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 December 31, 2023

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 January 31, 2024, there were outstanding 10,828,327 shares of the registrant's common stock, par value $0.10 per share.

Graham Corporation and Subsidiaries

Index to Form 10-Q

As of December 31, 2023 and March 31, 2023 and for the three and nine months ended December 31, 2023 and 2022

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)

(Unaudited)

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Nine Months Ended December 31, 2023	Nine Months Ended December 31, 2022
Net sales	$ 43,818	$ 39,873	$ 136,463	$ 114,091
Cost of products sold	34,095	33,646	108,572	95,840
Gross profit	9,723	6,227	27,891	18,251
Other expenses and income:				
Selling, general and administrative	8,429	5,284	21,563	15,828
Selling, general and administrative – amortization	383	274	930	821
Operating income	911	669	5,398	1,602
Loss on extinguishment of debt	726	—	726	—
Other expense (income), net	93	(63)	280	(188)
Interest expense, net	37	294	277	697
Income before (benefit) provision for income taxes	55	438	4,115	1,093
(Benefit) provision for income taxes	(110)	70	899	245
Net income	$ 165	$ 368	$ 3,216	$ 848
Per share data				
Basic:				
Net income	$ 0.02	$ 0.03	$ 0.30	$ 0.08
Diluted:				
Net income	$ 0.02	$ 0.03	$ 0.30	$ 0.08
Weighted average common shares outstanding:				
Basic	10,775	10,611	10,709	10,613
Diluted	10,920	10,660	10,792	10,632

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Net income	$ 165	$ 368	$ 3,216	$ 848
Other comprehensive income (loss):				
Foreign currency translation adjustment	137	161	(173)	(519)
Defined benefit pension and other postretirement plans net of income tax expense of $47 and $38 for the three months ended December 31, 2023 and 2022, respectively, and $140 and $112 for the nine months ended December 31, 2023 and 2022, respectively	164	131	492	393
Total other comprehensive income (loss)	301	292	319	(126)
Total comprehensive income	$ 466	$ 660	$ 3,535	$ 722

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)

(Unaudited)

	December 31, 2023	March 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 15,163	$ 18,257
Trade accounts receivable, net of allowances ($1,834 and $1,841 at December 31 and March 31, 2023, respectively)	35,666	24,000
Unbilled revenue	28,671	39,684
Inventories	31,078	26,293
Prepaid expenses and other current assets	4,011	1,534
Income taxes receivable	745	302
Total current assets	115,334	110,070
Property, plant and equipment, net	29,027	25,523
Prepaid pension asset	6,322	6,107
Operating lease assets	7,626	8,237
Goodwill	25,087	23,523
Customer relationships, net	14,584	10,718
Technology and technical know-how, net	11,254	9,174
Other intangible assets, net	7,378	7,610
Deferred income tax asset	1,734	2,798
Other assets	368	158
Total assets	$ 218,714	$ 203,918
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt obligations	$ 3,000	$ —
Current portion of long-term debt	—	2,000
Current portion of finance lease obligations	19	29
Accounts payable	16,365	20,222
Accrued compensation	14,726	10,401
Accrued expenses and other current liabilities	5,255	6,434
Customer deposits	63,005	46,042
Operating lease liabilities	1,221	1,022
Income taxes payable	—	16
Total current liabilities	103,591	86,166
Long-term debt	—	9,744
Finance lease obligations	72	85
Operating lease liabilities	6,760	7,498
Deferred income tax liability	61	108
Accrued pension and postretirement benefit liabilities	1,341	1,342
Other long-term liabilities	3,133	2,042
Total liabilities	114,958	106,985
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, 10,971 and 10,774 shares issued and 10,828 and 10,635 shares outstanding at December 31 and March 31, 2023, respectively	1,097	1,075
Capital in excess of par value	31,678	28,061
Retained earnings	80,659	77,443
Accumulated other comprehensive loss	(7,144)	(7,463)
Treasury stock (143 and 138 shares at December 31 and March 31, 2023, respectively)	(2,534)	(2,183)
Total stockholders' equity	103,756	96,933
Total liabilities and stockholders' equity	$ 218,714	$ 203,918

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended December 31, 2023	2022
Operating activities:		
Net income	$ 3,216	$ 848
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,375	2,611
Amortization of intangible assets	1,487	1,857
Amortization of actuarial losses	632	504
Amortization of debt issuance costs	131	153
Equity-based compensation expense	1,002	582
Loss on extinguishment of debt	726	—
Deferred income taxes	935	232
(Increase) decrease in operating assets, net of acquisition:		
Accounts receivable	(11,335)	(7,755)
Unbilled revenue	11,213	(8,082)
Inventories	(4,357)	(6,801)
Prepaid expenses and other current and non-current assets	(1,526)	(500)
Income taxes receivable	(459)	(137)
Operating lease assets	894	913
Prepaid pension asset	(215)	(488)
Increase (decrease) in operating liabilities, net of acquisition:		
Accounts payable	(3,949)	5,511
Accrued compensation, accrued expenses and other current and non-current liabilities	2,948	2,116
Customer deposits	16,590	18,776
Operating lease liabilities	(825)	(802)
Long-term portion of accrued compensation, accrued pension and postretirement benefit liabilities	—	(592)
Net cash provided by operating activities	19,483	8,946
Investing activities:		
Purchase of property, plant and equipment	(5,193)	(2,394)
Proceeds from disposal of property, plant and equipment	38	—
Acquisition of P3 Technologies, LLC, net of cash acquired	(6,812)	—
Net cash used by investing activities	(11,967)	(2,394)
Financing activities:		
Borrowings of short-term debt obligations	13,000	5,000
Principal repayments on debt	(22,522)	(8,517)
Payment of debt exit costs	(752)	—
Repayments on financing lease obligations	(224)	(205)
Payment of debt issuance costs	(241)	(122)
Issuance of common stock	225	—
Purchase of treasury stock	(57)	(22)
Net cash used by financing activities	(10,571)	(3,866)
Effect of exchange rate changes on cash	(39)	(212)
Net (decrease) increase in cash and cash equivalents	(3,094)	2,474
Cash and cash equivalents at beginning of period	18,257	14,741
Cash and cash equivalents at end of period	$ 15,163	$ 17,215

