
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED MARCH 31, 2005.

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 1-8462

GRAHAM CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<Table>

<S>	DELAWARE	<C>	16-1194720
	(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)		(I.R.S. EMPLOYER IDENTIFICATION NO.)

20 FLORENCE AVENUE, BATAVIA, NEW YORK	14020
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

</Table>

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

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

<Table>

<Caption>	TITLE OF CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
<S>	COMMON STOCK (PAR VALUE \$.10)	<C> AMERICAN STOCK EXCHANGE

</Table>

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

TITLE OF CLASS

COMMON STOCK PURCHASE RIGHTS

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [] No [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2004, the last business day of the Company's most recently completed second fiscal quarter, was \$17,615,879. The market value calculation was determined using the closing price of the Registrant's Common Stock on September 30, 2004, as reported on the American Stock Exchange.

As of May 19, 2005, there were outstanding 1,727,932 shares of common stock, \$.10 par value. As of May 19, 2005, there were outstanding 1,727,932 common stock purchase rights.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Notice of Meeting and Proxy Statement for the 2005 Annual Meeting of Stockholders is incorporated by reference into Part III of this filing.

An Exhibit Index is located at page 49 of this filing under the sequential numbering system prescribed by Rule 0-3(b) of the Act.

GRAHAM CORPORATION

FORM 10-K INDEX

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PART I

(Dollar amounts in thousands except per share data).

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

Graham Corporation (the "Company", "Graham", the "Corporation" or the "Registrant") is a Delaware company incorporated in 1983. It is the successor to Graham Manufacturing Co., Inc., which was incorporated in 1936. The Company's business consists of one engineering and manufacturing operating segment, which is located in Batavia, New York. Formerly, the Company had an operating segment located in the United Kingdom that manufactured vacuum equipment. In March 2005, Graham Corporation's Board of Directors approved a plan to dispose of the U.K. operating segment, which resulted in the liquidation of the operation in May 2005. As a result of the disposition, this segment is presented as a discontinued operation in the Consolidated Financial Statements.

The Company is a well-recognized supplier of steam jet ejector vacuum systems, surface condensers for steam turbines, vacuum pumps and compressors, and various types of heat exchangers such as Heliflow and plate and frame exchangers. It possesses expertise in combining these various products into packaged systems for sale to its customers in a variety of industrial markets, including oil refining, chemical, petrochemical, power, pulp and paper, other process applications, and shipbuilding.

Fiscal year 2005 sales were \$41 million, an increase of 10% from the previous fiscal year. The increase in sales over the previous year reflects an increase in sales of condensers, Heliflow and plate heat exchangers and one large petrochemical vacuum system sale.

Orders in fiscal year 2005 were \$49.9 million, up 47% from the previous fiscal year. Backlog stood at \$22.4 million on March 31, 2005, compared to \$13.5 million on March 31, 2004, up 66%.

The Company recognized Other Income of \$1,592 in fiscal year 2005. This income resulted from a settlement of a contract dispute over cancellation charges.

The Company recognized Other Expense in the current year of \$1,049. These expenses principally related to the transition of two senior executives.

The Company is presently experiencing a recovery in its major markets. Sales opportunities have improved over recent prior years, both domestically and overseas.

The Company's export sales represented 40% of sales in fiscal year 2005, as compared to 54% of sales in the previous year.

The Company had 243 employees in the United States as of March 31, 2005.

On March 15, 2005, Graham Corporation's Board of Directors approved a plan to discontinue its U.K. operations by making available for sale the Company's wholly-owned subsidiary, Graham Vacuum and Heat Transfer Limited and all of its subsidiaries, including Graham Precision Pumps Limited. On March 24, 2005, the principal creditor of Graham's U.K. companies, National Westminster Bank, exercised its right to appoint a receiver for Graham Vacuum and Heat Transfer Limited and Graham Precision Pumps Limited. In May 2005, the assets of Graham Precision Pumps Limited were sold. The divestiture of Graham Vacuum and Heat Transfer Limited and its subsidiaries has been accounted for as a discontinued operation in the accompanying financial statements.

CAPITAL EXPENDITURES

The Company's capital expenditures for fiscal years 2005 and 2004 amounted to \$224 and \$249, respectively.

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(b) FINANCIAL INFORMATION ABOUT SEGMENTS

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

Graham Corporation operates in one business segment which is the design and manufacture of vacuum and heat transfer equipment. Further geographical segment information is set forth in Note 15 to the Consolidated Financial Statements on page 40 of the Annual Report on Form 10-K.

(c) NARRATIVE DESCRIPTION OF BUSINESS

(1) Business Done and Intended to be Done

Principal Products and Markets

The Company designs, manufactures and supplies vacuum and heat transfer equipment, primarily custom built. Its products include steam jet ejector vacuum systems, surface condensers for steam turbines, vacuum pumps and compressors, and various types of heat exchangers, including helical coil exchangers marketed under the registered name "Heliflow" and plate and frame exchangers. These products function to produce a vacuum or to condense steam or otherwise transfer heat, or any combination of these tasks. All of the products named, other than the pumps, accomplish these results without involving any moving parts. Graham's products are available in a variety of metals and a number of non-metallic corrosion resistant materials as well.

This equipment is used in a wide range of industrial process applications: power generation facilities, including fossil fuel plants and nuclear plants as well as cogeneration plants and geothermal power plants that harness naturally occurring thermal energy; petroleum refineries; chemical plants; pharmaceutical plants; plastics plants; fertilizer plants; breweries; liquefied natural gas production; soap manufacturing; air conditioning systems; food processing plants and other process industries. Among these the principal markets for the Company's products are the chemical, petrochemical, petroleum refining, and electric power generating industries. The Company's equipment is sold by a combination of direct company sales engineers and independent sales representatives located throughout the world.

Status of Publicly Announced New Products or Segments

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

Sources and Availability of Raw Materials

Although certain material shortages can affect the Company's ability to meet delivery requirements for certain orders from time to time, historically, the Company's shipment schedules have not been materially impacted.

Material Patents, Trademarks

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

Seasonal Variations

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

Working Capital Practices

The Company's business does not require it to carry significant amounts of inventory, or of materials beyond what is needed for work in progress. The Company does not provide rights to return goods, or payment terms to customers that would be considered extended in the context of the practices of its industries.

Principal Customers

The Company's principal customers include the large chemical, petroleum and power companies, which are end users of the Company's equipment in their manufacturing and refining processes, large engineering

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contractors who build installations for such companies and others, and original equipment manufacturers, who combine our equipment with theirs prior to sale to an end user.

No material part of the Company's business is dependent upon a single customer or on a few customers, the loss of any one or more of whom would have a materially adverse effect on the Company's business. No customer of the Company or group of related customers regularly accounts for as much as 10% of the Company's consolidated annual revenue.

Order Backlog

Backlog of unfilled orders at March 31, 2005 was \$22,376, as compared to \$13,482 at March 31, 2004.

Government Contracts

No material portion of the Company's business is subject to renegotiation of profits or termination of contract or subcontracts at the election of the government.

Competition

The Company's business is highly competitive and a number of companies having greater financial resources are engaged in manufacturing similar products. The principal bases of competition are technology, price, performance, delivery and quality. However, the Company believes it is one of the leading manufacturers of steam jet ejectors.

Research Activities

During the fiscal years ended March 31, 2005, 2004, and 2003 the Company spent approximately \$150, \$118 and \$144, respectively, on research activities relating to the development of new products or the improvement of existing products.

Environmental Matters

The Company does not anticipate that compliance with federal, state and local provisions, which have been enacted or adopted regulating the discharge of material in the environment or otherwise pertaining to the protection of the environment, will have a material effect upon the capital expenditures, earnings and competitive position of the Company and its subsidiaries.

(d) FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

The information called for under this Item is set forth in Note 15 to Consolidated Financial Statements, on page 40 of this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

The Company's corporate headquarters is located at 20 Florence Avenue, Batavia, New York, consisting of a 45,000 square foot building. The Company's manufacturing facilities are also located in Batavia, consisting of approximately thirty-three acres and containing about 204,000 square feet in several connected buildings, including 162,000 square feet in manufacturing facilities, 48,000 square feet for warehousing and a 6,000 square-foot building for product research and development.

Additionally, the Company leases a U.S. sales office in Houston.

Assets of the Company, with a book value of \$25,343, have been pledged to secure certain borrowings.

We believe that our properties are generally in good condition, are well maintained, and are suitable and adequate to carry on our business.

ITEM 3. LEGAL PROCEEDINGS

This information is set forth in Note 16 to the Consolidated Financial Statements on page 41 of the Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the Company's security holders for a vote during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) The Company sold no equity securities that were not registered during the period covered by this Annual Report on Form 10-K.

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ITEM 6. SELECTED FINANCIAL DATA

<Table>
<Caption>

	GRAHAM CORPORATION -- TEN YEAR REVIEW				
	2005 (1)	2004 (1) (2)	2003 (1) (2)	2002 (1) (2)	2001 (1) (2)
	IN THOUSANDS (EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
OPERATIONS:					
Net Sales.....	\$ 41,333	\$ 37,508	\$ 44,511	\$ 47,396	\$ 44,433
Gross Profit.....	7,540	5,890	7,297	10,077	9,796
Gross Profit Percentage.....	18%	16%	16%	21%	22%
Income (Loss) From Continuing Operations.....	296	(832)	148	2,305	195
Dividends.....	334	327	254		
COMMON STOCK:					
Basic (Loss) Earnings From Continuing Operations Per Share.....	.17	(.51)	.09	1.40	.12
Diluted (Loss) Earnings From Continuing Operations Per Share.....	.17	(.51)	.09	1.38	.12
Quarterly Dividend Per Share.....	.05	.05	.05		
Market Price Range of Common Stock.....	17.80-10.70	11.70-7.06	11.00-6.84	14.80-7.25	12.94-7.06
FINANCIAL DATA:					
Working Capital.....	11,204	11,652	12,822	13,812	11,162
Capital Expenditures.....	224	249	799	688	1,124
Depreciation.....	768	793	797	955	926
Total Assets.....	33,529	35,740	38,323	43,704	36,608
Long-Term Debt.....	44	93	127	150	682
Shareholders' Equity.....	16,578	18,102	18,836	19,636	17,137

</Table>

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- (1) The financial data presented for 2005-1998 is for the respective twelve months ended March 31. The financial data presented for 1997 is for the three-month transition period ended March 31, 1997. The financial data presented for 1996-1995 is for the respective twelve months ended December 31.
- (2) The financial data presented for 2004-2003 has been restated to reflect the results of Graham Vacuum and Heat Transfer Limited as discontinued operations and the change in accounting for revenue recognition, as discussed in Notes 2 and 1, respectively, to the Consolidated Financial Statements. The financial data presented for 2002-1995 has not been restated for these items.

<Table>

<S>

<C>

NET SALES \$ in Thousands

05	41333
04	37508
03	44511
02	47396
01	44433
00	38728
99	52978
98	56206

96
95
</Table>

51487
50501

WORKING CAPITAL \$ in Thousands

<Table>	
<S>	<C>
05	11204
04	11652
03	12822
02	13812
01	11162
00	12397
99	11989
98	12459
96	8239
95	7093
</Table>	

5

<Table>
<Caption>

GRAHAM CORPORATION -- TEN YEAR REVIEW

	2000 (1) (2)	1999 (1) (2)	1998 (1) (2)	1997 (1) (2)	1996 (2)	1995 (2) (3)
	IN THOUSANDS (EXCEPT PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
OPERATIONS:						
Net Sales.....	\$ 38,728	\$ 52,978	\$ 56,206	\$ 14,257	\$ 51,487	\$ 50,501
Gross Profit.....	9,964	14,872	18,083	4,080	15,463	13,257
Gross Profit Percentage.....	26%	28%	32%	29%	30%	26%
Income (Loss) From Continuing Operations.....	(833)	2,369	3,766	621	3,102	1,361
Dividends.....						
COMMON STOCK:						
Basic (Loss) Earnings From Continuing Operations Per Share.....	(.55)	1.48	2.27	.39	1.96	.86
Diluted (Loss) Earnings From Continuing Operations Per Share.....	(.55)	1.46	2.21	.38	1.93	.86
Quarterly Dividend Per Share.....						
Market Price Range of Common Stock.....	9.44-6.00	18.25-6.50	22.88-13.00	15.63-9.13	12.58-9.00	10.67-6.00
FINANCIAL DATA:						
Working Capital.....	12,397	11,989	12,459	10,300	8,239	7,093
Capital Expenditures.....	711	1,189	1,400	237	1,291	204
Depreciation.....	998	983	905	249	892	927
Total Assets.....	34,596	34,136	37,030	31,224	30,494	29,499
Long-Term Debt.....	1,948	505	859	2,764	1,442	3,303
Shareholders' Equity.....	17,092	16,712	17,775	12,538	11,915	8,426

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

<Table>	
<S>	<C>
LONG-TERM DEBT \$ in Thousands	
05	44
04	93
03	127
02	150
01	682
00	1948
99	505
98	859
96	1442
95	3303
</Table>	

SHAREHOLDERS' EQUITY \$ in Thousands

<Table>	
<S>	<C>
05	16578

04	18102
03	18836
02	19636
01	17137
00	17092
99	16712
98	17775
96	11915
95	8426

</Table>

ITEM 7. GRAHAM CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

March 31, 2005

(Dollar amounts in thousands except per share data).

OVERVIEW

Graham Corporation ("Graham", "the Corporation" or "the Company") consists of one engineering and manufacturing operating segment, which is located in Batavia, New York. Formerly, the Company had an operating segment located in the United Kingdom that manufactured vacuum equipment. In March 2005, Graham Corporation's Board of Directors approved a plan to dispose of the U.K. operating segment, which resulted in the liquidation of the operation in May 2005. As a result of the disposition, this segment is presented as a discontinued operation in the Consolidated Financial Statements.

Graham's fiscal financial reporting year commences April 1 and ends March 31.

Graham Corporation designs, manufactures and supplies vacuum and heat transfer equipment for the process industries throughout the world. The major markets for Graham's equipment are chemical, petrochemical, petroleum refining and electric power generating industries, including cogeneration and geothermal plants. Other markets served include metal refining, pulp and paper processing, shipbuilding, water heating, refrigeration, desalination, food processing, drug manufacturing, heating, ventilating and air conditioning.

Ejectors, vacuum pumps, condensers, heat exchangers and other products sold are used to produce synthetic fibers, chemicals, petroleum products (including gasoline), electric power, processed food (including canned, frozen and dairy products), pharmaceutical products, paper, steel, fertilizers and numerous other products used everyday by people throughout the world.

Global growth and expansion in oil refineries, petrochemical plants and power generation are driving current demand for Graham products. In order to capitalize on this global trend, the Company has expanded its sales operations by establishing a sales company in the U.K. in order to better serve Europe and the Middle East. In fiscal year 2005, the Company established a sales office in China to build its sales representative network to better serve the Asian markets.

Because Graham's products are capital goods, industrial downturns can have a major impact on sales. Graham believes it is coming off of one of the longest industrial recessions since the late 1990's. The level of inquiries for products received in fiscal 2005 has given the Company reason to believe that Graham is entering an up cycle for capital spending, which should continue to positively impact its business for the immediate future.

In the quarter ended September 30, 2004, the Corporation changed its method of recognizing revenue for certain contracts from the completed contract to the percentage-of-completion method. Financial results for fiscal years 2004 and 2003 have been restated to reflect this change. The impact of the change on net sales, cost of products sold, (benefit) provision for income taxes, income (loss) from continuing operations, net income (loss), income (loss) from continuing operations per share and net income (loss) per share for the prior fiscal years ended March 31, 2004 and 2003 is as follows:

<Table>
<Caption>

	2004			2003		
	AMOUNTS REPORTED USING			AMOUNTS REPORTED USING		
	PERCENTAGE OF COMPLETION METHOD	COMPLETED CONTRACT METHOD	DIFFERENCE	PERCENTAGE OF COMPLETION METHOD	COMPLETED CONTRACT METHOD	DIFFERENCE
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$37,508	\$37,893	\$(385)	\$44,511	\$43,960	551
Cost of products sold.....	\$31,618	\$31,915	\$(297)	\$37,214	\$36,720	494

(Benefit) provision for income taxes.....	\$ (607)	\$ (610)	\$ 3	\$ 68	\$ 54	14
Income (loss) from continuing operations....	\$ (832)	\$ (741)	\$ (91)	\$ 148	\$ 105	43
Net income (loss).....	\$ (1,161)	\$ (1,070)	\$ (91)	\$ 176	\$ 133	43
Income (loss) from continuing operations per share						
Basic.....	\$ (.51)	\$ (.45)	\$ (.06)	\$.09	\$.06	\$.03
Diluted.....	\$ (.51)	\$ (.45)	\$ (.06)	\$.09	\$.06	\$.03
Net income (loss) per share						
Basic.....	\$ (.71)	\$ (.65)	\$ (.06)	\$.11	\$.08	\$.03
Diluted.....	\$ (.71)	\$ (.65)	\$ (.06)	\$.11	\$.08	\$.03

</Table>

The effect of the change on retained earnings is as follows:

<Table>

<Caption>

	2004	2003
	-----	-----
Balance at beginning of year as previously reported.....	\$18,767	\$18,888
Add adjustment for the cumulative effect on prior periods of applying retroactively the change in accounting method....	43	0
	-----	-----
Balance at beginning of year, as adjusted.....	18,810	18,888
Net (loss) income.....	(1,161)	176
Dividends.....	(327)	(254)
	-----	-----
Balance at end of year.....	\$17,322	\$18,810
	=====	=====

</Table>

On March 15, 2005, Graham Corporation's Board of Directors approved a plan to discontinue its U.K. operations by making available for sale the Company's wholly-owned subsidiary, Graham Vacuum and Heat Transfer Limited and all of its subsidiaries, including Graham Precision Pumps Limited. Two significant events guided the Company to its decision to offer the U.K. operations for sale. The Company commenced negotiations in October 2004 with a land developer to complete a sales leaseback agreement of the land and buildings owned and occupied by Graham Precision Pumps Limited. It was the Company's intent to use the proceeds of the sale to retire its bank borrowings and enter into a new banking agreement. The feasibility of this plan significantly diminished, when in March 2005, the Company evaluated the near term prospects for Graham Precision Pumps Limited's orders. On March 24, 2005, the principal creditor of Graham's U.K. companies, National Westminster Bank, exercised its right to appoint a receiver for Graham Vacuum and Heat Transfer Limited and Graham Precision Pumps Limited. In May 2005, the assets of Graham Precision Pumps Limited were sold by the receiver. The Corporation did not receive any of the proceeds from the sale. The divestiture of Graham Vacuum and Heat Transfer Limited and its subsidiaries has been accounted for as a discontinued operation in the accompanying financial statements. For additional information, see Note 2 in the Notes to Consolidated Financial Statements.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including in this Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical facts, constitute "Forward-Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, in general, predict, forecast, indicate or imply future results, performance or achievements and generally use words so indicative. The Company wishes to caution the reader that numerous important factors which involve risks and uncertainties, including but not limited to its strategy to build its global sales representative channel, the effectiveness of automation in its operations, the ability to improve its cost competitiveness, customer preferences and changes in market conditions in the industries in which the Company operates, and other factors discussed in the Company's filings with the Securities and Exchange Commission, in the future, could affect the Company's actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in

materially different results under different assumptions and conditions. Management has discussed each of these critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition -- The Corporation recognizes revenue on all contracts with a planned manufacturing process in excess of four weeks (which approximates 575 direct labor hours) using the percentage-of-completion method. The percentage-of-completion method is determined by relating actual labor incurred to-date to management's estimate of total labor to be incurred on each contract. Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in the contract value and estimated costs at completion. Losses on contracts are recognized immediately when known.

Revenue on other contracts (less than four weeks in duration, which approximates less than 575 direct labor hours) not accounted for using the percentage-of-completion method is recognized utilizing the completed contract method. The majority of the Company's contracts have a planned manufacturing process of less than four weeks and the results reported under this method do not vary materially from the use of the percentage-of-completion method. The Company recognizes revenue and all related costs on the completed contract method upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further material obligations under the contract after the revenue is recognized.

Pension and Postretirement Benefits -- The Company's defined benefit pension and other postretirement benefit costs and obligations are dependent on actuarial assumptions used in calculating such amounts. These assumptions, which are reviewed annually by the Company, include the discount rate, long-term expected rate of return on plan assets, salary growth, healthcare cost trend rate and other economic and demographic factors. The Company bases the discount rate assumption for its plans on the AA-rated corporate long-term bond yield rate. The long-term expected rate of return on plan assets is based on the plan's asset allocation, historical returns and management's expectation as to future returns that are expected to be realized over the estimated remaining life of the plan liabilities that will be funded with the plan assets. The salary growth assumptions are determined based on the Company's long-term actual experience and future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook, and an assessment of the likely long-term trends.

To the extent that actual results differ from our assumptions, the differences are reflected as unrecognized gains and losses and are amortized to earnings over the estimated future service period of the plan participants to

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the extent such total net recognized gains and losses exceed 10% of the greater of the plan's projected benefit obligation or the market-related value of assets. Significant differences in actual experience or significant changes in future assumptions would affect the Company's pension and postretirement benefit costs and obligations.

Use of Estimates -- The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Use of estimates include the recording of revenue, pension obligations, and the underlying assumptions, stock-based compensation and valuation reserves and/or allowances for uncollectible accounts, inventory obsolescence, deferred taxes, warranty, and liquidated damages.

RESULTS OF OPERATIONS

For an understanding of the significant factors that influenced the Company's performance, the following discussion should be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements.

<Table>
<Caption>

	FY 2005	FY 2004	FY 2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales.....	\$41,333	\$37,508	\$44,511
Income (loss) from continuing operations.....	\$ 296	\$ (832)	\$ 148
Diluted income (loss) per share from continuing operations.....	\$ 0.17	\$ (0.51)	\$ 0.09
Identifiable assets.....	\$33,529	\$35,740	\$38,323

</Table>

Sales for the current year were \$41,333, as compared to \$37,508 for the

year ended March 31, 2004. This represents a 10% increase in sales. The increase in sales for the twelve months ended March 31, 2005 was due to greater sales in Graham's condensers, Heliflows and plate exchanger products, and one petrochemical vacuum system shipment approximating 7% of annual sales.

Sales for the last six months of fiscal year 2005 were up 29% over the same period ended March 31, 2004. Sales for the six months ended March 31, 2005 were up 38% from the first half of the current fiscal year. The increase in sales in the last half of the current fiscal year was due to improved demand for ejector and condenser products. This demand is coming from the refinery and petrochemical markets. Graham anticipates this trend to be sustained for at least the near future. For further information, see Orders and Backlog, page 14 of the Management Discussion and Analysis of Financial Condition and Results of Operations.

The gross profit percentage for the year ended March 31, 2005 was 18%, as compared to 16% for the year ended March 31, 2004. Gross profit percentage for the last six months of fiscal year 2005 was 24%, as compared to 15% for the six months ended March 31, 2004 and 10% for the six months ended September 30, 2004. The improvement in gross profit percentage was due to greater sales volume, selling price increases and the absence of one low profit margin sale for a petrochemical vacuum system primarily recognized in revenue in the first half of fiscal year 2005. The improvement in gross profit percentage, as compared to the first half of fiscal year 2005, is expected to continue for at least the immediate future.

Selling, General and Administrative expenses were 19% of sales for the current year, as compared to 21% for the year ended March 31, 2004. Selling, General and Administrative expenses were down due to cost saving actions taken to temporarily lower sales commissions and reduce spending in advertising and travel expenses.

Interest expense was \$33 for the year ended March 31, 2005 and \$46 for the year ended March 31, 2004. Interest expense decreased due to less bank borrowings.

Other income for the twelve months ended March 31, 2005 was \$1,592, as compared to \$522 for the twelve months ended March 31, 2004. Other income of \$1,592 resulted from a settlement of a contract dispute over cancellation charges. The settlement of this matter ended a complaint filed in April 2004 in the United States District Court for the Northern District of California alleging breach of contract by a customer and a counterclaim filed by the customer seeking specific performance of the contract or monetary damages. Other income of \$522,

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recognized for the year ended March 31, 2004, represents a non-recurring curtailment gain resulting from the discontinuation of postretirement medical benefits.

Other expenses recognized for the year ended March 31, 2005 of \$1,049 were substantially incurred in conjunction with transitioning two senior executives. In accordance with an Agreement and General Release with Graham's former President and CEO reached in November 2004, the Company will retain the former officer as an independent consultant. The consulting contract does not require performance for payment and, therefore, was expensed. His consulting services currently include managing the South American sales territory. This Agreement provides for a monthly retainer and certain medical and insurance benefits over the period January 1, 2005 to November 8, 2008 for an estimated cost of \$562. A second senior executive was replaced in January 2005. The terms of his Agreement included salary continuation for twelve months and certain medical benefits for thirty-six months for an estimated cost of \$157. Costs incurred through March 31, 2005 to recruit and relocate executive replacements resulted in an expense recognition of \$251. Other expense for the year ended March 31, 2004 was zero.

The effective income tax rate for continuing operations for the year ended March 31, 2005 was 18%, as compared to a benefit of 42% for the year ended March 31, 2004. The effective tax rate for fiscal year 2005 was due to a partial exclusion permitted under U.S. tax law of income on export sales. The benefit for income taxes recognized for the year ended March 2004 was enhanced due to terminating split-dollar life insurance policies and distributing the proceeds to the respective employees in October 2003.

Income from continuing operations for the current year was \$296 or \$0.17 per diluted share. This compares to a loss of \$832 or \$0.51 per diluted share for the year ended March 31, 2004.

The Company incurred a net loss for the fiscal year, after recognition of the loss from discontinued operations for its U.K. subsidiaries of \$3,202, of \$2,906 or \$1.69 per diluted share. This compares to a net loss of \$1,161 for the year ended March 31, 2004, after recognition of the loss from U.K. discontinued operations (as restated for comparative purposes) of \$329. The loss from discontinued operations in fiscal 2005 of \$3,202 includes the loss on disposal of \$2,637.

2004 COMPARED TO 2003

Sales were \$37,508 for fiscal year 2004 and \$44,511 for fiscal year 2003. This represents a 16% decrease in sales. This sales decline was due to fewer surface condenser sales. Surface condenser sales to the domestic power industry and worldwide chemical industry were down due to a capacity-to-demand imbalance in these industries.

The gross profit percentages for fiscal years 2004 and 2003 remained unchanged at 16%. This was due to managing overhead costs in proportion to lower sales. Cost actions initiated in prior years helped to reduce production costs in fiscal year 2004. For example, in February 2003, postretirement medical benefits for employees employed as of April 2003 were terminated. Additionally, real estate taxes were reduced as a result of a legal proceeding settlement entered into in September 2003 and workers' compensation costs were reduced by back-to-work programs. The Company was also able to reduce its warranty reserve because certain claims of significant value were settled.

Selling, General and Administrative expenses for fiscal year 2004 were 21% of sales, as compared to 18% for the fiscal year 2003. Total costs in fiscal year 2004 actually decreased due to lower employment costs resulting from staff downsizing.

Interest expense was \$46 in both fiscal years 2004 and 2003.

Other income for fiscal year 2004 was \$522, as compared to \$1,801 for fiscal year 2003. Fiscal year 2004 other income represented a curtailment gain resulting from the discontinuing of postretirement medical benefits. Other income of \$1,801, recognized in fiscal year 2003, was a result of a contract cancellation fee on an order from a customer in the electric power generating industry.

Other expense for fiscal year 2004 was zero, as compared to \$658 for severance costs in fiscal year 2003.

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The benefit for income taxes was 42% of the loss before income tax benefit amount for fiscal year 2004, as compared to a provision for income taxes equal to 31% of the income before income taxes amount in fiscal year 2003. The fiscal year 2004 benefit was enhanced by an income tax benefit gained in terminating split-dollar life insurance policies and distributing the proceeds to the respective employees in October 2003. The 2003 effective tax rate was less than the statutory rate of about 34% due to the impact of the extraterritorial income exclusion benefit from foreign shipments.

The loss from continuing operations for fiscal year 2004 was \$832 or \$.51 per fully diluted share. The Company recognized, from continuing operations, income of \$148 or \$.09 per fully diluted share for fiscal year 2003.

For comparative purposes, U.K. operating results have been reclassified to discontinued operations for fiscal years 2004 and 2003. The net loss for fiscal year 2004 was \$1,161 or \$.71 per diluted share, as compared to net income of \$176 or \$.11 per diluted share in fiscal year 2003 after reclasses for U.K. operations.

