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

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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 001-08462

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)**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $0.10 Per Share	GHM	NYSE

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of November 1, 2022, there were outstanding 10,611,061 shares of the registrant’s common stock, par value $0.10 per share.

Graham Corporation and Subsidiaries

Index to Form 10-Q

As of September 30, 2022 and March 31, 2022 and for the three and six months ended September 30, 2022 and 2021

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
	(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)	
Net sales	$ 38,143	$ 34,146	$ 74,218	$ 54,303
Cost of products sold	32,863	30,703	62,194	49,946
Gross profit	5,280	3,443	12,024	4,357
Other expenses and income:				
Selling, general and administrative	5,059	4,973	10,544	9,805
Selling, general and administrative – amortization	273	274	547	365
Other operating income, net	—	(1,102)	—	(1,102)
Operating income (loss)	(52)	(702)	933	(4,711)
Other income, net	(62)	(145)	(125)	(305)
Interest income	(24)	(14)	(32)	(31)
Interest expense	270	129	435	168
Income (loss) before provision (benefit) for income taxes	(236)	(672)	655	(4,543)
Provision (benefit) for income taxes	(40)	(180)	175	(925)
Net income (loss)	$ (196)	$ (492)	$ 480	$ (3,618)
Per share data				
Basic:				
Net income (loss)	$ (0.02)	$ (0.05)	$ 0.05	$ (0.35)
Diluted:				
Net income (loss)	$ (0.02)	$ (0.05)	$ 0.05	$ (0.35)
Weighted average common shares outstanding:				
Basic	10,617	10,681	10,614	10,442
Diluted	10,617	10,681	10,618	10,442
Dividends declared per share	$ —	$ 0.11	$ —	$ 0.22

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
	(Amounts in thousands)		(Amounts in thousands)	
Net income (loss)	$ (196)	$ (492)	$ 480	$ (3,618)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(337)	(35)	(680)	93
Defined benefit pension and other postretirement plans net of income tax expense of $37 and $72 for the three months ended September 30, 2022 and 2021, respectively, and $74 and $121 for the six months ended September 30, 2022 and 2021, respectively	131	251	262	421
Total other comprehensive (loss) income	(206)	216	(418)	514
Total comprehensive income (loss)	$ (402)	$ (276)	$ 62	$ (3,104)

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2022	March 31, 2022
	(Amounts in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 14,122	$ 14,741
Trade accounts receivable, net of allowances ($84 and $87 at September 30 and March 31, 2022, respectively)	27,109	27,645
Unbilled revenue	30,670	25,570
Inventories	19,848	17,414
Prepaid expenses and other current assets	2,235	1,391
Income taxes receivable	570	459
Total current assets	94,554	87,220
Property, plant and equipment, net	24,354	24,884
Prepaid pension asset	7,384	7,058
Operating lease assets	7,887	8,394
Goodwill	23,523	23,523
Customer relationships, net	11,013	11,308
Technology and technical know-how, net	9,427	9,679
Other intangible assets, net	8,300	8,990
Deferred income tax asset	2,288	2,441
Other assets	175	194
Total assets	$ 188,905	$ 183,691
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt obligations	$ 2,500	$ —
Current portion of long-term debt	2,000	2,000
Current portion of finance lease obligations	23	23
Accounts payable	20,149	16,662
Accrued compensation	9,745	7,991
Accrued expenses and other current liabilities	4,781	6,047
Customer deposits	26,079	25,644
Operating lease liabilities	972	1,057
Income taxes payable	8	—
Total current liabilities	66,257	59,424
Long-term debt	14,625	16,378
Finance lease obligations	—	11
Operating lease liabilities	7,103	7,460
Deferred income tax liability	104	62
Accrued pension and postretirement benefit liabilities	1,663	1,666
Other long-term liabilities	2,187	2,196
Total liabilities	91,939	87,197
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500 shares authorized	—	—
Common stock, $0.10 par value, 25,500 shares authorized, 10,758 and 10,801 shares issued and 10,611 and 10,636 shares outstanding at September 30 and March 31, 2022, respectively	1,076	1,080
Capital in excess of par value	27,849	27,770
Retained earnings	77,556	77,076
Accumulated other comprehensive loss	(6,889)	(6,471)
Treasury stock (147 and 164 shares at September 30 and March 31, 2022, respectively)	(2,626)	(2,961)
Total stockholders' equity	96,966	96,494
Total liabilities and stockholders' equity	$ 188,905	$ 183,691

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended September 30, 2022	2021
Operating activities:	(Dollar amounts in thousands)	
Net income (loss)	$ 480	$ (3,618)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	1,724	1,399
Amortization	1,238	1,009
Amortization of actuarial losses	336	455
Amortization of debt issuance costs	93	—
Equity-based compensation expense	312	330
Gain on disposal or sale of property, plant and equipment	—	13
Change in fair value of contingent consideration	—	(1,900)
Deferred income taxes	174	693
(Increase) decrease in operating assets:		
Accounts receivable	38	(2,289)
Unbilled revenue	(5,283)	(1,944)
Inventories	(2,560)	3,278
Prepaid expenses and other current and non-current assets	(782)	(1,233)
Income taxes receivable	(136)	(2,894)
Operating lease assets	901	432
Prepaid pension asset	(325)	(603)
Increase (decrease) in operating liabilities:		
Accounts payable	3,730	(4,477)
Accrued compensation, accrued expenses and other current and non-current liabilities	553	779
Customer deposits	544	1,835
Operating lease liabilities	(840)	(387)
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	(595)	420
Net cash used by operating activities	(398)	(8,702)
Investing activities:		
Purchase of property, plant and equipment	(1,176)	(1,227)
Redemption of investments at maturity	—	5,500
Acquisition of Barber-Nichols, LLC	—	(59,563)
Net cash used by investing activities	(1,176)	(55,290)
Financing activities:		
Borrowings of short-term debt obligations	5,000	4,000
Principal repayments on debt	(3,511)	(510)
Proceeds from the issuance of debt	—	20,000
Repayments on lease financing obligations	(136)	(91)
Payment of debt issuance costs	(122)	(150)
Dividends paid	—	(2,353)
Purchase of treasury stock	(22)	(41)
Net cash provided by financing activities	1,209	20,855
Effect of exchange rate changes on cash	(254)	68
Net decrease in cash and cash equivalents	(619)	(43,069)
Cash and cash equivalents at beginning of period	14,741	59,532
Cash and cash equivalents at end of period	$ 14,122	$ 16,463

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at April 1, 2022	10,801	$ 1,080	$ 27,770	$ 77,076	$ (6,471)	$ (2,961)	$ 96,494
Comprehensive income (loss)				676	(212)		464
Forfeiture of shares	(32)	(3)	3				—
Recognition of equity-based compensation expense			114				114
Purchase of treasury stock						(21)	(21)
Balance at June 30, 2022	10,769	1,077	27,887	77,752	(6,683)	(2,982)	97,051
Comprehensive income (loss)				(196)	(206)		(402)
Issuance of shares							—
Forfeiture of shares	(11)	(1)	1				—
Recognition of equity-based compensation expense			198				198
Issuance of treasury stock			(237)			356	119
Balance at September 30, 2022	10,758	$ 1,076	$ 27,849	$ 77,556	$ (6,889)	$ (2,626)	$ 96,966

	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at April 1, 2021	10,748	$ 1,075	$ 27,272	$ 89,372	$ (7,397)	$ (12,393)	$ 97,929
Comprehensive income (loss)				(3,126)	298		(2,828)
Issuance of shares	135	13	(13)				—
Forfeiture of shares	(9)	(1)	1				—
Dividends				(1,177)			(1,177)
Recognition of equity-based compensation expense			353				353
Issuance of treasury stock			(194)			9,158	8,964
Purchase of treasury stock						(41)	(41)
Balance at June 30, 2021	10,874	1,087	27,419	85,069	(7,099)	(3,276)	103,200
Comprehensive loss				(492)	216		(276)
Issuance of shares	27	3	(3)				—
Forfeiture of shares	(91)	(9)	9				—
Dividends				(1,177)			(1,177)
Recognition of equity-based compensation expense			(23)				(23)
Issuance of treasury stock			(63)			191	128
Balance at September 30, 2021	10,810	$ 1,081	$ 27,339	$ 83,400	$ (6,883)	$ (3,085)	$ 101,852

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except per share data)

NOTE 1 – BASIS OF PRESENTATION:

Graham Corporation's (the "Company's") Condensed Consolidated Financial Statements include its wholly-owned subsidiaries located in Suzhou, China and Ahmedabad, India at September 30 and March 31, 2022, and its recently acquired wholly-owned subsidiary, Barber-Nichols, LLC ("BN"), located in Arvada, Colorado at September 30, 2022 and for the period June 1, 2021 through March 31, 2022 (See Note 2). The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X, each as promulgated by the U.S. Securities and Exchange Commission. The Company's Condensed Consolidated Financial Statements do not include all information and notes required by GAAP for complete financial statements. The unaudited Condensed Consolidated Balance Sheet as of March 31, 2022 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2022. For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2022 ("fiscal 2022"). In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included in the Company's Condensed Consolidated Financial Statements.

The Company's results of operations and cash flows for the three and six months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the current fiscal year, which ends March 31, 2023 ("fiscal 2023").

NOTE 2 – ACQUISITION:

On June 1, 2021, the Company acquired BN, a designer and manufacturer of turbomachinery products located in Arvada, Colorado that serves the defense and aerospace industry as well as the energy and cryogenic markets. The Company believes this acquisition furthers its growth strategy through market and product diversification, broadens its offerings and strengthens its presence in the defense industry, builds on its presence in the energy markets and adds capabilities in the space industry.

This transaction was accounted for as a business combination which requires that assets acquired and liabilities assumed be recognized at their fair value as of the acquisition date. The purchase price of $72,014 was comprised of 610 shares of the Company's common stock, representing a value of $8,964 at a price of $14.69 per share, and cash consideration of $61,150, subject to certain potential adjustments, including a customary working capital adjustment. The cash consideration was funded through cash on-hand and debt proceeds. The purchase agreement included a contingent earn-out dependent upon certain financial measures of BN post-acquisition, in which the sellers were eligible to receive up to $14,000 in additional cash consideration. At June 30, 2021, a liability of $1,900 was recorded for the contingent earn-out. Subsequent to the acquisition, the earn out agreement was terminated and the contingent liability was reversed into Other operating income, net, on the Company's Condensed Consolidated Statement of Operations. Prior to the acquisition, BN and Ascent Properties Group, LLC, a related party, entered into a nine year operating lease agreement for an office and manufacturing building in Arvada, Colorado. This lease was acquired as part of the Company's acquisition of BN and has a monthly payment in the amount of $40 with a 3% yearly escalation. Also prior to the acquisition, BN and Ascent Properties Group, LLC entered into a seven-year equipment lease agreement to lease various machinery and equipment. This equipment lease was also acquired as part of the Company's acquisition of BN and has a monthly payment of $16. Acquisition related costs of $93 and $262 were expensed in the three and six month periods ending September 30, 2021, and are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

The cost of the acquisition was allocated to the assets acquired and liabilities assumed based upon its estimated fair value at the date of the acquisition. The following table summarizes the final purchase price allocation, after adjustments were recorded in the measurement period, of the assets acquired and liabilities assumed:

		June 1 2021
Assets acquired:		
Cash and cash equivalents	$	868
Accounts receivable, net of allowances		8,074
Unbilled revenue		7,068
Inventories		3,549
Prepaid expenses and other current assets		476
Property, plant & equipment, net		8,037
Operating lease assets		9,026
Goodwill		23,523
Customer relationships		11,800
Technology and technical know-how		10,100
Other intangibles, net		10,600
Total assets acquired		93,121
Liabilities assumed:		
Accounts payable		1,842
Accrued compensation		1,341
Accrued expenses and other current liabilities		707
Customer deposits		6,048
Operating lease liabilities		9,066
Other long-term liabilities		2,103
Total liabilities assumed		21,107
Purchase price	$	72,014

The fair value of acquisition-related intangible assets includes customer relationships, technology and technical know-how, backlog and trade name. Backlog and trade name are included in the line item "Other intangible assets, net" in the Condensed Consolidated Balance Sheet. The fair value of customer relationships were calculated using an income approach, specifically the Multi Period Excess Earnings method, which incorporates assumptions regarding retention rate, new customer growth and customer related costs. The fair value of trade name and technology and technical know-how were both calculated using a Relief from Royalty method, which develops a market based royalty rate used to reflect the after tax royalty savings attributable to owning the intangible asset. The fair value of backlog was determined using a net realizable value methodology, and was computed as the present value of the expected sales attributable to backlog less the remaining costs to fulfill the backlog.

The purchase price was allocated to specific intangible assets as follows:

	Weighted Average Amortization Period		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
At September 30, 2022							
Intangibles subject to amortization:							
Customer relationships	20 years	$	11,800	$	787	$	11,013
Technology and technical know-how	20 years		10,100		673		9,427
Backlog	4 years		3,900		2,300		1,600
		$	25,800	$	3,760	$	22,040
Intangibles not subject to amortization:							
Tradename	Indefinite	$	6,700	$	—	$	6,700
		$	6,700	$	—	$	6,700

Technology and technical know-how and customer relationships are amortized in selling, general and administrative expense on a straight line basis over their estimated useful lives. Backlog is amortized in cost of products sold over the projected conversion period based on management estimates at time of purchase. Intangible asset amortization was $619 and $784 for the three months ended September 30, 2022 and 2021, respectively, and $1,238 and $1,009 for the six months ended September 30, 2022 and 2021, respectively. The estimated annual amortization expense is as follows:

	Annual Amortization
Remainder of 2023	$ 1,238
2024	1,782
2025	1,318
2026	1,095
2027	1,095
2028 and thereafter	15,512
Total intangible amortization	$ 22,040

The Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2021 included net sales from BN of $16,486 and $19,957, respectively. The following unaudited pro forma information presents the consolidated results of operations of the Company as if the BN acquisition had occurred at the beginning of the fiscal period presented:

	Six Months Ended September 30, 2021
Net sales	$ 69,779
Net loss	(2,256)
Loss per share	
Basic	$ (0.21)
Diluted	$ (0.21)

The unaudited pro forma information presents the combined operating results of Graham Corporation and BN, with the results prior to the acquisition date adjusted to include the pro forma impact of the adjustment of depreciation of fixed assets based on the preliminary purchase price allocation, the adjustment to interest income reflecting the cash paid in connection with the acquisition, including acquisition-related expenses, at the Company's weighted average interest income rate, interest expense and loan origination fees at the Company's current interest rate, amortization expense related to the fair value adjustments for intangible assets, non-recurring acquisition-related costs and the impact of income taxes on the pro forma adjustments utilizing the applicable statutory tax rate.

The unaudited pro forma results are presented for illustrative purposes only. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of each of the periods presented, nor does the pro forma data intend to be a projection of results that may be obtained in the future.