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

NINE MONTHS ENDED DECEMBER 31, 2023
(Amounts in thousands)

(Unaudited)

	Common Stock		Capital in		Accumulated Other		Total
	Shares	Par Value	Excess of Par Value	Retained Earnings	Comprehensive Loss	Treasury Stock	Stockholders' Equity
Balance at April 1, 2023	10,774	$ 1,075	$ 28,061	$ 77,443	$ (7,463)	$ (2,183)	$ 96,933
Comprehensive income (loss)				2,640	(88)		2,552
Issuance of shares	53	8	(8)				—
Forfeiture of shares	(9)	(1)	1				—
Recognition of equity-based compensation expense			293				293
Issuance of treasury stock			294			(294)	—
Purchase of treasury stock						(57)	(57)
Balance at June 30, 2023	10,818	1,082	28,641	80,083	(7,551)	(2,534)	99,721
Comprehensive income				411	106		517
Issuance of shares	28	2	223				225
Recognition of equity-based compensation expense			332				332
Balance at September 30, 2023	10,846	1,084	29,196	80,494	(7,445)	(2,534)	100,795
Comprehensive income				165	301		466
Issuance of shares for purchase of P3 Technologies, LLC	125	13	2,104				2,117
Recognition of equity-based compensation expense			378				378
Balance at December 31, 2023	10,971	$ 1,097	$ 31,678	$ 80,659	$ (7,144)	$ (2,534)	$ 103,756

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

NINE MONTHS ENDED DECEMBER 31, 2022
(Amounts in thousands)

(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 loss				(196)	(206)		(402)
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
Comprehensive income				368	292		660
Recognition of equity-based compensation expense			270				270
Balance at December 31, 2022	10,758	$ 1,076	$ 28,119	$ 77,924	$ (6,597)	$ (2,626)	$ 97,896

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 Arvada, Colorado, Suzhou, China and Ahmedabad, India at December 31, 2023 and March 31, 2023, and its recently acquired wholly-owned subsidiary, P3 Technologies, LLC ("P3"), located in Jupiter, Florida (See Note 2) at December 31, 2023. 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, 2023 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2023. 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, 2023 ("fiscal 2023"). 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 nine months ended December 31, 2023 are not necessarily indicative of the results that may be expected for the current fiscal year, which ends March 31, 2024 ("fiscal 2024").

NOTE 2 – ACQUISITION:

On November 9, 2023, the Company completed its acquisition of P3, a privately-owned custom turbomachinery engineering, product development, and manufacturing business located in Jupiter, Florida that serves the space, new energy and medical industries. The Company believes this acquisition furthers its growth strategy, further diversifies its market and product offerings, and broadens its turbomachinery solutions. P3 will be managed through the Company's Barber-Nichols, LLC ("BN") subsidiary and is highly complementary to BN's technology and enhances its turbomachinery solutions.

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 $10,494 was comprised of 125 shares of the Company's common stock, representing a value of $2,117 at a price of $16.85 per share, and cash consideration of $7,098, subject to certain potential adjustments, including a customary working capital adjustment. As of December 31, 2023, there was a $761 receivable accrued related to such working capital adjustment. The cash consideration was funded through borrowings on the Company's line of credit. The purchase agreement included a contingent earn-out dependent upon certain financial measures of P3 post-acquisition, in which the sellers are eligible to receive up to $3,000 in additional cash consideration. At December 31, 2023, a liability of $2,040 was recorded for the contingent earn-out. Acquisition related costs of $274 were expensed in the three and nine months ended December 31, 2023, 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 their estimated fair value at the date of acquisition and the amount exceeding the fair value of $1,565 was recorded as goodwill, which is deductible for tax purposes. The following table summarizes the preliminary purchase price allocation of the assets acquired and liabilities assumed:

		November 9, 2023
Assets acquired:		
Cash and cash equivalents	$	286
Trade accounts receivable, net of allowances		465
Unbilled revenue		302
Inventories		443
Prepaid expenses and other current assets		93
Property, plant & equipment, net		542
Operating lease assets		130
Goodwill		1,565
Customer relationships		4,400
Technology and technical know-how		2,500
Tradename		300
Deferred income tax asset		53
Total assets acquired		11,079
Liabilities assumed:		
Accrued compensation		62
Customer deposits		389
Operating lease liabilities		134
Total liabilities assumed		585
Purchase price	$	10,494

The fair value of acquisition-related intangible assets includes customer relationships, technology and technical know-how, and tradename. The tradename is included in the line item "Other intangible assets, net" in the Condensed Consolidated Balance Sheets. The fair value of customer relationships was 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 tradename 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.

Customer relationships and tradename are amortized in selling, general and administrative expense on a straight line basis over their estimated useful lives of eight years and three years respectively. Technology and technical know-how is amortized in cost of products sold on a straight line basis over its estimated useful life of ten years.

The Condensed Consolidated Statement of Operations for the three and nine months ended December 31, 2023 includes net sales of P3 of $1,027 and net income of $176. The following unaudited pro forma information presents the consolidated results of operations of the Company as if the P3 acquisition had occurred at the beginning of each of the fiscal periods presented:

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2023		2022		2023		2022	
Net sales	$	44,186	$	40,651	$	140,019	$	116,628
Net income		464		340		4,554		499
Loss per share								
Basic	$	0.04	$	0.03	$	0.42	$	0.05
Diluted	$	0.04	$	0.03	$	0.42	$	0.05

The unaudited pro forma information presents the combined operating results of Graham Corporation and P3 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 expense reflecting the cash paid in connection with the acquisition, including acquisition-related expenses, at the Company’s weighted average 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 December 31,		Nine Months Ended December 31,	
Market	2023	2022	2023	2022
Refining	$ 7,638	$ 6,497	$ 21,794	$ 21,940
Chemical/Petrochemical	4,130	3,927	14,536	15,606
Defense	24,330	21,687	72,265	46,342
Space	2,931	3,510	10,528	14,278
Other Commercial	4,789	4,252	17,340	15,925
Net sales	$ 43,818	$ 39,873	$ 136,463	$ 114,091
Geographic Region				
Asia	$ 4,016	$ 4,226	$ 12,898	$ 12,729
Canada	1,116	557	3,107	3,261
Middle East	501	621	2,219	1,766
South America	65	649	264	2,509
U.S.	36,822	33,163	113,567	91,657
All other	1,298	657	4,408	2,169
Net sales	$ 43,818	$ 39,873	$ 136,463	$ 114,091

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.