SHAREHOLDERS' EQUITY

<Table>
<Caption>
SHAREHOLDERS' EQUITY

FYE 2005	FYE 2004	FYE 2003
<S>	<C>	<C>
\$16,578	\$18,102	\$18,836

</Table>

2005 COMPARED TO 2004

Shareholders' Equity decreased \$1,524 or 8.4% for the year primarily due to the disposal of Graham's U.K. operations (loss from discontinued operations of \$3,202 less gain in foreign currency translation of \$1,452, net \$1,750). In addition, an increase to the minimum pension liability adjustment and the corporate dividend further contributed to the decrease in equity. This decrease in equity was offset by net income from continuing operations and the issuance of common stock.

2004 COMPARED TO 2003

Shareholders' Equity decreased \$734 or 4% from March 31, 2003. Decreases were caused by the net loss, an increase to the minimum pension liability adjustment and the corporate dividend. These charges were partially offset by a favorable foreign currency translation adjustment, issuance of common stock

resulting from the exercise of stock options and Director and Officer repayments of notes due for the purchase of Graham's common stock under the Long-Term Stock Ownership Plan.

LIQUIDITY AND CAPITAL RESOURCES

<Table>
<Caption>

	MARCH 31,	
	2005	2004
<S>	<C>	<C>
Working Capital.....	\$11,204	\$11,652
Cash Flow (Deficit) from Operations.....	\$ (4,394)	\$ (1,265)
Cash and Investments.....	\$ 2,717	\$ 5,763
Capital Expenditures.....	\$ 224	\$ 249
Current Ratio.....	2.0	1.9
Debt/Capitalization.....	11.3%	10.6%

Working Capital equals Current Assets minus Current Liabilities. Current Ratio equals Current Assets divided by Current Liabilities. Debt/Capitalization equals total bank borrowings divided by equity.

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CONTRACTUAL AND COMMERCIAL OBLIGATIONS

<Table>
<Caption>

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	THEREAFTER
<S>	<C>	<C>	<C>	<C>	<C>
Short-term Debt.....	\$1,872	\$1,872	--	--	--
Capital Lease Obligations(1).....	92	55	37	--	--
Operating Leases(1).....	56	36	20	--	--
Pension and Postretirement Benefits(2)...	632	632	--	--	--
Other Long-Term Liabilities Reflected on the Balance Sheet Under GAAP.....	364	0	364	--	--
Total.....	\$3,016	\$2,595	\$ (421)	--	--

</Table>

(1) For additional information, see Notes 6 and 7 to the consolidated Financial Statements.

(2) Amounts represent anticipated contributions to the defined benefit pension plan and postretirement medical benefit plan for FYE 2006. The Company expects to be required to make cash contributions beyond one year.

2005 COMPARED TO 2004

Net cash consumed by operating activities of continuing operations for fiscal year 2005 was \$4,394 and \$1,265 for fiscal year 2004. Cash consumption increased primarily as a result of an increase in accounts receivable (an increase of \$3,249) and an increase in unbilled revenue (an increase of \$3,620). The increase in accounts receivable on March 31, 2005, as compared to March 31, 2004 was due to an increase in fiscal 2005 fourth quarter sales of \$3,553 over fiscal 2004 fourth quarter sales. Fifty-three percent of the fourth quarter sales in fiscal 2005 were shipped in the month of March further increasing accounts receivable. Unbilled revenues (sales recognized under the percentage-of-completion method not yet billed to customers) increased over fiscal 2004 because the stage of project completions was between billing milestones, and there were also fewer progress payments negotiated on the projects in process as of March 31, 2005 due to the competitive nature and size of the contracts. The cash deficit from continuing operations was further enlarged due to non-cash income recorded in the current year relating to the settlement of a cancellation charge. Non-cash income recorded of \$1,592 was substantially collected in a prior fiscal year through progress billings, which were included in customer deposits as of March 31, 2004. Non-cash income was partially offset with non-cash expenses of \$745 pertaining largely to senior executive replacements. Cash was positively impacted due to an increase in accounts payable on March 31, 2005 of \$1,266, due to greater manufacturing activity in the fourth quarter.

Cash provided from investing activities of continuing operations in fiscal year 2005 was \$3,163, as compared to \$1,299 in 2004. The increase in cash provided of \$1,864 was due to a reduction in the purchase of marketable securities. Cash consumed in operations was largely financed using proceeds from the redemption of marketable securities. Graham's investments in marketable

securities consist of U.S. government instruments. Between maturity dates of government marketable securities, short-term bank borrowings were used to finance operations. (See Note 7 of the Notes to Financial Statements for further details on lines of credit).

Other sources of cash generation for fiscal 2005 included issuance of common stock to cover stock options exercised, which raised \$390, as compared to \$311 in 2004, and repayments of notes outstanding for purchases of Graham stock granted under the Company's Long-Term Stock Ownership Plan. In fiscal 2005, \$46 was collected for note repayments, as compared to \$348 for fiscal 2004.

Other uses of cash for fiscal 2005 included capital expenditures by continuing operations of \$224, as compared to \$249 for fiscal 2004, and dividends paid on common stock of \$333. Dividends paid in fiscal year 2004 were \$327.

Total cash used by discontinued operations in fiscal year 2005 was \$396 compared to cash generated of \$301 in fiscal year 2004. This decrease was due primarily to pay downs on short-term debt.

Future anticipated cash requirements include a fiscal 2006 capital expenditure program of about \$2,000. This budget includes a substantial amount for information technology and software expenditures that will be directed

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toward enhancing engineering and design productivity. The Company intends to pay regular quarterly dividends. The decision to pay dividends, however, remains within the discretion of Graham's Board of Directors and may be affected by various factors, including earnings, financial condition, capital requirements, level of indebtedness and other considerations.

The Company intends to generate cash to reinvest in the business in fiscal 2006 through earnings from operations and possibly the sale of ninety-nine thousand shares of stock held as treasury stock. Graham believes its cash sources for fiscal 2006 will be adequate to meet cash needs to carry out its strategic plans and operations. For additional information on the Company's debt capacity, see Note 7 to the Consolidated Financial Statements.

2004 COMPARED TO 2003

Consolidated cash flow from continuing operations was negative \$1,265 for fiscal year 2004, as compared to a positive cash flow of \$2,056 for fiscal year 2003. The fiscal year 2004 results were due to the net loss and \$5,602 fewer customer deposits.

Fewer customer deposits were due to fewer sales of ejectors and condensers. These products are typically negotiated with progress payments. The cash deficit from continuing operations was further increased by the recognition of non-cash income of \$522, which related to a curtailment gain resulting from the elimination of postretirement medical benefits. This change affected only active employees.

Other working capital accounts increasing cash used (e.g., increase of \$1,405 in accounts receivable and decreases in accounts payable of \$1,557, and other accrued expense of \$1,048) were largely offset with a decrease in inventory of \$3,164.

The cash deficit was financed through redeeming investments. Redemption of investments were \$1,199 in excess of maturities reinvested.

Total cash provided by discontinued operations was \$301 in fiscal year 2004 compared to \$11 in fiscal year 2003.

ORDERS AND BACKLOG

Orders for the current year were \$49,857, as compared to \$33,826 for the year ended March 31, 2004, representing a 47% increase. Orders represent communications received from customers requesting the supply of goods and/or services from the Company.

Orders for surface condensers increased in excess of \$11,500 over the year ended March 31, 2004 due to increased demand in major project work in the petrochemical and refinery industry sectors. Improved business conditions are global. As compared to the twelve months ended March 31, 2004, export orders are up 46% and domestic orders are up 49%. Profit margins on orders in backlog have improved due to price increases and an improved product mix.

The activity in the refining sector is being driven from the need to upgrade vacuum distillation, hydrotreater, hydrocracker and hydrodesulfurization processes. These processes are used to reduce the content of sulfur in heavy crude oil. Heavier crude, as a raw material for these refineries, is less expensive than sweet crude oil. Petrochemical capital spending is being driven from capacity expansion in methanol, gas-to-liquids, ethylene, ammonia, ethylene glycol/ethylene oxide, styrene, polystyrene, cumene and phenol plants. This

capital spending is driven by end user demand for the by-products of oil. Graham's products needed for these major projects include surface condensers, ejectors and vacuum pump systems. Market risks that could slow or stop capital spending in this sector include manufacturing capacity and demand getting out of balance, the price of oil dropping, capital market financial concerns regarding high debt, higher natural gas prices, and availability and costs for materials.

Backlog of continuing operations was \$22,376 at March 31, 2005, as compared to \$13,482 at March 31, 2004, representing a 66% increase. The prior year backlog amounts have been restated to reflect contract cancellations and the restatement of sales due to the change in the revenue recognition accounting method. Backlog represents the total dollar value of orders received for which revenue has not yet been recognized. All

orders in backlog represent orders from traditional markets in the Company's established product lines. Approximately 44% of the backlog can be attributed to equipment for refinery project work and 22% to petrochemical projects.

MARKET RISK (QUANTITATIVE AND QUALITATIVE DISCLOSURES)

The principal market risks (i.e., the risk of loss arising from changes in market rates and prices) to which Graham is exposed are:

- foreign currency exchange rates
- equity price risk (related to its Long-Term Incentive Plan for Directors)
- material availability and price risk

The assumptions applied in preparing quantitative disclosures regarding foreign currency exchange rate and equity price risk are based upon volatility ranges experienced in relevant historical periods, management's current knowledge of the business and market place, and management's judgment of the probability of future volatility based upon the historical trends and economic conditions of the business.

Graham's international consolidated sales for the past three years approximates 40% of total sales. Operating in world markets involves exposure to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being the ability to compete for orders against competition having a relatively weaker currency. Business lost due to competition for orders against competitors having a relatively weaker currency cannot be quantified. Secondly, cash can be adversely impacted by the conversion of sales in foreign currency to U.S. dollars. The substantial portion of Graham's sales is collected in U.S. dollars. For both years ended March 31, 2005 and 2004, there were no sales in foreign currencies from continuing operations. At certain times, the Company may enter into forward foreign currency exchange agreements to hedge its exposure against unfavorable changes in foreign currency values on significant sales contracts negotiated in foreign currencies.

Graham has limited exposure to foreign currency purchases. For the years ended March 31, 2005 and 2004, purchases in foreign currencies by continuing operations were 4% and 8% of cost of products sold, respectively. In fiscal years 2005 and 2004, the Company's operations in the United States recorded an unusually large dollar volume of orders utilizing its former U.K. subsidiary products. At certain times, forward foreign currency exchange contracts may be utilized to limit currency exposure.

The Company has a Long-Term Incentive Plan, which provides for awards of share equivalent units (SEUs) for outside directors based upon the Company's stock performance. SEUs are valued at fair market value thereby exposing the Company to equity price risk. Upward adjustment to market value is limited to (a) \$16 per unit if at the valuation date the fair market value was less than or equal to \$16 per unit or (b) the fair market value at the valuation date if the fair market value on that date was greater than \$16 per unit. Gains and losses recognized due to market price changes are included in the Company's results of operations. Based upon the plan provisions and SEUs outstanding at March 31, 2005 and 2004 and a \$16 per share price, a 50-75% change in the year end market price of the Company's common stock would positively or (negatively) impact the Company's income before income taxes as follows:

<Table>
<Caption>

	MARCH 31,	
	2005	2004
<S>	<C>	<C>
50% increase.....	\$ (5)	\$(134)
50% decrease.....	\$106	\$ 134
75% increase.....	\$ (5)	\$(201)
75% decrease.....	\$159	\$ 201

</Table>

Assuming required net income targets are met, certain awards would be provided, and based upon a market price of the Company's stock of \$16 per share, a 50-75% change in the stock price would positively (negatively) impact the Company's income before income taxes in future years as follows:

<Table>
<Caption>

	2006	2007	2008	2009	2010
	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
50% increase.....	\$ (5)	\$ (5)	\$ (5)	\$ (5)	\$ (5)
50% decrease.....	\$143	\$159	\$176	\$189	\$201
75% increase.....	\$ (5)	\$ (5)	\$ (5)	\$ (5)	\$ (5)
75% decrease.....	\$214	\$239	\$264	\$283	\$301

</Table>

The risks associated with materials include availability and price increases. Although material shortages can affect the Company's ability to meet delivery requirements for certain orders from time to time, historically, the Company's shipment schedules have not been materially impacted. The Company has identified alternative vendors in such cases and seeks to negotiate escalation provisions in its sales contracts in the event that costs of materials increase. Profit margins on sales would be reduced to the extent rising material costs could not be passed on to Graham's customers.

CONTINGENCIES

The Company is a co-defendant with numerous other defendants in matters of litigation alleging personal injury from exposure to asbestos contained in some of the Company's products previously manufactured. To date, it has been the Company's experience that upon investigation the cases have been dismissed or settled for minimal amounts. However, the magnitude of potential damages on unsettled current claims is not determinable.

From time to time, the Company is subject to legal proceedings and potential claims arising from contractual agreements in the ordinary course of business. The Company believes there are no such matters pending against it that could have, individually or in the aggregate, a material adverse effect on its financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials. This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred on a prospective basis during fiscal years beginning after June 15, 2005. The pronouncement will have the effect of accelerating the recognition of indirect manufacturing costs in times of below normal manufacturing capacity utilization. Management has not determined the impact on its Consolidated Financial Statements of adopting this Statement.

In December 2004, the FASB issued SFAS Nos. 152, Accounting for Real Estate Time-Sharing Transactions and 153, Exchanges of Non-monetary Assets as Amendment of ARB Opinion No. 29. Both statements are effective for fiscal years beginning after June 15, 2005. It is anticipated that neither pronouncement will have a significant impact on Graham's financial reporting, if any.

The FASB also issued in December 2004, SFAS No. 123R, "Share-Based Payment". This Statement requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values for fiscal years beginning after June 15, 2005. In addition, SFAS No. 123(R) will cause unrecognized expense (based on the fair values determined for the pro forma footnote disclosure, adjusted for estimated forfeitures) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include the modified prospective or the modified retrospective adoption methods. Under the

modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all

unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS No. 123(R), while the modified retrospective methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. The Company is evaluating the requirements of SFAS No. 123(R), but cannot yet estimate the effect of adopting SFAS No. 123(R) as it has not yet selected the method of adoption or an option-pricing model and has not yet finalized estimates of its expected forfeitures. For additional information, see Note 1 to the Consolidated Financial Statements.

CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer and its Vice President-Finance and Chief Financial Officer each have independently evaluated the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-14(c) as of the end of the period covered by this annual report on Form 10-K and each regards such controls as effective.

There have been no significant changes to any such controls or in other factors that could significantly affect such controls, subsequent to the date of their evaluation by each of the CEO and the CFO.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

(Dollar amounts in thousands except per share data. References to years herein represent fiscal years ended March 31, 2005, 2004 and 2003).

CONSOLIDATED STATEMENTS OF OPERATIONS

<Table>
<Caption>

	YEAR ENDED MARCH 31,		
	2005	2004	2003
	-----	-----	-----
	<C>	<C>	<C>
Net sales.....	\$41,333	\$37,508	\$44,511
	-----	-----	-----
Costs, expenses and other income:			
Cost of products sold.....	33,793	31,618	37,214
Selling, general and administrative.....	7,691	7,805	8,178
Interest expense.....	33	46	46
Other expense.....	1,049		658
Other income.....	(1,592)	(522)	(1,801)
	-----	-----	-----
Total costs, expenses and other income.....	40,974	38,947	44,295
	-----	-----	-----
Income (loss) from continuing operations before income taxes.....	359	(1,439)	216
Provision (benefit) for income taxes.....	63	(607)	68
	-----	-----	-----
Income (loss) from continuing operations.....	296	(832)	148
(Loss) income from discontinued operations (net of income taxes (benefit) of \$(1,420), \$(167) and \$5 in 2005, 2004 and 2003, respectively).....	(3,202)	(329)	28
	-----	-----	-----
Net (loss) income.....	\$ (2,906)	\$ (1,161)	\$ 176
	=====	=====	=====
Per Share Data			
Basic:			
Income (loss) from continuing operations.....	\$.17	\$ (.51)	\$.09
(Loss) income from discontinued operations.....	\$ (1.90)	\$ (.20)	.02
	-----	-----	-----
Net (loss) income.....	\$ (1.73)	\$ (.71)	\$.11
	=====	=====	=====
Diluted:			
Income (loss) from continuing operations.....	\$.17	\$ (.51)	\$.09
(Loss) income from discontinued operations.....	(1.86)	(.20)	.02
	-----	-----	-----
Net (loss) income.....	\$ (1.69)	\$ (.71)	\$.11
	=====	=====	=====

</Table>

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

<Table>
<Caption>

	MARCH 31,	
	2005	2004
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 724	\$ 467
Investments.....	1,993	5,296
Trade accounts receivable, net of allowances (\$28 and \$75 in 2005 and 2004, respectively).....	10,026	8,950
Unbilled revenue.....	3,620	
Inventories.....	4,823	6,984
Domestic and foreign income taxes receivable.....	45	972
Deferred income tax asset.....	719	1,521
Prepaid expenses and other current assets.....	139	217
	-----	-----
Total current assets.....	22,089	24,407
Property, plant and equipment, net.....	7,649	9,227
Deferred income tax asset.....	3,747	2,048
Other assets.....	44	58
	-----	-----
Total assets.....	\$33,529	\$35,740
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt.....	\$ 1,872	\$ 1,925
Current portion of long-term debt.....	48	44
Accounts payable.....	3,374	3,230
Accrued compensation.....	2,802	3,866
Accrued expenses and other liabilities.....	1,494	1,562
Customer deposits.....	1,295	2,128
	-----	-----
Total current liabilities.....	10,885	12,755
Long-term debt.....	44	93
Accrued compensation.....	213	239
Deferred income tax liability.....		77
Other long-term liabilities.....	364	61
Accrued pension liability.....	3,141	1,873
Accrued postretirement benefits.....	2,304	2,540
	-----	-----
Total liabilities.....	16,951	17,638
	-----	-----
Shareholders' equity:		
Preferred stock, \$1 par value -- Authorized, 500,000 shares		
Common stock, \$.10 par value -- Authorized, 6,000,000 shares Issued, 1,796,740 and 1,757,450 shares in 2005 and 2004, respectively.....	180	176
Capital in excess of par value.....	5,553	5,097
Retained earnings.....	14,082	17,322
Accumulated other comprehensive loss.....		
Minimum pension liability adjustment.....	(1,698)	(1,456)
Cumulative foreign currency translation adjustment.....		(1,452)
	-----	-----
	18,117	19,687
Less:		
Treasury stock (99,123 shares in 2005 and 2004).....	(1,385)	(1,385)
Notes receivable from officers and directors.....	(154)	(200)
	-----	-----
Total shareholders' equity.....	16,578	18,102
	-----	-----
Total liabilities and shareholders' equity.....	\$33,529	\$35,740
	=====	=====

</Table>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>
<Caption>

	YEAR ENDED MARCH 31,		
	2005	2004	2003
	-----	-----	-----

<S>	<C>	<C>	<C>
Operating activities:			
Income (Loss) from continuing operations.....	\$ 296	\$ (832)	\$ 148
Adjustments to reconcile income (loss) from continuing operations to net cash (used) provided by operating activities of continuing operations:			
Non cash other (income) expense.....	(846)	(522)	91
Depreciation and amortization.....	780	793	819
Discount accretion on investments.....	(38)	(49)	(115)
Loss on disposal or sale of property, plant and equipment.....	4		16
(Increase) decrease in operating assets:			
Accounts receivable.....	(3,249)	(1,405)	9,954
Unbilled revenue.....	(3,620)		
Inventories.....	(193)	3,252	(846)
Domestic income taxes receivable/payable.....	888	(610)	(1,139)
Prepaid expenses and other current and non-current assets.....	(57)	47	22
Increase (decrease) in operating liabilities:			
Accounts Payable.....	1,266	(1,557)	117
Accrued compensation, accrued expenses and other current and non-current liabilities.....	(242)	(1,048)	(970)
Customer deposits.....	728	(4)	(4,554)
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits.....	(169)	393	(1,500)
Deferred income taxes.....	58	277	13
Total adjustments.....	(4,690)	(433)	1,908
Net cash (used) provided by continuing operations.....	(4,394)	(1,265)	2,056
Net cash (used) provided by discontinued operations.....	(85)	221	(159)
Net cash (used) provided by operating activities.....	(4,479)	(1,044)	1,897
Investing activities:			
Purchase of property, plant and equipment.....	(224)	(249)	(799)
Proceeds from sale of property, plant and equipment.....		1	24
Purchase of investments.....	(8,462)	(13,209)	(23,636)
Redemption of investments at maturity.....	11,803	14,408	19,800
Collection of notes receivable from officers and directors.....	46	348	90
Net cash provided (used) by investing activities of continuing operations.....	3,163	1,299	(4,521)
Net cash used by investing activities of discontinued operations.....	(75)	(34)	(143)
Net cash provided (used) by investing activities.....	3,088	1,265	(4,664)
Financing activities:			
Increase (decrease) in short-term debt, net.....	\$ 1,872		
Proceeds from issuance of long-term debt.....		9,280	4,795
Principal repayments on long-term debt.....	(45)	(9,335)	(4,861)
Issuance of common stock.....	390	311	
Dividends paid.....	(333)	(327)	(172)
Acquisition of treasury stock.....		(20)	
Net cash provided (used) by financing activities of continuing operations.....	1,884	(91)	(238)
Net cash (used) provided by financing activities of discontinued operations.....	(233)	114	313
Net cash provided by financing activities.....	1,651	23	75
Effect of exchange rate on cash.....	3	6	8
Net increase (decrease) in cash and equivalents.....	257	250	(2,684)
Cash and cash equivalents at beginning of year.....	467	217	2,901
Cash and cash equivalents at end of year.....	\$ 724	\$ 467	\$ 217

</Table>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<Table>
<Caption>

NOTES

COMMON STOCK

CAPITAL IN

ACCUMULATED

OTHER

RECEIVABLE	-----		EXCESS OF	RETAINED	COMPREHENSIVE	TREASURY	FROM
OFFICERS	SHARES	PAR VALUE	PAR VALUE	EARNINGS	LOSS	STOCK	AND
DIRECTORS	-----	-----	-----	-----	-----	-----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at March 31, 2002..... (842)	1,716,572	\$ 172	\$ 4,757	\$ 18,888	\$ (2,178)	\$ (1,161)	\$
-----	-----	-----	-----	-----	-----	-----	---
Net income.....				176			
Foreign currency translation adjustment.....					278		
Minimum pension liability adjustment, net of income tax of \$587.....					(1,090)		
Total comprehensive loss...							
Dividends.....				(254)			
Collection of notes receivable from officers and directors.....							
90							
-----	-----	-----	-----	-----	-----	-----	---
Balance at March 31, 2003..... (752)	1,716,572	172	4,757	18,810	(2,990)	(1,161)	
-----	-----	-----	-----	-----	-----	-----	---
Net loss.....				(1,161)			
Foreign currency translation adjustment.....					448		
Minimum pension liability adjustment, net of income tax of \$197.....					(366)		
Total comprehensive loss...							
Issuance of shares.....	40,878	4	307				
Stock option tax benefit.....			33				
Dividends.....				(327)			
Acquisition of treasury stock 204						(224)	
Collection of notes receivable from officers and directors.....							
348							
-----	-----	-----	-----	-----	-----	-----	---
Balance at March 31, 2004..... (200)	1,757,450	176	5,097	17,322	(2,908)	(1,385)	
-----	-----	-----	-----	-----	-----	-----	---
Net loss.....				(2,906)			
Foreign currency translation adjustment.....					92		
Reclassification adjustment for losses included in net income.....					1,360		
Minimum pension liability adjustment, net of income tax of \$130.....					(242)		
Total comprehensive loss...							
Issuance of shares.....	39,290	4	386				
Stock option tax benefit.....			70				
Dividends.....				(334)			
Collection of notes receivable from officers and directors.....							
46							
-----	-----	-----	-----	-----	-----	-----	---
Balance at March 31, 2005..... (154)	1,796,740	\$ 180	\$ 5,553	\$ 14,082	\$ (1,698)	\$ (1,385)	\$
=====	=====	=====	=====	=====	=====	=====	-----

<Caption>

SHAREHOLDERS'
EQUITY

<S>	<C>
Balance at March 31, 2002.....	\$ 19,636
-----	-----
Net income.....	176
Foreign currency translation adjustment.....	278

Minimum pension liability adjustment, net of income tax of \$587.....	(1,090)

Total comprehensive loss...	(636)
Dividends.....	(254)
Collection of notes receivable from officers and directors.....	90

Balance at March 31, 2003.....	18,836

Net loss.....	(1,161)
Foreign currency translation adjustment.....	448
Minimum pension liability adjustment, net of income tax of \$197.....	(366)

Total comprehensive loss...	(1,079)
Issuance of shares.....	311
Stock option tax benefit.....	33
Dividends.....	(327)
Acquisition of treasury stock	(20)
Collection of notes receivable from officers and directors.....	348

Balance at March 31, 2004.....	18,102
Net loss.....	(2,906)
Foreign currency translation adjustment.....	92
Reclassification adjustment for losses included in net income.....	1,360
Minimum pension liability adjustment, net of income tax of \$130.....	(242)

Total comprehensive loss...	(1,696)
Issuance of shares.....	390
Stock option tax benefit.....	70
Dividends.....	(334)
Collection of notes receivable from officers and directors.....	46

Balance at March 31, 2005.....	\$ 16,578
	=====

</Table>

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- THE COMPANY AND ITS ACCOUNTING POLICIES:

Graham Corporation and its subsidiaries are primarily engaged in the design, manufacture and supply of vacuum and heat transfer equipment used in the chemical, petrochemical, petroleum refining, and electric power generating industries and sell to customers throughout the world. The Company's significant accounting policies follow.

Principles of consolidation and use of estimates in the preparation of financial statements

The consolidated financial statements include the accounts of the Company and its wholly-owned domestic and foreign subsidiaries. All significant intercompany balances, transactions and profits are eliminated in consolidation.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the related revenues and expenses during the reporting period. Actual amounts could differ from those estimated.

Translation of foreign currencies

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at currency exchange rates in effect at year-end and revenues and expenses are translated at average exchange rates in effect for the year. Gains and losses resulting from foreign currency transactions are included in results

of operations. The Company's sales and purchases in foreign currencies are minimal, therefore, foreign currency transaction gains and losses are not significant. Gains and losses resulting from translation of foreign subsidiary balance sheets are included in a separate component of shareholders' equity. Translation adjustments are not adjusted for income taxes since they relate to an investment which is permanent in nature.

Revenue recognition

During fiscal year 2005, the Company changed its method of recognizing revenue for certain contracts from the completed contract to the percentage-of-completion method. Formerly, only contracts with a planned manufacturing process in excess of three months and with revenue of at least \$1,000 and 500 pounds sterling, in the USA and UK operating segments, respectively, were accounted for under the percentage-of-completion method. Now all contracts with a planned manufacturing process of four weeks or more (which approximates 575 direct labor hours) and without a dollar threshold are accounted for using the percentage-of-completion method. The Company believes this is a preferable accounting method for these contracts because it measures revenue, costs of products sold and related income on construction type contracts based on progress on the contracts, thus providing a better measure of the earnings process on a more timely basis. The Company extended its scope of contracts accounted for using the percentage-of-completion method at this time because management believes that the effects on the financial statements of applying the completed contract method on these contracts could begin to vary materially from the effects of applying the percentage-of-completion method. The majority of the Company's contracts have a planned manufacturing process of less than four weeks, and are accounted for using the completed contract method. The financial results for prior years have been restated to reflect this change. The impact of the change on net sales, cost of products sold, (benefit) provision for income taxes, income (loss) from

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continuing operations, net income (loss), income (loss) from continuing operations per share and net income (loss) per share for the prior years presented is as follows:

<Table>
<Caption>

	2004 AMOUNTS REPORTED USING			2003 AMOUNTS REPORTED USING		
	PERCENTAGE OF COMPLETION METHOD	COMPLETED CONTRACT METHOD	DIFFERENCE	PERCENTAGE OF COMPLETION METHOD	COMPLETED CONTRACT METHOD	DIFFERENCE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$37,508	\$37,893	\$(385)	\$44,511	\$43,960	551
Cost of products sold..... (Benefit) provision for income taxes.....	\$31,618 \$ (607)	\$31,915 \$ (610)	\$(297) \$ 3	\$37,214 \$ 68	\$36,720 \$ 54	494 14
Income (loss) from continuing operations....	\$ (832)	\$ (741)	\$ (91)	\$ 148	\$ 105	43
Net income (loss).....	\$(1,161)	\$(1,070)	\$ (91)	\$ 176	\$ 133	43
Income (loss) from continuing operations per share						
Basic.....	\$ (.51)	\$ (.45)	\$(.06)	\$.09	\$.06	\$.03
Diluted.....	\$ (.51)	\$ (.45)	\$(.06)	\$.09	\$.06	\$.03
Net income (loss) per share						
Basic.....	\$ (.71)	\$ (.65)	\$(.06)	\$.11	\$.08	\$.03
Diluted.....	\$ (.71)	\$ (.65)	\$(.06)	\$.11	\$.08	\$.03

</Table>

The effect of the change on retained earnings is as follows:

<Table>
<Caption>

	2004	2003
<S>	<C>	<C>
Balance at beginning of year as previously reported.....	\$18,767	\$18,888
Add adjustment for the cumulative effect on prior periods of applying retroactively the change in accounting method....	43	0
Balance at beginning of year, as adjusted.....	18,810	18,888
Net (loss) income.....	(1,161)	176
Dividends.....	(327)	(254)
Balance at end of year.....	\$17,322	\$18,810

</Table>

Percentage of Completion

The Company has established the systems and procedures essential to developing the estimates required to account for a contract using the percentage-of-completion method. The percentage-of-completion is determined by relating actual labor incurred to-date to management's estimate of total labor to be incurred on each contract. Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in contract value and estimated costs at completion. Losses on contracts are recognized immediately when known. Revenues recognized on contracts accounted for on percentage-of-completion are presented in net sales in the Consolidated Statement of Operations and unbilled revenue in the Consolidated Balance Sheet to the extent that the revenue recognized exceeds the amounts billed to customers. (Also see "Inventories" policy below).

