FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For Quarterly Period Ended December 31, 1998

OR

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

For the transition period from ____________ to ____________

Commission File Number 1-8462

GRAHAM CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	16-1194720
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
20 FLORENCE AVENUE, BATAVIA, NEW YORK	14020
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including Area Code - 716-343-2216

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES __X__ No _____

As of February 8, 1999, there were outstanding 1,584,995 shares of common stock, $.10 per share.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

DECEMBER 31, 1998

PART I - FINANCIAL INFORMATION

Unaudited consolidated financial statements of Graham Corporation (the Company) and its subsidiaries of December 31, 1998 and for the three month and nine month periods then ended are presented on the following pages. The financial statements have been prepared in accordance with the Company's usual accounting policies, are based in part on approximations and reflect all normal and recurring adjustments which are, in the opinion of management, necessary to a fair presentation of the results of the interim periods.

This part also includes management's discussion and analysis of the Company's financial condition as of December 31, 1998 and its results of operations for the three month and nine month periods then ended.

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 1998	March 31, 1998
Assets		
Current Assets:		
Cash and equivalents	$ 4,137,000	$ 1,694,000
Marketable securities	200,000	4,801,000
Trade accounts receivable	6,149,000	6,791,000
Inventories	7,978,000	10,278,000
Deferred tax asset	907,000	881,000
Prepaid expenses and other current assets	395,000	468,000
	19,766,000	24,913,000
Property, plant and equipment, net	10,249,000	10,026,000
Deferred tax asset	2,455,000	2,067,000
Other assets	227,000	24,000
	$32,697,000	$37,030,000

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (concluded)

	December 31, 1998	March 31, 1998
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt due banks		$ 40,000
Current portion of long-term debt	$ 566,000	505,000
Accounts payable	1,922,000	4,195,000
Accrued compensation	3,523,000	4,940,000
Accrued expenses and other liabilities	1,127,000	1,039,000
Customer deposits	352,000	779,000
Domestic and foreign income taxes payable	178,000	956,000
	7,668,000	12,454,000
Long-term debt	645,000	859,000
Deferred compensation	1,105,000	1,007,000
Other long-term liability	216,000	264,000
Deferred pension liability	3,034,000	1,464,000

Accrued postretirement benefits	3,270,000	3,207,000
Total liabilities	15,938,000	19,255,000
Shareholders' equity:		
Preferred stock, $1 par value - Authorized, 500,000 shares		
Common stock, $.10 par value - Authorized, 6,000,000 shares Issued 1,690,595 shares on December 31, and March 31, 1998	169,000	169,000
Capital in excess of par value	4,521,000	4,521,000
Cumulative foreign currency translation adjustment	(1,791,000)	(1,781,000)
Retained earnings	16,786,000	15,362,000
	19,685,000	18,271,000
Less:		
Treasury stock	(1,784,000)	(71,000)
Employee Stock Ownership Plan Loan Payable	(275,000)	(425,000)
Minimum pension liability adjustment	(867,000)	
Total shareholders' equity	16,759,000	17,775,000
	$32,697,000	$37,030,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

<TABLE>
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	Three Months ended December 31,		Nine Months ended December 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Net Sales	$14,219,000	$11,914,000	$40,792,000	$38,387,000
Cost and expenses:				
Cost of products sold	10,255,000	8,276,000	29,083,000	26,104,000
Selling, general and administrative	3,229,000	3,161,000	9,305,000	9,568,000
Interest expense	116,000	61,000	237,000	201,000
	13,600,000	11,498,000	38,625,000	35,873,000
Income before income taxes	619,000	416,000	2,167,000	2,514,000
Provision for income taxes	216,000	107,000	743,000	827,000
Net income	403,000	309,000	1,424,000	1,687,000
Retained earnings at beginning of period	16,383,000	12,974,000	15,362,000	11,596,000
Retained earnings at end of period	$16,786,000	$13,283,000	$16,786,000	$13,283,000
Per Share Data:				
Basic:				
Net income	$.25	$.19	$.88	$1.04
Diluted:				
Net income	$.25	$.18	$.87	$1.00