NOTE 3 – REVENUE RECOGNITION:

The Company recognizes revenue on contracts when or as it satisfies a performance obligation by transferring control of the product to the customer. For contracts in which revenue is recognized upon shipment, control is generally transferred when products are shipped, title is transferred, significant risks of ownership have transferred, the Company has rights to payment, and rewards of ownership pass to the customer. For contracts in which revenue is recognized over time, control is generally transferred as the Company creates an asset that does not have an alternative use to the Company and the Company has an enforceable right to payment for the performance completed to date.

The following table presents the Company's revenue disaggregated by product line and geographic area:

	Three Months Ended September 30,		Six Months Ended September 30,	
Product Line	2022	2021	2022	2021
Refining	$ 7,568	$ 6,317	$ 15,443	$ 10,936
Chemical/Petrochemical	5,804	3,483	11,679	8,086
Defense	14,855	19,798	24,655	26,877
Space	4,306	1,292	10,768	2,017
Other Commercial	5,610	3,256	11,673	6,387
Net sales	$ 38,143	$ 34,146	$ 74,218	$ 54,303

Geographic Region				
Asia	$ 4,255	$ 5,483	$ 8,503	$ 8,992
Canada	1,707	879	2,704	2,087
Middle East	686	963	1,145	1,575
South America	399	236	1,860	478
U.S.	30,325	26,201	58,494	40,095
All other	771	384	1,512	1,076
Net sales	$ 38,143	$ 34,146	$ 74,218	$ 54,303

In the current quarter, the Company changed the descriptions of its disaggregated product line information to reflect the way in which management evaluates the business performance of its products and services. The Company's products and services include the design and manufacture of mission critical fluid, power, heat transfer and vacuum technologies for the defense, space, energy and process industries. The prior period results were reclassified to conform with the current period presentation.

A performance obligation represents a promise in a contract to provide a distinct good or service to a customer. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Transaction price reflects the amount of consideration to which the Company expects to be entitled in exchange for transferred products. A contract’s transaction price is allocated to each distinct performance obligation and revenue is recognized as the performance obligation is satisfied. In certain cases, the Company may separate a contract into more than one performance obligation, while in other cases, several products may be part of a fully integrated solution and are bundled into a single performance obligation. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods underlying each performance obligation. The Company has made an accounting policy election to exclude from the measurement of the contract price all taxes assessed by government authorities that are collected by the Company from its customers. The Company does not adjust the contract price for the effects of a financing component if the Company expects, at contract inception, that the period between when a product is transferred to a customer and when the customer pays for the product will be one year or less. Shipping and handling fees billed to the customer are recorded in revenue and the related costs incurred for shipping and handling are included in cost of products sold.

Revenue on the majority of the Company’s contracts, as measured by number of contracts, is recognized upon shipment to the customer. Revenue on larger contracts, which are fewer in number but represent the majority of revenue, is recognized over time. Revenue from contracts that is recognized upon shipment accounted for approximately 25% and 20% of revenue for the three-month periods ended September 30, 2022 and 2021, respectively, and revenue from contracts that is recognized over time accounted for approximately 75% and 80% of revenue for the three-month periods ended September 30, 2022 and 2021, respectively. Revenue from contracts that is recognized upon shipment accounted for approximately 30% and 25% of revenue for the six-month periods ended September 30, 2022 and 2021, respectively, and revenue from contracts that is recognized over time accounted for approximately 70% and 75% of revenue for the six-month periods ended September 30, 2022 and 2021, respectively. The Company recognizes revenue over time when contract performance results in the creation of a product for which the Company does not have an alternative use and the contract includes an enforceable right to payment in an amount that corresponds directly with the value of the performance completed. To measure progress towards completion on performance obligations for which revenue is recognized over time the Company utilizes an input method based upon a ratio of direct labor hours incurred to date to management’s estimate of the total labor hours to be incurred on each contract, an input method based upon a ratio of total contract costs incurred to date to management’s estimate of the total contract costs to be incurred or an output method based upon completion of operational milestones, depending upon the nature of the contract. The Company has established the systems and procedures essential to developing the estimates required to account for performance obligations over time. These procedures include monthly review by management of costs incurred, progress towards completion, identified risks and opportunities, sourcing determinations, changes in estimates of costs yet to be incurred, availability of materials, and execution by subcontractors. Sales and earnings are adjusted in current accounting periods based on revisions in the contract value due to pricing changes and estimated costs at completion. Losses on contracts are recognized immediately when evident to management.

The timing of revenue recognition, invoicing and cash collections affect trade accounts receivable, unbilled revenue (contract assets) and customer deposits (contract liabilities) on the Condensed Consolidated Balance Sheets. Unbilled revenue represents revenue on contracts that is recognized over time and exceeds the amount that has been billed to the customer. Unbilled revenue is separately presented in the Condensed Consolidated Balance Sheets. The Company may have an unconditional right to payment upon billing and prior to satisfying the performance obligations. The Company will then record a contract liability and an offsetting asset of equal amount until the deposit is collected and the performance obligations are satisfied. Customer deposits are separately presented in the Condensed Consolidated Balance Sheets. Customer deposits are not considered a significant financing component as they are generally received less than one year before the product is completed or used to procure specific material on a contract, as well as related overhead costs incurred during design and construction.

Net contract assets (liabilities) consisted of the following:

	September 30, 2022	March 31, 2022	Change
Unbilled revenue (contract assets)	$ 30,670	$ 25,570	$ 5,100
Customer deposits (contract liabilities)	(26,079)	(25,644)	(435)
Net contract assets (liabilities)	$ 4,591	$ (74)	$ 4,665

Contract liabilities at September 30 and March 31, 2022 include $8,588 and $4,216, respectively, of customer deposits for which the Company has an unconditional right to collect payment. Trade accounts receivable, as presented on the Condensed Consolidated Balance Sheets, includes corresponding balances at September 30 and March 31, 2022, respectively. Revenue recognized in the three and six months ended September 30, 2022 that was included in the contract liability balance at March 31, 2022 was $ 8,127 and $16,557, respectively. Changes in the net contract liability balance during the six months ended September 30, 2022 were impacted by a $5,100 increase in contract assets, of which $33,220 was due to contract progress offset by invoicing to customers of $28,120. In addition, contract liabilities increased $435 driven by new customer deposits of $16,992 offset by revenue recognized in the current period that was included in the contract liability balance at March 31, 2022.

Receivables billed but not paid under retainage provisions in the Company's customer contracts were $2,777 and $3,182 at September 30 and March 31, 2022, respectively.

Incremental costs to obtain a contract consist of sales employee and agent commissions. Commissions paid to employees and sales agents are capitalized when paid and amortized to selling, general and administrative expense when the related revenue is recognized. Capitalized costs, net of amortization, to obtain a contract were $35 and $32 at September 30 and March 31, 2022, respectively, and are included in the line item "Prepaid expenses and other current assets" in the Condensed Consolidated Balance Sheets. The related amortization expense was $23 and $24 in the three months ended September 30, 2022 and 2021, respectively, and $24 and $34 in the six-month periods ended September 30, 2022 and 2021, respectively.

The Company's remaining unsatisfied performance obligations represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. The Company also refers to this measure as backlog. As of September 30, 2022, the Company had remaining unsatisfied performance obligations of $313,340. The Company expects to recognize revenue on approximately 40% to 45% of the remaining performance obligations within one year, 25% to 30% in one to two years and the remaining beyond two years.

NOTE 4 – INVENTORIES:

Inventories are stated at the lower of cost or net realizable value, using the average cost method.

Major classifications of inventories are as follows:

	September 30, 2022	March 31, 2022
Raw materials and supplies	$ 4,131	$ 4,145
Work in process	13,904	11,631
Finished products	1,813	1,638
Total	$ 19,848	$ 17,414

NOTE 5 – EQUITY-BASED COMPENSATION:

The 2020 Graham Corporation Equity Incentive Plan (the "2020 Plan"), as approved by the Company's stockholders at the annual meeting of stockholders on August 11, 2020, provides for the issuance of 422 shares of common stock in connection with grants of incentive stock options, non-qualified stock options, restricted stock units and stock awards to officers, key employees and outside directors, including 112 shares that became available under the 2020 Plan from the Company's prior plan, the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value (the "2000 Plan"). As of August 11, 2020, the effective date of the 2020 Plan, no further awards will be granted under the 2000 Plan. However, 13 shares of unvested restricted stock under the 2000 Plan remain subject to the terms of such plan until the time such shares of restricted stock vest or are forfeited.

The following restricted stock units were granted in the six months ended September 30, 2022:

	Six Months Ended September 30, 2022
Officers	$ 186
Directors	37
	$ 223

112 restricted stock units, granted to officers, vest 100% on the third anniversary of the grant date subject to the satisfaction of the performance metrics for the applicable three-year period. 56 restricted stock units, granted to officers, vest 33⅓% per year over a three-year term. 18 restricted stock units, granted to an officer, vest 100% on the third anniversary of the grant date. 37 restricted stock units, granted to directors, vest 100% on the first year anniversary of the grant date. No restricted stock units were granted in the three-month period ended September 30, 2022 and 2021.

No restricted stock awards were granted in the three and six-month period ended September 30, 2022. Restricted stock awards for 27 shares were granted in the three-month period ended September 30, 2021, 18 shares of which vest 100% on the third anniversary of the grant date subject to the satisfaction of the performance metrics for the applicable three-year period and 9 shares that vest 33⅓% per year over a three-year term. Restricted stock awards of 162 shares were granted in the six-months period ended September 30, 2021. 88 restricted shares granted to officers in fiscal 2022 vest 100% on the third anniversary of the grant date subject to the satisfaction of the performance metrics for the applicable three-year period. 54 restricted shares granted to officers and key employees in fiscal 2022 vest 33⅓% per year over a three-year term. 20 restricted shares granted to directors in the first quarter of fiscal 2022, vest 100% on the first year anniversary of the grant date. No stock option awards were granted in the six-month period ended September 30, 2022 and 2021.

During the three months ended September 30, 2022 and 2021, the Company recognized equity-based compensation costs related to restricted stock awards of $201 and ($22), respectively. The income tax benefit recognized related to equity-based compensation was $44 and ($6) for the three months ended September 30, 2022 and 2021, respectively. During the six months ended September 30, 2022 and 2021, the Company recognized equity-based compensation costs related to restricted stock awards of $306 and $315, respectively. The income tax benefit recognized related to equity-based compensation was $67 and $69 for the six months ended September 30, 2022 and 2021, respectively.

The Company has an Employee Stock Purchase Plan, as amended (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock at a discount of up to 15% of its fair market value on the (1) last, (2) first or (3) lower of the last or first day of the six-month offering period. As of September 30, 2022, a total of 400 shares of common stock may be purchased under the ESPP. During the three months ended September 30, 2022 and 2021, the Company recognized equity-based compensation costs of ($3) and ($1), respectively, related to the ESPP and ($1) and ($1), respectively, of related tax benefits. During the six-month periods ended September 30, 2022 and 2021, the Company recognized equity-based compensation costs of $6 and $15, respectively, related to the ESPP and $1 and $4, respectively, of related tax benefits.

NOTE 6 – INCOME (LOSS) PER SHARE:

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Basic income (loss) per share				
Numerator:				
Net income (loss)	$ (196)	$ (492)	$ 480	$ (3,618)
Denominator:				
Weighted average common shares outstanding	10,617	10,681	10,614	10,442
Basic income (loss) per share	$ (0.02)	$ (0.05)	$ 0.05	$ (0.35)
Diluted income (loss) per share				
Numerator:				
Net income (loss)	$ (196)	$ (492)	$ 480	$ (3,618)
Denominator:				
Weighted average common shares outstanding	10,617	10,681	10,614	10,442
Restricted stock units outstanding	—	—	4	—
Weighted average common and potential common shares outstanding	10,617	10,681	10,618	10,442
Diluted income (loss) per share	$ (0.02)	$ (0.05)	0.05	$ (0.35)

NOTE 7 – PRODUCT WARRANTY LIABILITY:

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Balance at beginning of period	$ 496	$ 522	$ 441	$ 626
BN warranty accrual acquired	—	—	—	169
Expense (income) for product warranties	13	(5)	90	(21)
Product warranty claims paid	(22)	(68)	(44)	(325)
Balance at end of period	$ 487	$ 449	$ 487	$ 449

Income of $5 and $21 for product warranties in the three and six months ended September 30, 2021, respectively, resulted from the reversal of provisions made that were no longer required due to lower claims experience.

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

NOTE 8 – CASH FLOW STATEMENT:

Interest paid was $362 and $135 in the six-month periods ended September 30, 2022 and 2021, respectively. Income taxes paid for the six months ended September 30, 2022 and 2021 were $151 and $1,318, respectively.

At September 30, 2022 and 2021, there were $205 and $39, respectively, of capital purchases that were recorded in accounts payable and are not included in the caption "Purchase of property, plant and equipment" in the Condensed Consolidated Statements of Cash Flows.

The $59,563 of cash utilized for the acquisition of BN included the cash consideration of $61,150, net of cash acquired of $1,587. Upon completion of the final purchase price allocation and after the adjustments made during the measurement period, the cash utilized for the acquisition was $60,282, including cash consideration of $61,150, net of cash acquired of $868. In the three months ended June 30, 2021, non-cash activities included the issuance of 610 treasury shares valued at $8,964, included as part of the consideration for the acquisition.

Non-cash activities included pension adjustments, net of income tax, of $68.

NOTE 9 – EMPLOYEE BENEFIT PLANS:

The components of pension cost are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Service cost	$ 83	$ 94	$ 166	$ 187
Interest cost	308	298	616	598
Expected return on assets	(542)	(682)	(1,085)	(1,364)
Amortization of actuarial loss	165	229	330	442
Net pension cost (benefit)	$ 14	$ (61)	$ 27	$ (137)

The Company made no contributions to its defined benefit pension plan during the six months ended September 30, 2022 and does not expect to make any contributions to the plan for the balance of fiscal 2023.

The components of the postretirement benefit cost are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	2021	2022	2021
Interest cost	$ 3	$ 4	$ 7	$ 7
Amortization of actuarial loss	3	6	6	12
Net postretirement benefit cost	$ 6	$ 10	$ 13	$ 19

The Company paid no benefits related to its postretirement benefit plan during the six months ended September 30, 2022. The Company expects to pay benefits of approximately $63 for the balance of fiscal 2023.

The components of net periodic benefit cost other than service cost are included in the line item "Other income, net" in the Condensed Consolidated Statements of Operations.

The Company self-funds the medical insurance coverage it provides to its Batavia based employees. The Company maintains a stop loss insurance policy in order to limit its exposure to claims. The liability of $209 and $164 on September 30, 2022 and March 31, 2022, respectively, related to the self-insured medical plan is primarily based upon claim history and is included in the caption "Accrued compensation" as a current liability in the Condensed Consolidated Balance Sheets.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

The Company has been named as a defendant in lawsuits alleging personal injury from exposure to asbestos allegedly contained in, or accompanying, products made by the Company. The Company is a co-defendant with numerous other defendants in these lawsuits and intends to vigorously defend itself against these claims. The claims in the Company's current lawsuits are similar to those made in previous asbestos-related suits that named the Company as a defendant, which either were dismissed when it was shown that the Company had not supplied products to the plaintiffs' places of work or were settled for immaterial amounts. The Company cannot provide any assurances that any pending or future matters will be resolved in the same manner as previous lawsuits.