Completed Contract

Revenue not accounted for using the percentage-of-completion method is accounted for using the completed contract method. The Company recognizes revenue and all related costs on these contracts upon substantial completion or shipment to the customer. Substantial completion is consistently defined as a least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further obligations under the contract after the revenue is recognized. The effect of applying the completed contract method does not vary materially from the results of applying the percentage-of completion method.

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Shipping and handling fees and costs

Shipping and handling fees billed to the customer are classified as revenue and the related costs incurred for shipping and handling are included in cost of products sold.

Investments

Investments consist primarily of fixed-income debt securities with original maturities of greater than three months and less than one year. All investments are classified as held-to-maturity as the Company has the positive intent and ability to hold the securities to maturity. The investments are stated at amortized cost which approximates fair value. All the investments mature within one year.

Inventories

Inventories are stated at the lower of cost or market, using the average cost method. For contracts accounted for on the completed contract method, progress payments received are netted against inventory to the extent the payment is less than the inventory balance relating to the applicable contract. Progress payments that are in excess of the corresponding inventory balance are presented as customer deposits in the Consolidated Balance Sheets. For contracts accounted for on the percentage-of-completion method, progress payments are netted against unbilled revenue to the extent the payment is less than the unbilled revenue for the applicable contract. Progress payments exceeding unbilled revenue are netted against inventory to the extent the payment is less than or equal to the inventory balance relating to the applicable contract, and the excess is presented as customer deposits in the Consolidated Balance Sheets.

A summary of all contracts in progress is as follows at March 31:

	2005	2004
	-----	-----
Costs incurred since inception on contracts in progress....	\$ 8,641	\$ 1,052
Estimated earnings since inception on contracts in progress.....	1,938	638
	-----	-----
	10,579	1,690
Less billings to date.....	8,516	5,436
	-----	-----
Total.....	\$ 2,063	\$(3,746)
	=====	=====

The above activity is included in the accompanying Consolidated Balance Sheets under the following captions at March 31:

	2005	2004
	-----	-----
Unbilled revenue.....	\$ 3,620	
Progress payments reducing inventory (Note 3).....	(262)	\$(1,618)

Customer deposits.....	(1,295)	(2,128)
	-----	-----
	\$ 2,063	\$ (3,746)
	=====	=====

</Table>

Property, plant and depreciation

Property, plant and equipment are stated at cost net of accumulated depreciation and amortization. Major additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided based upon the estimated useful lives under the straight line method. Estimated useful lives range from approximately five to twenty-five years for office and manufacturing equipment and forty years for buildings and improvements. Upon sale or retirement of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations. The Company assesses all of its long-lived assets for impairment when impairment indicators are identified. When the carrying value of an asset exceeds its undiscounted cash flows, the Company recognizes an impairment loss if the asset's fair value is less than its carrying value. The impairment is then calculated as the difference between the carrying value and the fair value of the asset. No such impairment losses were recorded in fiscal years 2005, 2004 or 2003.

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Product warranties

The Company estimates the costs that may be incurred under its product warranties and records a liability in the amount of such costs at the time revenue is recognized. The reserve for product warranties is based upon past claims experience and ongoing evaluations of any specific probable claims from customers. A reconciliation of the changes in the product warranty liability is presented in Note 5 of the Notes to Consolidated Financial Statements.

Income taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. The Company evaluates the available evidence about future taxable income and other possible sources of realization of deferred income tax assets and records a valuation allowance to reduce deferred income tax assets to an amount that represents the Company's best estimate of the amount of such deferred income tax assets that more likely than not will be realized. No valuation allowance was required at March 31, 2005.

Stock-based compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS No. 123, the Company continues to measure compensation for such plans using the intrinsic value based method of accounting, prescribed by Accounting Principles Board (APB), Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation cost for share equivalent units is recorded based on the higher of the quoted market price of the Company's stock at the end of the period up to \$16 per unit or the stock price at the date of grant in accordance with the terms of the Long-Term Incentive Plan.

Under the intrinsic value method, no compensation expense has been recognized for the Company's stock option plans. Had compensation cost for the Company's two stock option plans been determined based on the fair value at the grant date for awards under those plans in accordance with the fair value methodology prescribed under SFAS No. 123, the Company's net income and net income per share would have been the pro forma amounts indicated below:

<Table>
<Caption>

		2005	2004	2003
		-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net (loss) income.....	As reported	\$ (2,906)	\$ (1,161)	\$ 176
Stock-based employee compensation cost net of related tax benefits.....		118	75	69
		-----	-----	-----
Pro forma net (loss) income.....		\$ (3,024)	\$ (1,236)	\$ 107
		=====	=====	=====
Basic (loss) income per share.....	As reported	\$ (1.73)	\$ (.71)	\$.11
	Pro forma	\$ (1.80)	\$ (.75)	\$.06
Diluted (loss) income per share.....	As reported	\$ (1.69)	\$ (.71)	\$.11

</Table>

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The weighted average fair value of the options granted during 2005, 2004, and 2003 is estimated as \$4.67, \$3.27, and \$2.88, respectively, using the Black Scholes option pricing model with the following weighted average assumptions:

<Table>
<Caption>

	2005	2004	2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Expected life.....	5 years	5 years	5 years
Volatility.....	42.84%	47.13%	50.00%
Risk-free interest rate.....	3.53	3.01%	2.81%
Dividend yield.....	1.65%	2.25%	2.35%

</Table>

Per share data

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

<Table>
<Caption>

	2005	2004	2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Basic income (loss) per share:			
Numerator:			
Income (loss) from continuing operations....	\$ 296	\$ (832)	\$ 148
	-----	-----	-----
Denominator:			
Weighted common shares outstanding.....	1,666,937	1,630,546	1,648,249
Share equivalent units (SEU) outstanding....	15,053	16,155	14,800
	-----	-----	-----
Weighted average shares and SEUs outstanding.....	1,681,990	1,646,701	1,663,049
	-----	-----	-----
Basic income (loss) per share from continuing operations.....	\$.17	\$ (.51)	\$.09
	=====	=====	=====
Diluted income (loss) per share:			
Numerator:			
Income (loss) from continuing operations....	\$ 296	\$ (832)	\$ 148
	-----	-----	-----
Denominator:			
Weighted average shares and SEUs outstanding.....	1,681,990	1,646,701	1,663,049
Stock options outstanding.....	34,583		9,037
Contingently issuable SEUs.....	125		
	-----	-----	-----
Weighted average common and potential common shares outstanding.....	1,716,698	1,646,701	1,672,086
	-----	-----	-----
Diluted income (loss) per share from continuing operations.....	\$.17	\$ (.51)	\$.09
	=====	=====	=====

</Table>

Certain options to purchase shares of common stock, which totaled 36,600, 211,695 and 136,000 in 2005, 2004 and 2003, respectively, were not included in the computation of diluted (loss) income per share as the effect would be anti-dilutive.

Cash flow statement

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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Interest paid from continuing operations was \$26 in 2005, \$48 in 2004, and \$44 in 2003. In addition, income taxes (refunded) paid from continuing operations were \$(884) in 2005, \$(274) in 2004, and \$1,194 in 2003.

Non cash activities during 2005, 2004, and 2003 included the recognition of

minimum pension liability adjustments, net of income tax benefits, of \$242, \$448, and \$1,090, respectively. In addition, the U.S. investment in the Company's U.K. operations and the intercompany receivable totaling \$3,994 were written off as a result of the liquidation of the subsidiary. Dividends of \$84, \$83 and \$82 were recorded but not paid in 2005, 2004 and 2003, respectively.

In 2004 and 2003, capital expenditures totaling \$11 and \$76, respectively, were financed through the issuance of capital leases.

Accumulated other comprehensive (loss) income

Comprehensive (loss) income is comprised of net (loss) income and other comprehensive income or loss items, which are accumulated as a separate component of shareholders' equity. For the Company, other comprehensive income or loss items include a foreign currency translation adjustment and a minimum pension liability adjustment.

Accounting and Reporting Changes

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs." This Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This Statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "abnormal". In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during the Company's fiscal year 2007. The Company believes the adoption of this Statement will result in the acceleration of recognizing indirect manufacturing expenses during times of below normal utilization of plant capacity. Management has not determined the impact on the Consolidated Financial Statements of adopting this Statement.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions" and SFAS No. 153, "Exchanges of Nonmonetary Assets". Both Statements are effective for fiscal years beginning after June 15, 2005. The Company does not believe either of these Statements will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

The FASB also issued in December 2004, SFAS No. 123R, "Share-Based Payment". This Statement requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values for fiscal years beginning after June 15, 2005. In addition, SFAS No. 123(R) will cause unrecognized expense (based on the fair values determined for the pro forma footnote disclosure, adjusted for estimated forfeitures) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include the modified prospective or the modified retrospective adoption methods. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS No. 123(R), while the modified retrospective methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. The Company is evaluating the requirements of SFAS No. 123(R), but cannot yet estimate the effect of adopting SFAS No. 123(R) as it has not yet selected the method of adoption or an option-pricing model and has not yet finalized estimates of its expected forfeitures. For additional information, see "Stock-Based Compensation" included in Note 1 of the Notes to Consolidated Financial Statements.

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Reclassifications

Certain reclassifications have been made to prior year financial information to conform to the current year presentation.

NOTE 2 -- DISCONTINUED OPERATIONS:

On March 15, 2005, Graham Corporation's Board of Directors approved a plan to dispose of its U.K. operations by making available for sale the Company's wholly-owned subsidiary, Graham Vacuum and Heat transfer Limited ("GVHT") and all its subsidiaries, including GVHT's operating subsidiary Graham Precision Pumps Limited ("GPPL") in Congleton, Cheshire, U.K. and to offer them for sale. On March 24, 2005, the principal creditor of the U.K. companies, National Westminster Bank, exercised its right to appoint a receiver for GVHT and GPPL to sell the U.K. companies. The appointment of a receiver has resulted in a liquidation of the assets of the U.K. companies, which was completed in May

2005. GPPL manufactured liquid ring vacuum pumps and complete vacuum pump systems used in the chemical, petrochemical, petroleum refining and power industries. The disposal of the U.K. companies has been presented in the Consolidated Statement of Operations as a discontinued operation and, accordingly, the results of operations for the prior years have been restated to reflect the U.K. operations separately from continuing operations.

Net sales for GPPL were \$6,096 for the operating period in 2005 and \$5,428 and \$5,418 in the years ended March 31, 2004 and 2003, respectively. Pretax (loss) income for GPPL was \$(470) for the operating period in 2005 and \$(496) and \$33 in the years ended March 31, 2004 and 2003, respectively.

The 2005 loss from discontinued operations includes a loss from disposal of \$2,637, which is net of related income tax benefits of \$1,515. This loss reflects that the Company will not receive any proceeds from the disposal of the U.K. operation.

NOTE 3 -- INVENTORIES:

Major classifications of inventories are as follows:

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Raw materials and supplies.....	\$ 2,098	\$ 1,745
Work in process.....	1,421	4,478
Finished products.....	1,566	2,500
	-----	-----
	5,085	8,723
Less -- progress payments.....	262	1,618
inventory reserve.....		121
	-----	-----
	\$ 4,823	\$ 6,984
	=====	=====

</Table>

NOTE 4 -- PROPERTY, PLANT AND EQUIPMENT:

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

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Land.....	\$ 210	\$ 302
Buildings and improvements.....	10,297	10,987
Machinery and equipment.....	14,349	18,081
Construction in progress.....		5
	-----	-----
	24,856	29,375
Less -- accumulated depreciation and amortization.....	17,207	20,148
	-----	-----
	\$ 7,649	\$ 9,227
	=====	=====

</Table>

28

Depreciation expense from continuing operations in 2005, 2004, and 2003 was \$768, \$793, and \$797, respectively.

NOTE 5 -- PRODUCT WARRANTY LIABILITY:

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

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Balance at beginning of year.....	\$ 242	\$ 592
Expense for product warranties.....	124	89
Product warranty claims paid.....	(111)	(439)
	-----	-----
Balance at end of year.....	\$ 255	\$ 242
	=====	=====

</Table>

NOTE 6 -- LEASES:

The Company leases equipment and office space under various operating

leases. Rent expense for continuing operations applicable to operating leases was \$53, \$69 and \$75 in 2005, 2004, and 2003, respectively.

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

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Machinery and equipment.....	\$ 222	\$ 224
Less accumulated amortization.....	137	96
	-----	-----
	\$ 85	\$ 128
	=====	=====

</Table>

Amortization of machinery and equipment under capital lease for continuing operations amounted to \$43, \$43 and \$52 in 2005, 2004, and 2003, respectively, and is included in depreciation expense.

As of March 31, 2005, future minimum payments required under non-cancelable leases are:

<Table>
<Caption>

	OPERATING LEASES	CAPITAL LEASES
	-----	-----
<S>	<C>	<C>
2006.....	\$36	\$ 55
2007.....	19	37
2008.....	1	11
	---	---
Total minimum lease payments.....	\$56	103
	===	
Less -- amount representing interest.....		11

Present value of net minimum lease payments.....		\$ 92
		====

</Table>

NOTE 7 -- DEBT:

Short-Term Debt Due Banks

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

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
United States revolving credit facility.....	\$1,872	
Borrowings of United Kingdom subsidiary under line of credit at bank's rate plus 1 1/2%.....		\$1,925
	-----	-----
	\$1,872	\$1,925
	=====	=====

</Table>

The United States revolving credit facility agreement provides a line of credit of up to \$8,000 including letters of credit (Note 8) through October 31, 2005. Under the terms of the agreement, the Company was able to borrow at a rate of prime at March 31, 2005 and 2004. The bank's prime rate was 5.75% and 4% at March 31,

2005 and 2004, respectively. The United States operations had available unused lines of credit of \$3,588 at March 31, 2005.

The United Kingdom subsidiary had a revolving credit facility agreement, which provided a line of credit of 1,220 pounds sterling (\$2,245 at the March 31, 2004 exchange rate) including letters of credit. The interest rate was the bank's base rate plus 1 1/2%. The bank's base rate was 4% at March 31, 2004. The United Kingdom short-term bank borrowings were collateralized by assets of the United Kingdom subsidiary, which had a book value of \$786 at March 31, 2004. The United States operation did not provide a corporate guarantee or any security for the United Kingdom revolving credit facility. Short-term debt was retired by the receiver upon the liquidation and sale of assets of the United Kingdom subsidiary (Note 2).

The weighted average interest rate on short-term borrowings in 2005 and

2004 was 4.3% and 4.6%, respectively.

Long-Term Debt

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

<Table>
<Caption>

	2005	2004
	----	----
<S>	<C>	<C>
Capital lease obligations (Note 6).....	\$92	\$137
Less: current amounts.....	48	44
	---	----
	\$44	\$ 93
	===	====

</Table>

With the exception of capital leases, there are no long-term debt payment requirements over the next five years.

The Company is required to pay commitment fees of 1/2% on the unused portion of the domestic revolving credit facility. No other financing arrangements require compensating balances or commitment fees.

The loan agreements contain provisions pertaining to the maintenance of minimum working capital balances, tangible net worth and financial ratios as well as restrictions on the payment of cash dividends to shareholders and incurrence of additional long-term debt.

NOTE 8 -- FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, investments, and trade accounts receivable. The Company places its cash, cash equivalents, and investments with high credit quality financial institutions, and actively evaluates the credit worthiness of these financial institutions. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the Company's customer base and their geographic dispersion. At March 31, 2005 and 2004, the Company had no significant concentrations of credit risk.

Letters of Credit:

The Company has entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At March 31, 2005 and 2004, the Company was contingently liable on outstanding standby letters of credit aggregating \$2,540 and \$1,511, respectively.

Foreign Exchange Risk Management:

The Company, as a result of its global operating and financial activities, is exposed to market risks from changes in foreign exchange rates. In seeking to minimize the risks and/or costs associated with such activities, the Company may utilize foreign exchange forward contracts with fixed dates of maturity and exchange rates. The Company does not hold or issue financial instruments for trading or other speculative purposes and only contracts with high quality financial institutions. If the counter-parties to the exchange contracts do not fulfill

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their obligations to deliver the contracted foreign currencies, the Company could be at risk for fluctuations, if any, required to settle the obligation. At March 31, 2005 and 2004, there were no foreign exchange forward contracts held by the Company.

Fair Value of Financial Instruments:

The estimates of the fair value of financial instruments are summarized as follows:

INVESTMENTS -- The fair value of investments at March 31, 2005 and 2004 approximated the carrying value.

SHORT-TERM DEBT -- The carrying value of short-term debt approximates fair value due to the short-term maturity of this instrument and the variable interest rate.

NOTE 9 -- INCOME TAXES:

The provision (benefit) for income taxes related to income from continuing operations consists of:

<Table>
<Caption>

	2005	2004	2003
	----	-----	----
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ 0	\$ (892)	\$ 14
State.....	5	8	41
	----	-----	----
	5	(884)	55
	----	-----	----
Deferred:			
Federal.....	36	266	40
State.....	22	11	(27)
	----	-----	----
	58	277	13
	----	-----	----
Total provision (benefit) for income taxes.....	\$ 63	\$ (607)	\$ 68
	=====	=====	=====

</Table>

The reconciliation of the provision (benefit) from continuing operations calculated using the United States federal tax rate with the provision (benefit) for income taxes from continuing operations presented in the financial statements is as follows:

<Table>
<Caption>

	2005	2004	2003
	----	-----	----
<S>	<C>	<C>	<C>
Provision (benefit) for income taxes at federal rate.....	\$122	\$ (489)	\$ 73
State taxes.....	25	16	
Charges not deductible for income tax purposes.....	43	54	81
Recognition of tax benefit generated by extraterritorial income exclusion.....	(94)	(98)	(79)
Cash surrender value of officer life insurance policies redeemed.....		(130)	
Tax credits.....	(20)		(3)
Other.....	(13)	40	(4)
	----	-----	----
Provision (benefit) for income taxes.....	\$ 63	\$ (607)	\$ 68
	=====	=====	=====

</Table>

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

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Depreciation.....	\$ (865)	\$ (857)
Accrued compensation.....	400	229
Accrued pension liability.....	1,219	985
Accrued postretirement benefits.....	961	1,053
Compensated absences.....	500	521
Inventories.....	(304)	(86)
Warranty liability.....	100	94
Restructuring reserve.....	55	60
Liquidated damages liability.....	19	30
Federal and state loss carryforwards.....	2,070	479
Federal tax credits.....	121	104
New York State investment tax credit.....	130	137
Other.....	60	129
	-----	-----
	4,466	2,878
Less: Valuation allowance		
Deferred income tax asset of continuing operations.....	4,466	2,878
Deferred income tax asset of discontinued operations.....		614
	-----	-----
	\$4,466	\$3,492
	=====	=====

</Table>

The net deferred income tax asset is presented in the Consolidated Balance Sheets as follows:

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Current deferred income tax asset.....	\$ 719	\$1,521
Long-term deferred income tax asset.....	3,747	2,048
Long-term deferred income tax liability.....		(77)
	-----	-----
	\$4,466	\$3,492
	=====	=====

</Table>

Deferred income taxes include the impact of the federal AMT credit, which may be carried forward indefinitely, federal and state operating loss carryforwards of \$9,692, which expire in 2025, and investment tax credits, which expire from 2009 to 2020.

NOTE 10 -- EMPLOYEE BENEFIT PLANS:

Retirement Plans

The Company has a qualified defined benefit plan covering employees in the United States hired prior to January 1, 2003, which is non-contributory. Benefits are based on the employee's years of service and average earnings for the five highest consecutive calendar years of compensation in the ten year period preceding retirement. The Company's funding policy for the plan is to contribute the amount required by the Employee Retirement Income Security Act of 1974. The measurement date for the plan is December 31.

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The components of pension cost are:

<Table>
<Caption>

	2005	2004	2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Service cost-benefits earned during the period.....	\$ 472	\$ 474	\$ 398
Interest cost on projected benefit obligation.....	975	959	892
Expected return on assets.....	(905)	(783)	(759)
Amortization of:			
Transition asset.....	(15)	(44)	(44)
Unrecognized prior service cost.....	4	4	4
Actuarial loss.....	304	287	81
	-----	-----	-----
Net pension cost.....	\$ 835	\$ 897	\$ 572
	=====	=====	=====

</Table>

The weighted average actuarial assumptions used to determine net pension cost are:

	<C>	<C>	<C>
<S>			
Discount rate.....	6%	6 3/4%	7 1/4%
Rate of increase in compensation levels.....	3%	3%	3%
Long-term rate of return on plan assets.....	9%	9%	9%

The expected long-term rate of return is based on the plan's asset allocation using forward-looking assumptions in the context of historical returns, correlations and market volatilities. The contribution to the plan for the plan year ended December 31, 2005 is estimated to be \$431.

Changes in the Company's benefit obligation, plan assets and funded status for the pension plan are presented below:

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>
Change in the benefit obligation		
Projected benefit obligation at beginning of year.....	\$17,333	\$14,462
Service cost.....	419	421
Interest cost.....	975	959
Actuarial (gain) loss.....	(641)	2,009
Benefit payments.....	(479)	(518)
	-----	-----
Projected benefit obligation at end of year.....	\$17,607	\$17,333
	=====	=====
Accumulated benefit obligation at end of year.....	\$14,048	\$13,069

</Table>

The weighted average actuarial assumptions used to determine the benefit obligation are:

<Table>		
<S>	<C>	<C>
Discount rate.....	5.93%	6%
Rate of increase in compensation levels.....	3%	3%
Change in fair value of plan assets		
Fair value of plan assets at beginning of year.....	\$ 9,988	\$ 8,898
Actual return on plan assets.....	254	1,258
Employer contribution.....	772	350
Benefit and administrative expense payments.....	(479)	(518)
	-----	-----
Fair value of plan assets at end of year.....	\$10,535	\$ 9,988
	=====	=====
Funded status		
Funded status at end of year.....	\$ (7,072)	\$ (7,345)
Unrecognized transition obligation.....		(16)
Unrecognized prior service cost.....	42	47
Unrecognized actuarial loss.....	6,173	6,520
	-----	-----
Net liability recognized.....	\$ (857)	\$ (794)
	=====	=====

</Table>

The following benefit payments, which reflect future service, are expected to be paid:

<Table>	
<S>	<C>
2006.....	\$ 480
2007.....	536
2008.....	614
2009.....	614
2010.....	692
2011-2015.....	4,279

	\$7,215
	=====

</Table>

The Company recognized an additional minimum pension liability for the underfunded defined benefit plan in 2005 and 2004. The additional minimum pension liability is equal to the excess of the accumulated benefit obligation over plan assets and the accrued liability. Amounts recognized in the Consolidated Balance Sheets consist of the following:

<Table>		
<Caption>		
	2005	2004
	-----	-----
<S>	<C>	<C>
Accrued benefit liability.....	\$ (3,512)	\$ (3,081)
Intangible asset.....	42	47
Deferred income tax asset.....	915	784
Accumulated other comprehensive income.....	1,698	1,456
	-----	-----
	\$ (857)	\$ (794)
	=====	=====

</Table>

The current portion of the accrued pension liability as of March 31, 2005 and 2004 of \$574 and \$1,382, respectively, is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets. The current portion of the accrued pension liability decreased at March 31, 2005 due to the reduction in the expected contributions to the plan as a result of changes in actuarial funding assumptions.

The weighted average asset allocation of the plan assets by asset category is as follows:

<Table>		
<Caption>		
	TARGET	DECEMBER 31,
	ALLOCATION	-----
		2004
		2003

	-----	----	----
	<C>	<C>	<C>
<S>			
Asset Category			
Equity securities.....	50-70%	64%	60%
Debt securities.....	20-50%	33%	33%
Other, including cash.....	0-10%	3%	7%
		---	---
		100%	100%
		===	===

</Table>

The investment strategy of the plan is to generate a consistent total investment return sufficient to pay present and future plan benefits to retirees, while minimizing the long-term cost to the Company. Target allocations for asset categories are used to earn a reasonable rate of return, provide required liquidity and minimize the risk of large losses. Targets are adjusted when considered necessary to reflect trends and developments within the overall investment environment.

On February 4, 2003, the Company closed the defined benefit plan to all new employees hired on or after January 1, 2003. In place of the defined benefit plan, these employees participate in the Company's defined contribution plan. The Company contributes a fixed percentage of employee compensation to this plan on an annual basis for these employees. The Company contribution to the defined contribution plan for these employees in 2005 and 2004 was \$7 and \$1, respectively.

The Company has a Supplemental Executive Retirement Plan (SERP) which provides retirement benefits associated with wages in excess of the legislated qualified plan maximums. Pension expense recorded in 2005, 2004, and 2003 related to this plan was \$29, \$28 and \$27, respectively. At March 31, 2005 and 2004, the related liability was \$202 and \$173, respectively, and is included in the caption "Accrued Pension Liability" in the Consolidated Balance Sheets.

The Company has a domestic defined contribution plan covering substantially all employees. Company contributions to the plan are determined by a formula based on profitability and are made at the discretion of the Compensation Committee of the Board of Directors. Contributions were \$0 in each of the years 2005, 2004, and 2003.

The Company has a deferred compensation plan that allows certain key employees to defer a portion of their compensation. The principal and interest earned on the deferred balances are payable upon retirement. The accrued compensation liability under this plan was \$2 and \$125 at March 31, 2005 and 2004, respectively.

Other Postretirement Benefits

In addition to providing pension benefits, the Company has a plan in the United States which provides health care benefits for eligible retirees and eligible survivors of retirees. The measurement date for the plan is December 31.

On February 4, 2003, the Company irrevocably terminated postretirement health care benefits for current U.S. employees. Benefits payable to retirees of record on April 1, 2003 remained unchanged. As a result of the plan change, a curtailment gain of \$522 was recognized. This gain is included in the caption "Other Income" in the 2004 Consolidated Statement of Operations. Of the \$2,464 accrued postretirement benefit liability included in the Consolidated Balance Sheet at March 31, 2005, \$1,641 does not represent a cash obligation, but rather an unrecognized prior service benefit from a plan amendment, and will be amortized into income over the next 11 years. The amount of the credit recognized in 2005 and 2004 was \$166 and \$124, respectively.

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The components of postretirement benefit cost are:

<Table>
<Caption>

	2005	2004	2003
	-----	-----	-----
	<C>	<C>	<C>
<S>			
Service cost -- benefits earned during the period.....	\$ 0	\$ 13	\$ 50
Interest cost on accumulated benefit obligation.....	72	100	182
Amortization of prior service benefit.....	(166)	(124)	
Amortization of actuarial loss.....	13	10	(87)
	----	----	----
Net postretirement benefit (benefit) cost.....	\$ (81)	\$ (1)	\$145
	=====	=====	=====

</Table>

The weighted average discount rate used to develop the net postretirement benefit cost were 6%, 6 3/4% and 7 1/2% in 2005, 2004 and 2003, respectively.