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Nine Months Ended December 31, 1998	Nine Months Ended December 31, 1997
<S>	<C>	<C>
Operating activities:		
Net income	$ 1,424,000	$ 1,687,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	785,000	782,000
Loss on sale of property, plant and equipment	5,000	1,000
(Increase) Decrease in operating assets:		
Accounts receivable	636,000	3,094,000
Inventory, net of customer deposits	1,868,000	98,000
Prepaid expenses and other current and non-current assets	68,000	(3,000)
Increase (Decrease) in operating liabilities:		
Accounts payable, accrued compensation, accrued expenses and other liabilities	(3,673,000)	531,000
Estimated liabilities of discontinued operations		(173,000)
Deferred compensation, deferred pension liability, and accrued postemployment benefits	307,000	(151,000)
Domestic and foreign income taxes	(778,000)	108,000
Deferred income taxes	(5,000)	(19,000)
Other long-term liabilities	(48,000)	(93,000)
Total adjustments	(835,000)	4,175,000
Net cash provided by operating activities	589,000	5,862,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (concluded)

<TABLE>
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	Nine Months Ended December 31, 1998	Nine Months Ended December 31, 1997
<S>	<C>	<C>
Investing activities:		
Purchase of property, plant and equipment	(690,000)	(766,000)
Proceeds from sale of property, plant and equipment	5,000	11,000
Purchase of marketable securities	(6,407,000)	(7,313,000)
Proceeds from maturity of marketable securities	10,987,000	4,452,000
Net cash provided (used) by investing activities	3,895,000	(3,616,000)
Financing activities:		
Increase (Decrease) in short-term debt	(40,000)	59,000
Proceeds from issuance of long-term debt	5,950,000	5,441,000
Principal repayments on long-term debt	(6,238,000)	(7,129,000)
Issuance of common stock		1,008,000
Purchase of treasury stock	(1,713,000)	
Sale of treasury stock		13,000
Net cash used by financing activities	(2,041,000)	(608,000)
Effect of exchange rate on cash		
Net increase in cash and equivalents	2,443,000	1,638,000
Cash and equivalents at beginning of period	1,694,000	854,000

Cash and equivalents at end of period	$ 4,137,000	$ 2,492,000

</TABLE>

GRAHAM CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION
DECEMBER 31, 1998

NOTE 1 - INVENTORIES

Major classifications of inventories are as follows:

<TABLE>
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	12/31/98	3/31/98
Raw materials and supplies	$ 2,459,000	$ 2,707,000
Work in process	8,856,000	12,081,000
Finished products	1,410,000	1,131,000
	12,725,000	15,919,000
Less - progress payments	4,747,000	5,641,000
	$ 7,978,000	$10,278,000

</TABLE>

NOTE 2 - EARNINGS PER SHARE:

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

<TABLE>
<CAPTION>

	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Basic earning per share				
Numerator:				
Net income	$ 403,000	$ 309,000	$1,424,000	$1,687,000
Denominator:				
Weighted common shares outstanding	1,585,000	1,686,000	1,607,000	1,641,000
Share equivalent units (SEU) outstanding	5,000	3,000	5,000	3,000
Weighted average shares and SEU's outstanding	1,590,000	1,689,000	1,612,000	1,644,000
Basic earnings per share	$.25	$.19	$.88	$1.04

</TABLE>

<TABLE>
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	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
Diluted earnings per share				

Numerator:				
Net income	$ 403,000	$ 309,000	$1,424,000	$1,687,000
Denominator:				
Weighted average shares and SEU's outstanding	1,590,000	1,689,000	1,612,000	1,644,000
Stock options outstanding	4,000	38,000	16,000	48,000
Contingently issuable SEU's	6,000	3,000	5,000	2,000
Weighted average common and potential common shares outstanding	1,600,000	1,730,000	1,633,000	1,694,000
Diluted earnings per share	$.25	$.18	$.87	$1.00