As of September 30, 2022, the Company was subject to the claims noted above, as well as other potential claims that have arisen in the ordinary course of business.

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

NOTE 11 – INCOME TAXES:

The Company files federal and state income tax returns in several domestic and international jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is subject to U.S. federal examination for the tax years 2018 through 2021 and examination in state tax jurisdictions for the tax years 2017 through 2021. The Company is subject to examination in the People's Republic of China for tax years 2018 through 2021 and in India for tax year 2018 through 2021.

There was no liability for unrecognized tax benefits at either September 30, 2022 or March 31, 2022.

NOTE 12 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS:

The changes in accumulated other comprehensive loss by component for the six months ended September 30, 2022 and 2021 are as follows:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2022	$ (6,970)	$ 499	$ (6,471)
Other comprehensive income before reclassifications	—	(680)	(680)
Amounts reclassified from accumulated other comprehensive loss	262	—	262
Net current-period other comprehensive income	262	(680)	$ (418)
Balance at September 30, 2022	$ (6,708)	$ (181)	$ (6,889)

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2021	$ (7,698)	$ 301	$ (7,397)
Other comprehensive income before reclassifications	68	93	161
Amounts reclassified from accumulated other comprehensive loss	353	—	353
Net current-period other comprehensive income	421	93	514
Balance at September 30, 2021	$ (7,277)	$ 394	$ (6,883)

The reclassifications out of accumulated other comprehensive loss by component for the three and six months ended September 30, 2022 and 2021 are as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Three Months Ended September 30, 2022	2021	Affected Line Item in the Condensed Consolidated Statements of Income
Pension and other postretirement benefit items:			
Amortization of actuarial income (loss)	$ 168 [(1)]	$ (236) [(1)]	Income (loss) before benefit for income taxes
	37	(53)	Benefit for income taxes
	$ 131	$ (183)	Net income (loss)

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Six Months Ended September 30, 2022	2021	Affected Line Item in the Condensed Consolidated Statements of Income
Pension and other postretirement benefit items:			
Amortization of actuarial loss	$ 336 [(1)]	$ (455) [(1)]	Loss before benefit for income taxes
	74	(102)	Benefit for income taxes
	$ 262	$ (353)	Net loss

[(1)] These accumulated other comprehensive loss components are included within the computation of pension and other postretirement benefit costs. See Note 9.

NOTE 13 – LEASES:

The Company leases certain manufacturing facilities, office space, machinery and office equipment. An arrangement is considered to contain a lease if it conveys the right to use and control an identified asset for a period of time in exchange for consideration. If it is determined that an arrangement contains a lease, then a classification of a lease as operating or finance is determined by evaluating the five criteria outlined in the lease accounting guidance at inception. Leases generally have remaining terms of one year to five years, whereas leases with an initial term of twelve months or less are not recorded on the Condensed Consolidated Balance Sheets. The depreciable life of leased assets related to finance leases is limited by the expected term of the lease, unless there is a transfer of title or purchase option that the Company believes is reasonably certain of exercise. Certain leases include options to renew or terminate. Renewal options are exercisable per the discretion of the Company and vary based on the nature of each lease. The term of the lease includes renewal periods only if the Company is reasonably certain that it will exercise the renewal option. When determining if a renewal option is reasonably certain of being exercised, the Company considers several factors, including but not limited to, the cost of moving to another location, the cost of disrupting operations, whether the purpose or location of the leased asset is unique and the contractual terms associated with extending the lease. The Company's lease agreements do not contain any residual value guarantees or any material restrictive covenants and the Company does not sublease to any third parties. As of September 30, 2022, the Company did not have any material leases that have been signed but not commenced.

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

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

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

	September 30, 2022	September 30, 2021
Finance Leases		
Weighted-average remaining lease term in years	0.92	1.91
Weighted-average discount rate	10.67 %	10.72 %
Operating Leases		
Weighted-average remaining lease term in years	7.25	7.91
Weighted-average discount rate	3.28 %	3.26 %

The components of lease expense are as follows:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Finance lease cost:				
Amortization of right-of-use assets	$ 5	$ 5	$ 10	$ 10
Interest on lease liabilities	1	2	2	3
Operating lease cost	287	384	671	540
Short-term lease cost	1	10	5	15
Total lease cost	$ 294	$ 401	$ 688	$ 568

Operating lease costs during the six-month periods ended September 30, 2022 and 2021 were included within cost of sales and selling, general and administrative expenses.

As of September 30, 2022, future minimum payments required under non-cancelable leases were:

	Operating Leases	Finance Leases
Remainder of 2023	$ 487	$ 13
2024	1,215	11
2025	1,200	—
2026	1,209	—
2027	1,245	—
2028 and thereafter	3,770	—
Total lease payments	9,126	24
Less – amount representing interest	1,051	1
Present value of net minimum lease payments	$ 8,075	$ 23

NOTE 14 – DEBT:

On June 1, 2021, the Company entered into a $20,000 five-year term loan with Bank of America. The term loan requires monthly principal payments of $167 through June 1, 2026, with the remaining principal amount plus all interest due on the maturity date. The interest rate on the term loan is the applicable Bloomberg Short-Term Bank Yield Index ("BSBY"), plus 1.50%, subject to a 0.00% floor.

Long term debt is comprised of the following:

	September 30, 2022	March 31, 2022
Bank of America term loan	$ 17,500	$ 18,500
Less: unamortized debt issuance costs	(875)	(122)
	16,625	18,378
Less: current portion	2,000	2,000
Total	$ 14,625	$ 16,378

As of September 30, 2022, future minimum payments required were as follows:

Remainder of 2023	$ 1,000
2024	2,000
2025	2,000
2026	12,500
2027	—
2028 and thereafter	—
Total	$ 17,500

On June 1, 2021, the Company terminated its revolving credit facility agreement with JPMorgan Chase Bank, N.A. and entered into a five-year revolving credit facility with Bank of America that provided a $30,000 line of credit, including letters of credit and bank guarantees, expandable at the Company's option and the bank's approval at any time up to $40,000. As of September 30, 2022 and March 31, 2022, there was $2,500 and $0 outstanding on the line of credit, respectively. Amounts outstanding under the facility agreement bear interest at a rate equal to BSBY plus 1.50%, subject to a 0.00% floor. As of September 30, 2022, the BSBY rate was 3.9509%. Outstanding letters of credit under this agreement are subject to a fee of 1.50% per annum of the outstanding undrawn amount of each letter of credit that is not secured by cash and 0.60% of each letter of credit that is secured by cash. Amounts available for borrowing under the revolving credit facility are subject to an unused commitment fee of 0.25%. As of September 30, 2022, there was $5,706 letters of credit outstanding with Bank of America.

Under the original Bank of America term loan agreement and revolving credit facility, the Company covenanted to maintain a maximum total leverage ratio, as defined in such agreements, of 3.0 to 1.0, with an allowable increase to 3.25 to 1.0 following an acquisition for a period of twelve months following the closing of the acquisition. In addition, the Company covenanted to maintain a minimum fixed charge coverage ratio, as defined in such agreements, of 1.2 to 1.0 and minimum margined assets, as defined in such agreements, of 100% of total amounts outstanding on the revolving credit facility, including letters of credit. At December 31, 2021, the Company was out of compliance with its bank agreement covenants and was granted a waiver for noncompliance by Bank of America.

The Company has entered into amendment agreements with Bank of America since origination. Under the amended agreements, the Company is not required to comply with the maximum total leverage ratio and the minimum fixed charge coverage ratio covenants contained in the original term loan agreement for the periods ending December 31, 2021 and March 31, June 30 and September 30, 2022. The principal balance outstanding on the line of credit may not exceed $15,000, unless letters of credit exceed $11,500, in which case the limit is $17,000, until the compliance date. The compliance date is defined as the date on which Bank of America has received all required financial information with respect to the Company for the fiscal year ending March 31, 2023 and no event of default exists. In addition, on or before September 1, 2023 and at all times thereafter, all of the Company's deposit accounts, except certain accounts, will be either subject to a deposit account control agreement or maintained with Bank of America. The Company covenants to maintain EBITDA, as defined in such amendment, of at least ($700) for the twelve-month period ending June 30, 2022 and $1,800 for the twelve-month period ending September 30, 2022; maintain a total maximum leverage ratio of 4.0 to 1.0 for the twelve-month period ending December 31, 2022 and 3.0 to 1.0 for the period ending March 31, 2023; and maintain liquidity, as defined in such amendment, of at least $10,000 prior to the occurrence of the compliance date and $20,000 from and after the occurrence of the compliance date. As of September 30, 2022, the Company was in compliance with the amended financial covenants of its loan agreement. At September 30, 2022, the amount available under the revolving credit facility was $7,657, subject to the above liquidity and leverage covenants.

In connection with the waiver and amendments discussed above, the Company is required to pay a back-end fee of $725 to Bank of America payable upon the earliest to occur of (i) any default or event of default, (ii) the last date of availability under the revolving credit facility, and (iii) repayment in full of all principal, interest, fees and other obligations, which may be waived or cancelled if certain criteria are met.

On June 1, 2021, the Company entered into an agreement to amend its letter of credit facility agreement with HSBC Bank USA, N.A. and decreased the Company's line of credit from $15,000 to $7,500. Under the amended agreement, the Company incurs an annual facility fee of $5 and outstanding letters of credit are subject to a fee of between 0.75% and 0.85%, depending on the term of the letter of credit. Interest is payable on the principal amounts of unreimbursed letter of credit draws under the facility at a rate of 3% plus the bank's prime rate. The Company's obligations under the agreement are secured by cash held with the bank. As of September 30, 2022, there was $6,442 letters of credit outstanding with HSBC. The agreement is subject to an annual renewal by the bank on July 31 of each year.

Letters of credit outstanding as of September 30, 2022 and March 31, 2022 were $12,148 and $12,233, respectively.

NOTE 15 – OTHER OPERATING INCOME, NET:

On August 9, 2021, the Company and James R. Lines entered into a Severance and Transition Agreement (the "Transaction Agreement") pursuant to which Mr. Lines resigned from his position as the Company’s Chief Executive Officer and as a member of the board of directors, and from positions he held with all Company subsidiaries and affiliates, effective as of the close of business on August 31, 2021. The Transition Agreement provides that for a period of 18 months following the separation date, Mr. Lines is paid his base salary as well as health care premiums. As a result, a liability was recorded in the amount of $798 in Accrued Compensation on the Company’s Condensed Consolidated Balance Sheets and recognized against "Other operating income, net" on the Condensed Consolidated Statements of Operations.

During the second quarter ended September 30, 2021, the Company terminated the earn out agreement related to the acquisition of BN (see Note 2), therefore the Company recognized a change in fair value of the contingent liability in the amount of $1,900, which was included in "Other operating income, net" on the Company’s Condensed Consolidated Statement of Operations.

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

(Dollar and share amounts in thousands, except per share data)

Overview

We are a global leader in the design and manufacture of mission critical fluid, power, heat transfer and vacuum technologies for the defense, space, energy and process industries. For the defense industry, our equipment is used in nuclear and non-nuclear propulsion, power, fluid transfer, and thermal management systems primarily for the U.S. Navy. For the space industry, our equipment is used in propulsion, power and energy management systems and for life support systems. Our energy and new energy markets include oil refining, cogeneration, and multiple alternative and clean power applications including hydrogen. For the chemical and petrochemical industries, our equipment is used in fertilizer, ammonia, ethylene, methanol and downstream chemical facilities.

Our brands are built upon our engineering expertise and close customer collaboration to design, develop, and produce mission critical equipment and systems that enable our customers to meet their economic and operational objectives. Continual improvement of our processes and systems to ensure qualified and compliant equipment are hallmarks of our brand. Our early engagement with customers and support until the end of service life are values upon which our brands are built.

Our corporate headquarters is co-located with our production facilities in Batavia, New York, where surface condensers and ejectors are designed, engineered, and manufactured. Our wholly-owned subsidiary, Barber-Nichols, LLC ("BN"), based in Arvada, Colorado, designs, develops, manufactures and sells specialty turbomachinery products for the aerospace, cryogenic, defense and energy markets (see "Acquisition" below). We also have wholly-owned foreign subsidiaries, Graham Vacuum and Heat Transfer Technology Co., Ltd. ("GVHTT"), located in Suzhou, China and Graham India Private Limited ("GIPL"), located in Ahmedabad, India. GVHTT provides sales and engineering support for us in the People's Republic of China and management oversight throughout Southeast Asia. GIPL serves as a sales and market development office focusing on the refining, petrochemical and fertilizer markets in India and the middle east.

Our current fiscal year (which we refer to as "fiscal 2023") ends March 31, 2023.

Acquisition

We completed the acquisition of BN on June 1, 2021. Founded as a specialty turbomachinery engineering company in 1966, BN grew rapidly from programs that involve complex production and systems integration. By integrating knowledge in rotating equipment, power generation cycles, and electrical management systems, BN has successfully won the design and development of different power, fluid transfer, and propulsion systems used in underwater vehicles among many other accomplishments.

The acquisition of BN changed the composition of our end market mix. For the second quarter of fiscal 2023, sales to the defense and space industries were 50% of our business compared with approximately 25% of sales prior to the acquisition. The remaining 50% of our second quarter fiscal 2023 sales came from the refining, chemical/petrochemical and other commercial markets. These markets represented approximately 75% of our sales prior to the acquisition.

The BN transaction was accounted for as a business combination, which requires that assets acquired and liabilities assumed be recognized at their fair value as of the acquisition date. The purchase price of $72,014 was comprised of 610 shares of common stock, representing a value of $8,964 at $14.69 per share, and cash consideration of $61,150. The cash consideration was funded through cash on-hand and debt proceeds (See Note 2 to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q). The purchase agreement also included a contingent earn-out dependent upon certain financial measures of BN post-acquisition, pursuant to which the sellers were eligible to receive up to $14,000 in additional cash consideration. At June 30, 2021, a liability of $1,900 was recorded for the contingent earn-out. In the second quarter of the fiscal year ended March 31, 2022 (which we refer to as "fiscal 2022"), the earn-out agreement was terminated and the contingent liability was reversed into other operating income, net, on our Condensed Consolidated Statement of Operations. In connection with the termination of this earn-out agreement, we entered into a Performance Bonus Agreement (the "Bonus Agreement") to provide certain employees of BN with performance-based awards based on the achievement of BN performance objectives for fiscal years ending March 31, 2024, 2025, and 2026 and can range between $2,000 to $4,000 per year.