Changes in the Company's benefit obligation, plan assets and funded status for the plan are as follows:

	2005	2004
	-----	-----
<S>	<C>	<C>
Change in the benefit obligation		
Projected benefit obligation at beginning of year.....	\$1,160	\$ 2,826
Service cost.....		13
Interest cost.....	72	100
Plan amendments.....		(1,930)
Participant contributions.....	25	18
Actuarial loss.....	125	312
Benefit payments.....	(179)	(179)
	-----	-----
Projected benefit obligation at end of year.....	\$1,203	\$ 1,160
	=====	=====

</Table>

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

	2005	2004
	----	----
<S>	<C>	<C>
Discount rate.....	5.93%	6%
Medical care cost trend rate.....	7%	7 1/2%

</Table>

The medical care cost trend rate used in the actuarial computation ultimately reduces to 4 1/2% in 2010 and subsequent years. This was accomplished using 1/2% decrements for the years 2006 through 2010.

	2005	2004
	-----	-----
<S>	<C>	<C>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year.....	\$ 0	\$ 0
Employer contribution.....	154	161
Participants' contributions.....	25	18
Benefit payments.....	(179)	(179)
	-----	-----
Fair value of plan assets at end of year.....	\$ 0	\$ 0
	=====	=====
Funded status		
Funded status at end of year.....	\$(1,203)	\$(1,160)
Unrecognized prior service benefit.....	(1,641)	(1,807)
Unrecognized actuarial gain.....	380	267
	-----	-----
Net liability recognized.....	\$(2,464)	\$(2,700)
	=====	=====

</Table>

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The following benefit payments are expected to be paid:

	<C>
<S>	<C>
2006.....	\$ 153
2007.....	151
2008.....	147
2009.....	140
2010.....	134
2011-2015.....	557

	\$1,282
	=====

</Table>

The current portion of the accrued postretirement benefit obligation of \$160, at both March 31, 2005 and 2004, is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets.

Assumed medical care cost trend rates could have a significant effect on the amounts reported for the postretirement benefit plan. However, due to the caps imposed on the Company's share of the premium costs, a one percentage point change in assumed medical care cost trend rates would not have a significant

effect on the total service and interest cost components or the postretirement benefit obligation.

NOTE 11 -- STOCK COMPENSATION PLANS:

The 2000 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 150,000 shares of common stock in connection with grants of incentive stock options and non-qualified stock options to officers, key employees and outside directors. The options may be granted at prices not less than the fair market value at the date of grant and expire no later than ten years after the date of grant.

The 1995 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 192,000 shares of common stock in connection with grants of incentive stock options and non-qualified stock options to officers, key employees and outside directors. The options may be granted at prices not less than the fair market value at the date of grant and expire no later than ten years after the date of grant.

The Company has a Long-Term Incentive Plan which provides for awards of share equivalent units for outside directors based upon the Company's performance. Each unit is equivalent to one share of the Company's common stock. Share equivalent units are credited to each outside director's account for each of the first five full fiscal years of the director's service when consolidated net income is at least 100% of the approved budgeted net income for the year. The share equivalent units are payable in cash or stock upon retirement. The cost of performance units earned and charged to pre-tax income under this Plan was \$0 in each of the years 2005, 2004, and 2003.

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Information on options under the Company's plans is as follows:

<Table>
<Caption>

	OPTION PRICE RANGE	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
<S>	<C>	<C>	<C>
Outstanding at March 31, 2002.....	\$ 7.50-21.44	198,173	\$12.78
Granted.....	\$7.50	32,000	\$ 7.50
Cancelled.....	\$21.44	(4,200)	\$21.44

Outstanding at March 31, 2003.....	\$ 7.50-21.44	225,973	\$11.87
Granted.....	\$ 8.80-9.14	32,500	\$ 8.85
Exercised.....	\$ 7.50-8.00	(40,878)	\$ 7.62
Cancelled.....	\$ 7.67-21.44	(5,900)	\$13.57

Outstanding at March 31, 2004.....	\$ 7.50-21.44	211,695	\$12.18
Granted.....	\$12.50-13.00	39,000	\$12.73
Exercised.....	\$ 7.50-21.44	(39,290)	\$ 9.93
Cancelled.....	\$11.00-21.44	(20,400)	\$15.50

Outstanding at March 31, 2005.....	\$ 7.50-21.44	191,005	\$12.40
		=====	

</Table>

<Table>
<Caption>

EXERCISE PRICE	OPTIONS OUTSTANDING AT MARCH 31, 2005	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
-----	-----	-----	-----
<S>	<C>	<C>	<C>
\$ 7.50- 9.14.....	53,655	\$ 8.23	6.46years
11.00-13.00.....	100,750	11.91	6.72
16.13-21.44.....	36,600	19.86	2.74

\$ 7.50-21.44.....	191,005	\$12.40	5.88
	=====		

</Table>

There were 191,005 options exercisable at March 31, 2005, which had a weighted average exercise price of \$12.40 and 211,695 options exercisable at March 31, 2004 which had a weighted average exercise price of \$12.18. The outstanding options expire October 2005 to December 2014. Options available for future grants were 80,050 at March 31, 2005 and 98,650 at March 31, 2004.

NOTE 12 -- SHAREHOLDER RIGHTS PLAN:

On July 27, 2000 the Company adopted a Shareholder Rights Plan. Under the Plan, as of September 11, 2000, one share Purchase Right ("Right") is attached to each outstanding share of Common Stock. When and if the Rights become

exercisable, each Right would entitle the holder of a share of Common Stock to purchase from the Company one one-hundredth (1/100) interest in a share of Series A Junior Participating preferred stock, at a price of \$45.00 per one one-hundredth (1/100) interest in a share of preferred stock, subject to adjustment. The Rights become exercisable upon certain events: (i) if a person or group of affiliated persons acquires 15% or more of the Company's outstanding Common Stock; or (ii) if a person or group commences a tender offer for 15% or more of the Company's outstanding Common Stock.

The Company may redeem the Rights for \$.01 per Right at any time prior to the acquisition by a person or group of affiliated persons of beneficial ownership of 15% or more of the Company's outstanding common stock ("Acquiring Person").

In the event that any person or group of affiliated persons becomes an Acquiring Person, each holder of a Right other than Rights beneficially owned by the Acquiring Person will have the right to receive upon exercise a number of shares of common stock having a market value of twice the purchase price of the Right. In the event that the Corporation is acquired in a merger or other business combination transaction or fifty percent (50%) or more of its consolidated assets or earning power is sold, each holder of a Right will have the right to receive,

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upon exercise, a number of shares of common stock of the acquiring corporation that at the time of such transaction will have a market value of two times the purchase price of the Right.

NOTE 13 -- OTHER INCOME AND EXPENSE:

In November 2004, the Company entered into an Agreement and General Release in connection with the retirement of its former President and CEO. In accordance with the agreement, the Company will retain the former officer as an independent consultant for the period January 1, 2005 to November 8, 2008 and provide certain medical, dental and insurance benefits during the consulting period. The agreement also contains a non-compete provision. The agreement, which does not require performance for payment, was accounted for as an individual deferred compensation arrangement, and, therefore, an expense of \$648 was recognized. This expense is included in the caption "Other Expense" in the 2005 Consolidated Statement of Operations. The current and long-term portions of the related liability at March 31, 2005 were \$198 and \$322, respectively, and are included in the captions "Accrued Expenses and Other Liabilities" and "Other Long-Term Liabilities" in the 2005 Consolidated Balance Sheet.

In September 2004, the Company settled a contract dispute with a customer regarding cancellation charges. As a result of the settlement, other income of \$1,592 was recorded and is presented in the caption "Other Income" in the 2005 Consolidated Statement of Operations.

During 2005, the workforce in the United States was restructured by transitioning certain senior management employees and eliminating positions at the staff level. As a result, a restructuring charge of \$401 was recognized, which included severance and related employee benefit costs. This charge is included in the caption "Other Expense" in the 2005 Consolidated Statement of Operations.

On February 4, 2003, the Company irrevocably terminated postretirement healthcare benefits for current U.S. employees. Benefits payable to retirees of record on April 1, 2003 remained unchanged. As a result of the plan change, a curtailment gain of \$522 was recognized. This gain is included in the caption "Other Income" in the 2004 Consolidated Statement of Operations.

During fiscal year 2003, an order from a customer in the electric power generating industry that was previously suspended was cancelled. The contract for the cancelled order entitled the Company to a cancellation charge of \$2,155, which was paid to the Company in March 2003. This income, net of costs incurred on the contract of \$354, is presented in the caption "Other Income" in the 2003 Consolidated Statement of Operations.

In January 2003, the workforce in the United States was restructured by eliminating positions at the staff and senior management levels in an effort to reduce costs. As a result, a restructuring charge of \$658 was recognized, which included severance and related employee benefit costs. This charge is included in the caption "Other Expense" in the 2003 Consolidated Statement of Operations.

A reconciliation of the changes in the restructuring reserve, which is included in the caption "Accrued Expenses and Other Liabilities" in the Consolidated Balance Sheets is as follows:

<Table>
<Caption>

	2005	2004
	-----	-----
<S>	<C>	<C>

Balance at beginning of year.....	\$ 153	\$ 390
Expense for restructuring.....	401	10
Amounts paid for restructuring.....	(412)	(247)
	-----	-----
Balance at end of year.....	\$ 142	\$ 153
	=====	=====

</Table>

The liability at March 31, 2005 will be paid in fiscal years 2006-2007.

NOTE 14 -- RELATED PARTY TRANSACTIONS:

In April 2000, the Board of Directors adopted a Long-Term Stock Ownership Plan to encourage officers and directors to broaden their equity ownership in the Company. The Board authorized the sale under the Plan of up to 160,000 shares of the Company's common stock that was held as treasury stock. Of the amount authorized,

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eligible participants purchased 117,800 shares at fair market value. The eligible participants paid cash equal to the par value of the shares and a note receivable was recorded by the Company for the remaining balance due on the purchase of the shares. The notes receivable are fixed rate interest bearing notes with a term of ten years. The notes are repayable in equal quarterly installments through March 31, 2010. The notes, which are full recourse notes, contain certain provisions which grant a security interest to the Company in the shares and any proceeds from the sale of the shares and are presented as a component of Shareholders' Equity in the Consolidated Balance Sheets.

On April 1, 2003, the Company acquired 30,800 shares of common stock previously issued under the Long-Term Stock Ownership Plan from two former officers. This transaction was accounted for as a purchase. The shares were redeemed at the original issue price of \$7.25, as compared to a market price at the time of the closing of \$7.55. This transaction resulted in a \$224 increase to treasury stock, a \$204 reduction in notes receivable from officers and directors, and cash payments to former officers. The cash payments approximate amounts previously paid on the notes.

NOTE 15 -- SEGMENT INFORMATION:

In March 2005, the Company made available for sale the United Kingdom operation, which resulted in the appointment of a receiver by its bank, and, subsequently, the liquidation of the operation. (See Note 2 to the Consolidated Financial Statements for additional disclosure). As a result of the disposition of this operating segment, which has been presented as a discontinued operation in the Consolidated Financial Statements with prior year results being restated, the Company has only one operating segment. Prior year segment information has been restated to reflect the change in the structure of the Company. The United States operation designs and manufactures heat transfer and vacuum equipment. Heat transfer equipment includes surface condensers, Heliflows, water heaters and various types of heat exchangers. Vacuum equipment includes steam jet ejector vacuum systems and liquid ring vacuum pumps. These products are sold individually or combined into package systems for use in several industrial markets. The Company also services and sells spare parts for its equipment.

Net sales by product line from continuing operations for the following fiscal years are:

<Table>			
<Caption>			
	2005	2004	2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Heat transfer equipment.....	\$17,240	\$13,437	\$26,655
Vacuum equipment.....	22,314	21,328	16,480
All other.....	1,779	2,743	1,376
	-----	-----	-----
Net sales.....	\$41,333	\$37,508	\$44,511
	=====	=====	=====

</Table>

The breakdown of net sales from continuing operations by geographic area for the following fiscal years is:

<Table>			
<Caption>			
	2005	2004	2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Sales:			
Africa.....	\$ 403	\$ 23	\$ 71
Asia.....	6,154	8,341	2,040
Australia & New Zealand.....	731	2,222	18
Canada.....	3,756	6,068	4,573

Mexico.....	1,007	69	136
Middle East.....	1,783	1,064	4,821
South America.....	1,874	1,879	1,326
United States.....	24,995	17,440	31,223
Western Europe.....	594	253	233
Other.....	36	149	70
	-----	-----	-----
Net sales.....	\$41,333	\$37,508	\$44,511
	=====	=====	=====

</Table>

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NOTE 16 -- CONTINGENCIES:

The Company has been named as a defendant in certain lawsuits wherein the respective plaintiffs allege personal injury from exposure to asbestos contained in products made by the Company. The Company is a co-defendant with numerous other defendants in these suits. The Company has retained litigation counsel to defend these claims. The claims are similar to previous asbestos suits naming the Company as defendant, which either were dismissed when it was shown that the Company had not supplied products to the plaintiffs' places of work or were settled for minimal amounts below the expected defense costs. The potential for liability is not determinable.

At March 31, 2005, management was unaware of any additional litigation matters. However, from time to time, the Company is subject to legal proceedings and potential claims arising from contractual agreements in the ordinary course of business. The Company believes there are no such matters pending against it that could have, individually or in the aggregate, a material adverse effect on its financial statements.

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QUARTERLY FINANCIAL DATA (UNAUDITED):

A capsule summary of the Company's unaudited quarterly results for 2005 and 2004 is presented below:

<Table>
<Caption>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
2005(1) (2)					
Net sales.....	\$ 8,281	\$ 9,071	\$ 10,783	\$ 13,198	\$ 41,333
Gross profit.....	781	953	2,572	3,234	7,540
Income (loss) from continuing operations.....	(749)	392	(90)	743	296
Loss (income) from discontinued operations.....	(228)	(9)	69	(3,034)	(3,202)
Net (loss) income.....	(977)	383	(21)	(2,291)	(2,906)
Per share:					
Basic					
Income (loss) from continuing operations.....	(.45)	.23	(.05)	.44	.17
(Loss) income from discontinued operations.....	(.14)	.01	.04	(1.79)	(1.90)
Net (loss) income.....	(.58)	.23	(.01)	(1.35)	(1.73)
Diluted					
Income (loss) from continuing operations.....	(.45)	.23	(.05)	.42	.17
Income (loss) from discontinued operations.....	(.14)	.01	.04	(1.73)	(1.86)
Net (loss) income.....	(.58)	.23	(.01)	(1.31)	(1.69)
Market price range of common stock.....	11.95-10.70	12.00-10.95	14.79-11.40	17.80-12.77	17.80-10.70
2004(1) (2)					
Net sales.....	\$ 7,746	\$ 11,226	\$ 8,891	\$ 9,645	\$ 37,508
Gross profit.....	609	2,502	980	1,799	5,890
(Loss) income from continuing operations.....	(579)	326	(719)	140	(832)
Loss from discontinued operations.....	(126)	(117)	(30)	(56)	(329)
Net (loss) income.....	(705)	209	(749)	84	(1,161)
Per share:					
Basic					
(Loss) income from continuing operations.....	(.35)	.20	(.44)	.08	(.51)
Loss from discontinued operations.....	(.08)	(.07)	(.02)	(.03)	(.20)
Net (loss) income.....	(.43)	.13	(.46)	.05	(.71)
Diluted					
(Loss) income from continuing operations.....	(.43)	.13	(.46)	.05	(.71)

operations.....	(.35)	.20	(.44)	.08	(.51)
Loss from discontinued operations.....	(.08)	(.07)	(.02)	(.03)	(.20)
Net (loss) income.....	(.43)	.13	(.46)	.05	(.71)
Market price range of common stock.....	9.20-7.06	9.65-8.35	10.58-8.65	11.70-10.00	11.70-7.06

</Table>

- (1) The financial data presented for the first quarter of 2005 and all four quarters of 2004 has been restated to reflect the change in accounting for revenue recognition. (See Note 1 to the Consolidated Financial Statements).
- (2) The financial data presented for the first three quarters of 2005 and all four quarters of 2004 has been restated to reflect the results of Graham Vacuum and Heat Transfer as discontinued operations. (See Note 2 to the Consolidated Financial Statements).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Graham Corporation
Batavia, New York

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries (the "Company") as of March 31, 2005 and 2004, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Graham Corporation and subsidiaries as of March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, during the year ended March 31, 2005, the Company changed its method of accounting for construction-type contracts and, retroactively, restated the 2004 and 2003 financial statements for the change.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
June 15, 2005

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer and its Vice President-Finance and Chief Financial Officer each have independently evaluated the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and each regards such controls as effective as of the end of the period covered by this Annual Report on Form 10-K.

There have been no significant changes to the internal control over

financial reporting during the last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

There have been no significant changes to any such controls or in other factors that could significantly affect such controls, subsequent to the date of their evaluation by each of the CEO and the CFO.

ITEM 9B. OTHER INFORMATION

(Not applicable).

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Except as otherwise stated specifically in this response to Item 10, the information called for under this Item is set forth in statements under "Election of Directors" and "Executive Officers" of the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

Code of Ethics. The Company has adopted a Code of Ethics applicable to its principal executive officer, principal financial officer, controller and others performing similar functions. The Code of Ethics is available on the Company's website at www.graham-mfg.com.

ITEM 11. EXECUTIVE COMPENSATION

The information called for under this Item is set forth in statements under "Compensation of Directors" of the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders and also under "Executive Compensation" of such proxy statement, which statements are hereby incorporated herein by reference.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Except as set forth below, the information called for under this Item is set forth in statements under "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

<Table>
<Caption>

PLAN CATEGORY	EQUITY COMPENSATION PLAN INFORMATION		
	(A)	(B)	(C)
	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A))
<S>	<C>	<C>	<C>
Equity compensation plans approved by security holders.....	191,005	\$12.40	80,050
Equity compensation plans not approved by security holders.....	0	0	0
Total.....	191,005	\$12.40	80,050
	=====	=====	=====

</Table>

(B) SECURITY OWNERSHIP OF MANAGEMENT

The information called for under this Item is set forth in statements under "Security Ownership of Certain Beneficial Owners and Management", "Election of Directors" and "Executive Compensation" of the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

(C) CHANGES IN CONTROL

(Not applicable).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for under this Item is set forth in statements under "Certain Relationships and Related Transactions" of the Company's Proxy

Statement for its 2005 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for under this Item is set forth in statements under "Principal Accountant Fees and Services" in the Company's Proxy Statement for its 2005 Annual Meeting of Stockholders, which statements are hereby incorporated herein by reference.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

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<Table>
<Caption>

	SEQUENTIAL PAGE NUMBER -----
<S> <C>	<C>
(A) Consolidated Statements of Operations for the Fiscal Years ended March 31, 2005, 2004 and 2003.....	18
(B) Consolidated Balance Sheets as of March 31, 2005 and 2004....	19
(C) Consolidated Statements of Cash Flows for the Fiscal Years ended March 31, 2005, 2004 and 2003.....	20
(D) Consolidated Statements of Changes in Shareholders' Equity for the Fiscal Years ended March 31, 2005, 2004 and 2003....	21
(E) Notes to Consolidated Financial Statements.....	22
(F) Quarterly Financial Data.....	42
(G) Report of Independent Registered Public Accounting Firm.....	43

</Table>

(a) (2) In addition to the above, the following Financial Statement Schedules and related information are required to be filed as part of this Annual Report on Form 10-K:

<Table>
<Caption>

	SEQUENTIAL PAGE NUMBER -----
<S> <C>	<C>
(A) Report of Independent Registered Public Accounting Firm on Financial Statement Schedules.....	47
Financial Statement Schedules for the Fiscal Years ended March 31, 2005, 2004 and 2003 as follows:	
(ii) Valuation and Qualifying Accounts (Schedule II).....	48

</Table>

Other financial statement schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the required information is shown in the consolidated financial statements or notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Graham Corporation
Batavia, New York

We have audited the consolidated financial statements of Graham Corporation and subsidiaries (the "Company") as of March 31, 2005 and 2004, and for each of the three years in the period ended March 31, 2005, and have issued our report thereon dated June 15, 2005 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning a change in accounting method for construction-type contracts in 2005); such consolidated financial statements and report are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
June 15, 2005

GRAHAM CORPORATION AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Year ended March 31, 2005					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable.....	\$ 75	\$ 16	\$ (32) (c)	\$ (31)	\$ 28
Reserves included in the balance sheet caption					
Accrued expenses					
Restructuring reserve.....	153	401		(412)	142
	----	----	----	----	----
	\$228	\$417	\$ (32)	\$ (443)	\$170
	=====	=====	=====	=====	=====
Year ended March 31, 2004					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable.....	\$ 35	\$ 35	\$ 6 (a)	\$ (1)	\$ 75
Reserves included in the balance sheet caption					
Accrued expenses					
Restructuring reserve.....	390	10		(247)	153
	----	----	----	----	----
	\$425	\$ 45	\$ 6	\$ (248)	\$228
	=====	=====	=====	=====	=====
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable.....	\$ 76	\$ (4) (b)	\$ 5 (a)	\$ (42)	\$ 35
Reserves included in the balance sheet caption					
Accrued expenses					
Restructuring reserve.....	0	658		(268)	390
	----	----	----	----	----
	\$ 76	\$654	\$ 5	\$ (310)	\$425
	=====	=====	=====	=====	=====

</Table>

Notes:

- (a) Represents a bad debt recovery and a foreign currency translation adjustment.
- (b) Represents a reversal of the reserve.
- (c) Represents a bad debt recovery and a reduction due to the liquidation of Graham Vacuum and Heat Transfer Limited.

- (a) (3) The following exhibits are required to be filed by Item 15(c) of Form 10-K:

EXHIBIT NO.	
-----	-----
<C>	<S>
*3.1	Certificate of Incorporation of Graham Corporation
+3.2	By-laws of Graham Corporation, as amended
*4.1	Certificate of Incorporation of Graham Corporation
**4.2	Stockholder Rights Plan of Graham Corporation
***10.1	1989 Stock Option and Appreciation Rights Plan of Graham Corporation
****10.2	1995 Graham Corporation Incentive Plan to Increase Shareholder Value
++++10.3	Graham Corporation Outside Directors' Long-Term Incentive Plan
#10.4	Employment Contracts between Graham Corporation and Named Executive Officers
+10.5	Senior Executive Severance Agreements with Named Executive

	Officers
++10.6	2000 Graham Corporation Incentive Plan to Increase Shareholder Value
+++10.7	Long-Term Stock Ownership Plan of Graham Corporation
##10.8	Directors' Indemnification Agreements
10.9	Amended and Restated Credit Facility Agreement and First, Second and Third Amendments dated 2002, 2004 and 2005, respectively
###10.10	Fourth Amendment to Credit Facility Agreement
11	Statement regarding computation of per share earnings Computation of per share earnings is included in Note 1 of the Notes to Consolidated Financial Statements
####14	Code of Ethics
23.1	Consent of Deloitte & Touche LLP
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications

</Table>

- -----
- + Incorporated herein by reference from the Quarterly Report of Registrant on Form 10-Q for the quarterly period ended June 30, 2004.
 - ++ Incorporated herein by reference from the Registrant's Proxy Statement for its 2001 Annual Meeting of Shareholders.
 - +++ Incorporated herein by reference from the Registrant's Proxy Statement for its 2000 Annual Meeting of Shareholders.
 - ++++ Incorporated herein by reference from the Current Report on Form 8-K of Registrant filed on March 9, 2005.
 - * Incorporated herein by reference from the Annual Report of Registrant on Form 10-K for the year ended December 31, 1989.
 - ** Incorporated herein by reference from the Registrant's Current Report on Form 8-K dated August 23, 2000 and Registrant's Form 8-A dated September 15, 2000.
 - *** Incorporated herein by reference from the Registrant's Proxy Statement for its 1990 Annual Meeting of Shareholders.
 - **** Incorporated herein by reference from the Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders.
 - # Incorporated herein by reference from the Annual Report of Registrant on Form 10-K for fiscal year ended March 31, 1998 and Current Report on Form 8-K of Registrant filed on December 2, 2004.
 - ## Incorporated herein by reference from the Quarterly Report of Registrant on Form 10-Q for the quarterly period ended December 31, 2004.
 - ### Incorporated herein by reference from the Current Report on Form 8-K of Registrant filed on June 15, 2005.
 - #### Incorporated herein by reference from the Annual Report of Registrant on Form 10-K for the fiscal year ended March 31, 2004.

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

GRAHAM CORPORATION

DATE: June 15, 2005

By /s/ J. RONALD HANSEN

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

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

<Table>
 <Caption>

SIGNATURE

<C>

<S>

<C>

/s/ WILLIAM C. JOHNSON ----- William C. Johnson	President and Chief Executive Officer; Director	June 15, 2005
/s/ J. RONALD HANSEN ----- J. Ronald Hansen	Vice President -- Finance & Administration and Chief Financial Officer (Principal Accounting Officer)	June 15, 2005
/s/ CORNELIUS S. VAN REES ----- Cornelius S. Van Rees	Director	June 15, 2005
/s/ JERALD D. BIDLACK ----- Jerald D. Bidlack	Director; Chairman of the Board	June 15, 2005
/s/ HELEN H. BERKELEY ----- Helen H. Berkeley	Director	June 15, 2005
/s/ H. RUSSEL LEMCKE ----- H. Russel Lemcke	Director	June 15, 2005
/s/ WILLIAM C. DENNINGER ----- William C. Denninger	Director	June 15, 2005
/s/ JAMES J. MALVASO ----- James J. Malvaso	Director	June 15, 2005

</Table>

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

EXHIBITS

filed with

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

of

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED March 31, 2005

GRAHAM CORPORATION

AMENDED AND RESTATED CREDIT FACILITY AGREEMENT

THIS AMENDED AND RESTATED CREDIT FACILITY AGREEMENT is made as of the 3rd day of November, 1999 by and between GRAHAM CORPORATION, a corporation formed under the laws of the State of Delaware with offices at 20 Florence Avenue, Batavia, New York and FLEET NATIONAL BANK, a national banking association formed under the laws of the United States of America with offices at One East Avenue, Rochester, New York 14638.

This Agreement amends, restates, clarifies and supersedes in its entirety the Restated Credit Facility Agreement between Graham Corporation (as successor by merger to Graham Manufacturing Co., Inc.) and Fleet National Bank (as successor to Fleet Bank) dated as of October 31, 1996, as amended by the First Amendment to the Credit Agreement dated September 28, 1998.

The parties hereby agree as follows:

ARTICLE 1. - DEFINITIONS

1.1 The following terms shall have the following meanings unless otherwise expressly stated herein:

"Affiliate" shall mean any entity which directly or indirectly, or through one or more intermediaries, Controls or is Controlled By or is Under Common Control with the Borrower.

"Bank" shall mean Fleet National Bank and its successors, legal representatives, and assigns.

"Borrower" shall mean Graham Corporation and its successors, legal representatives, and assigns.

"Break Costs" shall mean an amount equal to the amount (if any) required to compensate the Bank for any additional losses (including without limitation any loss, cost, or expense incurred by reason of the liquidation or reemployment of deposits or funds acquired by the Bank to fund or maintain the Obligations), costs, and expenses (including without limitation penalties) it may reasonably incur as a result of or in connection with a prepayment of an Obligation bearing interest at a LIBOR-based rate. If by reason of an Event of Default the Bank elects to declare the Obligations to be immediately due and payable, then any Break Costs with respect to the Obligations shall become due and payable in the same manner as though Borrower had exercised a right of prepayment.

"Business Day" shall mean, in respect of any date that is specified in this Agreement to be subject to adjustment in accordance with applicable Business Day Convention, a day on which commercial banks settle payments in (i) London, if the payment obligation is calculated by reference to any LIBOR Rate, or (ii) New York, if the payment obligation is calculated by reference to any Prime Rate.

"Cash Flow" shall mean net income plus depreciation and amortization less Unfunded Capital Expenditures less distributions, dividends, and stock repurchases.

"Controls" (including the terms "Controlled By" or "Under Common Control") shall mean but not be limited to the ownership of ten percent (10%) or more of the outstanding shares of capital stock of any corporation having voting power for the election of directors, whether or not at the same time stock of any other class or classes has or might have voting power by reason of the happening of any contingency, or ownership of ten percent (10%) or more of any interest in any partnership, or any other interest by reason of which a controlling influence over the affairs of the entity may be exercised.

"Current Ratio" shall mean current assets compared to current liabilities, as determined by GAAP.

"Debt Service Coverage Ratio" shall mean the ratio of (a) earnings before interest, taxes and depreciation to (b) interest expense and current maturities of long term debt.

"Debt To Worth Ratio" shall mean Total Liabilities compared to Tangible Net Worth, as determined by GAAP.

"Environment" means any water including but not limited to surface water and ground water or water vapor; any land including land surface or subsurface; stream sediments; air; fish; wildlife; plants; and all other natural resources or environmental media.