</TABLE>

Options to purchase 55,200 shares of common stock at $21.44 per share, 9,000 shares at $21.25, 2,250 shares at $17.88, 8,250 shares at $17, 2,250 shares at $16.13, 26,250 shares at $13.17, 8,250 shares at $11.33 and 9,000 shares at $11 were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

NOTE 3 - CASH FLOW STATEMENT

Actual interest paid was $240,000 and $201,000 for the nine months ended December 31, 1998 and 1997, respectively. In addition, actual income taxes paid were $1,444,000 and $738,000 for the nine months ended December 31, 1998 and 1997, respectively.

Non cash activities during the nine months ended December 31, 1998 and 1997 included capital expenditures totaling $176,000 and $17,000, respectively, which were financed through the issuance of capital leases. In addition, in December 1998 a minimum pension liability adjustment, net of an allowable intangible asset and tax benefit, was recognized.

NOTE 4 - COMPREHENSIVE INCOME

Effective April 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement requires reporting and disclosure of comprehensive income and its components in financial statement format. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. The Company has determined that at March 31, 1999 it will display comprehensive income in a separate statement of comprehensive income. The Company's comprehensive earnings were as follows:

<TABLE>
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	Three months ended December 31, 1998	Three months ended December 31, 1997	Nine months ended December 31, 1998	Nine months ended December 31, 1997
<S>	<C>	<C>	<C>	<C>
Net income	$ 403,000	$ 309,000	$1,424,000	$1,687,000
Other comprehensive income (loss), net of tax				
Minimum pension liability adjustment	(867,000)		(867,000)	
Foreign currency translation adjustment	(45,000)	27,000	(10,000)	8,000
Total other comprehensive income (loss)	(912,000)	27,000	(877,000)	8,000
Comprehensive income	$ (509,000)	$ 336,000	$ 547,000	$1,695,000

</TABLE>

The minimum pension liability adjustment is net of a tax benefit of $408,000. The foreign currency translation adjustment is not currently adjusted for income taxes since it relates to an investment which is permanent in nature.

GRAHAM CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
December 31, 1998

Results of Operations

Sales increased 19% in the third quarter of fiscal year 1999 compared to the same period in the previous year. Sales for the third quarter increased 26% in the United States and declined 25% in the United Kingdom compared to fiscal year 1998. Sales for the nine months ended December 31, 1998 were greater than sales for the same period last year by 6%. Sales in the United States increased 8% while sales in the United Kingdom decreased 8% from the same period last year. The increased sales in the United States is attributable to revenue recognized on certain large contracts in process during the third quarter. At the end of the third quarter of fiscal year 1998 there were no significant jobs in process as production did not commence on the larger contracts until the fourth quarter. As a result, fourth quarter sales of this year are expected to be below fourth quarter sales of the prior year. The reduced sales in the United Kingdom is due primarily to changes in the shipment schedule for two jobs which were necessary to accommodate customer requirements.

Cost of sales as a percent of sales for the third quarter was 72% compared to 69% a year ago. Cost of sales as a percent of sales for the three month period was 73% in the United States compared to 70% last year and 66% in the United Kingdom compared to 65% last year. For the nine months, cost of sales as a percent of sales increased from 68% a year ago to 71% currently. In the United States, the cost of sales percentage was 72% compared to 69% last year and in the United Kingdom it improved slightly to 62% from 63% for the same period last year. The unfavorable percentages for the three and nine month period are attributable to product mix and reduced selling prices due to severe price competition while direct product costs and overhead expenses have varied consistently with sales volume.