Summary

Highlights for the three months ended September 30, 2022 include:

- Net sales of $38,143 for the second quarter of fiscal 2023 increased $3,997 or 12% over the prior year period across our diversified revenue base. This increase included growth in our commercial space market which increased $3,014 and our new energy market which increased approximately $1,500 as newly awarded programs continued to ramp up. Additionally, our sales continued to benefit from strong growth in our refining and chemical/petrochemical aftermarket ("commercial aftermarket"), which increased $4,672 compared to the same period in the prior year and is a strategic focus for us. These increases were partially offset by lower defense sales of $4,943 due to project timing.

•Net loss and loss per diluted share for the second quarter of fiscal 2023 were $196 and $0.02 per share, respectively, compared with a loss of $492 and $0.05 per share, respectively, for the second quarter of fiscal 2022. GAAP results for the second quarter of fiscal 2022 benefitted from the reversal of contingent earn-out of $1,900 offset by $798 of severance costs. Adjusted net income and adjusted net income per diluted share for the second quarter of fiscal 2023 were $325 and $0.03 per share, respectively, compared with an adjusted loss of $639 and $0.06 per share, respectively, for the second quarter of fiscal 2022. See "Non-GAAP Measures" below for a reconciliation of adjusted net income (loss) and adjusted net income (loss) per diluted share to the comparable GAAP amount. In the second quarter of fiscal 2023, we completed an additional first article U.S. Navy project and remain on schedule to complete the remaining first article projects.

•Orders booked in the second quarter of fiscal 2023 were $91,511 driven by repeat orders for critical U.S. Navy programs, which are included in total defense orders of $69,598. We believe these U.S. Navy orders validates the investments we made, our position as a key supplier to the defense industry and our customer's confidence in our execution. Additionally, orders continued to be strong in the commercial aftermarket and space markets which totaled $11,211 and $3,741, respectively, during the second quarter of fiscal 2023.

•Backlog was $313,340 at September 30, 2022, compared with $260,675 at June 30, 2022. This increase was primarily driven by the orders during the second quarter. Our ratio of orders to net sales during the second quarter of fiscal 2023 was 240%. 79% of our backlog at September 30, 2022 was to the defense industry. For more information on this performance indicator see "Orders and Backlog" below.

•Cash and cash equivalents at September 30, 2022 were $14,122, compared with $12,905 at June 30, 2022. This increase was primarily due to cash provided by operating activities of $291, as well as net cash borrowed of $1,989. Cash used for capital expenditures was $892 during the second quarter of fiscal 2023.

•In the second quarter of fiscal 2023, $0 was returned to shareholders as dividends compared with $1,177 in the second quarter of fiscal 2022. In the fourth quarter of fiscal 2022, we suspended our dividend in accordance with the terms of our credit agreement with Bank of America. There can be no guarantee that we will pay dividends in the future, and any determination by our board of directors with respect to dividends will depend on a variety of factors, including our future financial performance, organic growth and acquisition opportunities, general economic conditions and other factors, many of which are beyond our control.

•At September 30, 2022, we had $2,500 outstanding on our line of credit. We believe availability under our line of credit, along with our cash balances, provide us adequate financial flexibility to meet our obligations.

Cautionary Note Regarding Forward-Looking Statements

This report and other documents we file with the Securities and Exchange Commission ("SEC") include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact are forward-looking statements for purposes of this report. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results implied by the forward-looking statements. Forward-looking statements are indicated by words such as "anticipate," "believe," "continue," "could," "estimate," "may," "intend," "expect," "predict," "project," "potential," "should," "will," and similar words and expressions.

Forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause our actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements including, but not limited to, those described in the "Risk Factors" section in Item 1A of our Annual Report on Form 10-K for fiscal 2022 and elsewhere in this report. Undue reliance should not be placed on our forward-looking statements. New risks and uncertainties arise from time to time and we cannot predict these events or how they may affect us and cause actual results to differ materially from those expressed or implied by our forward-looking statements. Therefore, you should not rely on our forward-looking statements as predictions of future events. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained in this report and any documents incorporated herein by reference. You should read this document and the documents that we reference in this Quarterly Report on Form 10-Q (the "Form 10-Q") completely and with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

All forward-looking statements included in this Form 10-Q are made only as of the date indicated or as of the date of this Form 10-Q. Except as required by law, we undertake no obligation to update or announce any revisions to forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

Current Market Conditions

Demand for our equipment and systems for the defense industry is expected to remain strong and continue to expand, based on our significant backlog, improved execution, long-standing relationship with the U.S. Navy, defense budget plans, the projected procurement of submarines, aircraft carriers and undersea propulsion and power systems and the solutions we provide. In addition to U.S. Navy applications, we also provide specialty pumps, turbines, compressors and controllers for various fluid and thermal management systems used in Department of Defense radar, laser, electronics and power systems. We have built a leading position, and in some instances a sole source position, for certain systems and equipment for the defense industry.

Our traditional energy markets are undergoing significant transition. While we expect that fossil fuels will continue to be an important component in the global energy industry for many years to come, there are significant changes in the priorities for capital investments by our customers and the regions in which those investments are being made. We expect that the changes in the energy markets, which are influenced by the increasing use by consumers of alternative fuels, will lead to demand growth for fossil-based fuels that is less than the global growth rate. Currently, opportunities in the energy markets outside North America have been greater than opportunities inside of North America, but opportunities outside of North America are highly competitive and pricing is challenging. In those instances, we have been selective in the opportunities we have pursued in order to ensure we receive the proper return on our investment. Over the long term, we anticipate that future investment by refiners in renewable fuels (e.g., renewable diesel), in existing refineries (e.g., to expand feedstock processing flexibility and to improve conversion of oil to refined products) to gain greater throughput, or to build new capacity (e.g., integrated refineries with petrochemical products capabilities), will continue to drive demand for our products and services. The timing and catalyst for a recovery in these markets (crude oil refining and chemical/petrochemical) remain uncertain. Accordingly, we believe that in the near term the quantity of projects available for us to compete for will remain low and that new project pricing will remain challenging.

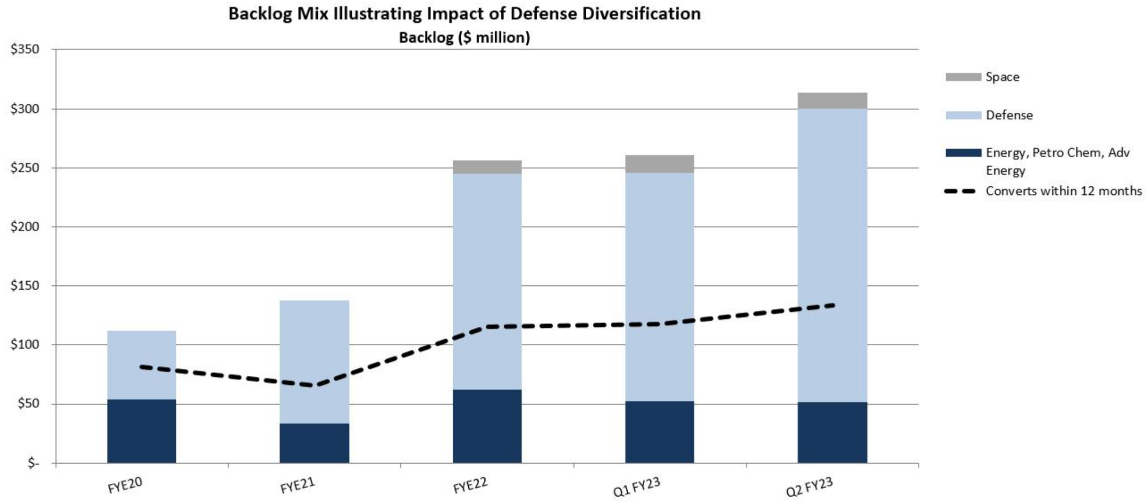
Of note, over the last year we have experienced an increase in our energy and chemical aftermarket orders, primarily from the domestic market. Aftermarket orders have historically been a leading indicator of future capital investment by our customers in their facilities for upgrades and expansions. As such we believe there is the possibility of a cyclical upturn in calendar year 2023 following several years of reduced capital spending in a low oil price environment. However, we do not expect the next cycle to be as robust as years past due to the factors discussed above.

The alternative and clean energy opportunities for our heat transfer, power production and fluid transfer systems are expected to continue to grow. We assist in designing, developing and producing equipment for hydrogen production, distribution and fueling systems, concentrated solar power and storage, and small modular nuclear systems. We are positioning the Company to be a more significant contributor as these markets continue to develop.

We believe that chemical and petrochemical capital investment will continue to decouple from energy investment. Over the long term, we expect that population growth, an expanding global middle class, and an increasing desire for improved quality of life and access to consumer products will drive increased demand for industrial goods within the plastics and resins value chain along with fertilizers and related products. As such, we expect investment in new global chemical and petrochemical capacity will improve and drive growth in demand for our products and services over the long term.

Our turbomachinery, pumps, and cryogenic products and market access provide revenue and growth potential in the commercial space/aerospace markets. The commercial space market has grown and evolved rapidly, and we provide rocket engine turbo pump systems and components to many of the key players in the industry. We expect that in the long term, extended space exploration will become more prevalent, and we anticipate that our thermal/fluid management and environmental control and life support system turbomachinery will play important roles. We are also participating in future aerospace power and propulsion system development through supply of fluid and thermal management systems components. Small power dense systems are imperative for these applications, and we believe our technology and expertise will enable us to achieve sales growth in this market as well. For the first six months of fiscal 2023, sales to the space industry represented 15% of our sales compared to 0% prior to the BN acquisition.

The chart below illustrates our strategy to increase our participation in the defense market. The defense market comprised 79% of our total backlog at September 30, 2022 and generally have longer conversion times than our other markets. We believe this strategy shift provides us more stability and visibility and is especially beneficial when our refining and process markets are weak.



*Note: FYE refers to fiscal year ended March 31

We have faced, and may continue to face, significant cost inflation, specifically in labor costs, raw materials, and other supply chain costs due to increased demand for raw materials and resources caused by the broad disruption of the global supply chain associated with the impact of COVID-19. International conflicts or other geopolitical events, including the 2022 Russian invasion of Ukraine, may further contribute to increased supply chain costs due to shortages in raw materials, increased costs for transportation and energy, disruptions in supply chains, and heightened inflation. Further escalation of geopolitical tensions may also lead to changes to foreign exchange rates and financial markets, any of which may adversely affect our business and supply chain, and consequently our results of operation. While there could ultimately be a material impact on our operations and liquidity, at the time of this report, the impact could not be determined.

Results of Operations

To better understand the significant factors that influenced our performance during the periods presented, the following discussion should be read in conjunction with our Condensed Consolidated Financial Statements and the notes to our Condensed Consolidated Financial Statements included in Part I, Item 1, of this Form 10-Q.

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Net sales	$ 38,143	$ 34,146	$ 74,218	$ 54,303
Gross profit	$ 5,280	$ 3,443	$ 12,024	$ 4,357
Gross profit margin	14 %	10 %	16 %	8 %
SG&A expenses [1]	$ 5,332	$ 5,247	$ 11,091	$ 10,170
SG&A as a percent of sales	14 %	15 %	15 %	19 %
Net income (loss)	$ (196)	$ (492)	$ 480	$ (3,618)
Diluted income (loss) per share	$ (0.02)	$ (0.05)	$ 0.05	$ (0.35)
Total assets	$ 188,905	$ 191,836	$ 188,905	$ 191,836
Total assets excluding cash and cash equivalents	$ 174,783	$ 175,373	$ 174,783	$ 175,373

(1) Selling, general and administrative expenses are referred to as "SG&A".

The Second Quarter and First Six Months of Fiscal 2023 Compared with the Second Quarter and First Six Months of Fiscal 2022

Net sales for the second quarter of fiscal 2023 were $38,143, an increase of 12% from the second quarter of fiscal 2022 and was across our diversified revenue base. This increase included growth in our commercial space market which increased $3,014 and our new energy market which increased approximately $1,500 as newly awarded programs continued to ramp up. Additionally, our sales continued to benefit from strong growth in our commercial aftermarket, which increased $4,672. These increases were partially offset by lower defense sales of $4,943 due to project timing. Domestic sales as a percentage of aggregate sales were 80% in the second quarter of fiscal 2023 compared with 77% in the second quarter of fiscal 2022, reflecting the increase in our defense and commercial space industry businesses which are U.S. based. Sales in the three months ended September 30, 2022 were 20% to the refining industry, 15% to the chemical and petrochemical industries, 39% for the defense industry, 11% to space, and 15% to other commercial and industrial applications which includes sales to the new energy market. Sales in the three months ended September 30, 2021 were 18% to the refining industry, 10% to the chemical and petrochemical industries, 58% for the defense industry, 4% to space, and 10% to other commercial and industrial applications. Fluctuation in sales among markets, products and geographic locations varies, sometimes significantly, from quarter-to-quarter based on timing and magnitude of projects.

Net sales for the first six months of fiscal 2023 were $74,218, an increase of $19,915 or 37% from the first six months of fiscal 2022 and was across our diversified revenue base. Approximately $8,900 of this increase was due to having three months of BN results in the first quarter of fiscal 2023 compared to one month in the first quarter of fiscal 2022. Additionally, our sales continued to benefit from our diversified revenue base including strong growth in commercial aftermarket of approximately $7,000, commercial space market of $3,014 and our new energy market which increased approximately $1,500. These increases were partially offset by lower defense sales of $2,222 due to project timing. Domestic sales as a percentage of aggregate sales were 79% in the first six months of fiscal 2023 compared with 74% in the first six months of fiscal 2022, reflecting the increase in our defense and space industry businesses which are U.S. based. Sales in the six months ended September 30, 2022 were 21% to the refining industry, 16% to the chemical and petrochemical industries, 33% for the defense industry, 15% to space, and 15% to other commercial and industrial applications. Sales in the six months ended September 30, 2021 were 20% to the refining industry, 15% to the chemical and petrochemical industries, 49% for the defense industry, 4% to space, and 12% to other commercial and industrial applications. See also "Current Market Conditions," above. For additional information on anticipated future sales and our markets, see "Orders and Backlog" below.

Gross profit margin for the second quarter of fiscal 2023 was 14%, compared with 10% for the second quarter of fiscal 2022. Gross profit for the second quarter of fiscal 2023 increased compared with fiscal 2022, to $5,280 from $3,443. These increases were primarily due to an improved mix of sales related to higher margin projects (space and commercial aftermarket) and improved execution and pricing on defense contracts, partially offset by higher incentive compensation. In the second quarter of fiscal 2023, we shipped an additional first article U.S. Navy project and are on schedule to complete the remaining significant first article projects by the end of the first quarter of fiscal 2024.

Gross profit margin for the first six months of fiscal 2023 was 16%, compared with 8% for the first six months of fiscal 2022. Gross profit for the first six months of fiscal 2023 increased compared with fiscal 2022, to $12,024 from $4,357. These increases were primarily due to an improved mix of sales related to higher margin projects (space and commercial aftermarket) and improved execution and pricing on defense contracts, partially offset by higher incentive compensation. In the first six months of fiscal 2023, we completed three first article U.S. Navy projects. In addition to the above, the first six months of fiscal 2023 includes two additional months of operations from BN compared to the first six months of fiscal 2022.