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. 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. The following table presents the Company's revenue percentages disaggregated by revenue recognized over time or upon shipment:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Revenue recognized over time	76 %	80 %	77 %	73 %
Revenue recognized at shipment	24 %	20 %	23 %	27 %

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:

	December 31, 2023	March 31, 2023	Change	Change due to amounts acquired	Change due to revenue recognized	Change due to invoicing customers/ additional deposits
Unbilled revenue (contract assets)	$ 28,671	$ 39,684	$ (11,013)	$ 302	$ 72,629	$ (83,944)
Customer deposits (contract liabilities)	(63,005)	(46,042)	(16,963)	(389)	23,355	(39,929)
Net contract (liabilities) assets	$ (34,334)	$ (6,358)	$ (27,976)			

Contract liabilities at December 31, and March 31, 2023 include $13,337 and $6,092, 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 December 31, and March 31, 2023, respectively.

Receivables billed but not paid under retainage provisions in the Company's customer contracts were $2,992 and $2,542 at December 31, and March 31, 2023, 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 December 31, 2023, the Company had remaining unsatisfied performance obligations of $399,244. The Company expects to recognize revenue on approximately 40% 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:

	December 31, 2023	March 31, 2023
Raw materials and supplies	$ 3,787	$ 4,344
Work in process	25,064	20,554
Finished products	2,227	1,395
Total	$ 31,078	$ 26,293

NOTE 5 – INTANGIBLE ASSETS:

Intangible assets are comprised of the following:

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
At December 31, 2023				
Intangibles subject to amortization:				
Customer relationships	8 - 20 years	$ 16,200	$ 1,616	$ 14,584
Technology and technical know-how	10 - 20 years	12,600	1,346	11,254
Backlog	4 years	3,900	3,505	395
Tradename	3 years	300	17	283
		$ 33,000	$ 6,484	$ 26,516
Intangibles not subject to amortization:				
Tradename	Indefinite	$ 6,700	$ —	$ 6,700
		$ 6,700	$ —	$ 6,700

Intangible amortization was $596 and $619 for the three months ended December 31, 2023 and 2022, respectively, and $1,487 and $1,857 for the nine months ended December 31, 2023 and 2022, respectively. The estimated annual amortization expense by fiscal year is as follows:

	Annual Amortization
Remainder of 2024	$ 671
2025	2,217
2026	1,995
2027	1,953
2028	1,895
2029 and thereafter	17,785
Total intangible amortization	$ 26,516

NOTE 6 – EQUITY-BASED COMPENSATION:

The 2020 Graham Corporation Equity Incentive Plan, as amended (the "2020 Plan"), provides for the issuance of 722 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.

No time vesting restricted stock units ("RSUs") or performance based restricted stock units ("PSUs") were granted in the three months ended December 31, 2023 and 2022. The following restricted stock units were granted in the nine months ended December 31, 2023:

Nine months ended December 31,	Vest 100% on First Anniversary (1) Directors	Vest One-Third Per Year Over Three-Year Term (1) Officers and Key Employees	Vest 100% on Third Anniversary (1) Officers and Key Employees	Total Shares Awarded
2023				
Time Vesting RSUs	38	40	—	78
Performance Vesting PSUs	—	—	79	79
2022				
Time Vesting RSUs	37	56	18	111
Performance Vesting PSUs	—	—	112	112

(1) Subject to the terms of the applicable award.

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 lower of the last or first day of the six-month offering period. As of December 31, 2023, a total of 400 shares of common stock may be purchased under the ESPP.

The Company has recognized equity-based compensation costs as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Restricted stock awards	$ 77	$ 106	$ 241	$ 201
Restricted stock units	256	157	701	368
Employee stock purchase plan	44	7	60	13
	$ 377	$ 270	$ 1,002	$ 582
Income tax benefit recognized	$ 84	$ 60	$ 223	$ 128

NOTE 7 – INCOME PER SHARE:

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted income per share is calculated by dividing net income 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 per share is presented below:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Basic income per share				
Numerator:				
Net income	$ 165	$ 368	$ 3,216	$ 848
Denominator:				
Weighted average common shares outstanding	10,775	10,611	10,709	10,613
	$ 0.02	$ 0.03	$ 0.30	$ 0.08
Diluted income per share				
Numerator:				
Net income	$ 165	$ 368	$ 3,216	$ 848
Denominator:				
Weighted average common shares outstanding	10,775	10,611	10,709	10,613
Restricted stock units outstanding	145	49	83	19
Weighted average common and potential common shares outstanding	10,920	10,660	10,792	10,632
Diluted income per share	$ 0.02	$ 0.03	$ 0.30	$ 0.08

NOTE 8 – PRODUCT WARRANTY LIABILITY:

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

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Nine Months Ended December 31, 2023	Nine Months Ended December 31, 2022
Balance at beginning of period	$ 638	$ 487	$ 578	$ 441
Expense for product warranties	63	238	266	326
Product warranty claims paid	(7)	(4)	(150)	(46)
Balance at end of period	$ 694	$ 721	$ 694	$ 721

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

NOTE 9 – CASH FLOW STATEMENT:

Interest and income taxes paid as well as non-cash investing and financing activities are as follows:

	For the Nine Months Ended December 31, 2023	For the Nine Months Ended December 31, 2022
Interest paid	$ 726	$ 722
Income taxes paid	424	160
Issuance of shares as part of the consideration of the P3 acquisition	2,117	—
Capital purchases recorded in accounts payable	699	768

The $6,812 of cash utilized for the acquisition of P3 Technologies, LLC included cash consideration of $7,098, net of cash acquired of $286.

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.

During the third quarter of fiscal 2024, the Audit Committee of the Board of Directors, with the assistance of external counsel and forensic professionals, concluded an investigation into a whistleblower complaint received regarding Graham India Private Limited ("GIPL"). The investigation identified both evidence supporting the complaint and other misconduct by employees. The other misconduct totaled $150 over a period of four years and was isolated to GIPL. All involved employees have been terminated and the Company has implemented remedial actions, including strengthening its compliance program and internal controls. As a result of the investigation, during the third quarter of fiscal 2024, the statutory auditor and bookkeeper of GIPL tendered their resignations and new firms were appointed. The Company has voluntarily reported the findings of its investigation to the appropriate authorities in India and the U.S. Department of Justice and the Securities and Exchange Commission. Although the resolutions of these matters are inherently uncertain, we do not believe any remaining impact will be material to the Company's overall consolidated results of operations, financial position, or cash flows. For the first nine months of fiscal 2024 the Company has incurred approximately $750 in costs related to this investigation.