Selling, general and administrative expenses were only 2% greater in the third quarter compared to the same period in fiscal year 1998, and represented 23% of sales compared to 27% last year. For the nine month period, selling, general and administrative expenses declined 3% as compared to fiscal year 1998 and were 23% of sales compared to 25% in the prior year. These variances are primarily attributable to the receipt of proceeds from an insurance policy. In addition, the third quarter of last year included a restructuring charge as a result of downsizing the work force in the United Kingdom.

Interest expense for the third quarter of fiscal year 1999 exceeded interest expense for the comparable three month period of 1998 by 90% and for the nine month period, interest expense increased 18% as compared to 1998. This increase is due to interest owed on state franchise and sales tax.

Results of Operations (concluded)

The effective income tax rates for the third quarter and nine month period of fiscal year 1999 were 35% and 34%, respectively. The effective tax rates for the three months and nine months ended December 31, 1997 were 26% and 33%, respectively. The favorable tax rate for the quarter resulted from the utilization of United Kingdom tax losses.

Financial Condition

Working capital of $12,098,000 at December 31, 1998 compares to $12,459,000 at the end of March. This working capital decline reflects a decrease in current assets and current liabilities of $5,147,000 and $4,786,000, respectively. The decrease in current assets related primarily to a decrease in marketable securities as a result of maturities. The related cash was used to purchase treasury stock. Inventory also declined as there were significantly more large projects in process at March 31. The decrease in current liabilities is due to a decline in account payable which is related to the decrease in inventory. In addition, accrued compensation and income taxes payable decreased due to payments made in the first six months of the year. The current ratio at December 31, 1998 is 2.58 compared to 2.0 at March 31, 1998.

Capital expenditures for the nine month period were $690,000 compared to $766,000 for the same period in 1998. There were no major commitments for capital expenditures as of December 31, 1998.

There was no short term debt at December 31, 1998 which compares to a minimal balance of $40,000 at March 31, 1998. During fiscal year 1999, working capital needs have been mainly financed with cash flow from operations. Total long term debt decreased $153,000 due to paydowns which were offset by additional capital leases for the purchase of machinery. Debt ratios have remained relatively stable with the long term debt to equity ratio at 7% compared to 8% at March 31, 1998 and the total liabilities to assets ratio at 49% compared to 52% at March 31, 1998.

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

New Orders and Backlog

New orders for the third quarter were $8,540,000 compared to $11,951,000 for the same period last year. New orders in the United States were $7,729,000 compared to $10,981,000 for the same period in fiscal year 1998. New orders in the United Kingdom were $811,000 compared to $970,000 for the same quarter last year.

For the nine month period, new orders were $29,841,000 compared to $49,211,000 for the comparable nine month period of the prior year. New orders in the United States were $26,398,000 compared to $46,419,000 for the same period last year and new orders in the

New Orders and Backlog (concluded)

United Kingdom were $3,443,000 compared to $2,792,000 in 1998. The decline in new orders in the United States is attributable to the weakening of the Company's markets in Asia and Latin America. The Company is focusing its efforts to obtain new orders in the power generating and pharmaceutical markets as management is encouraged by the possible opportunities in these markets. In light of the low order levels, the Company has instituted cost reductions and anticipates that these reductions will significantly impact the bottom line. The difficulty in obtaining new orders in the United Kingdom is attributable to low demand in the export market and the recession in the United Kingdom manufacturing industry.

Backlog of unfilled orders at December 31, 1998 is $17,170,000 compared to $31,549,000 at this time a year ago and $28,199,000 at March 31, 1998. Current backlog in the United States of $16,127,000 compares to $27,292,000 at March 31, 1998 and $30,994,000 at December 31, 1997. Current backlog in the United Kingdom of $1,043,000 compares to $907,000 at March 31, 1998 and $555,000 at December 31, 1997. The current backlog is scheduled to be shipped during the next twelve months and represents orders from traditional markets in the Company's established product lines.