SG&A expense including amortization for the second quarter of fiscal 2023 was $5,332 compared to $5,247 for the second quarter of fiscal 2022. This increase was due to higher incentive compensation, partially offset by cost savings and deferral initiatives. These efforts included reducing the use of outside sales agents, cost management, and delayed hiring of non-critical positions. As a result, SG&A expense as a percentage of sales in the second quarter of fiscal 2023 was 14% of sales compared with 15% of sales in the comparable period in fiscal 2022.

SG&A expense including amortization for the first six months of fiscal 2023 was $11,091 up $921 compared with $10,170 for the first six months of fiscal 2022. Approximately $1,400 of this increase was due to having two additional months of BN results in the first six months of fiscal 2023 compared to the prior year period, as well as higher incentive compensation. These increases were partially offset by cost savings and deferral initiatives which included reducing the use of outside sales agents, cost management and delayed hiring of non-critical positions. As a result, SG&A expense as a percentage of sales in the first six months of fiscal 2023 was 15% of sales compared with 19% of sales in the comparable period in fiscal 2022.

During the second quarter of fiscal 2022, we terminated the BN contingent earn-out agreement and the contingent liability of $1,900 was reversed into other operating income, net, on our Condensed Consolidated Statement of Operations. In connection with the termination of this earn-out agreement, we entered into a Bonus Agreement to provide certain employees of BN with performance-based awards based on results of BN for fiscal years ending March 31, 2024, 2025, and 2026. Additionally, in the second quarter of fiscal 2022 we incurred $798 of severance costs related to the departure of our Chief Executive Officer, which was also recorded into other operating income, net.

Net interest expense for the second quarter of fiscal 2023 was $246 compared to $115 in the second quarter of fiscal 2022 due to an increase in interest rates since the second quarter of fiscal 2022, partially offset by lower debt levels of $4,375 due to repayments made since the second quarter of fiscal 2022.

Net interest expense for the first six months of fiscal 2023 was $403 compared to $137 in the first six months of fiscal 2022 primarily due to increased borrowings related to the BN acquisition, as well as increased interest rates since the first quarter of fiscal 2022.

Our effective tax rate in the second quarter of fiscal 2023 was 17%, compared with 27% in the second quarter of fiscal 2022. Our effective tax rate for the first six months of fiscal 2023 was 27%, compared with 20% for the first six months of fiscal 2022. This increase was primarily due to discrete tax expense recognized in the first quarter of fiscal 2023 related to the vesting of restricted stock awards. Our expected effective tax rate for fiscal 2023 is 21% to 22% as the impact of these discrete tax items on our effective tax rate lessens over the course of fiscal 2023.

The net result of the above is that net loss and loss per diluted share for the second quarter of fiscal 2023 were $196 and $0.02 per share, respectively, compared with a loss of $492 and $0.05 per share, respectively, for the second quarter of fiscal 2022. Adjusted net income and adjusted net income per diluted share for the second quarter of fiscal 2023 were $325 and $0.03 per share, respectively, compared with a loss of $639 and $0.06 per share, respectively, for the second quarter of fiscal 2022. Net income and income per diluted share for the first six months of fiscal 2023 were $480 and $0.05 per share, respectively, compared with a loss of $3,618 and $0.35 per share, respectively, for the first six months of fiscal 2022. Adjusted net income and adjusted net income per diluted share for the first six months of fiscal 2023 were $1,654 and $0.16 per share, respectively, compared with a loss of $3,450 and $0.33 per share, respectively, for the first six months of fiscal 2022. See "Non-GAAP Measures" below for a reconciliation of adjusted net income (loss) and adjusted net income (loss) per diluted share to the comparable GAAP amount.

Non-GAAP Measures

Adjusted earnings (loss) before net interest expense, income taxes, depreciation and amortization ("EBITDA"), adjusted net income (loss), and adjusted net income (loss) per diluted share are provided for information purposes only and are not measures of financial performance under accounting principles generally accepted in the U.S. ("GAAP"). Management believes the presentation of these financial measures reflecting non-GAAP adjustments provides important supplemental information to investors and other users of our financial statements in evaluating the operating results of the Company. In particular, those charges and credits that are not directly related to operating performance, and that are not a helpful measure of the performance of our underlying business particularly in light of their unpredictable nature. These non-GAAP disclosures have limitations as analytical tools, should not be viewed as a substitute for net income (loss) or net income (loss) per diluted share determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies. In addition, supplemental presentation should not be construed as an inference that our future results will be unaffected by similar adjustments to net income (loss) or net income (loss) per diluted share determined in accordance with GAAP. Adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per diluted share are key metrics used by management and our board of directors to assess the Company’s financial and operating performance and adjusted EBITDA is a basis for a portion of management's performance-based compensation.

Adjusted EBITDA excludes charges for depreciation, amortization, net interest expense, taxes, acquisition related expenses, and other unusual/nonrecurring expenses. Adjusted net income (loss) and adjusted net income (loss) per diluted share excludes intangible amortization, acquisition related expenses, other unusual/nonrecurring expenses and the related tax impacts of those adjustments.

A reconciliation of adjusted EBITDA, adjusted net income (loss), and adjusted net income (loss) per diluted share to net income (loss) in accordance with GAAP is as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income (loss)	**$ (196)**	**$ (492)**	**$ 480**	**$ (3,618)**
Acquisition related inventory step-up expense	-	41	-	41
Acquisition & integration costs	-	93	54	262
Change in fair value of contingent consideration	-	(1,900)	-	(1,900)
CEO and CFO transition costs	-	798	-	798
Debt amendment costs	41	-	194	-
Net interest expense	246	115	403	137
Income taxes	(40)	(180)	175	(925)
Depreciation & amortization	1,487	1,588	2,962	2,408
Adjusted EBITDA	**$ 1,538**	**$ 63**	**$ 4,268**	**$ (2,797)**
Adjusted EBITDA margin %	*4.0 %*	*0.2 %*	*5.8 %*	*-5.2 %*

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Six Months Ended September 30, 2022	Six Months Ended September 30, 2021
Net income (loss)	**$ (196)**	**$ (492)**	**$ 480**	**$ (3,618)**
Acquisition related inventory step-up expense	-	41	-	41
Acquisition & integration costs	-	93	54	262
Amortization of intangible assets	619	784	1,238	1,009
Change in fair value of contingent consideration	-	(1,900)	-	(1,900)
CEO and CFO transition costs	-	798	-	798
Debt amendment costs	41	-	194	-
Normalize tax rate[1]	(139)	37	(312)	(42)
Adjusted net income (loss)	**$ 325**	**$ (639)**	**$ 1,654**	**$ (3,450)**
Adjusted diluted earnings (loss) per share	*$ 0.03*	*$ (0.06)*	*$ 0.16*	*$ (0.33)*

[1] Applies a normalized tax rate to non-GAAP adjustments, which are pre-tax, based upon the full fiscal year expected effective tax rate.

Liquidity and Capital Resources

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

	September 30, 2022	March 31, 2022
Cash and cash equivalents	$ 14,122	$ 14,741
Working capital [1]	28,297	27,796
Working capital ratio[1]	1.4	1.5
Working capital excluding cash and cash equivalents	14,175	13,055
Working capital excluding cash and cash equivalents as a percent of net sales[2]	9.9 %	10.6 %

[1] Working capital equals current assets minus current liabilities. Working capital ratio equals current assets divided by current liabilities.

[2] Working capital excluding cash and cash equivalents as a percent of net sales is based upon trailing twelve-month sales, including BN pre-acquisition sales.

Net cash used by operating activities for the first six months of fiscal 2023 was $398 compared with $8,702 of cash used for the first six months of fiscal 2022. This decrease in cash used by operations was primarily due to higher cash net income during the first six months of fiscal 2023 than the comparable prior year period, lower working capital build, and the timing of payments and receipts.

Dividend payments and capital expenditures in the first six months of fiscal 2023 were $0 and $1,176, respectively, compared with $2,353 and $1,227, respectively, for the first six months of fiscal 2022. In the fourth quarter of fiscal 2022, we suspended our dividend in accordance with the terms of our credit agreement with Bank of America. There can be no guarantee that we will pay dividends in the future and any determination by our board of directors with respect to dividends will depend on a variety of factors, including our future financial performance, organic growth and acquisition opportunities, general economic conditions and other factors, many of which are beyond our control. Capital expenditures for fiscal 2023 are expected to be approximately $3,000 to $4,000. Our fiscal 2023 capital expenditures are expected to be primarily for machinery and equipment, as well as for buildings and leasehold improvements to fund our growth and cost improvement initiatives. The majority of our planned capital expenditures are discretionary.

Cash and cash equivalents were $14,122 at September 30, 2022 compared with $14,741 at March 31, 2022, as cash used by operating activities and for capital expenditures were funded with amounts borrowed under our credit facility. At September 30, 2022, approximately $6,400 of our cash and cash equivalents was used to secure our letters of credit and $1,802 of our cash was held by our China and India operations.

On June 1, 2021, we entered into a $20,000 five-year loan with Bank of America. The term loan requires monthly principal payments of $167 through June 1, 2026, with the remaining principal amount plus all interest due on the maturity date. The interest rate on the term loan is the applicable Bloomberg Short-Term Bank Yield Index ("BSBY"), plus 1.50%, subject to a 0.00% floor.

On June 1, 2021, we entered into a five-year revolving credit facility with Bank of America that provided a $30,000 line of credit, including letters of credit and bank guarantees, expandable at our option and the bank's approval at any time up to $40,000. As of September 30, 2022, there was $2,500 outstanding on the line of credit. Amounts outstanding under the facility agreement bear interest at a rate equal to BSBY plus 1.50%, subject to a 0.00% floor. As of September 30, 2022, the BSBY rate was 3.9509%. As of September 30, 2022, there was $5,706 letters of credit outstanding with Bank of America.

Under the original term loan agreement and revolving credit facility, we covenanted to maintain a maximum total leverage ratio, as defined in such agreements, of 3.0 to 1.0, with an allowable increase to 3.25 to 1.0 for a period of twelve months following the closing of an acquisition. In addition, we covenanted to maintain a minimum fixed charge coverage ratio, as defined in such agreements, of 1.2 to 1.0 and minimum margined assets, as defined in such agreements, of 100% of total amounts outstanding on the revolving credit facility, including letters of credit. At December 31, 2021, we were out of compliance with our bank agreement covenants and were granted a waiver for noncompliance by Bank of America.

We entered into amendment agreements with Bank of America since origination. Under the amended agreements, we are not required to comply with the maximum total leverage ratio and the minimum fixed charge coverage ratio covenants contained in the original term loan agreement for the periods ending December 31, 2021 and March 31, June 30 and September 30, 2022. The principal balance outstanding on the line of credit may not exceed $15,000, unless letters of credit exceed $11,500, in which case the limit is $17,000, until the compliance date. The compliance date is defined as the date on which Bank of America has received all required financial information with respect to us for the fiscal year ending March 31, 2023 and no event of default exists. In addition, on or before September 1, 2023 and at all times thereafter, all of our deposit accounts, except certain accounts, will be either subject to a deposit account control agreement or maintained with Bank of America. We covenant to maintain EBITDA, as defined in such amendment, of at least ($700) for the twelve-month period ending June 30, 2022 and $1,800 for the twelve-month period ending September 30, 2022; maintain a total maximum leverage ratio of 4.0 to 1.0 for the twelve-month period ending December 31, 2022 and 3.0 to 1.0 for the period ending March 31, 2023; and maintain liquidity, as defined in such amendment, of at least $10,000 prior to the occurrence of the compliance date and $20,000 from and after the occurrence of the compliance date. As of September 30, 2022, we were in compliance with the amended financial covenants of our loan agreement. At September 30, 2022, the amount available under the revolving credit facility was $7,657 subject to the above liquidity and leverage covenants.

In connection with the waiver and amendments discussed above, we are required to pay a back-end fee of $725 to Bank of America payable upon the earliest to occur of (i) any default or event of default, (ii) the last date of availability under the revolving credit facility, and (iii) repayment in full of all principal, interest, fees and other obligations, which may be waived or cancelled if certain criteria are met.

We did not have any off-balance sheet arrangements as of September 30, 2022 and 2021, other than letters of credit incurred in the ordinary course of business.

We believe that cash generated from operations, combined with the liquidity provided by available financing capacity under our credit facility, will be adequate to meet our cash needs for the immediate future.

Orders and Backlog

Management uses orders and backlog as measures of our current and future business and financial performance. Orders represent written communications received from customers requesting us to supply products and/or services. Orders for the three-month period ended September 30, 2022 were $91,511 compared with $31,386 for the same period last year. This increase is attributable to strong demand across all of our diversified revenue base. More specifically, the second quarter of fiscal 2023 order level was driven by:

- $69,598 from the defense industry driven by repeat orders for critical U.S. Navy programs. Revenue from second quarter fiscal 2023 defense orders is expected to be recognized from fiscal 2024 through fiscal 2026;
- $8,723 for refining, primarily related to the commercial aftermarket;
- $3,742 of orders for highly engineered pumps and turbo pumps for a variety of applications and customers in the commercial space industry;
- Increased orders to the new energy market including hydrogen and solar.

Domestic orders in the second quarter of fiscal 2023 were 93% of total orders compared with the second quarter of fiscal 2022 when domestic orders were 80% of total orders. Our ratio of orders to net sales during the second quarter of fiscal 2023 was 2.4.

During the first six months of fiscal 2023, orders were $131,819, compared with $52,253 for the same period of fiscal 2022. Domestic orders were 87% of total orders in the first six months of fiscal 2023 compared with 77% for the same period of fiscal 2022. Our ratio of orders to net sales for the first six months of fiscal 2023 was 1.78.

Backlog was $313,340 at September 30, 2022, an increase of 22% compared with $256,536 at March 31, 2022. Backlog is defined as the total dollar value of orders received for which revenue has not yet been recognized. Approximately 40% to 45% of orders currently in our backlog are expected to be converted to sales within one year and 25% to 30% after one year but within two years. The majority of the orders that are expected to convert beyond twelve months are for the defense industry, specifically the U.S. Navy that have a long conversion cycle (up to six years). At September 30, 2022, 79% of our backlog was attributable to defense projects, 9% for refinery project work, 4% for chemical and petrochemical projects, 4% for space projects and 4% for other industrial applications. At March 31, 2022, 76% of our backlog was attributable to defense projects, 10% for refinery project work, 5% for chemical and petrochemical projects, 4% for space projects and 5% for other industrial applications.

Outlook

Our objective is to leverage our engineering know-how and depth of application experience to identify more opportunities for our products and technologies in our targeted markets.