As of December 31, 2023, the Company was 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 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 effect on the Company's results of operations, financial position or cash flows.

The Company previously entered into related party operating leases with Ascent Properties Group, LLC ("Ascent"), for two building lease agreements and two equipment lease agreements in Arvada, Colorado. In connection with such leases, the Company made fixed minimum lease payments to the lessor of $243 and $211 during the three months ended December 31, 2023 and 2022, respectively, and $709 and $632 during the nine months ended December 31, 2023 and 2022, respectively. The Company is obligated to make payments of $243 during the remainder of fiscal 2024. Future fixed minimum lease payments under these leases as of December 31, 2023 are $6,028.

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 2019 through 2022 and examination in state tax jurisdictions for the tax years 2018 through 2022. The Company is subject to examination in the People's Republic of China for tax years 2019 through 2022 and in India for tax years 2019 through 2022.

There was no liability for unrecognized tax benefits at either December 31, 2023 or March 31, 2023.

NOTE 12 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS:

The changes in accumulated other comprehensive loss by component for the nine months ended December 31, 2023 and 2022 are as follows:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2023	$ (7,470)	$ 7	$ (7,463)
Other comprehensive income before reclassifications	—	(173)	(173)
Amounts reclassified from accumulated other comprehensive loss	492	—	492
Net current-period other comprehensive income (loss)	492	(173)	319
Balance at December 31, 2023	$ (6,978)	$ (166)	$ (7,144)

	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	—	(519)	(519)
Amounts reclassified from accumulated other comprehensive loss	393	—	393
Net current-period other comprehensive income (loss)	393	(519)	$ (126)
Balance at December 31, 2022	$ (6,577)	$ (20)	$ (6,597)

The reclassifications out of accumulated other comprehensive loss by component for the three and nine months ended December 31, 2023 and 2022 are as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Three Months Ended December 31, 2023	2022	Affected Line Item in the Condensed Consolidated Statements of Income
Pension and other postretirement benefit items:			
Amortization of actuarial loss	$ 211 (1)	$ 169 (1)	Income before benefit for income taxes
Tax effect	47	38	(Benefit) provision for income taxes
	$ 164	$ 131	Net income

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Nine Months Ended December 31, 2023	2022	Affected Line Item in the Condensed Consolidated Statements of Income
Pension and other postretirement benefit items:			
Amortization of actuarial loss	$ 632 [1]	$ 505 [1]	Income before benefit for income taxes
Tax effect	140	112	(Benefit) provision for income taxes
	$ 492	$ 393	Net income

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

NOTE 13 – DEBT:

On October 13, 2023, the Company terminated its revolving credit facility and repaid its term loan with Bank of America and entered into a new five-year revolving credit facility with Wells Fargo Bank, National Association ("Wells Fargo") that provides a $35,000 line of credit and automatically increases to $50,000 upon the Company satisfying specified covenants (the "New Revolving Credit Facility"). The additional $15,000 will automatically be available upon (a) the Company achieving a minimum consolidated EBITDA, as defined in the agreement, of $15,000, computed on a trailing twelve month basis, for three consecutive quarters and (b) a minimum liquidity (consisting of cash and borrowing availability under the New Revolving Credit Facility) for the Company of at least $7,500. The New Revolving Credit Facility has a $25,000 sub-limit for letters of credit and the Company may request the issuance of cash secured letters of credit in an aggregate amount of up to $7,500. As of December 31, 2023, there was $3,000 borrowed and $666 letters of credit outstanding on the New Revolving Credit Facility.

Long term debt as of March 31, 2023 was comprised of the following:

	March 31, 2023
Bank of America term loan	$ 12,500
Less: unamortized debt issuance costs	(756)
	11,744
Less: current portion	2,000
Total	$ 9,744

The New Revolving Credit Facility contains customary terms and conditions, including representations and warranties and affirmative and negative covenants, as well as financial covenants for the benefit of Wells Fargo, which require the Company to maintain (i) a consolidated total leverage ratio not to exceed 3.50:1.00 and (ii) a consolidated fixed charge coverage ratio of at least 1.20:1.00, in both cases computed in accordance with the definitions and requirements specified in the New Revolving Credit Facility. As of December 31, 2023, the Company was in compliance with the financial covenants of the New Revolving Credit Facility.

Borrowings under the New Revolving Credit Facility bear interest at a rate equal to, at the Company's option, either (i) a forward-looking term rate based on the secured overnight financing rate ("SOFR") for the applicable interest period, subject to a floor of 0.0% per annum or (ii) a base rate determined by reference to the highest of (a) the rate of interest per annum publicly announced by the Lender as its prime rate, (b) the federal funds rate plus 0.50% per annum and (c) one-month term SOFR plus 1.00% per annum, subject to a floor of 1.00% per annum, plus, in each case, an applicable margin. The applicable margins range between (i) 1.25% per annum and 2.50% per annum in the case of any term SOFR loan and (ii) 0.25% per annum and 1.50% per annum in the case of any base rate loan, in each case based upon the Company's then-current consolidated total leverage ratio; provided, however, for a period of one year following the closing date, the applicable margin shall be set at 1.25% per annum in the case of any term SOFR loan and 0.25% per annum in the case of any base rate loan. As of December 31, 2023, the SOFR rate was 5.34%.

The Company is required to pay a quarterly commitment fee on the unused portion of the New Revolving Credit Facility during the applicable quarter at a per annum rate also determined by reference to the Company's then-current consolidated total leverage ratio, which fee ranges between 0.10% per annum and 0.20% per annum; provided, however, for a period of one year following the closing date, the quarterly commitment fee will be set at 0.10% per annum. Any outstanding letters of credit that are cash secured will bear a fee equal to the daily amount available to be drawn under such letters of credit multiplied by 0.65% per annum. Any outstanding letters of credit issued under the New Revolving Credit Facility will bear a fee equal to the daily amount drawn under such letters of credit multiplied by the applicable margin for term SOFR loans. As of December 31, 2023, the amount available under the New Revolving Credit Facility was $31,333, subject to the interest and leverage covenants.