"Environmental Laws" means all federal, state and local

environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances, regulations, codes and rules relating to the protection of the Environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the regulations, rules, ordinances, bylaws, policies, guidelines, procedures, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

"Environmental Permits" means all licenses, permits, approvals, authorizations, consents or registrations required by any applicable Environmental Laws and all applicable judicial and administrative orders in connection with ownership, lease, purchase, transfer, closure, use and/or operation of the Improvements and/or as may be required for the storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances.

"Environmental Report" means written reports, if any, prepared for the Bank by an environmental consulting or environmental engineering firm.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" shall mean the occurrence of any event described in Article 14 hereof.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time.

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"Hazardous Substances" means, without limitation, any explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, and any other material defined as a hazardous material, hazardous waste, toxic substance or hazardous substance in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sections 9601, et. seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. Sections 1801, et. seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Sections 6901, et. seq.; Articles 17 and 27 of the New York State Environmental Conservation Law or any other federal, state, or local law, regulation, rule, ordinance, bylaw, policy, guideline, procedure, interpretation, decision, order, or directive, whether existing as of the date hereof, previously enforced or subsequently enacted.

"Improvements" shall mean any Property.

"Increased Cost" means, in the event the Borrower elects the LIBOR Rate with respect to any of the Obligations, any additional amounts sufficient to compensate the Bank for any increased costs of funding or maintaining the Obligations as a result of any law or guideline adopted pursuant to or arising out of the July 1988 report of the Basle Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards", or the adoption after the date of this Agreement of any law or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank or the Bank's holding company, if any, with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, which has or would have the effect of reducing the rate of return on the Bank's capital or on the capital of the Bank's holding company, if any, as a consequence of the transactions contemplated by this Agreement and all related documents and agreements, the existence of the Bank's commitment, or the note(s) bearing interest at a rate based on the LIBOR Rate, to a level below that which the Bank or the Bank's holding company could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies on capital adequacy).

"Letter of Credit" shall mean one or more Letters of Credit described in Article 3 of this Agreement.

"LIBOR" shall mean, as applicable with respect to principal amounts on which a LIBOR Rate is in effect (a "LIBOR Advance"), the rate per annum (rounded upward, if necessary, to the nearest 1/32 of one percent) as determined on the basis of the offered rates for deposits in U.S. dollars, for a period of time comparable to such LIBOR Advance which appears on the Telerate page 3750 as of 11:00 a.m. London time on the day that is two London Business Days preceding the first day of such LIBOR Advance; provided, however, if the rate described above does not appear on the Telerate System on any applicable interest determination date, the LIBOR

rate shall be the rate (rounded upwards as described above, if necessary) for deposits in dollars for a period substantially equal to the interest period on the Reuters Page "LIBO" (or such other page as may replace the LIBO Page on that service for

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the purpose of displaying such rates), as of 11:00 a.m. (London Time), on the day that is two (2) London Business Days prior to the beginning of such interest period.

If both the Telerate and Reuters system are unavailable, then the rate for that date will be determined on the basis of the offered rates for deposits in U.S. dollars for a period of time comparable to such LIBOR Advance which are offered by four major banks in the London interbank market at approximately 11:00 a.m. London time, on the day that is two (2) London Business Days preceding the first day of such LIBOR Advance as selected by the Bank. The principal London office of each of the four major London banks will be requested to provide a quotation of its U.S. dollar deposit offered rate. If at least two such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that date will be determined on the basis of the rates for loans quoted in U.S. dollars to leading European banks for a period of time comparable to such LIBOR Advance offered by major banks in New York City at approximately 11:00 a.m. New York City time, on the day that is two London Business Days preceding the first day of such LIBOR Advance. In the event that the Bank is unable to obtain any such quotation as provided above, it will be deemed that LIBOR pursuant to a LIBOR Advance cannot be determined. In the event that the Board of Governors of the Federal Reserve System shall impose a Reserve Percentage with respect to LIBOR deposits of the Bank, then for any period during which such Reserve Percentage shall apply, LIBOR shall be equal to the amount determined above divided by an amount equal to 1 minus the Reserve Percentage. "Reserve Percentage" shall mean the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed on member banks of the Federal Reserve System against "Euro-currency Liabilities" as defined in Regulation D.

"LIBOR Interest Period" shall mean any particular one-, two- or three-month period during which an applicable LIBOR Rate shall be in effect.

"LIBOR Rate" shall mean, with respect to any interest rate period, the rate per annum equal to LIBOR, further adjusted to reflect any Increased Cost.

"Obligations" shall include all of the Borrower's obligations to the Bank of any kind or nature, arising in the past, now or in the future, including without limitation obligations related to this Agreement and under the Revolving Line Note, any Reimbursement Agreement, and the Term Loan Note.

"Prime Rate" means the variable per annum rate of interest so designated from time to time by Fleet National Bank as its prime rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer.

"Property" shall mean any real property or improvements owned, occupied or operated by the Borrower.

"Rate Change Date" shall mean the first day of the first month of each one-, two- or three-month period, depending on the rate(s) selected by the Borrower.

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"Reimbursement Agreement" shall mean a Reimbursement Agreement substantially in the form of the Bank's standard letter of credit reimbursement agreement, or otherwise acceptable to the Bank in its sole discretion.

"Release" has the same meaning as given to that term in Section 101(22) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601(22), and the regulations promulgated thereunder.

"Revolving Line" shall mean the revolving line of credit established pursuant to Section 2.1 of this Agreement.

"Revolving Line Note" shall mean the note evidencing Obligations related to the Revolving Line as described in Section 2.2 of this Agreement.

"Revolving Line Termination Date" shall mean the date on which the Revolving Line terminates as described in Section 2.5 of this Agreement.

"Tangible Net Worth" shall mean total tangible assets (excluding all intercompany assets and accounts from officers and Affiliates) less Total Liabilities as determined by GAAP.

"Term Loan" shall mean a term loan made pursuant to Article 4 of this Agreement, or all such Term Loans, collectively, as the context may indicate.

"Term Loan Note" shall mean the note(s) evidencing Obligations related to the Term Loan as described in Section 4.2 of this Agreement.

"Total Liabilities" shall mean the sum of all liabilities shown on the Borrower's balance sheet as of the applicable date of determination, determined in accordance with GAAP.

"Unfunded Capital Expenditures" shall mean capital expenditures, determined according to GAAP, not paid for with borrowing, lease financing, or other similar indebtedness.

ARTICLE 2. - REVOLVING LINE

2.1 Revolving Line. Subject to the terms and conditions of this Agreement, the Bank hereby establishes for the benefit of the Borrower a revolving line of credit in the maximum principal amount of Thirteen Million Dollars (\$13,000,000) outstanding at any one time. The proceeds of the Revolving Line shall be used to meet the Borrower's letter of credit, foreign exchange and working capital requirements. A portion of the Revolving Line may be used by the Borrower to fund, with the prior approval of the Bank's portfolio manager responsible for the Borrower, a foreign exchange guidance line of credit not to exceed (a) \$500,000 for foreign exchange contracts maturing on any one day; and (b) \$3,333,333.00 for total foreign exchange contracts (with respect to forward contracts, not to exceed one year from the date of contract) outstanding at any one time. With respect to advances other than for foreign exchange under the Revolving Line, the entire \$500,000 foreign exchange sublimit will be reserved for purposes of

determining availability under the Revolving Line, irrespective of the amounts actually advanced under the foreign exchange guidance line. Subject to the terms of this Agreement, the Borrower may borrow, repay, and reborrow under the Revolving Line so long as the aggregate principal amount outstanding at any time (plus (a) the aggregate face amount of letters of credit issued pursuant to Article 4 hereof and (b) the outstanding principal amount of the Term Loan, if applicable) does not exceed \$13,000,000.

2.2 Revolving Line Note. The Borrower shall execute, together with this Agreement, a note evidencing Obligations related to the Revolving Line in the form of Exhibit A attached hereto and made a part hereof.

2.3 Interest Rate and Payments. Outstanding amounts under the Revolving Line, except as specifically provided herein, shall bear interest until paid in full at the Prime-based rate determined with reference to Table 2.3, below. Each of the two financial triggers applicable to a given rate in Table 2.3 must be satisfied for that rate to apply. If the Debt Service Coverage Ratio financial trigger in respect of a particular rate is satisfied but the Debt To Worth Ratio financial trigger is not satisfied, the applicable rate shall be twenty-five (25) basis points higher than the rate indicated based upon the Debt Service Coverage Ratio financial trigger. The financial performance triggers shall be measured quarterly and on a consolidated basis for the Borrower (with a rolling twelve-month period for the Debt Service Coverage Ratio) as of the end of each of the Borrower's fiscal quarters.

TABLE 2.3

Debt to Worth Ratio	Debt Service Coverage Ratio	LIBOR - Based Rate	Prime-Based Rate
<S> < or = 1.75 (< or = 1.50 to 1 at 3/31/00 and thereafter)	<C> <1.5 to 1.0	<C> LIBOR + 275 bp	<C> Prime Rate
< or = 1.50 to 1	> or = 1.5 to 1.0, < 2.00 to 1	LIBOR + 225 bp	Prime Rate - 0.50%
< or = 1.25 to 1	> or = 2.00 to 1.0, < 2.5 to 1	LIBOR + 175 bp	Prime Rate - 1.00%
< or = 1.00 to 1.0	> or = 2.5 to 1.0 < 3.0 to 1.0	LIBOR + 150 bp	Prime Rate - 1.25%

The Borrower, however, may from time to time elect to have the one-, two- or three-month LIBOR Rate determined in accordance with Table 2.3 apply to some or all of the amounts outstanding under the Revolving Line by giving at least two (2) business days' prior notice in writing or by telecopy to the Bank, provided, that after the first such election, any subsequent election may only be made at least two (2) business days' prior to, and to become effective on, a Rate Change Date. The notice shall specify the outstanding principal amount to bear interest at the LIBOR-based rate or rates (with any outstanding amounts from time to time under the Revolving Line, in excess of such specified amount, to bear interest at the applicable Prime-based rate). The rate(s) of interest so elected shall be in effect (as adjusted on each applicable Rate Change Date or

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with each change in the Prime Rate, as applicable), until the effective date of any subsequent election notice received by the Bank. During any period in which a LIBOR-based rate is in effect, if the principal amount outstanding under the Revolving Line bearing interest at such rate is ever less than the principal amount stated in the related election notice, the Borrower shall pay Break Costs, if any. Interest shall be calculated based on actual days elapsed divided by a year of 360 days. Changes in the rate of interest applicable to the Revolving Line Note shall become effective automatically, immediately, and without notice or demand of any kind at the time of changes in the Prime Rate, as applicable.

2.4 Payments. Payments of all accrued interest under the Revolving Line Note shall be made on the first day of each month.

All remaining outstanding principal and accrued interest shall be due and payable in full upon the earlier of (a) at the option of the Bank, upon written notice to Borrower, an Event of Default, or (b) the Revolving Line Termination Date, provided that under certain circumstances, some or all of the principal amounts outstanding under the Revolving Line may be converted to a Term Loan in accordance with the terms of Article 4 hereof.

The Revolving Line shall be freely prepayable in whole or in part at the option of Borrower, provided, however, that prepayment due to a refinancing of the Revolving Line in whole or in part by another financial institution (i) one year or less after the date hereof must be accompanied by an additional \$100,000 premium payment, (ii) more than one year but less than two years after the date hereof must be accompanied by an additional \$50,000 premium payment, and (iii) thereafter prior to the Revolving Line Termination Date must be accompanied by an additional \$10,000 premium payment.

In addition, with respect to any LIBOR Advance, Borrower may prepay only upon at least three (3) Business Days prior written notice to Bank (which notice shall be irrevocable), and any such prepayment shall occur only on the last day of the LIBOR Interest Period with respect to any LIBOR Advance. Borrower shall pay to Bank, upon request of Bank, such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or expense incurred as a result of : (i) any payment of a LIBOR Advance on a date other than the day of a LIBOR Interest Period for such Loan; (ii) any failure by Borrower to borrow a LIBOR Advance on the date specified by Borrower's written notice; (iii) any failure by Borrower to pay a LIBOR Advance on the date for payment specified in Borrower's written notice. Without limiting the foregoing, Borrower shall pay to Bank a "yield maintenance fee" in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made, shall be subtracted from the LIBOR in effect at the time of prepayment. If the result is zero or a negative number, there shall be no yield maintenance fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the above referenced United States Treasury securities rate and the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which prepayment is made. The resulting amount shall be the yield maintenance fee due to the Bank upon the payment of a LIBOR Advance. Each

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reference in this paragraph to "Fixed Rate Election" shall mean the election by Borrower of the LIBOR Rate. If by reason of an Event of Default, Bank elects to declare any principal amounts to be immediately due and payable, then any yield maintenance fee with respect to a LIBOR Advance shall become due and payable in the same manner as though the Borrower had exercised such right of prepayment.

In the event that principal amounts outstanding under the Revolving Line exceed the maximum available amount described herein at any time, Borrower, after receiving written notice from the Bank, promptly shall make a principal payment to the Bank without penalty sufficient to reduce outstanding principal amounts to the maximum amount available hereunder.

2.5 Revolving Line Termination. Unless extended in writing by the Bank on terms and conditions then acceptable to the Bank, the Revolving Line will terminate on the earlier of (i) October 31, 2002, or (ii) at the Bank's option upon written notice to Borrower upon an Event of Default.

2.6 Audits. Borrower agrees to allow the Bank complete access to all books and records of the Borrower at reasonable intervals and at reasonable times upon reasonable request and upon the Bank's execution of a confidentiality agreement with the Borrower in form satisfactory to Borrower in its reasonable judgment. Borrower agrees to submit information which the Bank may reasonably request from time to time in connection with the Revolving Line.

2.7 Unused Fee. The Borrower shall pay the Bank a quarterly fee of one-quarter percent (0.25%) per annum times the average unused availability under the Revolving Line during the preceding quarter. For purposes of calculating such average unused availability, the face amounts of outstanding Letters of Credit and foreign exchange transactions shall be aggregated with amounts borrowed under the Revolving Line in determining what portion of the Revolving Line has been used. At the end of each fiscal quarter, the Bank will bill the Borrower for the unused fee.

2.8 Facility Fee. The Borrower shall pay the Bank on or before the date of the first advance hereunder a facility fee of one-half percent (0.50%) of the maximum amount available under the Revolving Line (i.e., \$65,000).

ARTICLE 3. - LETTERS OF CREDIT

3.1 Letters of Credit. Subject to the terms and conditions of this Agreement, the Bank will make letters of credit available for the account of the Borrower in an aggregate stated face amount not exceeding the lesser of (a) Four Million Dollars (\$4,000,000), and (b) the remaining availability under the Revolving Line. Letters of credit will be made promptly available for the Borrower's work in process (to support customer progress payments) or as otherwise reasonably requested by Borrower with respect to customer contracts, for warranty work on completed products, and, subject to a sublimit of \$500,000, to fund the Borrower's workers compensation program. The stated amount outstanding under all Letters of Credit at all times shall reduce, dollar for dollar, the amount available for advances under the Revolving Line. The Letters of Credit shall be in form satisfactory to the Bank. Subject to all of the foregoing, the Bank will collectively issue up to a maximum of \$2,000,000 in letters of credit with maturities of up to three (3) years from the date of

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issuance or, with the prior written consent of the Bank, for a longer period of time on an as needed basis.

3.2 Commissions; Fees. The Borrower will pay letter of credit commissions to the Bank on the date of issuance of each Letter of Credit and on each anniversary date thereafter if a Letter of Credit is renewed or has a maturity in excess of one year from the date of issuance, equal to one and one-quarter percent (1.25%) of the face amount thereof for standby letters of credit, and one-quarter percent (0.25%) of the face amount thereof for documentary letters of credit, provided, however, that commissions on letters of credit having maturities of less than one year shall be charged ratably. In addition, the Borrower will pay to the Bank a \$150 administrative fee for each letter of credit issued pursuant to this Agreement.

ARTICLE 4. - TERM LOAN

4.1 Term Loan. Subject to the terms and conditions of this Agreement, and provided that Borrower is in compliance with all Financial Covenants set forth in Article 13, and no Event of Default has been declared that has not been timely cured, (a) prior to or upon the Revolving Line Termination Date, the Borrower shall have the right from time to time to convert not less than Two Million Dollars (\$2,000,000) at any one time and up to Nine Million Dollars (\$9,000,000) in the aggregate of then-outstanding principal amounts under the Revolving Line (excluding the face amount of any outstanding letters of credit), and (b) on the Revolving Line Termination Date, all then-outstanding principal amounts under the Revolving Line (excluding the face amount of any outstanding letters of credit) shall be converted, to a two-year term loan (each, a "Term Loan"). The proceeds of each Term Loan shall be used to satisfy such Revolving Line Obligations. The principal amount outstanding under each Term Loan from time to time shall reduce, dollar for dollar, the amount available for advances under the Revolving Line, if any.

4.2 Term Loan Note. Each Term Loan shall be evidenced by a note in favor of the Bank dated the respective Conversion Date (as defined in Section

4.4) in the form of Exhibit B attached hereto and made a part hereof.

4.3 Interest Rate. At Borrower's election at the time each Term Loan is advanced by the Bank, the outstanding principal amount of such Term Loan shall bear interest until paid in full, except as otherwise specifically provided herein, at a LIBOR-based rate or Prime-based rate determined on the basis of the financial triggers and related rates set forth in Table 2.3. Interest shall be calculated based on actual days elapsed divided by a year of 360 days.

4.4 Payments. Payments of all accrued interest under each Term Loan Note shall be made on the first day of each month, commencing on the first day of the month following the date of conversion of some or all of the Revolving Line to such Term Loan (the "Conversion Date"). Separate principal payments equal to one twenty-fourth (1/24) of the original principal amount of the Term Loan each shall be made on the first day of every month commencing on the first day of the month following the Conversion Date. All remaining principal and accrued interest shall be due and payable in full on the earlier of the declaration and failure to cure an Event of Default or the second anniversary of the Conversion Date.

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Each Term Loan shall be freely prepayable in whole or in part at the option of the Borrower, but in the case of a Term Loan with interest at a LIBOR Rate, only on a Rate Change Date and after five Business Days' prior written notice, provided, however, that prepayment due to a refinancing of any Term Loan in whole or in part with another financial institution (i) one year or less after the date hereof must be accompanied by an additional \$100,000 premium payment, (ii) more than one year but less than two years after the date hereof must be accompanied by an additional \$50,000 premium payment, and (iii) thereafter prior to the maturity date of the Term Loan must be accompanied by an additional \$10,000 premium payment.

In addition, with respect to any LIBOR Advance, Borrower may prepay only upon at least three (3) Business Days prior written notice to Bank (which notice shall be irrevocable), and any such prepayment shall occur only on the last day of the LIBOR Interest Period with respect to any LIBOR Advance. Borrower shall pay to Bank, upon request of Bank, such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or expense incurred as a result of: (i) any payment of a LIBOR Advance on a date other than the day of a LIBOR Interest Period for such Loan; (ii) any failure by Borrower to borrow a LIBOR Advance on the date specified by Borrower's written notice; (iii) any failure by Borrower to pay a LIBOR Advance on the date for payment specified in Borrower's written notice. Without limiting the foregoing, Borrower shall pay to Bank a "yield maintenance fee" in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made, shall be subtracted from the LIBOR in effect at the time of prepayment. If the result is zero or a negative number, there shall be no yield maintenance fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the above referenced United States Treasury securities rate and the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which prepayment is made. The resulting amount shall be the yield maintenance fee due to the Bank upon the payment of a LIBOR Advance. Each reference in this paragraph to "Fixed Rate Election" shall mean the election by Borrower of the LIBOR Rate. If by reason of an Event of Default, Bank elects to declare any principal amounts to be immediately due and payable, then any yield maintenance fee with respect to a LIBOR Advance shall become due and payable in the same manner as though the Borrower had exercised such right of prepayment.

ARTICLE 5. - EXPENSES/DEFAULT RATE INCREASES

5.1 Administrative Expenses. The Borrower shall pay any reasonable fees, expenses and disbursements, including reasonable legal fees, of the Bank related to the negotiation, drafting and execution of this Agreement (which shall be due at closing), and any reasonable fees, expenses and disbursements, including reasonable legal fees, of the Bank related to this Agreement, the Obligations, the perfection of any collateral security required hereunder, and the transactions contemplated by this Agreement, limited as expressly provided herein. Such payments shall be due from time to time upon the Bank giving the Borrower notice of the amount of such expenses and reasonable documentation in support of such amounts (it being understood that detailed descriptions of attorneys' services will not be required in order to preserve applicable privileges and

confidences). The Borrower shall pay all costs associated with periodic updates of the condition of title to the Property requested by the Bank (for the purpose of assuring the Borrower's compliance with Section 11.1 and 11.9 hereof), provided, that, prior to an Event of Default, the Bank shall not make such requests more than once in any calendar year.

5.2 Collection Costs. At the request of the Bank, the Borrower shall promptly pay any expenses, reasonable attorney's fees, costs, or disbursements in connection with collection of any of the Obligations or enforcement of any of the Bank's rights hereunder or under any note, security agreement, mortgage, reimbursement agreement, guarantee, or other agreement related hereto. This obligation shall survive the payment of any notes executed hereunder. The Bank may apply any payments of any nature received by it first to the payment of Obligations under this Section 5.2, notwithstanding any conflicting provision contained in this Agreement or any other agreement with the Borrower.

5.3 Default Interest Rate. Upon the failure of the Borrower to comply with any covenant contained in Section 10.1 or Article 12 of this Agreement, the rate of interest on each of the Obligations shall be increased to a rate at all times equal to one and one-half percentage points (1.50%) above the rate of interest which would be in effect absent such failure of compliance, such increased rate to remain in effect through and including the end of the quarter in which such failure of compliance is remedied. Upon the declaration of and failure timely to cure an Event of Default, the provisions of this paragraph shall be superseded by the provisions of the second paragraph of this Section 5.3 which relates to increases in the rate of interest in case of the declaration of and failure timely to cure an Event of Default.

Upon the declaration of and failure timely to cure an Event of Default, the rate of interest on each of the Obligations shall be increased to a rate at all times equal to one and one-half percentage points (1.50%) above the rate of interest which would be in effect absent such failure of compliance, such increased rate to remain in effect through the earlier of (a) the date on which such Event of Default is cured and (b) payment in full of all of the Obligations and cancellation of further commitments to lend under this Agreement, or written waiver of such Event of Default by the Bank.

5.4 Late Payment Fees. If the entire amount of any required principal and/or interest is not paid in full within ten (10) days after the same is due, Borrower shall pay to Bank a late fee equal to five percent (5%) of the required payment.

ARTICLE 6. - COLLATERAL

6.1 Security Interests. As collateral for all Obligations, the Borrower shall provide to the Bank a security interest and lien in all personal property assets of the Borrower, including without limitation machinery, equipment, furniture, fixtures (subject to obtaining landlord waivers, where necessary), vehicles, accounts, inventory, chattel paper, interests in leases and property under lease, intellectual property and proprietary interests, documents, instruments, and general intangibles. Such security interests shall be first liens on such assets, which shall not be otherwise encumbered except as specified on Schedule 6.1 attached hereto and made a part hereof.

ARTICLE 7. - REPRESENTATIONS OF BORROWER

The Borrower represents and warrants to the Bank as follows:

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7.1 Organization and Power. The Borrower is duly organized, validly existing and in good standing under the laws of the State of New York, and is duly qualified to transact business and in good standing in all states in which it is required to qualify and in which failure to qualify could have a material adverse impact on its business. The Borrower has full power and authority to own its properties, to carry on its business as now being conducted, to execute, deliver and perform this Agreement and all related documents and instruments, and to consummate the transactions contemplated hereby. The Borrower has no subsidiaries or Affiliates except those listed on Schedule 7.1.

7.2 Proceedings of Borrower. All necessary action on the part of the Borrower, including shareholder approval to the extent required, relating to authorization of the execution and delivery of this Agreement and all related documents and instruments, and the performance of the Obligations of the Borrower hereunder and thereunder has been taken. This Agreement and all related documents and instruments constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms. To the best of Borrower's knowledge, after due inquiry, the Borrower has no defenses, offsets, claims or counterclaims with respect to its obligations arising under this Agreement and all related documents and instruments. The execution and delivery by the Borrower of this Agreement and all related documents and agreements, and the performance by the Borrower of its obligations under this Agreement and all related documents and agreements, will not violate any provision of law or the

Borrower's Certificate of Incorporation or By-laws. The execution, delivery and performance of this Agreement and all related documents and agreements, and the consummation of the transactions contemplated hereby will not violate, be in conflict with, result in a breach of, or constitute a default under any agreement to which the Borrower is a party or by which any of its properties is or may be bound, or any order, writ, injunction, or decree of any court or governmental instrumentality, and will not result in the creation or imposition of any lien, charge or encumbrance upon any of its properties.

7.3 Capitalization. All of the outstanding shares and other equity interests of the Borrower are duly authorized, validly issued, and fully paid. There is no existing contract, debenture, security, right, option, warrant, call or similar commitment of any character calling for or relating to the issuance or purchase of shares or other equity interests of the Borrower.

7.4 Litigation. Except as disclosed in the most recent Financial Statements described in Section 7.5 hereof and in Schedule 13.1, there is no action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower that brings into question the legality, validity or enforceability of this Agreement or the transactions contemplated hereby or that, if adversely determined, would have a material adverse effect on the financial condition or the business of the Borrower.

7.5 Financial Statements. All financial statements furnished by the Borrower to the Bank are complete and correct as they relate to the Borrower, have been prepared in accordance with the applicable standard described in Section 10.1 hereof throughout the periods indicated, and fairly present the financial condition of the Borrower, as of the dates thereof and the results of its operations for the periods covered thereby.

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7.6 Adverse Changes. Since the most recent financial statements described in Section 7.5 hereof there has been no material adverse change in the condition, financial or otherwise, of the Borrower.

7.7 Taxes. The Borrower has filed or caused to be filed when due, or has obtained extensions for, all federal tax returns and all state and local tax returns that are required to be filed, and has paid or caused to be paid all taxes as shown on said returns or any assessment received.

7.8 Properties. The Borrower has good and marketable title to all of its material properties and assets, including without limitation, the properties and assets reflected in the most recent financial statements referred to in Section 7.5 hereof. The Borrower has undisturbed peaceable possession under all leases under which it is operating, none of which contain provisions that may materially affect the operations of the Borrower, and all such leases are in full force and effect.

7.9 Indebtedness. Except as disclosed in the most recent financial statements referred to in Section 7.5 hereof and in Schedule 11.1, the Borrower has no outstanding indebtedness or contingent liabilities (including without limitation "off-balance sheet" liabilities), other than trade payables not yet due incurred in the ordinary course of business, and is not the account party with respect to letters of credit.

7.10 Franchises, Permits. The Borrower has all material franchises, permits, licenses and other authority as are necessary to enable the Borrower to conduct its business as now being conducted, and is not in default under any such franchise, permit, license or authority.

7.11 ERISA. No action, event, or transaction has occurred that could give rise to a lien or encumbrance on the assets of the Borrower as a result of the application of relevant provisions of ERISA, and the Borrower is in material compliance with all requirements of ERISA.

7.12 Margin Securities. No proceeds of the Obligations have been or will be used for the purpose of purchasing or carrying Margin Securities as defined in Regulation U of the Federal Reserve Board.

7.13 Compliance With Law. The Borrower is not in violation of any laws, ordinances, governmental rules, requirements, or regulations to which it is subject which violation might materially adversely affect the condition (financial or otherwise) of the Borrower. The Borrower has obtained and is in compliance with all licenses, permits, franchises, and governmental authorizations necessary for the ownership of its properties and the conduct of its business, for which failure to comply could materially adversely affect the condition (financial or otherwise) of Borrower.

7.14 Patents, Trademarks, and Authorizations. The Borrower owns or possesses all patents, trademarks, service marks, trade names, copyrights, licenses, authorizations, and all rights with respect to the foregoing, necessary to the conduct of its business as now conducted without any material

conflict with the rights of others.

7.15 Contracts and Agreements. The Borrower is not a party to any contract or agreement that materially adversely affects its business, property, assets, or condition, financial or

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otherwise, and the Borrower is in compliance in all material respects with all contracts and agreements to which it is a party.

ARTICLE 8. - REPRESENTATIONS OF THE BANK

The Bank hereby makes the following representations, warranties and covenants on which the Borrower may rely in executing and delivering this Agreement. Such representations and warranties are made as of the date of execution of this Agreement.