Sales in fiscal 2023 are expected to be in the range of $135,000 to $150,000. We expect gross profit margins for the fiscal year to be approximately 16% to 17% of sales and SG&A expenses to be 15% to 16% of sales. Adjusted EBITDA is expected to be $6,500 to $9,500 for fiscal 2023. Our results for the first half of fiscal 2023 were in-line with our expectations and give us confidence we will be able to achieve our full year guidance. Fiscal 2022 and year-to-date fiscal 2023 results were impacted by our large, lower margin, first article U.S. Navy projects and we believe this negative impact will continue through the first quarter of 2024 when the last of these larger first article projects is completed. We expect repeat orders for these larger U.S. Navy projects will be at higher margins through increased pricing and better execution. It is also important to note that the Company's third quarter is typically impacted by lower labor hours due to the holidays.

Our expectations for sales and profitability assume that we will be able to operate our production facilities at planned capacity, have access to our global supply chain including our subcontractors, and do not experience significant COVID-19-related disruptions or any other unforeseen events. We have not reconciled non-GAAP forward-looking Adjusted EBITDA to its most directly comparable GAAP measure, as permitted by Item 10(e)(1)(i)(B) of Regulation S-K. Such reconciliation would require unreasonable efforts to estimate and quantify various necessary GAAP components largely because forecasting or predicting our future operating results is subject to many factors out of our control or not readily predictable.

Contingencies and Commitments

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

As of September 30, 2022, we are subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business. Although the outcome of the lawsuits, legal proceedings or potential claims to which we are or may become a party cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made for the majority of the claims, we do not believe that the outcomes, either individually or in the aggregate, will have a material adverse effect on our results of operations, financial position or cash flows.

Critical Accounting Policies, Estimates, and Judgments

Our unaudited condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. We believe that the most critical accounting estimates used in the preparation of our condensed consolidated financial statements relate to labor hour estimates, total cost, and establishment of operational milestones which are used to recognize revenue over time, accounting for contingencies, under which we accrue a loss when it is probable that a liability has been incurred and the amount can be reasonably estimated, accounting for business combinations and intangible assets, and accounting for pensions and other postretirement benefits. For further information, refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8 "Financial Statements and Supplementary Data" included in our Annual Report on Form 10-K for the year ended March 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Foreign Currency

International consolidated sales for the first six months of fiscal 2023 were 21% of total sales compared with 26% for the same period of fiscal 2022. Operating in markets throughout the world exposes us to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being our ability to compete for orders against foreign competitors that base their prices on relatively weaker currencies. Business lost due to competition for orders against competitors using a relatively weaker currency cannot be quantified. In addition, cash can be adversely impacted by the conversion of sales made by us in a foreign currency to U.S. dollars. In each of the first six months of fiscal 2023 and fiscal 2022, substantially all sales by us and our wholly-owned subsidiaries, for which we were paid, were denominated in the local currency of the respective subsidiary (U.S. dollars, Chinese RMB or India INR). For the first six months of fiscal 2023, foreign currency exchange rate fluctuations reduced our cash balances by $254 primarily due to the strengthening of the U.S. dollar relative to the Chinese RMB.

We have limited exposure to foreign currency purchases. In the first six months of fiscal 2023, our purchases in foreign currencies represented approximately 7% of the cost of products sold. At certain times, we may enter into forward foreign currency exchange agreements to hedge our exposure against potential unfavorable changes in foreign currency values on significant sales and purchase contracts negotiated in foreign currencies. Forward foreign currency exchange contracts were not used in the periods being reported in this Form 10-Q and as of September 30, 2022 and March 31, 2022, we held no forward foreign currency contracts.

Price Risk

Operating in a global marketplace requires us to compete with other global manufacturers which, in some instances, benefit from lower production costs and more favorable economic conditions. Although we believe that our customers differentiate our products on the basis of our manufacturing quality, engineering experience, and customer service, among other things, such lower production costs and more favorable economic conditions mean that our competitors are able to offer products similar to ours at lower prices. In extreme market downturns, such as we recently experienced, we typically see depressed price levels. Additionally, we have faced, and may continue to face, significant cost inflation, specifically in labor costs, raw materials, and other supply chain costs due to increased demand for raw materials and resources caused by the broad disruption of the global supply chain associated with the impact of COVID-19. International conflicts or other geopolitical events, including the 2022 Russian invasion of Ukraine, may further contribute to increased supply chain costs due to shortages in raw materials, increased costs for transportation and energy, disruptions in supply chains, and heightened inflation. Further escalation of geopolitical tensions may also lead to changes to foreign exchange rates and financial markets, any of which may adversely affect our business and supply chain, and consequently our results of operation. While there could ultimately be a material impact on our operations and liquidity, at the time of this report, the impact could not be determined.

Interest Rate Risk

In connection with the BN acquisition, we entered into a $20,000 five-year term loan and a five-year revolving credit facility with Bank of America. The term loan and revolving credit facility bear interest rates that are tied to BSBY, plus 1.50%, subject to a 0.00% floor. As part of our risk management activities, we evaluate the use of interest rate derivatives to add stability to interest expense and to manage our exposure to interest rate movements. As of September 30, 2022, we had $17,500 outstanding on our term loan, $2,500 outstanding on our revolving credit facility and no interest rate derivatives outstanding. See "Debt" in Note 14 to the Unaudited Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information about our outstanding debt. A hypothetical one percentage point (100 basis points) change in the BSBY rate on the $20,000 of variable rate debt outstanding at September 30, 2022 would have an impact of approximately $200 on our interest expense for fiscal 2023.

Item 4. Controls and Procedures

Conclusion regarding the effectiveness of disclosure controls and procedures

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

Changes in internal control over financial reporting

Other than the events discussed under the section entitled Barber-Nichols Acquisition below, there has been no change to our internal control over financial reporting during the quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting.

Barber-Nichols Acquisition

On June 1, 2021, we acquired Barber-Nichols, LLC, a privately-owned designer and manufacturer of turbomachinery products for the aerospace, cryogenic, defense and energy markets, located in Arvada, Colorado. For additional information regarding the acquisition, refer to Note 2 to the Unaudited Condensed Consolidated Financial Statements included in Item 1 in this Quarterly Report on Form 10-Q and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Item 2 in this Quarterly Report on Form 10-Q. Based on the recent completion of this acquisition and, pursuant to the Securities and Exchange Commission’s guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment for a period not to exceed one year from the date of acquisition, the scope of our assessment of the effectiveness of internal control over financial reporting as of the year ended March 31, 2022 does not include Barber-Nichols, LLC. We plan to include Barber-Nichols, LLC in our annual assessment for the fiscal year ending March 31, 2023.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part 1 – Item 1A of the Company’s Form 10-K for the fiscal year ended March 31, 2022.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Dividend Policy

We do not currently pay a cash dividend on our common stock. Our credit facility with Bank of America contains certain provisions that restrict our payment of cash dividends. Any future determination by our board of directors regarding dividends will depend on a variety of factors, including our compliance with the terms of the credit agreement, organic growth and acquisition opportunities, future financial performance, general economic conditions and financial, competitive, regulatory, and other factors, many of which are beyond our control. There can be no guarantee that we will pay dividends in the future.

Item 6. Exhibits

INDEX OF EXHIBITS

(10)	Material Contracts	
+#	10.1	Amended and Restated Performance Bonus Agreement between Graham Acquisition I, LLC and Barber-Nichols, LLC.
+	10.2	Fourth Amendment to Loan Agreement and Waiver dated as of August 2, 2022, by and among Graham Corporation, Barber-Nichols, LLC, GHM Acquisition Corp., Graham Acquisition I, LLC, and Bank of America, N.A.
+	10.3	Fifth Amendment to Loan Agreement and Waiver dated as of September 6, 2022, by and among Graham Corporation, Barber-Nichols, LLC, GHM Acquisition Corp., Graham Acquisition I, LLC, and Bank of America, N.A.
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
+	31.1	Certification of Principal Executive Officer
+	31.2	Certification of Principal Financial Officer
(32)	Section 1350 Certification	
++	32.1	Section 1350 Certifications
(101)	Interactive Data File	
+	101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
+	101.SCH	Inline XBRL Taxonomy Extension Schema Document
+	101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
+	101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
+	101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
+	101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
(104)		Cover Page Interactive Data File embedded within the Inline XBRL document

\+ Exhibit filed with this report
++ Exhibit furnished with this report
\# Management contract or compensation plan

SIGNATURES

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

GRAHAM CORPORATION

By: /s/ CHRISTOPHER J. THOME
Christopher J. Thome
Vice President-Finance and
Chief Financial Officer
(On behalf of the Registrant and as Principal Financial Officer)

Date: November 7, 2022

Exhibit 10.1

AMENDED AND RESTATED
PERFORMANCE BONUS AGREEMENT

THIS AMENDED AND RESTATED PERFORMANCE BONUS AGREEMENT (this "**Agreement**"), is made and entered into effective as of October 26, 2022, by and between Graham Acquisition I, LLC, a Delaware limited liability company ("**Parent**"), and Barber-Nichols, LLC, a Colorado limited liability company and subsidiary of Parent (the "**Company**").

RECITALS

A. The Company is engaged in the business of designing, engineering and manufacturing electronics, turbomachinery and other equipment for the aerospace, defense, energy and other industries (as such is conducted by the Company (and not by Parent or its affiliates other than the Company), the "**Business**").

B. Parent and the Company entered into a Performance Bonus Agreement (the "Prior Agreement") effective as of October 26, 2021 to award certain employees of the Company with performance-based payments from the Company if certain performance conditions are satisfied with respect to the Business of the Company as owned and operated by Parent on a stand-alone basis as provided herein.

C. Parent and the Company now desire to amend and restate the Prior Agreement to correct the definition of FY2025 Bonus Payment (as defined herein) and to clarify certain adjustments to EBITDA (as defined herein).

NOW, THEREFORE, in consideration of the mutual representations, warranties, covenants and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and upon the terms and subject to the conditions hereinafter set forth, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I
BONUS PAYMENTS

Section 1.01 Defined Terms. The following terms shall have the following meanings:

"Bonus Payment" means the FY2024 Bonus Payment, the FY2025 Bonus Payment or the FY2026 Bonus Payment, as applicable.

"EBITDA" for a Measurement Period means the audited net income before interest, income taxes, depreciation and amortization of the Business for such Measurement Period, determined in a manner consistent with the practices, principles, judgments and methodologies set forth on Exhibit A.

"Eligible Participants" for a Measurement Period means those employees of the Company as determined by the Leadership Group to be Eligible Participants for such Measurement Period who are employed by the Company during at least part of the applicable Measurement Period and at the time the Bonus Payment is made by the Company. For the avoidance of any doubt, the members of the Leadership Group may be Eligible Participants.

"FY2024" means the 12-month period commencing April 1, 2023, and ending on March 31, 2024.

"FY2024 Bonus Payment" means: (i) if EBITDA generated by the Company during FY2024 is less than $8,750,000, then the FY2024 Bonus Payment shall be equal to $0; (ii) if EBITDA generated by the Company during FY2024 is equal to $8,750,000, then the FY2024 Bonus Payment shall be equal to $2,000,000; and (iii) if EBITDA generated by the Company during FY2024 is greater than $8,750,000, then the FY2024 Bonus Payment shall be equal to the amount determined by the following formula, but in no event shall the FY2024 Bonus Payment exceed $4,000,000:

$$\$2{,}000{,}000+(A^* - \$8{,}750{,}000) \text{ X } (2.0/2.25)$$

*Note: A = Actual EBITDA generated by the Business during FY2024; provided, however, in no event shall the FY2024 Bonus Payment exceed $4,000,000.

"FY2025" means the 12-month period commencing April 1, 2024 and ends on March 31, 2025.

"FY2025 Bonus Payment" means: (i) if EBITDA generated by the Company during FY2025 is less than $9,500,000, then the FY2025 Bonus Payment shall be equal to $0; (ii) if EBITDA generated by the Company during FY2025 is equal to $9,500,000, then the FY2025 Bonus Payment shall be equal to 2,000,000 (iii) if EBITDA generated by the Company during FY2025 is greater than $9,500,000, then the FY2025 Bonus Payment shall be equal to the amount determined by the following formula, but in no event shall the FY2025 Bonus Payment exceed $4,000,000:

$$\$2{,}000{,}000 +(A^* - \$9{,}500{,}000) \text{ X } (2.0/2.5)$$

*Note: A = Actual EBITDA generated by the Business during FY2025; provided, however, in no event shall the FY2025 Bonus Payment exceed $4,000,000.

"FY2026" means the 12-month period commencing April 1, 2025 and ends on March 31, 2026.

"FY2026 Bonus Payment" means: (i) if EBITDA generated by the Company during FY2026 is less than $10,500,000, then the FY2026 Bonus Payment shall be equal to $0; (ii) if EBITDA generated by the Company during FY2026 is equal to $10,500,000, then the FY2026 Bonus Payment shall be equal to 2,000,000 (iii) if EBITDA generated by the Company during FY2026 is greater than $10,500,000, then the FY2026 Bonus Payment shall be equal to the amount determined by the following formula, but in no event shall the FY2026 Bonus Payment exceed $4,000,000:

$$\$2{,}000{,}000+(A^* - \$10{,}500{,}000) \text{ X } (2.0/2.7)$$

*Note: A = Actual EBITDA generated by the Business during FY2026; provided, however, in no event shall the FY2026 Bonus Payment exceed $4,000,000.

"Leadership Group" means the General Manager of the Company and the group of executives of the Company that are employed at Barber-Nichols, LLC during the entire performance period and remain employed at the time the bonus is determined that report directly to the General Manager. In addition, the Leadership Group shall also include the following individuals if they are still employed full-time at Barber-Nichols, LLC at the time the bonus is determined: Jason Preuss, Greg Forsha, Jeff Noall.

"Measurement Date" means the last day of FY2024, FY2025 or FY2026, as applicable.

"Measurement Period" means each of the 12-month periods of time beginning as of FY2024, FY2025 and FY2026, as applicable. Each Measurement Period shall be independent and there shall be no carryover of any amounts to any prior or subsequent Measurement Period, including in the event the maximum payment is met in a prior Measurement Period there shall not be any carryover of excess amounts into another Measurement Period.

Section 1.02 Calculation and Payment of Bonus Payment Amount.

(a) Within a period of twenty (20) calendar days following Parent's completion and audit committee approval of final financial statements for FY2024, FY2025 and FY2026, as applicable (which shall be prepared not more than ninety (90) days following the end of such fiscal year), the Company will deliver to Parent (i) a calculation of EBITDA generated by the Business for such fiscal year; (ii) a statement as to whether there is a Bonus Payment for such Measurement Period; and (iii) a calculation of the total Bonus Payment for such Measurement Period.

(b) Within ten (10) business days of the final determination of the Bonus Payment, the Leadership Group shall meet and determine the Eligible Participants for each such Measurement Period, as applicable, and the portion of the Bonus Payments to be made by the Company to each Eligible Particpant for such Measurement Period. The CEO of Parent will execute a final review of the list with portioned amounts and may provide feedback to the Leadership Group of any desired clarifications or potential modifications.