In connection with the termination of the old revolving credit facility and term loan with Bank of America, the Company paid $752 in exit costs and recognized an extinguishment charge of $726.

As of December 31, 2023, $2,284 letters of credit remain outstanding with Bank of America and are cash secured. These outstanding letters of credit are subject to a fee of 0.60% per annum. As of December 31, 2023, $4,781 letters of credit are outstanding with HSBC Bank USA, N.A and are also cash secured. These 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. Total letters of credit outstanding as of December 31, 2023 and March 31, 2023 were $7,914 and $12,233, respectively.

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. We design and manufacture custom-engineered vacuum, heat transfer, pump and turbomachinery technologies. For the defense industry, our equipment is used in nuclear and non-nuclear propulsion, power, fluid transfer, and thermal management systems. For the space industry, our equipment is used in propulsion, power and energy management systems and for life support systems. We supply equipment for vacuum, heat transfer and fluid transfer applications used in energy and new energy markets including 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 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 space, aerospace, cryogenic, defense and energy markets. In November 2023, we acquired P3 Technologies, LLC ("P3"), located in Jupiter, Florida (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 throughout Southeast Asia. GIPL serves as a sales and market development office focusing on the refining, petrochemical, edible oils, and fertilizer markets in India and the Middle East.

We refer to our fiscal year, which ends March 31, 2024, as fiscal 2024. Likewise, we refer to our fiscal year that ended March 31, 2023 and March 31, 2022, as fiscal 2023 and fiscal 2022, respectively.

Acquisition

On November 9, 2023, we completed our acquisition of P3, a privately-owned custom turbomachinery engineering, product development, and manufacturing business located in Jupiter, Florida that serves the space, new energy and medical industries. We believe this acquisition furthers our growth strategy, further diversifies our market and product offerings, and broadens our turbomachinery solutions. P3 will be managed through BN and is highly complementary to BN's technology and enhances its turbomachinery solutions.

The purchase price for P3 was $10,494 and was comprised of 125 shares of our common stock, representing a value of $2,117 at a price of $16.85 per share, and cash consideration of $7,098, subject to certain potential adjustments, including a customary working capital adjustment. The cash consideration was funded through borrowings on our line of credit. The purchase agreement included a contingent earn-out dependent upon certain financial measures of P3 post-acquisition, in which the sellers are eligible to receive up to $3,000 in additional cash consideration. Acquisition related costs of $274 were expensed in the three and nine months ended December 31, 2023, and are included in selling, general and administrative expenses ("SG&A") in the Condensed Consolidated Statement of Operations. See Note 2 to the Condensed Consolidated Financial Statements included in Item 1 in this Quarterly Report on Form 10-Q for additional information.

Summary

Highlights for the three months ended December 31, 2023 include:

•Net sales for the third quarter of fiscal 2024 were $43,818, up $3,945, or 10% compared with $39,873 for the third quarter of fiscal 2023. During the quarter, P3 added $1,027 to revenue primarily to the space industry. Excluding P3, organic growth was 7% over the prior year. This increase was primarily due to sales to the defense industry, which increased $2,643 versus the prior year period primarily due to an improved mix of higher margin defense projects, increased direct labor, better execution, the timing of material receipts, and improved pricing. Net sales for the quarter also benefited from continued growth in commercial aftermarket sales of approximately $3,000 in comparison to the prior year period, which is included in our refining and chemical/petrochemical markets. Partially offsetting these increases was a $579 decline in space sales primarily due to the timing of projects, as well as the loss of Virgin Orbit Holding, Inc. ("Virgin Orbit") as a customer in April 2023 due to its Chapter 11 bankruptcy partially offset by revenue from P3.

•In connection with the acquisition of BN, we entered into a Performance Bonus Agreement to provide employees of BN with a supplemental performance-based award based on the achievement of BN performance objectives for fiscal years ending March 31, 2024, 2025, and 2026 which can range between $2,000 to $4,000 per year (the "BN Performance Bonus"). During the third quarter of fiscal 2024, we recorded $1,264 related to the BN Performance Bonus. Additionally, during the third quarter of fiscal 2024 we recorded costs/charges in connection with the refinancing of our debt and acquisition of P3 of $744 and $274, respectively.

•Net income and income per diluted share for the third quarter of fiscal 2024 were $165 and $0.02 per share, respectively, compared with net income and income per diluted share of $368 and $0.03 per share, respectively, for the third quarter of fiscal 2023. Adjusted net income and adjusted net income per diluted share for the third quarter of fiscal 2024 were $2,424 and $0.22 per share, respectively, compared with adjusted net income and adjusted net income per diluted share of $857 and $0.08 per share, respectively, for the third quarter of fiscal 2023. See "Non-GAAP Measures" below for a reconciliation of adjusted net income and adjusted net income per diluted share to the comparable GAAP amount.

•Orders booked in the third quarter of fiscal 2024 were a record $123,267 compared to $20,044 in the third quarter of fiscal 2023. This increase was primarily due to follow-on orders for critical U.S. Navy programs related to the Columbia Class submarine and Ford Class carrier programs. These defense orders are expected to be recognized in revenue beginning in the fourth quarter of fiscal 2025 through early 2030 and validates our key role in these strategic programs. For additional information on this key performance indicator, see "Orders and Backlog" below.

•Backlog was $399,244 at December 31, 2023, compared with $293,671 at December 31, 2022. This increase was primarily driven by growth in our defense and chemical/petrochemical markets. Backlog acquired from P3 Technologies was $6,225. during the third quarter of fiscal 2024. For additional information on this key performance indicator see "Orders and Backlog" below.

•Cash and cash equivalents at December 31, 2023 was $15,163, compared with $18,257 at March 31, 2023. This decrease was primarily due to cash used to acquire P3 of $6,812, capital expenditures of $5,193 related to our growth initiatives, as well as net repayments of debt of $9,522. These uses of cash were primarily funded by cash flow from operating activities of $19,483 being driven by higher profitability and a reduction in working capital as a result of the change in payment terms related to large defense customers during the nine months and stronger financial discipline.