8.1 This Agreement has been duly authorized, executed and delivered by the Bank and constitutes a legal, valid and binding obligation of the Bank enforceable against the Bank in accordance with its terms.

8.2 At the date of execution of this Agreement, the Bank does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every one of its agreements contained in this Agreement.

ARTICLE 9. - CONDITIONS OF LENDING

The following conditions must be satisfied before the Bank shall have any obligation to make any advance under this Agreement:

9.1 Representations and Warranties. The representations and warranties of the Borrower contained herein shall be true and correct as of the date of making of each such advance, with the same effect as if made on and as of such date.

9.2 No Defaults. There shall exist no condition or event that constitutes (or that, with the giving of notice or the passage of time or both, would constitute) an Event of Default under Article 14 hereof at the time each advance is made.

9.3 Performance. The Borrower shall have performed and complied with all agreements and conditions required to be performed or complied with by it prior to or at the time the advance is made.

9.4 Opinion of Counsel. Upon the request of the Bank, the Borrower shall have delivered an opinion of its counsel, dated the date of the first advance, reasonably satisfactory to the Bank.

9.5 Documents to be Delivered. The Borrower shall have delivered to the Bank all security agreements, mortgages, reimbursement agreements, assignments, guarantees, and any related documents necessary or desirable in connection with the requirements of Article 6 hereof. All notes evidencing the Obligations shall have been delivered to the Bank at the time of the making of the respective loans.

9.6 Certified Resolutions. The Borrower shall have delivered a certificate of its corporate secretary certifying, as of the date of the first advance, resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Agreement and all related documents and agreements, and the consummation of the transactions

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contemplated hereby, which resolutions shall remain in full force and effect so long as any of the Obligations are outstanding or any commitment to lend exists under this Agreement.

9.7 Fees and Taxes. The Borrower shall have paid all filing fees, taxes, and assessments related to the borrowings and the perfection of any interests in collateral security required hereunder.

9.8 Insurance. The Borrower shall have delivered evidence satisfactory to the Bank of the existence of insurance required hereby.

9.9 Real Estate Taxes. Borrower must provide proof of payment of current real estate taxes and assessments, if any.

9.10 Environmental Insurance. The Borrowers shall have provided to the Bank an environmental inspection report in form and substance satisfactory to the Bank prepared by engineers satisfactory to the Bank, or insurance satisfactory to the Bank covering environmental liabilities.

9.11 Organizational Documents. The Borrower shall have delivered to the Bank copies of its then-effective Certificate of Incorporation, By-laws, d/b/a certificates, and other organizational documents and instruments, or a written certificate that such documents and instruments have not been changed or amended since the last advance to Borrower pursuant to the terms of this Agreement.

9.12 Other Documents and Agreements. On or before the date of this Agreement, the Borrower shall have delivered such other documents, instruments, and agreements as the Bank and its legal counsel may reasonably require in connection with the transactions contemplated hereby.

9.13 Financial Statements. On or before the date of this Agreement, the Borrower shall have delivered to the Bank a copy of the Borrower's most recent consolidated financial statements.

9.14 Certificates of Good Standing. On or before the date of this Agreement the Borrower shall have delivered to the Bank certificates of good standing from appropriate state officials to the effect that the Borrower is in good standing in the state of its formation as well as in all other states in which qualification is necessary for the Borrower to carry on its business in such states.

ARTICLE 10. - AFFIRMATIVE COVENANTS OF BORROWER

So long as any Obligations to the Bank shall be outstanding or this Agreement remains in effect, unless the Bank otherwise consents in writing, the Borrower shall:

10.1 Financial Statements. Furnish to the Bank as soon as available, but in no event later than July 31, 2000 and each July 31 of any year thereafter in which this Agreement remains in effect, copies of annual consolidated financial statements of the Borrower prepared in accordance with GAAP, audited by and with an unqualified opinion from an independent certified public

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accountant approved by the Bank, which approval will not be unreasonably withheld. Said financial statements shall include at least a balance sheet and a statement of profit and loss, and shall be accompanied by a schedule showing computation of financial covenants by an officer of the Borrower and a copy of any management letter prepared by such accountants. Such financial statements shall be accompanied by a certificate of the Chief Financial Officer of the Borrower to the effect that to the best of his knowledge after due inquiry, no Event of Default has occurred and no condition exists which with the passage of time or the giving of notice would constitute an Event of Default or, if an Event of Default shall have occurred and be continuing specifying the steps being taken to cure such Event of Default.

The Borrower also shall furnish to the Bank not more than fifty (50) days after the close of each quarter of its fiscal year copies of quarterly consolidated unaudited financial statements of the Borrower prepared in accordance with GAAP. Said statements shall include at least a balance sheet, a statement of profit and loss, and a schedule showing computation of financial covenants. Such financial statements shall be accompanied by a written acknowledgment of the Chief Financial Officer of the Borrower to the effect that to the best of his knowledge after due inquiry, no Event of Default has occurred and no condition exists which with the passage of time or the giving of notice would constitute an Event of Default.

Not more than thirty (30) days after the close of each quarter, the Borrower shall deliver to the Bank an aging of accounts receivable and an aging of accounts payable. Said information shall be certified to be true and correct to the best knowledge of the Chief Financial Officer of the Borrower.

Not more than thirty (30) days after the close of each quarter, Borrower shall deliver to the Bank a backlog report. Said information shall be certified to be true and correct by an officer of Borrower.

Not more than sixty (60) days after the close of each fiscal year, Borrower shall deliver to the Bank a business plan and forecast for the next succeeding fiscal year.

The Borrower shall provide to the Bank interim financial statements, if any, prepared by the Borrower's independent accountants.

10.2 Other Reports and Inspections. Furnish to the Bank such additional information, reports, or financial statements as the Bank may, from time to time, reasonably request.

Upon execution of a confidentiality agreement with the Borrower in form satisfactory to Borrower in its reasonable judgment, the Borrower shall permit any person designated by the Bank to inspect the property, assets, and books of the Borrower at reasonable intervals and times and, prior to an Event

of Default, upon reasonable notice, and shall discuss its affairs, finances, and accounts at reasonable intervals and times with the Bank from time to time as often as may be reasonably requested.

10.3 Taxes. Pay and discharge all taxes, assessments, levies, and governmental charges upon the Borrower, its income and property, prior to the date on which penalties are attached thereto; provided, however, that the Borrower may in good faith contest any such taxes, assessments,

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levies, or charges so long as such contest is diligently pursued and no lien or execution exists or is levied against any of Borrower's assets related to the contested items.

10.4 Insurance. Maintain or cause to be maintained insurance, of kinds and in amounts as described on Schedule 10.4 annexed hereto, with the insurance companies specified in such Schedule 10.4, or with other responsible insurance companies on all of its real and personal properties in such amounts and against such risks as are prudent, including but not limited to, full-risk extended coverage hazard insurance to the full insurable value of real property (co-insurance not being permitted without the prior written consent of the Bank), all-risk coverage for personal property, business interruption or loss of rents coverage, worker's compensation insurance (unless the Borrower is self-insuring on terms approved by the Bank in advance), and comprehensive general liability insurance. The Borrower also shall maintain flood insurance covering any of its real properties located in flood zones. The Borrower shall provide to the Bank, annually, a detailed list and evidence satisfactory to the Bank of its insurance carriers and coverage. Hazard insurance policies for real property shall name the Bank as loss payee, and for personalty, loss payee, as its interests may appear, and liability insurance policies shall name the Bank as additional insured, and all policies shall provide for at least thirty (30) day's prior notice of cancellation to the Bank.

10.5 Existence. Cause to be done all things necessary to preserve and to keep in full force and effect its existence, rights, and franchises material to its financial condition and to comply in all material respects with all valid laws and regulations now in effect or hereafter promulgated by any properly constituted governmental authority having jurisdiction.

10.6 Maintenance of Properties. At all times maintain, preserve, protect, and keep its material property used or useful in conducting its business, in good repair, working order, and condition and, from time to time, make all needful and proper repairs, renewals, replacements, betterments, and improvements thereto, so that the business carried on may be properly and advantageously conducted at all times.

10.7 Material Changes, Judgments. Notify the Bank immediately of any Event of Default (or event that, with notice or passage of time or both, would constitute an Event of Default), and any material adverse change in the financial condition of the Borrower and of the filing of any suits, judgments, or liens which, if adversely determined, could have a material adverse effect on the business or financial condition of the Borrower. The Borrower also shall notify the Bank immediately of any change in the name, identity, or organizational structure of the Borrower, or any material change in any equity or other ownership interest in the Borrower.

10.8 ERISA Compliance. Comply in all material respects with the provisions of ERISA and regulations and interpretations related thereto.

10.9 Franchises/Permits/Laws. Preserve and keep in full force and effect all material franchises, permits, licenses, and other authority as are necessary to enable it to conduct its business as being conducted on the date of this Agreement and comply in all material respects with all laws, regulations, and requirements now in effect or hereafter promulgated by any properly constituted governmental authority having jurisdiction over it.

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10.10 Payments. Make all payments as and when required by this Agreement and the notes and other agreements related hereto or to the Obligations.

10.11 Amendments. Give the Bank written notice of an amendment or modification to its Certificate of Incorporation or other governing documents or agreements.

10.12 Shareholder and Officer Loans. The Borrower shall provide to the Bank subordination agreements in form satisfactory to the Bank covering any shareholder or officer loans to the Borrower or other obligations of the Borrower to its respective shareholders or officers in existence from time to time.

ARTICLE 11. - NEGATIVE COVENANTS OF BORROWER

So long as any Obligations shall be outstanding, or this Agreement shall remain in effect, unless the Bank otherwise consents in writing, the Borrower shall not, directly or indirectly:

11.1 Indebtedness, Mortgages and Liens. Create, incur, assume, or allow to exist, voluntarily or involuntarily, any obligation or obligations in the aggregate exceeding \$300,000 at any one time during the term of this Agreement for borrowed money or its equivalent, lease, mortgage, pledge, lien or other encumbrance of any kind upon, or any security interest in, any of its property or assets, whether real or personal, whether now owned or hereafter acquired, excluding only (i) Obligations to and interests held by the Bank, (ii) obligations described in Schedule 11.1 attached hereto and made a part hereof, (iii) encumbrances described in Schedule 6.1, (iv) obligations and interests to which the Bank consents in writing, (v) the charge upon property purchased under conditional sales or other title retention agreements (vi) trade indebtedness incurred in the ordinary course of the Borrower's business, (vii) accrued payroll or compensation obligations; and (viii) loans, advances or other distributions permitted by Section 11.3(b).

11.2 Contingent Liabilities. Assume, guarantee, endorse, contingently agree to purchase, or otherwise become liable in any manner upon any obligation or obligations in the aggregate exceeding \$150,000 at any time during the term of this Agreement, contingent or otherwise, whether funded or current, or guarantee the dividends, of any person, firm, corporation, or other entity except for endorsement of negotiable instruments for deposit, collection, or similar transactions in the ordinary course of business.

11.3 Loans and Investments. (a) Except as permitted by Section 11.3(b), make any loan or advance to, or any investment in, any person, firm, joint venture, corporation or other entity whatsoever exceeding \$150,000 in the aggregate at any one time outstanding, except short-term investments in certificates of deposit of financial institutions and similar investments made in the ordinary course of business.

(b) Borrower shall not make any loans, advances, or other distributions of any kind exceeding \$500,000 in the aggregate at any one time outstanding to any Affiliates of the Borrower without the prior consent of the Bank, which may be withheld in its absolute discretion.

11.4 Mergers, Sales and Acquisitions/Change in Ownership Interests. Enter into any merger or consolidation, or acquire all or substantially all the stock or other ownership interests or assets of any person, firm, joint venture, corporation, or other entity for an amount exceeding

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\$5,000,000, in the aggregate, or sell, lease, transfer, or otherwise dispose of any material portion of its assets except in the ordinary course of business.

11.5 Dividends and Distributions. Make any cash or property dividends or distributions with respect to any of its shareholder or ownership interests, or apply any of its property or assets to the purchase, redemption or other retirement of, or set apart any sum for the payment of any cash dividends on or distributions with respect to, or for the purchase, redemption or other retirement of, or make any other distribution by reduction of capital or otherwise in respect of, any shareholder or ownership interests in Borrower.

11.6 Material Changes. Permit any material change to be made in the character of the business of the Borrower, or in its Chairman & CEO or Chief Financial Officer, other than for cause unless Borrower shall have provided for a successor reasonably acceptable to the Bank, or in the nature of its operations as carried on at the date hereof.

11.7 Judgments. Allow to exist for more than sixty (60) days any judgments against Borrower in excess of \$250,000 in the aggregate which are not fully covered by insurance or for which an appeal or other proceeding for the review thereof shall not have been taken and for which a stay of execution pending such appeal shall not have been obtained.

11.8 Margin Securities. Allow any proceeds of the Obligations to be used for the purpose of carrying any Margin Securities as defined in Regulation U of the Board of Governors of the Federal Reserve.

11.9 Negative Pledge. Enter into any agreement with anyone other than the Bank in which Borrower agrees not to pledge or otherwise transfer or encumber any asset of Borrower (including any and all Property) now or hereafter owned, whether or not such asset has been pledged to the Bank.

ARTICLE 12. - FINANCIAL COVENANTS

So long as any Obligations to the Bank shall be outstanding or this Agreement remains in effect, unless the Bank otherwise consents in writing, the

Borrower shall:

12.1 Minimum Tangible Net Worth. Maintain a minimum Tangible Net Worth of (i) \$8,500,000 from the date hereof until March 30, 2000, (ii) \$12,000,000 from March 31, 2000 through March 30, 2001, (iii) \$13,000,000 from March 31, 2001 through March 30, 2002, and (iv) \$14,000,000 at all times after March 30, 2002, as shown in each case on the quarterly and annual financial statements for the Borrower provided to the Bank.

12.2 Maximum Debt To Worth Ratio. Maintain a maximum Debt To Worth Ratio for the Borrower of (i) 1.75 to 1.0 from the date hereof until March 30, 2001, and (ii) 1.50 to 1.0 at all times thereafter, as shown on each quarterly and annual financial statement for the Borrower provided to the Bank.

12.3 Minimum Debt Service Coverage Ratio. Maintain a minimum Debt Service Coverage Ratio for the Borrower of 1.3 to 1.0, as shown on each year-end financial statement for the Borrower provided to the Bank. For the fiscal year ending March 31, 2000, any expenses incurred to

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close the Borrower's United Kingdom Pension Plan will be excluded from the Debt Service Coverage Ratio.

12.4 Minimum Working Capital. Maintain minimum net working capital of \$8,000,000 at all times, as shown on the annual financial statement for the Borrower provided to the Bank.

ARTICLE 13. - ENVIRONMENTAL MATTERS; INDEMNIFICATION

13.1 Environmental Representations. The Borrower represents and warrants that, to the best of Borrower's knowledge and except as described in Schedule 13.1 annexed hereto:

- (a) Neither the Improvements nor any property adjacent to the Improvements is being or has been used for the storage, treatment, generation, transportation, processing, handling, production or disposal of any Hazardous Substance or as a landfill or other waste disposal site or for the storage of petroleum or petroleum based products except in compliance with all Environmental Laws.
- (b) Underground storage tanks are not and have not been located on the Improvements except in compliance with all Environmental Laws.
- (c) The soil, subsoil, bedrock, surface water and groundwater of the Improvements are free of any Hazardous Substances.
- (d) There has been no Release, nor is there the threat of a Release of any Hazardous Substance on, at or from the Improvements or any property adjacent to or within the immediate vicinity of the Improvements which through soil, subsoil, bedrock, surface water or groundwater migration could come to be located on the Improvements, and Borrower has not received any form of notice or inquiry from any federal, state or local governmental agency or authority, any operator, tenant, subtenant, licensee or occupant of the improvements or any property adjacent to or within the immediate vicinity of the Improvements or any other person with regard to a Release or the threat of a Release of any Hazardous Substance on, at or from the Improvements or any property adjacent to the Improvements.
- (e) All Environmental Permits relating to the Borrower and the Improvements have been obtained and are in full force and effect.
- (f) No event has occurred with respect to the Improvements which, with the passage of time or the giving of notice, or both, would constitute a violation of any applicable Environmental Law or non-compliance with any Environmental Permit.
- (g) There are no agreements, consent orders, decrees, judgments, license or permit conditions or other orders or directives of any federal, state or local court, governmental agency or authority relating to the past, present or future ownership, use, operation, sale, transfer or conveyance of the Improvements which require any change in the present condition of the Improvements or any work, repairs,

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construction, containment, clean up, investigations, studies, removal or other remedial action or capital expenditures with respect to the Improvements.

- (h) There are no actions, suits, claims or proceedings, pending or

threatened, which could cause the incurrence of expenses or costs of any name or description or which seek money damages, injunctive relief, remedial action or any other remedy that arise out of, relate to or result from (i) a violation or alleged violation of any applicable Environmental Law or non-compliance or alleged non-compliance with any Environmental Permit, (ii) the presence of any Hazardous Substance or a Release or the threat of a Release of any Hazardous Substance on, at or from the Improvements or any property adjacent to or within the immediate vicinity of the Improvements or (iii) human exposure to any Hazardous Substance, noises, vibrations or nuisances of whatever kind to the extent the same arise from the condition of the Improvements or the ownership, use, operation, sale, transfer or conveyance thereof.

13.2 Environmental Covenants. The Borrower covenants and agrees with the Bank that, so long as this Agreement remains in effect, the Borrower shall:

- (a) Comply with, and shall cause all operators, tenants, subtenants, licensees and occupants of the Improvements to comply with all applicable Environmental Laws and shall obtain and comply with, and shall cause all operators, tenants, subtenants, licensees and occupants of the Improvements to obtain and comply with, all Environmental Permits.
- (b) Not cause or permit any change to be made in the present or intended use of the Improvements which would (i) violate any applicable Environmental Law, or (ii) constitute non-compliance with any Environmental Permit.
- (c) Promptly provide the Bank with a copy of all notifications which it gives or receives with respect to any past or present Release or the threat of a Release of any Hazardous Substance on, at or from the Improvements or any property adjacent to the Improvements.
- (d) Undertake and complete all investigations, studies, sampling and testing and all removal and other remedial actions required by law to contain, remove and clean up all Hazardous Substances that are determined to be present at the Improvements in accordance with all applicable Environmental Laws and all Environmental Permits.
- (e) At all times allow the Bank and its officers, employees, agents, representatives, contractors and subcontractors reasonable access after reasonable prior notice to the Improvements for the purposes of ascertaining site conditions, including, but not limited to, subsurface conditions.
- (f) Deliver promptly to the Bank: (i) copies of any material documents received from the United States Environmental Protection Agency, or any state, county or municipal environmental or health agency concerning the Borrower's operations or the Improvements; and (ii) copies of any material documents submitted by the Borrower to the United States Environmental Protection Agency or any state, county or

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municipal environmental or health agency concerning its operations or the Improvements, excluding normal manifesting documentation submitted in the ordinary course in connection with shipments of product or routine emission or discharge reports submitted in the ordinary course of operations.

- (g) If at any time the Bank obtains any reasonable evidence or information which suggests that a material potential environmental problem may exist at the Improvements, the Bank may require that a full or supplemental environmental inspection and audit report with respect to the Improvements of a scope and level of detail satisfactory to the Bank be prepared by an environmental engineer or other qualified person acceptable to the Bank at Borrower's expense. Such audit may include a physical inspection of the Improvements, a visual inspection of any property adjacent to or within the immediate vicinity of the Improvements, personnel interviews and a review of all Environmental Permits. If the Bank requires, such inspection shall also include a records search and/or subsurface testing for the presence of Hazardous Substances in the soil, subsoil, bedrock, surface water and/or groundwater. If such audit report indicates the presence of any Hazardous Substance or a Release or the threat of a Release of any Hazardous Substance on, at or from the Improvements, Borrower shall promptly undertake and diligently pursue to completion all necessary, appropriate and legally required investigative, containment, removal, clean up and other remedial actions, using methods recommended by the engineer or other person who prepared said audit report and acceptable to the appropriate federal, state and local agencies or authorities.

13.3 Indemnity. The Borrower agrees to indemnify, defend, and hold harmless the Bank from and against any and all liabilities, claims, damages, penalties, expenditures, losses, or charges, including, but not limited to, all costs of investigation, monitoring, legal representation, remedial response, removal, restoration or permit acquisition of any kind whatsoever, which may now or in the future be undertaken, suffered, paid, awarded, assessed, or otherwise incurred by the Bank (or any other person or entity affiliated with the Bank or representing or acting for the Bank or at the Bank's behest, or with a claim on the Bank or to whom the Bank has liability or responsibility of any sort related to this Section 13.3) relating to, resulting from or arising out of (a) the use of the Improvements for the storage, treatment, generation, transportation, processing, handling, production or disposal of any Hazardous Substance or as a landfill or other waste disposal site, (b) the presence of any Hazardous Substance or a Release or the threat of a Release of any Hazardous Substance on, at or from the Improvements, (c) the failure to promptly undertake and diligently pursue to completion all necessary, appropriate and legally required investigative, containment, removal, clean up and other remedial actions with respect to a Release or the threat of a Release of any Hazardous Substance on, at or from the improvements, (d) human exposure to any Hazardous Substance, noises, vibrations or nuisances of whatever kind to the extent the same arise from the condition of the Improvements or the ownership, use, operation, sale, transfer or conveyance thereof, (e) a violation of any applicable Environmental Law, (f) non-compliance with any Environmental Permit or (g) a material misrepresentation or inaccuracy in any representation or warranty or a material breach of or failure to perform any covenant made by Borrower in this Agreement.

13.4 No Limitation. The liability of Borrower under this Article 13 shall in no way be limited, abridged, impaired or otherwise affected by (a) any amendment or modification of this

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Agreement or any other document relating to the Obligations by or for the benefit of Borrower or any subsequent owner of the Improvements except for an amendment or modification which expressly refers to this Article 13, (b) any extensions of time for payment or performance required by this Agreement or any other document relating to the Obligations, (c) the release of Borrower, any guarantor, or any other person from the performance or observance of any of the agreements, covenants, terms or conditions contained in this Agreement or any other document relating to the Obligations by operation of law, the Bank's voluntary act or otherwise, (d) the invalidity or unenforceability of any of the terms or provisions of this Agreement or any other document relating to the Obligations, (e) any exculpatory provision contained in this Agreement or any other document relating to the Obligations limiting the Bank's recourse to property encumbered by any mortgage or to any other security or limiting the Bank's rights to a deficiency judgment against Borrower, (f) any applicable statute of limitations, (g) any investigation or inquiry conducted by or on the behalf of the Bank or any information which the Bank may have or obtain with respect to the environmental or ecological condition of the Improvements, (h) the sale, assignment or foreclosure of any interest in collateral for the Obligations, (i) the sale, transfer or conveyance of all or part of the Improvements, (j) the dissolution and liquidation of Borrower, (k) the death or legal incapacity of any individual, (l) the release or discharge, in whole or in part, of Borrower in any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding, or (m) any other circumstances which might otherwise constitute a legal or equitable release or discharge of Borrower, in whole or in part.

13.5 Survival. Notwithstanding anything to the contrary contained herein, the Borrower's liability under this Article 13 shall survive the discharge, satisfaction or assignment of this Agreement by the Bank until all of the following conditions are satisfied in full:

- (a) all of the Obligations and any other costs and expenses incurred by the Bank in connection with therewith are paid in full;
- (b) neither the Bank nor any affiliate of the Bank nor any person or entity representing or acting for the Bank or at the Bank's behest nor any person or entity with a claim against the Bank or to whom the Bank has liability or responsibility of any sort has at any time or in any manner participated in the management or control of, taken possession of or title to the Improvements or any portion thereof, whether by foreclosure, deed in lieu of foreclosure or otherwise, or had the capacity or ability to participate in the decisions or actions of the Borrower as the same relate to Hazardous Substances;
- (c) between the date of this Agreement and the date on which the Obligations are paid in full, as provided in clause (a) above, there has been no change in any applicable Environmental Law which would make the Bank, or any affiliate of the Bank or any person or entity representing or acting for the Bank or at the Bank's behest or any person or entity with a claim against the Bank or to whom the Bank has liability or responsibility of any sort, liable in respect of

any of the indemnified matters contained in this Article 14 notwithstanding the fact that no event, circumstance or condition of the nature described in clause (b) above ever occurred; and

(d) there exist no indemnified matters which are then pending.

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13.6 Investigations. If the Borrower defaults on any of its Obligations pursuant to this Agreement or any other loan document, the Bank or its designees shall have the right, upon reasonable notice to the Borrower, to enter upon the Improvements and conduct such tests, investigation and sampling, including but not limited to installation of monitoring wells, as shall be reasonably necessary for the Bank to determine whether any disposal of Hazardous Substances has occurred on, at or near the Improvements. The costs of all such tests, investigations and samplings shall be considered as additional indebtedness secured by all collateral for the Obligations and shall become immediately due and payable without notice and with interest thereon at highest rate then borne by any of the Obligations.

13.7 No Warranty Regarding Information. The Borrower agrees that the Bank shall not be liable in any way for the completeness or accuracy of any Environmental Report or the information contained therein. The Borrower further agrees that the Bank has no duty to warn the Borrower or any other person or entity about any actual or potential environmental contamination or other problem that may have become apparent or will become apparent to the Bank.

ARTICLE 14. - DEFAULTS

14.1 Defaults. The following events (hereinafter called "Events of Default") shall constitute defaults under this Agreement. Such Events of Default shall be without prejudice to the Bank's right to demand payment in full of Obligations payable on demand, as specified in this Agreement or the notes relating to such Obligations, at any time and shall be effective as to such demand Obligations only in the event that a demand has not been made prior to the occurrence of such an Event of Default.

a. Nonpayment. Failure of the Borrower to make any payment of any type under the terms of this Agreement, any of the notes related hereto, or of any of the agreements contemplated hereunder, within ten (10) days after the same becomes due and payable.

b. Performance. Failure of the Borrower to observe or perform any condition, covenant or term of this Agreement and all related agreements and documents; provided, however, that an Event of Default shall not occur unless such failure is not cured within thirty (30) days after the Bank gives the Borrower written notice of same.

c. Other Obligations. Failure of the Borrower to observe or perform any other material condition, covenant, or term of any other agreement with the Bank after any applicable cure or grace period related thereto, or default by the Borrower under any agreement involving borrowed money or the like, or any other material agreement evidencing or securing indebtedness to any third person or entity.

d. Representations. Failure of any material representation or warranty made by the Borrower in connection with the execution and performance of this Agreement, or any certificate of officers pursuant hereto, to be truthful, accurate or correct in all material respects.

e. Financial Difficulties. Financial difficulties of the Borrower as evidenced by:

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(i) any admission in writing of inability to pay debts as they become due; or

(ii) the filing of a voluntary or involuntary petition in bankruptcy, or under any chapters of the Bankruptcy Code, or under any federal or state statute providing for the relief of debtors; or

(iii) making general assignment for the benefit of creditors; or

(iv) consenting to the appointment of a trustee or receiver for all or a major part of any of its assets or property; or

(v) the entry of a court order appointing a receiver or a trustee for all a major part of any of its assets or property, provided that Borrower shall have sixty (60) days to obtain an order removing such receiver or trustee; or

(vi) the occurrence of any event, action, or transaction giving rise to a lien or encumbrance on the assets of the Borrower as a result of application of relevant provisions of ERISA.

14.2 Remedies. If any one or more Events of Default occur and is continuing, the Bank may, at its option, take either or both of the following actions at the same or different times: (i) terminate any further commitments or obligations of the Bank, and (ii) accelerate all Obligations of the Borrower to the Bank such that the same become forthwith due and payable without presentment, demand, protest, or other notice of any kind, all of which are hereby expressly waived.

In case any such Events of Default shall occur, the Bank shall be entitled to maintain proceedings to recover judgment against the Borrower for all Obligations of the Borrower to the Bank either before, or after, or during the pendency of any proceedings for the enforcement, of any security interests, mortgages, pledges, or guarantees and, in the event of realization of any funds from any security or guarantee and application thereof to the payment of the Obligations due, the Bank shall be entitled to enforce payment of and recover judgment for all amounts remaining due and unpaid on such Obligations. The Bank shall be entitled to exercise any other legal or equitable right which it may have, and may proceed to protect and enforce its rights by any other appropriate proceedings, including action for the specific performance of any covenant or agreement contained in this Agreement and other agreements held by the Bank.