(c) To the extent a Bonus Payment is due for a Measurement Period, the General Manager of the Company shall deliver to the Company and Parent a list of Eligible Participants and the portion of the Bonus Payment allocated to each Eligible Participant within ten (10) business days of the final determination of the Bonus Payment. The Company shall deduct from any such Bonus Payment taxes as set forth in Section 1.03(d), including any employer's share of payroll taxes and pay the remainder of such Bonus Payment to each Eligible Participants within ten (10) business days of the delivery of the allocation of the Bonus Payment.

(d) The portion of the Bonus Payment to be paid to an Eligible Participant for a Measurement Period shall be solely determined by the Leadership Group on an annual basis; provided, however, that each Eligible Participant must be an employee of the Company during at least part of the defined applicable Measurement Period and at the time of the payment of the portion of the Bonus Payment to such Eligible Participant. In the event an Eligible Participant is no longer eligible to receive a portion of the Bonus Payment as a result of not being employed at the time of the Bonus Payment, the Leadership Group shall reallocate such portion to another Eligible Participant and such portion shall not be forfeited.

(e) The parties agree that any dispute as to the calculation of the amount of any Bonus Payment shall be resolved by an independent accounting firm mutually agreed to by Parent, the Company and the General Manager of the Company.

Section 1.03 Generally; Conditions.

(a) Designation of an employee as an Eligible Participant for a Measurement Period shall not in any way prevent the Company from terminating the employment of such Eligible Participant at any time for any reason, with or without cause, in which event this Agreement shall have no further force or effect with respect to such Eligible Participant. Furthermore, this Agreement shall not give an Eligible Participant any rights to continuing employment with the Company or a successor thereof. The designation of an employee as an Eligible Participant or the receipt of a Bonus Payment for a Measurement Period will not entitle such employee to be designated an Eligible Participant or receive a Bonus Payment for any other Measurement Period.

(b)This Agreement shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating assets of the Company for payment of any bonuses hereunder. No Eligible Participant nor any other person shall have any interest in any particular assets of the Company by reason of the right to receive a Bonus Payment under this Agreement and any such Eligible Participant or any other person shall have only the rights of a general unsecured creditor of the Company with respect to any rights under this Agreement.

(c)No Bonus Payment under the Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance prior to actual receipt thereof by an Eligible Participant or any other person; and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge prior to such receipt shall be void; and neither Parent nor the Company shall be liable in any manner for or subject to the debts, contracts, liabilities, engagements or torts of any person entitled to any Bonus Payment to this Agreement.

(d)Any amount payable hereunder shall be subject to withholding of all federal, state and local taxes. The Company shall have the right to withhold these amounts from any payments due to Eligible Participant pursuant to this Agreement.

Section 1.04Covenants of Parent as to Operation During the Measurement Period.

(a)In consideration of the opportunity pursuant to this Agreement to earn the Bonus Payments, Parent agrees to use its commercially reasonable efforts to promote the interests of the Company and the Business during the periods of time covered by this Agreement. Parent agrees to use commercially reasonable efforts to promote the interests of the Business and EBITDA of the Business and in carrying out Parent's and the Company's obligations under this Agreement.

(b)Parent shall operate and maintain the Business as a separate enterprise within Parent's corporate structure;

(c)Parent shall provide sufficient working capital for operation of the Business throughout the Measurement Period;

(d)Parent shall operate the Business in good faith and maintain a normalized cost and expense load so as not to burden the Business; and

(e)Parent shall maintain separate financial information regarding the Business throughout the Measurement Period.

ARTICLE II
GENERAL PROVISIONS

Section 2.01Interpretive Provisions.

(a)Whenever used in this Agreement, (i) "including" (or any variation thereof) means including without limitation and (ii) any reference to gender shall include all genders.

(b)The parties acknowledge and agree that (i) each party and its counsel have reviewed the terms and provisions of this Agreement and have contributed to its drafting, (ii) the normal rule of construction, to the effect that any ambiguities are resolved against the drafting party, shall not be employed in the interpretation of it, and (iii) the terms and provisions of this Agreement shall be construed fairly as to all parties hereto and not in favor of or against any party, regardless of which party was generally responsible for the preparation of this Agreement.

Section 2.02Entire Agreement. This Agreement constitutes the sole understanding and agreement of the parties with respect to the subject matter hereof.

Section 2.03Successors and Assigns. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto; provided however, that this Agreement may not be assigned by Parent without the prior written consent of the Company or be assigned by the Company without the prior written consent of Parent. Notwithstanding the foregoing, the obligations of the Parent and Company hereunder shall be assigned to and assumed by any successor that acquires all or substantially all of the assets used in the conduct of the Business.

Section 2.04Headings. The headings of the Articles, Sections, and paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

Section 2.05Modification and Waiver. No amendment, modification, or alteration of the terms or provisions of this Agreement shall be binding unless the same shall be in writing and duly executed by the parties hereto, except that any of the terms or provisions of this Agreement may be waived in writing at any time by the party that is entitled to the benefits of such waived terms or provisions. No single waiver of any of the provisions of this Agreement shall be deemed to or shall constitute, absent an express statement otherwise, a continuous waiver of such provision or a waiver of any other provision hereof (whether or not similar). No delay on the part of any party in exercising any right, power, or privilege hereunder shall operate as a waiver thereof.

Section 2.06Notices. Each notice, report, demand, waiver, consent and other communication required or permitted to be given hereunder will be in writing.

Section 2.07Governing Law; Consent to Jurisdiction. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware applicable to agreements made and to be performed wholly within that jurisdiction. Each party hereto, for itself and its successors and assigns, irrevocably agrees that any suit, action or proceeding arising out of or relating to this Agreement may be instituted only in the United States District Court located in Denver, Colorado or in the absence of jurisdiction, the state courts located in the Wilmington, Delaware, and generally and unconditionally accepts and irrevocably submits to the exclusive jurisdiction of the aforesaid courts and irrevocably agrees to be bound by any final judgment rendered thereby from which no appeal has been taken or is available in connection with this Agreement. Each party, for itself and its successors and assigns, irrevocably waives any objection it may have now or hereafter to the laying of the venue of any such suit, action or proceeding, including any objection based on the grounds of forum non conveniens, in the aforesaid courts.

Section 2.08Compliance with Law; Severability. If any provision of this Agreement becomes or is found to be illegal, unenforceable, void, or voidable pursuant to applicable laws, regulations, or restrictions, or for any other reason, such clause or provision must first be modified to the extent necessary to make this Agreement legal and enforceable and then if necessary, second, severed from the remainder of the Agreement to allow the remainder of the Agreement to remain in full force and effect.

Section 2.09No Third Party Beneficiaries. This Agreement is intended and agreed to be solely for the benefit of the parties hereto and their permitted successors and assigns, and no other party shall be entitled to rely on this Agreement or accrue any benefit, claim, or right of any kind whatsoever pursuant to, under, by, or through this Agreement.

Section 2.10Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument.

Section 2.11Delivery by Facsimile and Email. This Agreement and any amendments hereto, to the extent signed and delivered by means of a facsimile machine or by electronic mail (including pdf or any electronic signature complying with the U.S. federal ESIGN Act of 2000, e.g., www.docusign.com), shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. No party hereto shall raise the use of a facsimile machine or electronic mail to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or electronic mail as a defense to the formation or enforceability of this Agreement and each such party forever waives any such defense.

Section 2.12Waiver of Breach. The waiver by any party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by any party.

Section 2.13Section 280G. This provision shall be construed in accordance with Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended (the "**Code**") and the treasury regulations promulgated and other official guidance issued thereunder (collectively, "**Section 280G**"), and the terms "parachute payment" and "excess parachute payment" as used herein have the meanings ascribed to them under Section 280G. If it shall be determined that the aggregate payments and benefits constituting parachute payments which, but for the operation of this Section 1.05(l), would become payable or distributable by the Company to or for the benefit of an Eligible Participant, pursuant to this Agreement, any other agreement, or any benefit plan (collectively, the "**Total Payments**"), would result in any excess parachute payments becoming subject to the excise tax imposed by Section 4999 of the Code, (the "**Excise Tax**"), then the Total Payments shall be reduced to an amount equal to one dollar ($1) less than the maximum amount that could be paid to the Eligible Participant without giving rise to any Excise Tax; provided that the reduction contemplated by this Section 1.05(l) shall be applied only if the net after-tax benefit to the Eligible Participant after such reduction would be greater than the net after-tax benefit to the Eligible Participant without such reduction (notwithstanding the application of any Excise Tax on the unreduced Total Payments). For the avoidance of doubt, the Eligible Participant shall be responsible for the payment of any Excise Tax arising from the Total Payments. Any reduction in Total Payments required by this provision shall be applied to the Bonus Payments under this Agreement. All calculations and determinations necessary to effectuate this Section 1.05(l), including without limitation determinations as to whether a reduction in payments is required and the amount thereof, whether any item of compensation constitutes a parachute payment, the amount, if any, subject to the Excise Tax (including determinations as to whether any portion of the excess parachute payments constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code), and the present value of any parachute payment, shall be made, consistent with Section 280G, by Parent in its sole discretion, which calculations and determinations shall be conclusive and binding on all parties for all purposes.

Section 2.14 <u>409A Compliance.</u> This Agreement and the Bonus Payments hereunder are intended to comply with Section 409A of the Code and the treasury regulations promulgated and other official guidance issued thereunder (collectively, "**<u>Section 409A</u>**"), and this Agreement shall be interpreted in a manner consistent with intention. Notwithstanding the foregoing, neither Parent nor the Company makes any representation that the Bonus Payments provided under this Agreement comply with Section 409A, and in no event shall Parent or the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by an Eligible Participant on account of non-compliance with Section 409A. Notwithstanding the forgoing, this Agreement may be amended at any time, retroactively if required, to the extent required to conform the Agrement to Section 409A.

[*Signature Page Follows*]

IN WITNESS WHEREOF, each of the parties hereto has caused this Bonus Agreement to be executed on its behalf as of the date first above written.

Graham Acquisition I, LLC

By: /s/ Christopher J. Thome
Name: Christopher J. Thome
Title: Chief Financial Officer

Barber-Nichols, LLC

By: /s/ Matthew Malone
Name: Matthew Malone
Title: General Manager

EXHIBIT A

EBITDA METHODOLOGIES

EBITDA shall be determined in accordance with GAAP for Barber-Nichols, LLC as a stand-alone Company, applied consistent with the Plante Moran audited financial statement and the accounting standards and accounting methodologies in effect and used at the time of the closing, including, but not limited to, cost accounting; provided, however, that the revenue-recognition policy will be the recently implement revenue-recognition policy of the Company.

Notwithstanding the forgoing, for purposes of the calculation of EBITDA for this Agreement, the following items shall be adjustments to EBITDA :

1.all general management fees and corporate overhead costs shall be added back to EBITDA;

2.corporate costs and expenses of the Company and Parent, including, but not limited to, corporate level salaries of the CEO, CFO and other corporate offices, investor relation costs and expenses, corporate compliance costs, legal and other professional fees, shall be added back to EBITDA;

3.all shared services and allocated costs, such marketing, HR, accounting, IT, and insurance, shall be reasonably allocated to the Company consistent with comparable historical costs of the Company incurred prior to June 1, 2021 and/or as a percentage of revenue as mutually agreed to by the parties in writing; any expansion of these costs for direct business purposes (e.g. IT costs necessary to support U.S. Navy requirements) will be excluded from the adjustment to EBITDA. Market and business expansion expenses to which the Company is the benefactor will also be excluded from adjustments to EBITDA;

4.all independent research and development costs and all costs and expenses for capital improvements shall be limited to those capital improvements solely for the benefit of the Business;

5.all payments under retention bonuses which were agreed to at the time of the acquisition of the Company by Parent, to employees of the Company, shall be added back to EBITDA (for clarity, any subsequent retention bonuses will not be added back to EBITDA); and

6.the amount of the Bonus Payment expensed in accordance with this Agreement in any year shall also be added back to EBITDA in the year it is expensed.

EXECUTION VERSION
Exhibit 10.2

FOURTH AMENDMENT TO LOAN AGREEMENT

This FOURTH AMENDMENT TO LOAN AGREEMENT (this "Agreement") is made and entered into as of August 2, 2022 by and among GRAHAM CORPORATION, a Delaware corporation (the "Borrower"), GHM ACQUISITION CORP., a Delaware corporation ("GHM"), GRAHAM ACQUISITION I, LLC, a Delaware limited liability company ("Acquisition"), BARBER-NICHOLS, LLC, a Colorado limited liability company ("BNI" and, collectively with GHM and Acquisition, the "Guarantors" and each a "Guarantor"; the Guarantors, together with the Borrower, the "Obligors" and each an "Obligor"), and BANK OF AMERICA, N.A. (the "Bank"). Capitalized terms used but not defined herein shall have the meanings given to such terms in the Loan Agreement (as defined below).

RECITALS

. The Bank has extended credit to the Borrower pursuant to that certain Loan Agreement, dated as of June 1, 2021 (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), between the Bank and the Borrower.

. The Obligors have requested that the Bank make certain amendments to the Loan Agreement.

. The Bank has agreed to do so, subject to the terms and conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

. Estoppel, Acknowledgement and Reaffirmation. Each Obligor hereby acknowledges and agrees that, as of August 1, 2022: (a) the outstanding principal balance of the Line of Credit was not less than $2,000,000.00; (b) the aggregate face amount of the issued and outstanding Letters of Credit was not less than $4,148,465.70; and (c) the outstanding principal balance of the Facility No. 2 Commitment was not less than 17,666,666.62, each of which amounts constitutes a valid and subsisting obligation of each Obligor to the Bank that is not subject to any credits, offsets, defenses, claims, counterclaims or adjustments of any kind. Each Obligor acknowledges its obligations under the Loan Documents to which it is party, reaffirms that each of the liens and security interests created and granted in or pursuant to such Loan Documents is valid and subsisting and agrees that this Agreement shall in no manner impair or otherwise adversely affect such obligations, liens or security interests.

. Amendments to Loan Agreement. The Loan Agreement is hereby amended as follows:

() Clause (y) in the proviso to Section 8.6 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

> (y) the aggregate balance of cash held by Graham China in deposit accounts that are not maintained with the Bank shall not exceed $1,000,000 at any time; provided, that Graham China shall be permitted to deposit up to an additional $3,000,000 into deposit accounts maintained with China Construction Bank so long as such cash is used solely to cash collateralize bank guarantees issued by China Construction Bank.

(b) Section 8.7(d) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

(d) Liabilities in connection with letters of credit or bank guarantees that are secured by cash.

(c) Section 8.8(e) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

(e) Cash collateral to secure letters of credit or bank guarantees.

. Payment of Fees and Expenses. Without in any way limiting the obligations of the Obligors under the Loan Documents, upon demand therefor, the Obligors shall promptly pay all reasonable and documented out-of-pocket fees, costs and expenses incurred by the Bank (including, without limitation, the reasonable and documented fees and out-of-pocket costs and expenses of the Bank's counsel and financial advisor) in connection with this Agreement, the Loan Agreement and the other Loan Documents and the various transactions contemplated hereby and thereby.