Year 2000 Readiness

The Company has established a program to assess the impact of the Year 2000 on the software and hardware utilized in its internal operations. The cost to address the Year 2000 issues has been estimated at $85,000. This program includes the following phases: identifying affected software, hardware, and manufacturing and telecommunication equipment and assessing the impact of the Year 2000 issue; hardware and software remediation; testing; surveying the Year 2000 readiness of customers and suppliers; and developing a contingency plan. Modification and testing of hardware and software has been completed. Manufacturing hardware and software and telecommunication hardware is currently Year 2000 compliant. Remediation of the telecommunication software is in process with an expected completion date of March 31, 1999. The Company is surveying its customers and suppliers regarding their readiness for the Year 2000 and anticipates completing this phase of the program by March 31, 1999.

The Company relies on third-party suppliers for products and services. If these suppliers do not adequately address the impact of the Year 2000 on their own systems and products in a timely manner, it may be necessary for the Company to secure alternate vendors to supply these required products and services. The Company has developed a contingency plan to handle this situation.

Other Matters

On January 28, 1999 the Board of Directors authorized a repurchase of the Company's common stock of up to two million dollars. This action reflects management's confidence in the future of the business and is another means to add to shareholders' value.

GRAHAM CORPORATION AND SUBSIDIARIES
FORM 10-Q
DECEMBER 31, 1998
PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

a. See index to exhibits.

b. No reports on Form 8-K were filed during the quarter ended December 31, 1998.

SIGNATURES

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

GRAHAM CORPORATION

/s/J. R. Hansen
____
J. R. Hansen
Vice President Finance and
Administration / CFO (Principal
Accounting Officer)

Date 02/08/99

INDEX OF EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

Not applicable.

(4) Instruments defining the rights of security holders, including indentures

(a) Equity securities

The instruments defining the rights of the holders of Registrant's equity securities are as follows:

Certificate of Incorporation, as amended of Registrant (filed as Exhibit 3(a) to the Registrant's annual report on Form 10-K for the fiscal year ended December 31, 1989, and incorporated herein by reference.)

By-laws of registrant, as amended (filed as Exhibit 3.2(ii) to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by referenced.)

Shareholder Rights Plan of Graham Corporation (filed as Exhibit (4) to Registrant's current report filed on Form 8-K on February 26, 1991, as amended by Registrant's Amendment No. 1 on Form 8 dated June 8, 1991, and incorporated herein by reference.)

(b) Debt securities

Not applicable.

(10) Material Contracts

1989 Stock Option and Appreciation Rights Plan of Graham Corporation (filed on the Registrant's Proxy Statement for its 1991 Annual Meeting of Shareholders and incorporated herein by reference.)

1995 Graham Corporation Incentive Plan to Increase Shareholder Value (filed on the Registrant's Proxy Statement for its 1996 Annual Meeting of Shareholders and incorporated herein by reference.)

Graham Corporation Outside Directors' Long-Term Incentive Plan (filed as Exhibit 10.3 to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by reference.)

Employment Contracts between Graham Corporation and Named Executive Officers (filed as Exhibit 10.4 to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by reference.)

Senior Executive Severance Agreements with Named Executive Officers (filed as Exhibit 10.5 to the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 1998, and is incorporated herein by reference.)

(11) Statement re-computation of per share earnings

Computation of per share earnings is included in Note 2 of the Notes to Financial Information.

(15) Letter re-unaudited interim financial information

Not applicable.

(18) Letter re-change in accounting principles

Not Applicable.

(19) Report furnished to security holders

None.

(22) Published report regarding matters submitted to vote of security holders

None.

(23) Consents of experts and counsel

Not applicable.

(24) Power of Attorney

Not applicable.

(27) Financial Data Schedule

Financial Data Schedule is included herein as Exhibit 27 of this report.

(99) Additional exhibits

None.

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The schedule contains summary financial information extracted from the Graham Corporation consolidated balance sheet and consolidated statement of operations and retained earnings and is qualified in its entirety by reference to such financial statements.
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