20,000 term loan. Also represents the adjustment to eliminate the long-term debt balances of $877 and accrued interest of $12 on BN's historical unaudited balance sheet that was not assumed as part of the acquisition.

(i) Debt issuance costs

Represents the adjustment to record debt issuance costs of $150.

(j) Fair value of equity-based compensation awards

Represents the adjustment to record the estimated value of restricted stock granted to two key executives of BN.

(k) Notes receivable-related party and stockholders' equity

Represents the adjustment to eliminate the related party notes receivable and stockholders' equity balances on BN's historical unaudited balance sheet as a result of purchase accounting.

(l) Transaction costs

Represents the adjustment to record estimated remaining transaction costs of $214 that were not previously recorded in the historical combined financial statements and the related deferred tax asset which was determined based on the combined federal and state statutory tax rate in effect during the period presented. As there is no continuing impact, the impact of these costs is not included in the unaudited pro forma condensed combined statement of operations.

Note 6. Notes to Unaudited Pro Forma Condensed Combined Statement of Operations

The following is a description of preliminary transaction accounting adjustments reflected in the unaudited pro forma condensed combined statement of operations.

(a) Reclassification of certain expenses between "Cost of products sold" ($12,634 increase), "Selling, general and administrative" ($12,720 decrease), and "Other income" ($86 decrease) to conform with the classifications in the historical Graham Statement of Operations. (See Note 3.)

(b) Amortization of intangible assets

Reflects the adjustment to amortization expense of $2,697 to include an estimate of intangible asset amortization based on the specific useful life assigned to each definite-lived intangible asset. Of the $2,697, $1,602 is included in the line item "Cost of products sold."

(c) Depreciation

Represents the estimated additional depreciation expense of $302 related to the adjustment to record property, plant and equipment at the estimated fair value.

(d) Amortization of inventory step-up

Represents the estimated amortization of $97 related to the adjustment to record inventory at the estimated fair value. The amortization is based on the forecasted sales of the related product.

(e) Compensation expense

Reflects new compensation arrangements executed with two key executives of BN increasing annual salaries and bonuses by an estimated $351 as well as the additional estimated expense related to the restricted stock granted to the two key executives of $119.

(f) Interest expense

Represents the adjustment to eliminate interest expense included in BN's historical unaudited statement of operations of $86 related to long-term debt that was not assumed as part of the acquisition, the estimated additional interest expense of $300 incurred from the term loan used to finance the acquisition and amortization of debt issuance costs of $30.

(g) Transaction costs

Reflects the adjustment to eliminate transaction costs incurred by Graham in the historical combined financial statements of $175 which are directly attributable to the acquisition but are not expected to have a continuing impact.

(h) Interest income

Reflects an estimate of forgone interest income on available cash, cash equivalents and investments based on the use as a source of liquidity to fund the acquisition of $6. The estimate was calculated using a weighted average interest rate of 0.01% which was derived from actual interest rates realized by Graham during the period presented.

(i) Income tax provision

The adjustment reflects the tax effect of the transaction accounting adjustments as well as the tax provision of $1,685 on the historical BN income before provision for income taxes. The estimate was determined based on the combined federal and state statutory tax rate in effect during the period presented.

(j) Weighted average number of shares and earnings per share

The unaudited pro forma combined basic and diluted earnings per share for the period presented have been adjusted by the 610 common shares issued from treasury in connection with the acquisition of BN, which are assumed outstanding for the year ended March 31, 2021 for pro forma purposes.