. Effectiveness; Conditions Precedent. This Agreement shall become effective as of the date hereof (the "Effective Date") when, and only when, each of the following conditions shall have been satisfied or waived, in the sole discretion of the Bank:

() the Bank shall have received counterparts of this Agreement duly executed by each Obligor and the Bank;

(b) the Bank shall have received reimbursement from the Obligors for all fees and expenses of the Bank incurred in connection with this Agreement and the other Loan Documents through the Effective Date, including without limitation the reasonable fees and expenses of the Bank's counsel and financial advisor; and

(c) the Bank shall have received such certificates of resolutions or other action, incumbency certificates and/or other certificates of authorized officers of each Obligor as the Bank may require evidencing the identity, authority and capacity of each authorized officer thereof authorized to act as an authorized officer in connection with this Agreement and the other Loan Documents.

. Incorporation of Agreement. Except as specifically modified herein, the terms of the Loan Agreement and the other Loan Documents shall remain in full force and effect. The execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of the Bank under the Loan Documents, or constitute a waiver or amendment of any provision of the Loan Documents, except as expressly set forth herein. The breach of any provision or representation under this Agreement shall constitute an immediate event of default under the Loan Agreement, and this Agreement shall constitute a Loan Document.

. Representations and Warranties. Each Obligor represents and warrants to the Bank as follows:

() After giving effect to this Agreement, no default or event of default exists under the Loan Agreement or the other Loan Documents.

() After giving effect to this Agreement, the representations and warranties of the Obligors contained in the Loan Documents are true, accurate and complete on and as of the Effective Date to the same extent as though made on and as of such date, except to the extent such representations and warranties specifically relate to an earlier date.

() Each Obligor has the full power and authority to enter, execute and deliver this Agreement and perform its obligations hereunder, under the Loan Agreement, and under each of the other Loan Documents. The execution, delivery and performance by each Obligor of this Agreement, and the performance by each Obligor of the Loan Agreement and each other Loan Document to which it is a party, in each case, are within such Person's powers and have been authorized by all necessary corporate, limited liability or partnership action of such Person.

() This Agreement has been duly executed and delivered by such Person and constitutes such Person's legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to () bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and () general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

() No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by such Person of this Agreement.

() The execution and delivery of this Agreement does not (i) violate, contravene or conflict with any provision of its organization documents or (ii) materially violate, contravene or conflict with any laws applicable to it or any of its subsidiaries.

. No Actions, Claims. As of the date hereof, each Obligor hereby represents, acknowledges and confirms that such Person has no knowledge of any actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in equity, against any member of the Bank Group (as defined below) arising from any action by any member of the Bank Group, or the failure of any member of the Bank Group to act, in any way in connection with this Agreement, the Loan Agreement or the other Loan Documents on or prior to the date hereof.

. Release. In consideration of the Bank's agreements set forth herein, each Obligor hereby releases and forever discharges the Bank and each of the Bank's predecessors, successors, assigns, officers, managers, directors, employees, agents, attorneys, representatives and affiliates (hereinafter, all of the above collectively referred to as the "Bank Group") from any and all claims, counterclaims, demands, damages, debts, suits, liabilities, actions and causes of action of any nature whatsoever, in each case to the extent arising in connection with any of the Loan Documents through the Effective Date, whether arising at law or in equity, whether known or unknown, whether liability be direct or indirect, liquidated or unliquidated, whether absolute or contingent, foreseen or unforeseen, and whether or not heretofore asserted, which any Obligor may have or claim to have against any member of the Bank Group.

. No Third-Party Beneficiaries. This Agreement and the rights and benefits hereof shall inure to the benefit of each of the parties hereto and their respective successors and assigns. No other Person (other than any member of the Bank Group who is not a party to this Agreement with respect to the provisions of Sections 7 and 8 hereof, which Persons are intended to be third party beneficiaries of this Agreement) shall have or be entitled to assert rights or benefits under this Agreement.

. Entirety. This Agreement and the other Loan Documents embody the entire agreement among the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof. This Agreement and the other Loan Documents represent the final agreement among the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties.

. Counterparts; Electronic Delivery. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. Delivery of an executed counterpart of this Agreement by facsimile, .pdf or other electronic means shall be effective as an original.

. Governing Law; Venue and Jurisdiction; Waiver of Jury Trial; Waiver of Class Actions. The governing law, venue and jurisdiction, waiver of jury trial and waiver of class actions provisions found in Sections 11.2, 11.3, 11.5 and 11.6 of the Loan Agreement are hereby incorporated by reference, *mutatis mutandis*.

. Further Assurances. Each of the parties hereto agrees to execute and deliver, or to cause to be executed and delivered, all such instruments as may reasonably be requested to effectuate the intent and purposes, and to carry out the terms, of this Agreement.

. Miscellaneous.

() Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

() Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

() Except as otherwise provided in this Agreement, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in the Loan Documents, the provision contained in this Agreement shall govern and control.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to Loan Agreement to be duly executed as of the date first above written.

LOGY (SUZHOU) CO., LTD.,

BANK: BANK OF AMERICA, N.A.

Exhibit 10.3

FIFTH AMENDMENT TO LOAN AGREEMENT

This FIFTH AMENDMENT TO LOAN AGREEMENT (this "Agreement") is made and entered into as of September 6, 2022 by and among GRAHAM CORPORATION, a Delaware corporation (the "Borrower"), GHM ACQUISITION CORP., a Delaware corporation ("GHM"), GRAHAM ACQUISITION I, LLC, a Delaware limited liability company ("Acquisition"), BARBER-NICHOLS, LLC, a Colorado limited liability company ("BNI" and, collectively with GHM and Acquisition, the "Guarantors" and each a "Guarantor"; the Guarantors, together with the Borrower, the "Obligors" and each an "Obligor"), and BANK OF AMERICA, N.A. (the "Bank"). Capitalized terms used but not defined herein shall have the meanings given to such terms in the Loan Agreement (as defined below).

RECITALS

. The Bank has extended credit to the Borrower pursuant to that certain Loan Agreement, dated as of June 1, 2021 (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), between the Bank and the Borrower.

. The Obligors have requested that the Bank make certain amendments to the Loan Agreement.

. The Bank has agreed to do so, subject to the terms and conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

. Estoppel, Acknowledgement and Reaffirmation. Each Obligor hereby acknowledges and agrees that, as of August 30, 2022: (a) the outstanding principal balance of the Line of Credit was not less than $2,500,000.00; (b) the aggregate face amount of the issued and outstanding Letters of Credit was not less than $4,829,071.41; and (c) the outstanding principal balance of the Facility No. 2 Commitment was not less than $17,666,666.62, each of which amounts constitutes a valid and subsisting obligation of each Obligor to the Bank that is not subject to any credits, offsets, defenses, claims, counterclaims or adjustments of any kind. Each Obligor acknowledges its obligations under the Loan Documents to which it is party, reaffirms that each of the liens and security interests created and granted in or pursuant to such Loan Documents is valid and subsisting and agrees that this Agreement shall in no manner impair or otherwise adversely affect such obligations, liens or security interests.

. Amendments to Loan Agreement. The Loan Agreement is hereby amended as follows:

() The second sentence in Section 8.6 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"On or before September 1, 2023 and all times thereafter, the Borrower shall cause each of the Obligors' unrestricted deposit accounts to be either (i) subject to a deposit account control agreement reasonably acceptable to the Bank or (ii) maintained with the Bank; provided, during the period from September 30, 2022 through September 1, 2023, in the event that the aggregate amount of unrestricted cash in the Obligors' deposit accounts that are not subject to a deposit account control agreement reasonably acceptable to the Bank or otherwise maintained with the Bank exceeds $250,000 by at least $10,000 as of any Friday of any calendar week (unless such Friday is not a business day, in which case as of the first business day immediately following such Friday), the Borrower shall cause the greater of (x) the amount of such excess, and (y) $10,000 to be transferred on such business day into one or more deposit accounts maintained with the Bank to reduce the aggregate amount of such unrestricted cash to $250,000. For the avoidance of doubt, the minimum transfer amount pursuant to the foregoing sentence shall not be less than $10,000."

(b) Section 8.27 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"To maintain Liquidity of at least (i) $10,000,000 prior to the occurrence of the Compliance Date and (ii) $20,000,000 from and after the occurrence of the Compliance Date, in each case measured (x) in respect of all periods other than the calendar month of September 2022, as of the last business day of each calendar week, and (y) in respect of the calendar month of September 2022, on September 30, 2022.

. Amendment Fee. In consideration of the Bank's agreements set forth herein, the Obligors shall pay to the Bank an amendment fee in cash of five thousand dollars ($5,000.00) (the "Amendment Fee"). The Amendment Fee shall be fully earned, non-refundable and payable as of the Effective Date.

. Payment of Fees and Expenses. Without in any way limiting the obligations of the Obligors under the Loan Documents, upon demand therefor, the Obligors shall promptly pay all reasonable and documented out-of-pocket fees, costs and expenses incurred by the Bank (including, without limitation, the reasonable and documented fees and out-of-pocket costs and expenses of the Bank's counsel and financial advisor) in connection with this Agreement, the Loan Agreement and the other Loan Documents and the various transactions contemplated hereby and thereby.

. Effectiveness; Conditions Precedent. This Agreement shall become effective as of the date hereof (the "Effective Date") when, and only when, each of the following conditions shall have been satisfied or waived, in the sole discretion of the Bank:

() the Bank shall have received counterparts of this Agreement duly executed by each Obligor and the Bank;

(b) the Bank shall have received the Amendment Fee;

(c) the Bank shall have received reimbursement from the Obligors for all fees and expenses of the Bank incurred in connection with this Agreement and the other Loan Documents through the Effective Date, including without limitation the reasonable fees and expenses of the Bank's counsel and financial advisor; and

(d) the Bank shall have received such certificates of resolutions or other action, incumbency certificates and/or other certificates of authorized officers of each Obligor as the Bank may require evidencing the identity, authority and capacity of each authorized officer thereof authorized to act as an authorized officer in connection with this Agreement and the other Loan Documents.

. Incorporation of Agreement. Except as specifically modified herein, the terms of the Loan Agreement and the other Loan Documents shall remain in full force and effect. The execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of the Bank under the Loan Documents, or constitute a waiver or amendment of any provision of the Loan Documents, except as expressly set forth herein. The breach of any provision or representation under this Agreement shall constitute an immediate event of default under the Loan Agreement, and this Agreement shall constitute a Loan Document.

. Representations and Warranties. Each Obligor represents and warrants to the Bank as follows:

() After giving effect to this Agreement, no default or event of default exists under the Loan Agreement or the other Loan Documents.

() After giving effect to this Agreement, the representations and warranties of the Obligors contained in the Loan Documents are true, accurate and complete on and as of the Effective Date to the same extent as though made on and as of such date, except to the extent such representations and warranties specifically relate to an earlier date.

() Each Obligor has the full power and authority to enter, execute and deliver this Agreement and perform its obligations hereunder, under the Loan Agreement, and under each of the other Loan Documents. The execution, delivery and performance by each Obligor of this Agreement, and the performance by each Obligor of the Loan Agreement and each other Loan Document to which it is a party, in each case, are within such Person's powers and have been authorized by all necessary corporate, limited liability or partnership action of such Person.

() This Agreement has been duly executed and delivered by such Person and constitutes such Person's legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to () bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and () general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

() No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by such Person of this Agreement.

() The execution and delivery of this Agreement does not (i) violate, contravene or conflict with any provision of its organization documents or (ii) materially violate, contravene or conflict with any laws applicable to it or any of its subsidiaries.

. No Actions, Claims. As of the date hereof, each Obligor hereby represents, acknowledges and confirms that such Person has no knowledge of any actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in equity, against any member of the Bank Group (as defined below) arising from any action by any member of the Bank Group, or the failure of any member of the Bank Group to act, in any way in connection with this Agreement, the Loan Agreement or the other Loan Documents on or prior to the date hereof.

. Release. In consideration of the Bank's agreements set forth herein, each Obligor hereby releases and forever discharges the Bank and each of the Bank's predecessors, successors, assigns, officers, managers, directors, employees, agents, attorneys, representatives and affiliates (hereinafter, all of the above collectively referred to as the "Bank Group") from any and all claims, counterclaims, demands, damages, debts, suits, liabilities, actions and causes of action of any nature whatsoever, in each case to the extent arising in connection with any of the Loan Documents through the Effective Date, whether arising at law or in equity, whether known or unknown, whether liability be direct or indirect, liquidated or unliquidated, whether absolute or contingent, foreseen or unforeseen, and whether or not heretofore asserted, which any Obligor may have or claim to have against any member of the Bank Group.

. No Third-Party Beneficiaries. This Agreement and the rights and benefits hereof shall inure to the benefit of each of the parties hereto and their respective successors and assigns. No other Person (other than any member of the Bank Group who is not a party to this Agreement with respect to the provisions of Sections 8 and 9 hereof, which Persons are intended to be third party beneficiaries of this Agreement) shall have or be entitled to assert rights or benefits under this Agreement.

. Entirety. This Agreement and the other Loan Documents embody the entire agreement among the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof. This Agreement and the other Loan Documents represent the final agreement among the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties.

. Counterparts; Electronic Delivery. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. Delivery of an executed counterpart of this Agreement by facsimile, .pdf or other electronic means shall be effective as an original.

. Governing Law; Venue and Jurisdiction; Waiver of Jury Trial; Waiver of Class Actions. The governing law, venue and jurisdiction, waiver of jury trial and waiver of class actions provisions found in Sections 11.2, 11.3, 11.5 and 11.6 of the Loan Agreement are hereby incorporated by reference, *mutatis mutandis*.

. Further Assurances. Each of the parties hereto agrees to execute and deliver, or to cause to be executed and delivered, all such instruments as may reasonably be requested to effectuate the intent and purposes, and to carry out the terms, of this Agreement.

. Miscellaneous.

() Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

() Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

() Except as otherwise provided in this Agreement, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in the Loan Documents, the provision contained in this Agreement shall govern and control.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Amendment to Loan Agreement to be duly executed as of the date first above written.

LOGY (SUZHOU) CO., LTD.,

BANK: BANK OF AMERICA, N.A.

EXHIBIT 31.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER

I, Daniel J. Thoren, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Graham Corporation;

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

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

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

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

(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 7, 2022

/s/ DANIEL J. THOREN
Daniel J. Thoren
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER

I, Christopher J. Thome, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Graham Corporation;

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

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

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

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

(b)Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 7, 2022

/s/ CHRISTOPHER J. THOME
Christopher J. Thome
Vice President-Finance and
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Graham Corporation (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL J. THOREN
Daniel J. Thoren
President and Chief Executive Officer
(Principal Executive Officer)
Date: November 7, 2022

/s/ CHRISTOPHER J. THOME
Christopher J. Thome
Vice President-Finance and
Chief Financial Officer
(Principal Financial Officer)
Date: November 7, 2022

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.