•On October 13, 2023, we entered into a new, five-year $50,000 revolving credit facility with Wells Fargo Bank, National Association ("Wells Fargo") of which $35,000 is immediately available. We used the proceeds from the facility and cash on hand to pay down the remaining $11,500 balance of our term loan. The new facility will reduce current borrowing rates by approximately 25 basis points to SOFR plus 1.25%, has a maximum total leverage ratio of 3.5 to 1, and provides us greater financial flexibility to execute on our strategy for growth.

Cautionary Note Regarding Forward-Looking Statements

This report on Form 10-Q (the "Form 10-Q") 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. All statements other than statements of historical fact are forward-looking statements for purposes of this Form 10-Q. 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," "can," "may," "intend," "expect," "plan," "goal," "predict," "project," "outlook," "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 2023 and elsewhere in the reports we file with the SEC. 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 defense budget plans, accelerated ship build schedules due to geopolitical tensions, the projected build schedule 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 systemic changes in the energy markets, which are influenced by the increasing use by consumers of alternative fuels and government policies to stimulate their usage, will lead to demand growth for fossil-based fuels that is less than the global growth rate. The timing and catalyst for a recovery in this market remains 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.

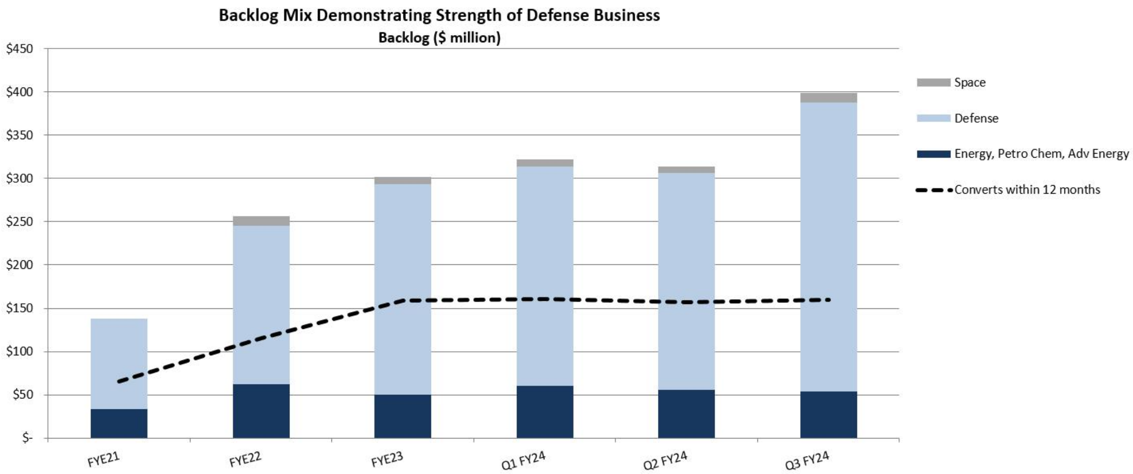
Of note, over the last few years we have experienced an increase in our energy and chemical aftermarket orders, primarily from the domestic market. Aftermarket orders have historically been a leading indicator of future capital investment by our customers in their facilities for upgrades and expansions. However, if a capital investment upturn were to occur, 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, small modular nuclear systems, bioenergy products, and geothermal power generation with lithium extraction. 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.

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 launch providers for satellites. 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. Sales and orders to the space industry are variable in nature and many of our customers, who are key players in the industry, have yet to achieve profitability and may be unable to continue operations without additional funding, similar to what occurred to Virgin Orbit. Thus, future revenue and growth in this market can be uncertain and may negatively impact our business.

As illustrated below, we have succeeded over the last several years with our strategy to increase our participation in the defense market as opportunities in our legacy refining and petrochemical markets diminished. The defense market comprised 84% of our total backlog at December 31, 2023.



*Note: FYE refers to fiscal year ended March 31. For additional information on this key performance indicator see "Orders and Backlog" below.

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 December 31, 2023	Three Months Ended December 31, 2022	Nine Months Ended December 31, 2023	Nine Months Ended December 31, 2022
Net sales	$ 43,818	$ 39,873	$ 136,463	$ 114,091
Gross profit	$ 9,723	$ 6,227	$ 27,891	$ 18,251
Gross profit margin	22 %	16 %	20 %	16 %
SG&A expenses (1)	$ 8,812	$ 5,558	$ 22,493	$ 16,649
SG&A as a percent of sales	20 %	14 %	16 %	15 %
Net income	$ 165	$ 368	$ 3,216	$ 848
Income per diluted share	$ 0.02	$ 0.03	$ 0.30	$ 0.08

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

The following tables provide our net sales by product line and geographic region including the percentage of total and change in comparison to the prior year for each category and period presented:

	Three Months Ended December 31,				Change		Nine Months Ended December 31,				Change	
Market	2023	%	2022	%	$	%	2023	%	2022	%	$	%
Refining	$ 7,638	17%	$ 6,497	16%	$ 1,141	18%	$ 21,794	16%	$ 21,940	19%	$ (146)	-1%
Chemical/Petrochemical	4,130	9%	3,927	10%	203	5%	14,536	11%	15,606	14%	(1,070)	-7%
Space	2,931	7%	3,510	9%	(579)	-16%	10,528	8%	14,278	13%	(3,750)	-26%
Defense	24,330	56%	21,687	54%	2,643	12%	72,265	53%	46,342	41%	25,923	56%
Other	4,789	11%	4,252	11%	537	13%	17,340	13%	15,925	14%	1,415	9%
Net sales	$43,818	100%	$39,873	100%	$ 3,945	10%	$ 136,463	100%	$114,091	100%	$ 22,372	20%
Geographic Region												
United States	$36,822	84%	$33,163	83%	$ 3,659	11%	$ 113,567	83%	$ 91,657	80%	$ 21,910	24%
International	6,996	16%	6,710	17%	286	4%	22,896	17%	22,434	20%	462	2%
Net sales	$43,818	100%	$39,873	100%	$ 3,945	10%	$ 136,463	100%	$114,091	100%	$ 22,372	20%

Third Quarter and First Nine Months of Fiscal 2024 Compared with the Third Quarter and First Nine Months of Fiscal 2023

Net sales for the third quarter of fiscal 2024 were $43,818, up $3,945 or 10%, compared with $39,873 for the third quarter of fiscal 2023. During the quarter, P3 added $1,027 to revenue primarily to the space industry. Excluding P3, organic growth was 7% over the prior year. This increase was primarily due to sales to the defense industry, which increased $2,643 versus the prior year period primarily due to an improved mix of higher margin defense projects, increased direct labor, better execution, the timing of material receipts, and improved pricing. Net sales for the quarter also benefited from continued growth in commercial aftermarket sales of approximately $3,000 in comparison to the prior year period, which is included in our refining and chemical/petrochemical markets. Partially offsetting these increases was a $579 decline in space sales primarily due to the timing of projects, as well as the loss of Virgin Orbit as a customer partially offset by revenue from P3.