14.3 Application of Proceeds. All payments received after an Event of Default shall be applied by the Bank as follows:

(a) First: to the payment of all reasonable fees, costs and expenses incurred in connection with the collection, recovery and realization of amounts due pursuant to the Obligations;

(b) Second: to the payment in full of the Obligations with all such payments being applied first to the payment of interest, with any balance to the payment and reduction of principal, in the order of maturity, and other amounts due; and

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(c) Third: the balance, if any, of such proceeds remaining after payment in full of the foregoing items, to the Borrower or as a court of competent jurisdiction may otherwise direct.

ARTICLE 15. - MISCELLANEOUS

15.1 Waiver. No delay or failure of the Bank to exercise any right, remedy, power or privilege hereunder shall impair the same or be construed to be a waiver of the same or of any Event of Default or an acquiescence therein. No single or partial exercise of any right, remedy, power or privilege shall preclude other or further exercise thereof by the Bank. All rights, remedies, powers, and privileges herein conferred upon the Bank shall be deemed cumulative and not exclusive of any others available.

15.2 Survival of Representations. All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the execution and delivery of other agreements hereunder.

15.3 Additional Security; Setoff. Borrower hereby grants to Bank, a lien, security interest and right of setoff as security for all liabilities and obligations to Bank, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of Fleet Financial Group, Inc., or in transit to any of them. At any time, without demand or notice, Bank may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Loan. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

15.4 Notices. Any notice or demand upon any party hereto shall be deemed to have been sufficiently given or served for all purposes hereof when delivered in person or by nationally recognized overnight courier with receipt requested, or two business days after it is mailed certified mail postage prepaid, return receipt requested, addressed as follows:

If to the Bank: Fleet National Bank
One East Avenue
Rochester, New York 14638
Attention: Daniel C. Killigrew

With a copy to: Harris Beach & Wilcox, LLP
130 E. Main Street

Rochester, New York 14604
Attention: Christopher D. Jagel, Esq.

If to Borrower: Graham Corporation
20 Florence Avenue
Batavia, New York 14020

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Attention: J. Ronald Hansen

With a copy to: William A. Smith, Esq.
Graham Corporation
20 Florence Avenue
Batavia, New York 14020

Any party may change, by notice in writing to the other parties, the address to which notices to it shall be sent.

15.5 Entire Agreement. This Agreement and the documents referred to herein embody the entire agreement and understanding among the parties and supersede all prior agreements and understandings relating to the subject matter hereof. This Agreement shall not be changed or amended without the written agreement of all parties hereto. This Agreement embodies all commitments to lend between the Bank and the Borrower and supersedes any prior commitments.

15.6 Parties in Interest. All the terms and provisions of this Agreement shall inure to the benefit of and be binding upon and be enforceable by the parties and their respective successors and assigns and shall inure to the benefit of and be enforceable by any holder of notes executed hereunder. Upon any transfer of any Obligation or any interest therein the Bank may deliver or otherwise transfer or assign to the holder any collateral or guarantees for the Obligation, which holder shall thereupon have all the rights of the Bank.

15.7 Business Days. Whenever any payment is due on a day which is not a Business Day, such payment shall be extended to the next succeeding Business Day, and such extension of time shall be including in computing interest and fees in connection with such payment.

15.8 Telecopy Requests. As a convenience to the Borrower, Borrower hereby authorizes the Bank to rely upon requests made by the Borrower or its authorized employees in writing or by telecopy, and to treat such requests as if they were made in a writing delivered to the Bank. Any advance of funds made by the Bank pursuant to any such request shall be deemed to be authorized by the Borrower unless immediately repaid in full. Borrower shall identify for the Bank its authorized employees in writing with updates as may be required.

15.9 Severability. In the event that any one or more of the provisions contained in this Agreement or any other agreement, document, or guarantee related hereto shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or such other agreement, document, or guarantee.

15.10 Governing Law. This Agreement and the notes and agreements hereunder, together with all of the rights and obligations of the parties hereto, shall be construed, governed and enforced in accordance with the laws of the State of New York without giving effect to the principles of conflicts of laws.

15.11 Assignments; Participations. (a) Bank shall have the unrestricted right at any time or from time to time, and without Borrower's consent, to assign all or any portion of its rights

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and obligations hereunder to one or more banks or other financial institutions (each, an "Assignee"), and Borrower agrees that it shall execute, or cause to be executed, such documents, including without limitation, amendments to this Agreement and to any other documents, instruments and agreements executed in connection herewith as Bank shall deem necessary to effect the foregoing. In addition, at the request of Bank and any such Assignee, Borrower shall issue one or more new promissory notes, as applicable to any such Assignee and, if Bank has retained any of its rights and obligations hereunder following such assignment, to Bank, which new promissory notes shall be issued in replacement of, but not in discharge of, the liability evidenced by the promissory note held by Bank prior to such assignment and shall reflect the amount of the respective commitments and loans held by such Assignee and Bank after giving effect to such assignment. Upon the execution and delivery of appropriate assignment documentation, amendments and any other documentation required by Bank in connection with such assignment, and the payment by Assignee of the purchase price agreed to by Bank, and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of Bank

hereunder (and under any and all other guaranties, documents, instruments and agreements executed in connection herewith) to the extent that such rights and obligations have been assigned by Bank pursuant to the assignment documentation between Bank and such Assignee, and Bank shall be released from its obligations hereunder and thereunder to a corresponding extent.

(b) Bank shall have the unrestricted right at any time and from time to time, and without the consent of or notice to Borrower, to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in Bank's obligation to lend hereunder and/or any or all of the loans, held by Bank hereunder. In the event of any such grant by Bank of a participating interest to a Participant, whether or not upon notice to Borrower, Bank shall remain responsible for the performance of its obligations hereunder and Borrower shall continue to deal solely and directly with Bank in connection with Bank's rights and obligations hereunder.

(c) Bank may furnish any information concerning Borrower in its possession from time to time to prospective Assignees and Participants, provided that Bank shall require any such prospective Assignee or Participant to agree in writing to maintain the confidentiality of such information.

15.12 Replacement of Prior Agreement. This Agreement supersedes and replaces the Restated Credit Facility Agreement dated October 31, 1996 between the Bank and the Borrower.

15.13 Federal Reserve Pledge. Bank may at any time pledge all or any portion of its rights under the loan documents including any portion of the promissory note to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S. C. Section 341. No such pledge or enforcement thereof shall release Bank from its obligations under any of the loan documents.

15.14 Replacement Documents. Upon receipt of an affidavit of an officer of Bank as to the loss, theft, destruction or mutilation of any note or any security document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon surrender and cancellation of such note or other security document, Borrower will issue, in lieu thereof, a replacement note or other security document in the same principal amount thereof and otherwise of like tenor.

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15.15 Waiver of Jury Trial. BORROWER AND BANK MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HERewith OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR BANK TO ENTER INTO THIS AGREEMENT AND MAKE THE LOANS COMPRISING THE OBLIGATIONS.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

FLEET NATIONAL BANK

GRAHAM CORPORATION

By: _____

By: _____

Title: _____

Title: _____

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EXHIBIT 1

AMENDED AND RESTATED CREDIT FACILITY AGREEMENT
AMENDMENT NUMBER 1

THIS AMENDED AND RESTATED CREDIT FACILITY AGREEMENT AMENDMENT NUMBER 1 ("Amendment") is made as of November 1, 2002 by and between GRAHAM CORPORATION ("Borrower"), a corporation formed under the laws of the State of Delaware with offices at 20 Florence Avenue, Batavia, New York and FLEET NATIONAL BANK ("Bank"), a national banking association formed under the laws of the United States of America with offices at One East Avenue, Rochester, New York 14638.

This Agreement amends the Restated Credit Facility Agreement between Graham Corporation (as successor by merger to Graham Manufacturing Co., Inc.) and Fleet National Bank (as successor to Fleet Bank) dated as of October 31, 1996, as amended and restated by the Amended and Restated Credit Facility Agreement between Borrower and Bank dated as of November 3, 1999 (the "Credit Agreement").

The parties hereby agrees as follows:

1. The definition of "Break Costs" contained in Section 1.1 of the Credit Agreement is hereby amended to read as follows:

"Break Costs" shall mean such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or expense incurred as a result of (i) any payment of any Obligation bearing a rate based upon the LIBOR Rate other than on the last day of the applicable LIBOR Interest Period for such Obligation, (ii) any failure by Borrower to borrow an Obligation on the date specified in Borrower's written notice of intention to borrow such Obligation at a rate based upon the LIBOR Rate, (iii) any failure by Borrower to pay an Obligation bearing a rate based upon the LIBOR Rate on any date for payment specified in Borrower's written notice of intention to pay such Obligation. Without limiting the foregoing, the Borrower shall pay to the Bank a "yield maintenance fee" as part of Break Costs in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the last day of the applicable LIBOR Interest period of the particular Obligation as to which the prepayment is made shall be subtracted from the LIBOR in effect at the time of prepayment. If the result is zero or a negative number, there shall be no yield maintenance fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining until the end of the respective applicable LIBOR Interest Period. Said amount shall be reduced to present value calculated by using the above-referenced United States Treasury securities rate and the number of days remaining until the last day of the respective

applicable LIBOR Interest Period. The resulting amount shall be the yield maintenance fee due to Bank upon prepayment of the respective Obligation.

2. The definition of "LIBOR" and contained in Section 1.1 of the Credit Agreement is hereby amended to read in its entirety as follows:

"LIBOR" shall mean the rate per annum as determined on the basis of the offered rates for deposits in United States Dollars, for a period of time comparable to the applicable LIBOR Interest Period which appears on the Telerate Page 3750 as of 11:00 a.m. London time on the day that is two London Banking Days preceding the first day of the applicable LIBOR Interest Period (the "Interest Setting Date"); provided, however, if the rate described above does not appear on the Telerate System on any applicable Interest Setting Date, the LIBOR rate shall be the rate (rounded upward, if necessary, to the nearest one hundred-thousandth of a percentage point) determined on the basis of the offered rates for deposits in United States Dollars for the applicable LIBOR Interest Period which are offered by four major banks in the London interbank market at approximately 11:00 a.m. London Time, on the day that is two (2) London Banking Days preceding the first day of such LIBOR Interest Period as selected by the Bank. The principal London office of each of the four major London banks will be requested to provide a quotation of its United States Dollar deposit offered rate. If at least two such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that date will be determined on the basis of the rates quoted for loans in United States Dollars to leading European banks for a period of time comparable to the applicable LIBOR Interest Period offered by major banks in New York City at approximately 11:00 a.m. New York City time, on the day of such LIBOR Interest Period. In the event that the Bank is unable to obtain any such quotation as provided above, it will be deemed that LIBOR for the LIBOR Interest Period cannot be determined.

In the event that LIBOR cannot be determined, or there is any change in any law or application thereof that makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for the Bank to hold obligations if the rate is determined with reference to the LIBOR, the Borrower shall not be entitled to elect an interest rate based upon the LIBOR Rate until LIBOR can again be determined or is lawful.

3. Section 2.3 of the Credit Agreement is hereby amended to read in its entirety as follows:

2.3 Interest Rate and Payments. Outstanding amounts under the Revolving Line, except as specifically provided herein, shall bear

interest until paid in full at the rate based upon the Prime Rate determined with reference to Table 2.3, below. Each of the two financial triggers applicable to a given rate in Table 2.3 must be satisfied for that rate to apply. If the Debt Service Coverage Ratio financial trigger in respect of a particular rate is satisfied but the Debt To Worth Ratio financial trigger is not satisfied, the applicable rate shall be twenty-five (25) basis points higher than the rate indicated based upon the Debt Service Coverage Ratio financial trigger. The financial performance triggers shall be measured quarterly and on a consolidated basis for the Borrower (with a rolling twelve-month period for the Debt Service Coverage Ratio) as of the end of each of the Borrower's fiscal quarters.

The Borrower, however, may from time to time elect to have the one-, two- or three-month LIBOR Rate determined in accordance with Table 2.3 apply to some or all of the amounts outstanding under the Revolving Line by giving at least two (2) business days' prior notice in writing or by telecopy to the Bank, provided, that after the first such election, any subsequent election may only be made at least two (2) business days' prior to, and to become effective on, a Rate Change Date. The notice shall specify the outstanding principal amount to bear interest at the LIBOR-based rate or rates (with any outstanding amounts from time to time under the Revolving Line, in excess of such specified amount, to bear interest at the applicable rate based upon the Prime Rate).

TABLE 2.3

<TABLE>	<CAPTION>		
DEBT TO WORTH RATIO	DEBT SERVICE COVERAGE RATIO	LIBOR-BASED RATE	PRIME-BASED RATE
-----	-----	-----	-----

<S>	<C>	<C>	<C>
< or = 1.50:1	< 1.50:1	LIBOR + 275 bp	Prime Rate
< or = 1:50:1 25bp	> or = 1.50:1 to , < 2.00:1	LIBOR + 225 bp	Prime Rate -
< or = 1.25:1 50bp	> or = 2:00:1 to < 2.50:1	LIBOR + 175 bp	Prime Rate -
< or = 1.00:1 75bp	> or = 2.50:1 to < 3:00.1	LIBOR + 150 bp	Prime Rate -
< or = 1.00:1 100bp	> or = 3.00:1	LIBOR + 125 bp	Prime Rate -
</TABLE>			

Changes in the rate of interest due to a change in the financial performance triggers contained in Table 2.3 shall be effective as of the first day of the first quarter subsequent to receipt by the Bank of the Borrower's financial statements (for example, if financial statements for the quarter ending on June 30 are received on August 15, the rate change shall occur on October 1). If required financial statements are not received by the Bank, it shall be assumed that the rates will be the highest rates

applicable under Table 2.3 until five business days following the date on which such financial statements are received. In addition to changes of rate due to financial performance triggers, changes in the rate of interest applicable to outstanding amounts under the Revolving Line Note bearing interest at a rate based upon the Prime Rate shall become effective automatically, immediately, and without notice or demand of any kind, at the time of changes in the Prime Rate. Any LIBOR-based rate of interest elected by Borrower shall be in effect during the applicable LIBOR Interest Period, subject to changes during the period due to financial performance triggers.

During any period in which LIBOR-based rate is in effect, if the principal amount outstanding under the Revolving line bearing interest at such rate is ever less than the principal amount stated in the related election notice, the Borrower shall pay Break Costs, if any.

Interest shall be calculated based on actual days elapsed divided by a year of 360 days.

4. Section 2.5 of the Credit Agreement is hereby amended to read in its entirety as follows:

2.5 Revolving Line Termination. Unless extended in writing by the Bank on terms and conditions then acceptable to the Bank, the Revolving Line will terminate on the earlier of (i) October 31, 2005, or (ii) at the Bank's option upon written notice to Borrower upon an Event of Default.

5. A new Section 3.3 shall be added to the Credit Agreement to read in its

entirety as follows:

3.3 Unreimbursed Days. The Borrower shall make immediate payment to the Bank of all amounts drawn under Letters of Credit, and authorizes the Bank to advance funds under the Revolving Line, to the extent available thereunder, to repay such amounts drawn. All amounts drawn under Letters of Credit shall bear interest at the rate based upon the Prime Rate then in effect pursuant to Table 2.3.

6. Article 5 of the Credit Agreement is hereby amended to read in its entirety as follows:

ARTICLE 5 - EXPENSES/DEFAULT RATE INCREASES

5.1 Costs and Expenses. Borrower shall pay on demand all expenses of Bank in connection with the preparation, administration, default, collection, waiver or amendment of the terms of the Obligations, or in connection with Bank's exercise,

preservation, or enforcement of any of its rights, remedies, or options hereunder, including without limitation, reasonable fees of outside legal counsel or the allocated costs of in-house legal counsel, accounting, consulting, brokerage or similar professional fees or expenses, and any fees or expenses associated with travel or other costs relating to any appraisals or examinations conducted in connection with any of the Obligations or any collateral therefor, and the amount of all such expenses shall, until paid, bear interest at the highest rate applicable to any Obligation (including any default rate) and be an Obligation secured by any collateral. Such payments shall be due from time to time upon the Bank giving the Borrower notice of the amount of such expenses and reasonable documentation in support of such amounts (it being understood that detailed descriptions of attorneys' services will not be required in order to preserve applicable privileges and confidences). The Borrower shall pay all costs associated with periodic updates of the condition of title to the Property requested by the Bank (for the purpose of assuring the Borrower's compliance with Section 11.1 and 11.9 hereof), provided, that, prior to an Event of Default, the Bank shall not make such requests more than once in any calendar year.

5.2 Application of Payments. All payments shall be applied first to the payment of all fees, expenses and other amounts due to the Bank (excluding principal and interest), then to accrued interest, and the balance on account of outstanding principal; provided, however, that after an Event of Default, payments will be applied to the Obligations as Bank determines in its sole discretion.

5.3 Default Interest Rate. Upon the failure of the Borrower to comply with any covenant contained in Section 10.1 or Article 12 of this Agreement, upon any Default (whether or not Bank has accelerated payment of the Obligations), after maturity, or after judgment has been rendered with respect to any of the Obligations, Borrower's right to select pricing options shall cease and the unpaid principal of all Obligations shall, at the option the Bank, bear interest at a rate which is one and one-half (1.5) percentage points per annum greater than that which would otherwise be applicable.

5.4 Late Payment Fees. If the entire amount of any required principal and/or interest is not paid in full under any of the Loan Documents within ten (10) days after the same is due, Borrower shall pay to the Bank a late fee equal to five percent (5%) of the required payment.

5.5 Prepayments Upon Default. If by reason of an Event of Default the Bank elects to declare the Obligations to be

immediately due and payable then any Break Costs with respect to the Obligations shall become due and payable in the same manner as though the Borrower had exercised a right of prepayment.

5.6 Method of Payment. All payments shall be made by Borrower to Bank at the address for Bank first shown above in this Agreement or such other place as Bank may from time to time specify in writing in lawful currency of the United States of America in immediately available funds, without counterclaim or setoff and free and clear of, and without deduction or withholding for, any taxes or other payments.

7. Section 12.1 of the Credit Agreement is hereby amended to read in its entirety as follows:

12.1 Minimum Tangible Net Worth. Maintain a minimum Tangible Net Worth of \$17,500,000 at all times as shown in each case on the quarterly and annual financial statements for the Borrower provided to the Bank.

8. Section 11.4 of the Credit Agreement is hereby amended to read in its entirety as follows:

11.4 Mergers, Sales and Acquisitions/Change in Ownership Interests. (i) Sell, lease, transfer, or otherwise dispose of any material portion of its assets except in the ordinary course of business, or (ii) enter into any merger or consolidation, or acquire all or substantially all the stock or other ownership interests or assets of any person, firm, joint venture, corporation, or other entity; provided, however, that such mergers, consolidations, or acquisitions shall be permitted if they do not exceed \$7,000,000 in the aggregate and if, on a pro forma basis, the Borrower will continue to comply with the covenants contained in this Agreement, including without limitation the covenants contained in Article 12 hereof, on a going forward basis after completion of such merger, consolidation, or acquisition.

9. Section 11.5 of the Credit Agreement is hereby amended to read in its entirety as follows:

11.5 Dividends and Distributions. Make any cash or property dividends or distributions with respect to any of its shareholder or ownership interests, or apply any of its property or assets to the purchase, redemption or other retirement of, or set apart any sum for the payment of any cash dividends on or distributions with respect to, or for the purchase, redemption or other retirement of, or make any other distribution by reduction of capital or otherwise in respect of, any shareholder or ownership interests in Borrower; provided, however, that Borrower may make dividends in the aggregate maximum amount of \$400,000

per year and may repurchase or redeem stock in the aggregate maximum amount of \$500,000 per year so long as after any such transactions no Event of Default exists and the Borrower continues to comply with Article 12 hereof.

10. Section 15.3 of the Credit Agreement is hereby amended to read in its entirety as follows:

15.3 Additional Security Setoff. The Borrower hereby grants to Bank a continuing lien, security interest, and right of set off as security for the Obligations, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of FleetBoston Financial Corporation and its successors and assigns or in transit to any of them. At any time without demand or notice (any such notice being expressly waived by Borrower), Bank may set off the same or any part thereof and apply the same to any Obligation of Borrower even though unmaturing and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SET OFF WITH RESPECT TO SUCH DEPOSITS, CREDITS, OR OTHER PROPERTY OF BORROWER [OR GUARANTOR] ARE HEREBY KNOWINGLY, VOLUNTARILY, AND IRREVOCABLY WAIVED.

11. Section 15.4 of the Credit Agreement is hereby amended to change the address for notices to the Bank as follows:

If to the Bank: Fleet National Bank
One East Avenue
Rochester, New York 14638
Attention: John M. Pitton

With a copy to: Harris Beach LLP
99 Garnsey Road
Pittsford, New York 14534
Attention: Beth Ela Wilkins, Esq.

12. Section 15.10 of the Credit Agreement is hereby amended to read in its entirety as follows:

15.10 Governing Law. This Agreement and the rights and obligations of the parties hereunder, shall be construed, interpreted, governed and enforced in accordance with the laws of

the State of New York (excluding the laws applicable to conflicts or

choice of law).

13. Section 15.15 of the Credit Agreement is hereby amended to read in its entirety as follows:

15.15 WAIVER OF TRIAL BY JURY. BORROWER AND BANK (BY ACCEPTANCE OF THIS AGREEMENT) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS OR, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF BANK RELATING TO THE ADMINISTRATION OF THE LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS, AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, BORROWER HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL,

EXEMPLARY, PUNITIVE, OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. BORROWER CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR BANK TO ACCEPT THIS AGREEMENT AND MAKE THE LOANS CONTEMPLATED HEREUNDER.

14. Schedule 11.1 to the Credit Agreement is hereby amended to add thereto:

Indebtedness, mortgages, and liens exclusively related to Borrower's UK subsidiary,
Pumps Limited. Graham Precision
By:

15. The Borrower shall pay the Bank a facility fee of one-half percent (0.50%) of the maximum amount available under the Revolving Line (i.e., \$65,000) in connection with this Amendment.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

FLEET NATIONAL BANK

By: _____

Its: _____

GRAHAM CORPORATION

By: _____

Its: _____

EXHIBIT 2

SECOND AMENDMENT TO CREDIT FACILITY AGREEMENT

THIS SECOND AMENDMENT, dated as of the 31st day of March, 2004, to that certain Amended and Restated Credit Facility Agreement dated as of November 3, 1999, as amended by an Amendment Number 1 dated as of November 1, 2002 (the "Agreement"), between FLEET NATIONAL BANK, a national banking association with an office at One East Avenue, Rochester, New York 14638 (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").

The parties hereby agree as follows:

1. Agreement Ratified. Except as expressly amended hereby, the Agreement is in all respects ratified and confirmed, and all of the terms, provisions and conditions thereof shall be and remain in full force and effect, and this Amendment and all of its terms, provisions and conditions shall be deemed to be a part of the Agreement. All capitalized terms used herein and not defined shall have the meanings given them in the Agreement.

2. New Definitions. The following definitions shall be added to Article 1 of the Agreement:

"Distributions" shall mean dividends, payments, or distributions of any kind (including without limitation cash or property) in respect of the capital stock, securities or other equity interests or rights to acquire such equity interests of the applicable entity except distributions in the form of such stock, equity securities, equity interests, or rights to acquire equity interests.

"EBITDA" shall mean, for any period and determined in accordance with GAAP, Net Income (calculated before Interest Expense, provision for taxes, depreciation and amortization of intangibles).

"Interest Expense" shall mean for the applicable period, all interest paid, capitalized, or accrued, and amortization of debt discount with respect to all Debt less all related interest income during such period and determined after giving effect to the net cost associated with financial arrangements of any kind made to protect against fluctuations in interest rates such as interest rate swap contracts, interest rate cap agreements, and the like.

"Letter of Credit" shall mean any Letter of Credit issued pursuant to Article 3 hereof.

"Net Income" shall mean the gross revenues for such period less all expenses and other proper charges but without deduction for Interest Expense and provision for taxes, determined in accordance with GAAP consistently applied, but excluding in any event:

- (a) any gains or losses (not in the ordinary course of business) on the sale or other disposition of investments or fixed or capital assets, and any taxes on

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such excluded gains and any tax deductions or credits on account of any such excluded losses;

- (b) the proceeds of any life insurance policy;
- (c) net earnings and losses of any corporation substantially all the assets of which have been acquired in any manner, realized by such other corporation prior to the date of such acquisition;
- (d) net earnings and losses of any corporation with which the Borrower shall have consolidated or which shall have merged into or with the Borrower prior to the date of such consolidation or merger;
- (e) earnings resulting from any reappraisal, revaluation or write-up of assets;
- (f) any gain arising from the acquisition of any securities of the Borrower;
- (g) any reversal of any contingency reserve, except to the extent that provision for such contingency reserve shall have been made from income arising during such period;
- (h) amortization of negative goodwill net of goodwill,
- (i) income or loss attributable to equity in Affiliates, and
- (j) other extraordinary or unusual items, but excluding contract cancellation fees and other related items in the ordinary course of business.

"Reactivation Date" shall mean the date on which the Borrower advises the Bank, in writing, that it is in compliance with the Minimum Debt Service Coverage Ratio covenant contained in Section 12.3 of the Agreement, and that it intends to remain in compliance with such covenant for the remaining term of the Agreement.

3. Definitions Deleted. The definitions of "Term Loan" and "Term Loan Note" shall be deleted from the Agreement.

4. Section 2.1. Section 2.1 of the Agreement shall be amended in its entirety to read as follows:

2.1 Revolving Line. Subject to the terms and conditions of this Agreement, the Bank hereby establishes for the benefit of the Borrower a revolving line of credit in the maximum principal amount of Eight Million Dollars (\$8,000,000.00) outstanding at any one time. The proceeds of the Revolving Line shall be used to meet Borrower's letter of credit, foreign exchange, and working capital requirements as follows: (i) the Borrower may use up to Five Million Dollars (\$5,000,000.00) for Revolving Loans for working capital purposes ("Working Capital Loans"), and (ii) the Borrower may use up to Three Million Dollars (\$3,000,000.00) for Letters of Credit issued pursuant to Article 3 hereof.

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Revolving Line amounts available for Working Capital Loans shall not be available for Letters of Credit and Revolving Line amounts available for Letters of Credit shall not be available for Working Capital Loans. The Borrower may, however, use a portion of the Revolving Line available for Working Capital Loans to fund, with the prior written approval of the Bank, a foreign exchange guidance line of credit not to exceed (a) \$500,000.00 for foreign exchange contracts maturing on any one day, and (b) \$3,333,333.00 for total foreign exchange contracts (with respect to forward contracts, not to exceed one year from the date of contract) outstanding at any one time. With respect to advances other than for foreign exchange under the Revolving Line, the entire \$500,000 foreign exchange sublimit will be reserved for purposes of determining availability under the Revolving Line, irrespective of the amounts actually advanced under the foreign exchange guidance line. Subject to the terms of this Agreement, the Borrower may borrow, repay, and reborrow under the Revolving Line so long as the aggregate principal amount outstanding at any time for Working Capital Loans (including the foreign exchange sublimit) plus the aggregate face amount of Letters of Credit issued or available to be issued pursuant to Article 3 hereof does not exceed \$8,000,000.00.

5. Amended and Restated Revolving Line Note. The Borrower shall execute, together with this Amendment, a note evidencing Obligations related to the Revolving Line in the form of Exhibit A attached hereto and made a part hereof. This new Revolving Line Note shall amend and restate the Revolving Line Note executed and delivered by the Borrower to the Bank pursuant to the Agreement.

6. Section 2.3. Section 2.3 of the Agreement shall be amended in its entirety to read as follows:

2.3 Interest Rate. Outstanding amounts under the Revolving Line Note shall bear interest at a variable rate per annum until paid in full (including without limitation after acceleration, maturity, and judgment), except as otherwise specifically provided herein, equal to the Prime Rate in effect from time to time. Changes in the interest rate shall become effective automatically and without notice at the time of changes in the Prime Rate.

The Borrower from time to time, however, may elect to have portions of the principal outstanding under the Revolving Line Note bear interest at a rate per annum rate equal to 275 basis points (2.75%) above the one-month, two-month, or three-month LIBOR Rate for the period applicable to that rate by giving at least two (2) business days' prior notice in writing or by telecopy to the Bank. The notice shall specify (i) the rate chosen, (ii) the outstanding principal amount to bear interest at the applicable LIBOR Rate which shall not be less than \$100,000 (with any outstanding amounts from time to time under the Revolving Line Note, in excess of such specified amount, to bear interest at the rate based upon the Prime Rate), and (iii) the commencement date for such rate. No LIBOR Interest Period may be elected that would extend beyond the maturity date of the Revolving Line Note. The rate of interest so elected shall be in effect for the respective applicable LIBOR Interest Period. The Borrower shall be responsible for all Break Costs including without limitation those applicable if during any period in which a LIBOR based rate or rates is or are in effect, if the principal amount outstanding under

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the Revolving Line Note bearing interest at such respective rate or rates is ever less than the principal amount stated in the respective election notice or notices for such period.