Domestic sales as a percentage of aggregate sales were 84% in the third quarter of fiscal 2024 compared with 83% in the third quarter of fiscal 2023, reflecting the increase in our defense industry businesses, which is U.S. based. Sales in the three months ended December 31, 2023 were 56% to the defense industry compared to 54% for the comparable quarter in fiscal 2023. Fluctuation in sales among markets, products and geographic locations varies, sometimes significantly, from quarter-to-quarter based on timing and magnitude of projects but overall reflects our strategic shift towards the defense industry.

Net sales for the first nine months of fiscal 2024 were $136,463, an increase of 20% from the first nine months of fiscal 2023. Approximately $1,027 of this increase was due to the P3 acquisition in the third quarter of fiscal 2024. Excluding P3, organic growth was 19% over the prior year. Additionally, our sales continued to benefit from strong growth of approximately $10,800 in commercial aftermarket sales which is included in our refining and chemical/petrochemical markets. Partially offsetting this increase was a $3,750 decline in space sales primarily due to the timing of projects, as well as the loss of Virgin Orbit partially offset by revenue from P3. Additionally, sales from our China subsidiary were down approximately $2,000 for the first nine months of fiscal 2024 compared to the prior year due to the slowdown in that market. Sales for the nine months ended December 31, 2023 were 83% to the domestic market compared with 80% in the comparable period in fiscal 2023 and reflects our strategic shift towards the defense industry. Additionally, sales for the nine months ended December 31, 2023 were 53% for the defense industry compared with 41% for the comparable period in fiscal 2023 and also reflects our strategic shift towards the defense industry. 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 third quarter of fiscal 2024 was 22%, compared with 16% for the third quarter of fiscal 2023. Gross profit for the third quarter of fiscal 2024 increased $3,496 or 56%, compared with fiscal 2023, to $9,723. This increase reflected the increase in sales discussed above as well as an improved mix of sales related to higher margin defense and commercial aftermarket, as well as better execution and pricing on defense contracts, partially offset by higher incentive compensation in comparison with the prior year.

Gross profit margin for the first nine months of fiscal 2024 was 20%, compared with 16% for the first nine months of fiscal 2023. Gross profit for the first nine months of fiscal 2024 increased $9,640 or 53%, compared with fiscal 2023, to $27,891. This increase reflected the increase in sales discussed above as well as an improved mix of sales related to higher margin defense and commercial aftermarket sales, as well as better execution and pricing on defense contracts, partially offset by higher incentive compensation in comparison with the prior year.

Changes in SG&A expense for the three and nine months ending December 31, 2023 versus the comparable prior year period are as follows:

	Change Q3 FY24 vs. Q3 FY23	Change YTD Q3 FY24 vs. YTD Q3 FY23
BN Performance Bonus	$ 1,264	$ 2,833
Professional fees	750	1,081
Performance-based compensation	399	414
Acquisition costs	274	274
Amortization of intangibles	109	109
Equity based compensation	107	420
ERP implementation costs	56	56
P3 Technologies	49	49
All other	246	608
Total SG&A change	$ 3,254	$ 5,844

In connection with the acquisition of BN, we entered into a Performance Bonus Agreement to provide employees of BN with a supplemental performance-based award based on the achievement of BN performance objectives for fiscal years ending March 31, 2024, 2025, and 2026 which can range between $2,000 to $4,000 per year (the "BN Performance Bonus"). The increase in professional fees over the prior year periods primarily relates to the increasing complexity in our business associated with our growth and our international operations including the investigation by our Board's Audit Committee related to GIPL. See Note 10 to the Condensed Consolidated Financial Statements included in Item 1 in this Quarterly Report on Form 10-Q and the "Commitments and Contingencies" section below.

Net interest expense for the third quarter of fiscal 2024 was $37 compared to $294 in the third quarter of fiscal 2023 primarily due to lower debt levels compared to the prior year partially offset by higher interest rates.

Net interest expense for the first nine months of fiscal 2024 was $277 compared to $697 in the first nine months of fiscal 2023 primarily due to lower debt levels compared to the prior year partially offset by higher interest rates.

Our effective tax rate for the first nine months of fiscal 2024 was 22% consistent with the first nine months of fiscal 2023. Our effective tax rate for fiscal 2024 is expected to be between 22% and 23%.

The net result of the above is that net income and income per diluted share for the third quarter of fiscal 2024 were $165 and $0.02, respectively, compared with $368 and $0.03, respectively, for the third quarter of fiscal 2023. Adjusted net income and adjusted net income per diluted share for the third quarter of fiscal 2024 were $2,424 and $0.22 per share, respectively, compared with $857 and $0.08, respectively, for the third quarter of fiscal 2023.

Net income and income per diluted share for the first nine months of fiscal 2024 were $3,216 and $0.30, respectively, compared with $848 and $0.08, respectively, for the first nine months of fiscal 2023. Adjusted net income and adjusted net income per diluted share for the first nine months of fiscal 2024 were $7,369 and $0.68, respectively, compared with $2,511 and $0.24, respectively, for the first nine months of fiscal 2023. See "Non-GAAP Measures" below for a reconciliation of adjusted net income and adjusted net income per diluted share to the comparable GAAP amount.