Notwithstanding the foregoing, however, after the Reactivation Date all Revolving Loans shall bear interest at the rates and in the manner set forth in Section 2.3 of the Agreement as amended to November 1, 2002, but without giving effect to this Amendment.

Interest shall continue to accrue after maturity, acceleration, and judgment at the rate required by this Agreement until the Revolving Line Note is paid in full. All computations of interest shall be made on the basis of a three hundred sixty (360) day year and the actual number of days elapsed.

7. Section 2.7. Section 2.7 of the Agreement shall be amended in its entirety to read as follows:

2.7 Unused Fee. The Borrower shall pay the Bank a quarterly fee as follows: (i) at all times prior to the Reactivation Date in an amount equal to one-half percent (.50%) per annum times the average unused availability under the Revolving Line during the preceding quarter, and (ii) at all times after a Reactivation Date in an amount equal to one-quarter percent (.25%) per annum times the average unused availability

under the Revolving Line during the preceding quarter. For purposes of calculating such average unused availability, the face amounts of outstanding Letters of Credit and foreign exchange transactions shall be aggregated with amounts borrowed under the Revolving Line in determining what portion of the Revolving Line has been used. At the end of each fiscal quarter, the Bank will bill the Borrower for the unused fee.

8. Section 3.1. Section 3.1 of the Agreement shall be amended in its entirety to read as follows:

3.1 Letters of Credit. Subject to the terms and conditions of this Agreement, the Bank will make Letters of Credit available for the account of the Borrower in an aggregate stated face amount not exceeding the lesser of (a) Three Million Dollars (\$3,000,000.00), or (b) the remaining availability under the Revolving Line for the purposes of issuing Letters of Credit. Letters of Credit will be made promptly available for the Borrower's work in process (to support customer progress payments) or as otherwise reasonably requested by the Borrower with respect to customer contracts, for warranty work on completed products, and, subject to a sublimit of \$500,000.00, to fund the Borrower's worker's compensation program. The stated amount outstanding under all Letters of Credit at all times shall reduce, dollar for dollar, the amount available for advances under the Letters of Credit Line. The Letters of Credit shall be in form satisfactory to the Bank. Up to \$3,000,000 face amount of Letters of Credit may have maturity dates which are not more than three (3) years after the Revolving Line Termination Date.

9. Deletion of Term Loans. Article 4 of the Agreement, together with all references to any Term Loan or Term Loans, shall be deleted in its entirety, and the Bank shall have no obligation to make any Term Loans to the Borrower.

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10. Monthly Financial Statements. The following paragraph shall be added at the end of Section 10.1 of the Agreement:

Beginning with the month ended April 30, 2004, not later than the 25th day of each month, the Borrower shall deliver to the Bank copies of consolidated financial statements for the prior month prepared in accordance with GAAP. Such statements shall include at least a balance sheet, a statement of profit and loss, and an update to its monthly cash flow forecast for the subsequent twelve (12) month period. Monthly financial statements are for reporting purposes only; covenants shall continue to be calculated at each quarter and fiscal year end.

11. Section 11.4. Section 11.4 of the Agreement shall be amended in its entirety to read as follows:

11.4 Mergers, Sales and Acquisitions, Changes in Ownership Interests. Enter into any merger or consolidation, (ii) acquire all or substantially all the stock or other ownership interests or assets of any person, firm, joint venture, corporation, or other entity, or (iii) sell, lease, transfer, or otherwise dispose of any material portion of its assets without the Bank's consent.

12. Section 11.5. Section 11.5 of the Agreement shall be amended in its entirety to read as follows:

11.5 Distributions. Make any Distributions or apply any of its property or assets to Distributions or set apart any sum or asset for the purpose of Distributions, except that the Borrower may pay dividends (i) if the dividend rate is not increased from the dividend rate in effect on the date of this Amendment, and (ii) if there is sufficient cash (net of Revolving Loan borrowings) available for such dividends. In addition to these limitations, the Borrower may pay dividends after September 30, 2004, only with the prior written consent of the Bank. Repurchases, redemptions, or acquisitions of capital stock, securities, or other equity interests or rights to acquire such equity interests, are prohibited without the Bank's consent.

13. Section 11.10. The following Section 11.10 shall be added to the Agreement:

11.10 Material Adverse Change. Permit any change in the Borrower's business or operations, or in any factor affecting the Borrower's business or operations, or regarding any obligation or agreement of the Borrower, or in the financial condition of Borrower or in the collateral for the Borrower's Obligations, or any other condition affecting Borrower, as compared to the projections provided by the Borrower to the Bank dated February 13, 2004.

14. Section 12.1. Section 12.1 of the Agreement shall be amended in its entirety to read as follows:

12.1 Minimum Tangible Net Worth. Maintain a minimum Tangible Net Worth of \$16,500,000 from the date hereof through March 31, 2004, \$15,850,000 from April 1, 2004 through June 30, 2004, and \$14,850,000 at all times thereafter.

15. Section 12.3. Section 12.3 of the Agreement shall be amended in its entirety to read as follows:

12.3 Minimum Debt Service Coverage Ratio. Commencing on the Reactivation Date and at all times thereafter, maintain a minimum Debt Service Coverage Ratio of 1.3 to 1.0, as shown on each year-end financial statement provided to the Bank.

16. Section 12.4. Section 12.4 of the Agreement shall be amended in its entirety to read as follows:

12.4 Minimum Working Capital. Maintain minimum net working capital of \$8,000,000 at all times, as shown on the most recent financial statement provided to the Bank. All Revolving Loan borrowings will be excluded from the calculation of working capital once any such liabilities are recognized as current in accordance with GAAP.

17. Section 12.5. The following new Section 12.5 shall be added to the Agreement:

12.5 Minimum EBITDA and/or Maximum EBITDA Losses. Commencing on the earlier of (i) December 31, 2004, and (ii) the date that the Borrower's average net borrowing position exceeds \$2,000,000 for the most recently ended fiscal quarter, the Borrower will not generate an EBITDA loss, measured on a rolling four quarter basis, exceeding the limits set forth below:

<TABLE> <CAPTION> (\$000'S) 9/30/05	AT 6/30/04	AT 9/30/04	AT 12/31/04	AT 3/31/05	AT 6/30/05	AT
----- -----	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	
<C>						
Maximum EBITDA loss \$500 for prior four quarters	(\$1,400)	(\$2,500)	(\$1,000)	(\$1,000)	\$0	

</TABLE>

18. Field Audit. The Borrower agrees that the Bank may conduct a field audit of its accounts, and inventories, and cash flow projections, at the Borrower's expense, in no event later than the time when the Borrower's average net borrowing position exceeds \$2,000,000 for the most recent fiscal quarter. The field audit will be performed by Freed Maxick ABL Services, Inc., or a similar firm to be chosen by the Bank in its sole discretion. The Borrower further agrees that pending results from any field audit, the Bank shall have the right, upon notice to the Borrower, to limit the amount of Revolving Credit Loans to amounts which would be available under a borrowing base formula based on a certain percentage of the Borrower's eligible accounts receivable and eligible inventories, all to be determined by the Bank in its sole discretion. The Borrower agrees to execute and deliver to the Bank an amendment to the Agreement implementing this borrowing base, in form and substance satisfactory to the Bank and its counsel. To the extent that collateral values and resulting borrowing base indicate availability in an amount less than the amount of loans then outstanding, then a prepayment will be required to bring outstandings in compliance with the borrowing base. Such prepayment will be made within 10 business days. The Borrower further agrees that the Bank may perform such

additional field audits as it deems necessary or advisable in its sole discretion, all at the Borrower's expense.

19. Amendment Fee. The Borrower shall pay the Bank an amendment fee in the amount of \$20,000.00

20. Reaffirmation of Security Agreements. The Borrower reaffirms to the Bank that all of the terms and provisions of its Amended and Restated Security Agreement (Accounts, Inventory, Chattel Paper, Documents, Technology, and General Intangibles) dated as of November 3, 1999, and of its Amended and Restated Security Agreement (Goods and Equipment) dated as of November 3, 1999, continue in full force and effect with respect to all present and future indebtedness of the Borrower to the Bank, including without limitation the indebtedness represented by this Second Amendment and the Amended and Restated Revolving Line Note to be executed in connection herewith, and that all of such

indebtedness constitutes Obligations under such Security Agreements which are secured by the Collateral defined therein.

21. Representations and Warranties. The Borrower confirms the accuracy of and remakes as of the date hereof all of its representations, warranties contained in the Agreement. The Borrower further represents and warrants to the Bank that all necessary action on the part of the Borrower relating to authorization of the execution and delivery of this Amendment and the Amended and Restated Revolving Line Note (collectively, the "Additional Loan Documents"), and the performance of the Obligations of the Borrower thereunder has been taken. The Additional Loan Documents constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms. The Borrower has no defenses, offsets, claims, or counterclaims with respect to its obligations arising under the Additional Loan Documents. The execution and delivery by the Borrower of the Additional Loan Documents, and the performance by the Borrower of the Additional Loan Documents, will not violate any provision of law or the Borrower's Certificate of Incorporation or By-laws or organizational or other documents or agreements. The execution, delivery and performance of the Additional Loan Documents, and the consummation of the transactions contemplated thereby will not violate, be in conflict with, result in a breach of, or constitute a default under any agreement to which the Borrower is a party or by which any of its properties is bound, or any order, writ, injunction, or decree of any court or governmental instrumentality, and will not result in the creation or imposition of any lien, charge or encumbrance upon any of its properties.

22. Conditions Precedent. The following conditions must be satisfied before the Bank shall have any obligations under this Amendment:

(a) The Borrower shall have executed and delivered to the Bank the Additional Loan Documents and any related documents necessary or desirable in connection therewith; and

(b) The Borrower shall have delivered a certificate of its corporate secretary certifying resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Additional Loan Documents, and the consummation of the transactions contemplated thereby, which resolutions shall remain

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in full force and effect so long as any of the Obligations are outstanding or any commitment to lend exists under the Agreement.

23. No Events of Default. The Borrower confirms that as of the date hereof, there exists no condition or event that constitutes (or that would after expiration of applicable grace or cure periods constitute) an Event of Default as described in Article 14 of the Agreement.

24. No Offsets. As of the date hereof, the Borrower has no defenses, offsets, claims or counterclaims with respect to its obligations arising under the Agreement or this Amendment and all related documents and instruments.

25. Costs and Expenses. Borrower agrees to pay any and all reasonable costs incurred in connection with preparation for closing, the closing, and post-closing items relating to this Amendment including without limitation the legal fees and disbursements of Bank's counsel.

26. Governing Law. This Amendment, together with all of the rights and obligations of the parties hereto, shall be construed and interpreted in accordance with the laws of the State of New York, excluding the laws applicable to conflicts or choice of law.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

FLEET NATIONAL BANK

GRAHAM CORPORATION

By: _____

By: _____

Title: _____

Title: _____

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EXHIBIT A

AMENDED AND RESTATED REVOLVING LINE NOTE

\$8,000,000.00

March 31, 2004

THIS AMENDED AND RESTATED REVOLVING LINE NOTE EVIDENCES THE SAME OBLIGATIONS AS, AND AMENDS AND RESTATES IN ITS ENTIRETY, (1) THE AMENDED AND RESTATED REVOLVING LINE NOTE DATED NOVEMBER 3, 1999, BETWEEN THE BANK AND THE

BORROWER IN THE MAXIMUM PRINCIPAL FACE AMOUNT OF \$13,000,000.

FOR VALUE RECEIVED, the undersigned ("Borrower") hereby promises to pay to the order of FLEET NATIONAL BANK (the "Bank"), at any of its banking offices, or at such other places as Bank may specify in writing to Borrower, the principal sum of Eight Million Dollars (\$8,000,000.00), or if less, the aggregate unpaid principal amount of all advances made by Bank to Borrower. Bank shall maintain a record of amounts of principal and interest payable by Borrower from time to time, and the records of Bank maintained in the ordinary course of business shall be prima facie evidence of the existence and amounts of the Borrower's obligations recorded therein. In addition, Bank may mail or deliver periodic statements to Borrower indicating the date and amount of each advance hereunder (but any failure to do so shall not relieve Borrower of the obligation to repay any advance). Unless Borrower questions the accuracy of an entry on any periodic statement within fifteen business days after such mailing or delivery by Bank, Borrower shall be deemed to have accepted and be obligated by the terms of each such periodic statement as accurately representing the advances hereunder. In the event of transfer of this Note, or if the Bank shall otherwise deem it appropriate, Borrower hereby authorizes Bank to endorse on this Note the amount of advances and payments to reflect the principal balance outstanding from time to time. Bank is hereby authorized to honor borrowing and other requests received from purported representatives of Borrower orally, by telecopy, in writing, or otherwise. Oral requests shall be conclusively presumed to have been made by an authorized person and Bank's crediting of Borrower's account with the amount requested shall conclusively establish Borrower's obligation to repay the amount advanced.

CREDIT AGREEMENT. This Note is made in connection with an Amended and Restated Credit Facility Agreement dated November 3, 1999, as amended on November 1, 2002 and on the date hereof, and as the same it may be further modified, extended, or replaced from time to time hereafter (the "Credit Agreement"). Capitalized terms not otherwise defined in this Note shall have the meanings given to them in the Credit Agreement.

INTEREST. Outstanding amounts under this Revolving Line Note shall bear interest at a variable rate per annum until paid in full (including without limitation after acceleration, maturity, and judgment), except as otherwise specifically provided herein, equal to the Prime Rate in effect from time to time. Changes in the interest rate shall become effective automatically and without notice at the time of changes in the Prime Rate.

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The Borrower from time to time, however, may elect to have portions of the principal outstanding under this Revolving Line Note bear interest at the variable rate per annum equal to 275 basis points (2.75%) above the one-month, two-month, or three-month LIBOR Rate for the period applicable to that rate by giving at least two (2) business days' prior notice in writing or by telecopy to the Bank. The notice shall specify (i) the rate chosen, (ii) the outstanding principal amount to bear interest at the applicable LIBOR Rate which shall not be less than \$100,000 (with any outstanding amounts from time to time hereunder, in excess of such specified amount, to bear interest at the rate based upon the Prime Rate), and (iii) the commencement date for such rate. No LIBOR Interest Period may be elected that would extend beyond the maturity date of this Revolving Line Note. The rate of interest so elected shall be in effect for the respective applicable LIBOR Interest Period. The Borrower shall be responsible for all Break Costs including without limitation those applicable if during any period in which a LIBOR based rate or rates is or are in effect, if the principal amount outstanding under this Revolving Line Note bearing interest at such respective rate or rates is ever less than the principal amount stated in the respective election notice or notices for such period.

Notwithstanding the foregoing, however, after the Reactivation Date all Revolving Loans shall bear interest at the rates and in the manner set forth in Section 2.3 of the Agreement as amended on November 1, 2002, without giving effect to the Amendment of even date herewith.

Interest shall continue to accrue after maturity, acceleration, and judgment at the rate required by this Agreement until this Revolving Line Note is paid in full. All computations of interest shall be made on the basis of a three hundred sixty (360) day year and the actual number of days elapsed.

PAYMENTS. Payments of all accrued interest hereunder shall be made on the first day of each month.

In the event the Borrower becomes aware, or receives notice (oral or written) from the Bank, that principal amounts outstanding under the Revolving Line at any time exceed the maximum available amount described in Sections 2.1 of the Credit Agreement, Borrower promptly shall make a principal payment to the Bank sufficient to reduce outstanding principal amounts to the maximum amount available hereunder.

All remaining outstanding principal and accrued interest shall be due and payable in full on the Revolving Line Termination Date.

All payments shall be made by Borrower to Bank at One East Avenue, Rochester, New York 14638, or such other place as Bank may from time to time specify in writing in lawful currency of the United States in immediately available funds, without counterclaim or setoff and free and clear of, and without any deduction or withholding for, any taxes or other payments.

Unless canceled in writing by Borrower, Borrower authorizes Bank to debit its accounts at Bank to make payments due hereunder, but such authority shall not relieve Borrower of the obligation to assure that payments are made when due. Unless Bank exercises its right to debit Borrower's account, Bank agrees that Borrower may make payments hereunder by check.

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All payments shall be applied first to the payment of all fees, expenses and other amounts due to the Bank (excluding principal and interest), then to accrued interest, and the balance on account of outstanding principal; provided, however, that after default, payments will be applied to the obligations of Borrower to Bank as Bank determines in its sole discretion.

LATE CHARGE. If the entire amount of any required principal and/or interest payment is not paid in full within ten (10) days after the same is due, Borrower shall pay to the Bank a late fee equal to five percent (5%) of the required payment.

MAXIMUM RATE. All agreements between Borrower and Bank are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to Bank for the use or the forbearance of the indebtedness evidenced hereby exceed the maximum permissible under applicable law. As used herein, the term "applicable law" shall mean the law in effect as of the date hereof provided, however that in the event there is a change in the law which results in a higher permissible rate of interest, then this Note shall be governed by such new law as of its effective date. In this regard, it is expressly agreed that it is the intent of Borrower and Bank in the execution, delivery and acceptance of this Note to contract in strict compliance with the laws of the State of New York from time to time in effect. If, under or from any circumstances whatsoever, fulfillment of any provision hereof or of any other documents between the Borrower and the Bank at the time of performance of such provision shall be due, shall involve transcending the limit of such validity prescribed by applicable law, then the obligation to be fulfilled shall automatically be reduced to the limits of such validity, and if under or from circumstances whatsoever Bank should ever receive as interest and amount which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal balance evidenced hereby and not to the payment of interest. This provision shall control every other provision of all agreements between Borrower and Bank.

PREPAYMENT. This Revolving Line Note is prepayable to the extent allowed by, and on the terms provided by, the Credit Agreement.

HOLIDAYS. If this Note or any payment hereunder becomes due on a Saturday, Sunday or other holiday on which the Bank is authorized to close, the due date of this Note or payment shall be extended to the next succeeding business day, but any interest or fees shall be calculated based upon the actual time of payment. As used herein, "Business Day" shall mean any day other than a Saturday, Sunday or day which shall be in the State of New York a legal holiday or day on which banking institutions are required or authorized to close.

EVENTS OF DEFAULT. At Bank's option, this Note shall become immediately due and payable in full, without further presentment, protest, notice, or demand, upon the happening of any Event of Default and the expiration of any cure periods.

DEFAULT RATE. Upon any default or after maturity or after judgment has been rendered with respect to the Obligations, or upon an Event of Default, the unpaid principal of all Obligations shall, at the option the Bank, bear interest at a rate which is four (4) percentage points per annum greater than that which would otherwise be applicable.

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MODIFICATION OF TERMS. The terms of this Note cannot be changed, nor may this Note be discharged in whole or in part, except by a writing executed by Bank. In the event that Bank demands or accepts partial payments of this Note, such demand or acceptance shall not be deemed to constitute a waiver of the right to demand the entire unpaid balance of this Note at any time in accordance with the terms hereof. Any delay or omission by Bank in exercising any rights hereunder shall not operate as a waiver of such rights.

COLLECTION COSTS. Borrower shall pay on demand all reasonable expenses of Bank in connection with the preparation, administration, default,

collection, waiver or amendment of loan terms, or in connection with Bank's exercise, preservation or enforcement of any of its rights, remedies or options hereunder, including, without limitation, fees of outside legal counsel or the allocated costs of in-house legal counsel, accounting, consulting, brokerage or other similar professional fees or expenses, and any fees or expenses associated with travel or other costs relating to any appraisals of examinations conducted in connection with the loan evidenced by this Note of any collateral therefor, and the amount of all such expenses shall, until paid, bear interest at the rate applicable to principal hereunder (including any default rate) and be an obligation secured by any collateral.

MISCELLANEOUS. Except for such notice as may be required under Section 14.1 of the Agreement, to the fullest extent permissible by law, Borrower waives presentment, demand for payment, protest, notice of nonpayment, and all other demands or notices otherwise required by law in connection with the delivery, acceptance, performance, default, or enforcement of this Note. Borrower consents to extensions, postponements' indulgences, amendments to notes and agreements, substitutions or releases of collateral, and substitutions or releases of other parties primarily or secondarily liable herefor, and agrees that none of the same shall affect Borrower's obligations under this Note which shall be unconditional.

LAWS. This Note and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York, excluding the laws applicable to conflicts or choice of law.

ADDITIONAL SECURITY/SETOFF. The Borrower hereby grants to the Bank a lien, security interest, and right of set off as security for the Obligations upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Bank or any entity under the control of FleetBoston Financial Corporation, and its successors and assigns, or in transit to any of them. At any time without demand or notice, the Bank may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SET OFF WITH RESPECT TO SUCH DEPOSITS, CREDITS, OR OTHER PROPERTY OF BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY, AND IRREVOCABLY WAIVED.

REPLACEMENT OF PROMISSORY NOTE. Upon receipt of an affidavit of an officer of the Bank as to the loss, theft, destruction or mutilation of this Note or any other security document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon cancellation of such Note or other security document, Borrower will issue, in

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lieu thereof, a replacement note or other security document in the same principal amount thereof and otherwise of like tenor.

JURISDICTION/TRIAL BY JURY. BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON BORROWER BY MAIL AT THE ADDRESS SET FORTH FOR NOTICES GIVEN UNDER THE CREDIT AGREEMENT. BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT FORUM.

BORROWER AND BANK (BY ACCEPTANCE OF THIS NOTE) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER LOAN DOCUMENTS OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF BANK RELATING TO THE ADMINISTRATION OF THE LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS, AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, BORROWER HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE, OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. BORROWER CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR BANK TO ACCEPT THIS NOTE AND MAKE THE LOANS CONTEMPLATED HEREUNDER.

GRAHAM CORPORATION

By: _____

Title: _____

THIRD AMENDMENT TO CREDIT FACILITY AGREEMENT

THIS THIRD AMENDMENT, dated as of the 11th day of March, 2005, to that certain Amended and Restated Credit Facility Agreement dated as of November 3, 1999, as amended by an Amendment Number 1 dated as of November 1, 2002, and the Second Amendment dated as of March 31, 2004 (the "Agreement"), between FLEET NATIONAL BANK, a national banking association with an office at One East Avenue, Rochester, New York 14638 (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").

The parties hereby agree as follows:

1. Agreement Ratified. Except as expressly amended hereby, the Agreement is in all respects ratified and confirmed, and all of the terms, provisions and conditions thereof shall be and remain in full force and effect, and this Amendment and all of its terms, provisions and conditions shall be deemed to be a part of the Agreement. All capitalized terms used herein and not defined shall have the meanings given them in the Agreement.

2. New Definition. The definition of "Net Income" in Article 1 of the Agreement shall be amended as follows:

- (i) income or loss attributable to equity in Affiliates;
- (j) any income or losses from the disposition and operations of Graham Vacuum and Heat Transfer, Ltd and its subsidiaries; and
- (k) other extraordinary or unusual items, but excluding contract cancellation fees and other related items in the ordinary course of business.

3. Section 2.1. Section 2.1 of the Agreement shall be amended as follows:

Subject to the terms and conditions of this Agreement, the Bank hereby establishes for the benefit of the Borrower a revolving line of credit in the maximum principal amount of Eight Million Dollars (\$8,000,000.00) outstanding at any one time. The proceeds of the Revolving Line shall be used to meet Borrower's letter of credit, foreign exchange, and working capital requirements. A portion of the Revolving Line may be used by the Borrower to fund, with the prior written approval of the Bank, a foreign exchange guidance line of credit not to exceed (a) \$500,000.00 for foreign exchange contracts maturing on any one day, and (b) \$3,333,333.00 for total foreign exchange contracts (with respect to forward contracts, not to exceed one year from the date of contract) outstanding at any one time. With respect to advances other than for foreign exchange under the Revolving Line, the entire \$500,000 foreign exchange sublimit will be reserved for purposes of determining availability under the Revolving Line, irrespective of the amounts actually advanced under the foreign exchange guidance line. Subject to the terms of this Agreement, the Borrower may borrow, repay, and

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reborrow under the Revolving Line so long as the aggregate principal amount outstanding at any time for Working Capital Loans (including the foreign exchange sublimit) plus the aggregate face amount of Letters of Credit issued or available to be issued pursuant to Article 3 hereof does not exceed \$8,000,000.00.

4. Section 3.1. Section 3.1 of the Agreement shall be amended as follows:

Subject to the terms and conditions of this Agreement, the Bank will make Letters of Credit available for the account of the Borrower in an aggregate stated face amount not exceeding the lesser of (a) Four Million Dollars (\$4,000,000.00), or (b) the remaining availability under the Revolving Line for the purposes of issuing Letters of Credit. Letters of Credit will be made promptly available for the Borrower's work in process (to support customer progress payments) or as otherwise reasonably requested by the Borrower with respect to customer contracts, for warranty work on completed products, and, subject to a sublimit of \$500,000.00, to fund the Borrower's worker's compensation program. The stated amount outstanding under all Letters of Credit at all times shall reduce, dollar for dollar, the amount available for advances under the Letters of Credit Line. The Letters of Credit shall be in form satisfactory to the Bank. Up to \$4,000,000 face amount of Letters of Credit may have maturity dates which are not more than three (3) years after the Revolving Line Termination Date.

5. Section 11.4. Section 11.4 of the Agreement shall be waived in order

to permit the sale and/or transfer of Graham Precision Pumps Limited.

6. Section 11.6. Section 11.6 of the Agreement shall be waived in order to permit the appointment of William Johnson as the Borrower's new President and CEO.

7. Representations and Warranties. The Borrower confirms the accuracy of and remakes as of the date hereof all of its representations, warranties contained in the Agreement. The Borrower further represents and warrants to the Bank that all necessary action on the part of the Borrower relating to authorization of the execution and delivery of this Amendment, and the performance of the Obligations of the Borrower thereunder has been taken. This Amendment constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms. The Borrower has no defenses, offsets, claims, or counterclaims with respect to its obligations arising under the Amendment. The execution and delivery by the Borrower of the Amendment, and the performance by the Borrower of the Amendment, will not violate any provision of law or the Borrower's Certificate of Incorporation or By-laws or organizational or other documents or agreements. The execution, delivery and performance of the Amendment, and the consummation of the transactions contemplated thereby will not violate, be in conflict with, result in a breach of, or constitute a default under any agreement to which the Borrower is a party or by which any of its properties is bound, or any order, writ, injunction, or decree of any court or governmental instrumentality, and will not result in the creation or imposition of any lien, charge or encumbrance upon any of its properties.

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7. No Events of Default. The Borrower confirms that as of the date hereof, there exists no condition or event that constitutes (or that would after expiration of applicable grace or cure periods constitute) an Event of Default as described in Article 14 of the Agreement.

8 No Offsets. As of the date hereof, the Borrower has no defenses, offsets, claims or counterclaims with respect to its obligations arising under the Agreement or this Amendment and all related documents and instruments.

9. Governing Law. This Amendment, together with all of the rights and obligations of the parties hereto, shall be construed and interpreted in accordance with the laws of the State of New York, excluding the laws applicable to conflicts or choice of law.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

FLEET NATIONAL BANK

GRAHAM CORPORATION

By: _____

By: _____

Title: _____

Title: _____

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Graham Corporation

We consent to the incorporation by reference in Registration Statement Nos. 33-82432, 333-00401, and Post-Effective Amendment No. 1 to Registration Statement No. 33-82432 on Forms S-3 and Registration Statement Nos. 2-83432, 2-82275, 333-113426 and Post-Effective Amendment No. 1 to Registration Statement No. 333-113426 on Forms S-8 of our reports dated June 15, 2005 (which reports express an unqualified opinion and include an explanatory paragraph concerning a change in accounting method for construction-type contracts in 2005), appearing in this Annual Report on Form 10-K of Graham Corporation and subsidiaries for the year ended March 31, 2005.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
June 23, 2005

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER

I, William C. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended March 31, 2005 of Graham Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ WILLIAM C. JOHNSON

William C. Johnson
President and Chief Executive Officer

Date: June 15, 2005

CERTIFICATION OF
CHIEF FINANCIAL OFFICER

I, J. Ronald Hansen, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended March 31, 2005 of Graham Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ J. RONALD HANSEN

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

Date: June 15, 2005

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

In connection with the Annual Report of Graham Corporation (the "Company") on Form 10-K for the fiscal year ended March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

<Table>	
<S>	<C>
/s/ WILLIAM C. JOHNSON	/s/ J. RONALD HANSEN

William C. Johnson	J. Ronald Hansen
President and Chief Executive Officer	Chief Financial Officer
June 15, 2005	June 15, 2005
</Table>	

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