Non-GAAP Measures

Adjusted earnings before net interest expense, income taxes, depreciation and amortization ("EBITDA"), adjusted net income, and adjusted net income 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 or net income 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 are they 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 or net income per diluted share determined in accordance with GAAP. Adjusted EBITDA, adjusted net income and adjusted net income 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, interest expense, taxes, acquisition related expenses, the BN Performance Bonus, debt amendment costs, ERP implementation costs, and other unusual/nonrecurring expenses. Adjusted net income and adjusted net income per diluted share excludes intangible amortization, BN Performance Bonus, acquisition related expenses, debt amendment costs, ERP implementation costs, and other unusual/nonrecurring expenses.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Net income	**$ 165**	**$ 368**	**$ 3,216**	**$ 848**
Acquisition & integration costs	274	-	274	54
BN Performance Bonus	1,264	-	2,833	-
Debt amendment costs	744	-	744	194
ERP Implementation costs	56	-	56	-
Net interest expense	37	294	277	697
Income taxes	(110)	70	899	245
Depreciation & amortization	1,422	1,506	3,862	4,468
Adjusted EBITDA	**$ 3,852**	**$ 2,238**	**$ 12,161**	**$ 6,506**
Adjusted EBITDA as a % of revenue	*8.8 %*	*5.6 %*	*8.9 %*	*5.7 %*

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2023	2022	2023	2022
Net income	**$ 165**	**$ 368**	**$ 3,216**	**$ 848**
Acquisition & integration costs	274	-	274	54
Amortization of intangible assets	596	619	1,487	1,857
BN Performance Bonus	1,264	-	2,833	-
Debt amendment costs	744	-	744	194
ERP Implementation costs	56	-	56	-
Normalize tax rate[(1)]	(675)	(130)	(1,241)	(442)
Adjusted net income	**$ 2,424**	**$ 857**	**$ 7,369**	**$ 2,511**
GAAP net income per diluted share	**$ 0.02**	**$ 0.03**	**$ 0.30**	**$ 0.08**
Adjusted net income per diluted share	**$ 0.22**	**$ 0.08**	**$ 0.68**	**$ 0.24**
Diluted weighted average common shares outstanding	10,920	10,660	10,792	10,632

[(1)] Applies a normalized tax rate to non-GAAP adjustments, which are pre-tax, based upon the statutory tax rate of 23%.

Acquisition and Integration Costs are incremental costs that are directly related to the P3 acquisition. These costs may include, among other things, professional, consulting and other fees, system integration costs, and fair value adjustments relating to contingent consideration. In connection with the acquisition of BN, we entered into the BN Performance Bonus agreement to provide employees of BN with a supplemental performance-based award based on the achievement of BN performance objectives for fiscal years ending March 31, 2024, 2025, and 2026 which can range between $2,000 to $4,000 per year. Debt Amendment Costs consists of accelerated write-offs of unamortized deferred debt issuance costs and discounts, prepayment penalties and attorney fees in connection with the amendment of our credit facility in October 2023. ERP Implementation Costs relate to consulting costs incurred in connection with the new ERP system being implemented throughout our Batavia, N.Y. facility in order to enhance efficiency and productivity and are not expected to reoccur once the project is completed.

Liquidity and Capital Resources

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

	December 31, 2023	March 31, 2023
Cash and cash equivalents	$ 15,163	$ 18,257
Working capital [(1)]	11,743	23,904
Working capital ratio[(1)]	1.1	1.3

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

Net cash provided by operating activities for the first nine months of fiscal 2024 was $19,483 compared with $8,946 for the first nine months of fiscal 2023. The cash provided by operations during the first nine months of fiscal 2024 was higher than the comparable prior year period primarily as a result of higher profitability and a reduction in working capital as a result of the change in payment terms related to large defense customers during the nine months and stronger financial discipline.

Capital expenditures for the first nine months of fiscal 2024 were $5,193 versus $2,394 over the comparable period in fiscal 2023. Capital expenditures for fiscal 2024 are expected to be between $8,000 to $10,000. Fiscal 2024 capital expenditures are expected to be primarily for machinery and equipment, as well as for buildings and leasehold improvements to fund our growth and productivity improvement initiatives and includes expenditures related to the expansion of production capabilities at our Batavia facility, which is being funded by one of our defense customers. The majority of our planned capital expenditures are discretionary. We estimate that our maintenance capital spend is approximately $2,000 per year.

Cash and cash equivalents were $15,163 at December 31, 2023 compared with $18,257 at March 31, 2023, as cash provided by operating activities was used to fund capital expenditures, net repayment of debt of $9,522, and the cash consideration used in the acquisition of P3 of $6,812. At December 31, 2023, approximately $7,247 of our cash and cash equivalents was used to secure our letters of credit and $1,724 of our cash was held by our China and India subsidiaries.

On October 13, 2023, we terminated our revolving credit facility and repaid our term loan with Bank of America and entered into a new five-year revolving credit facility with Wells Fargo Bank, National Association ("Wells Fargo") that provides a $35,000 line of credit and automatically increases to $50,000 upon the Company satisfying specified covenants (the "New Revolving Credit Facility"). As of December 31, 2023, there was $3,000 borrowed and $666 letters of credit outstanding on the New Revolving Credit Facility and the amount available to borrow was $31,333, subject to interest and leverage covenants.

The New Revolving Credit Facility contains customary terms and conditions, including representations and warranties and affirmative and negative covenants, as well as financial covenants for the benefit of Wells Fargo, which require us to maintain (i) a consolidated total leverage ratio not to exceed 3.50:1.00 and (ii) a consolidated fixed charge coverage ratio of at least 1.20:1.00, in both cases computed in accordance with the definitions and requirements specified in the New Revolving Credit Facility. As of December 31, 2023, we were in compliance with the financial covenants of the New Revolving Credit Facility and our leverage ratio as calculated in accordance with the terms of the New Revolving Credit Facility was 0.6x.

Borrowings under the New Revolving Credit Facility bear interest at a rate equal to, at our option, either (i) a forward-looking term rate based on the secured overnight financing rate ("SOFR") for the applicable interest period, subject to a floor of 0.0% per annum or (ii) a base rate determined by reference to the highest of (a) the rate of interest per annum publicly announced by Wells Fargo as its prime rate, (b) the federal funds rate plus 0.50% per annum and (c) one-month term SOFR plus 1.00% per annum, subject to a floor of 1.00% per annum, plus, in each case, an applicable margin. The applicable margins range between (i) 1.25% per annum and 2.50% per annum in the case of any term SOFR loan and (ii) 0.25% per annum and 1.50% per annum in the case of any base rate loan, in each case based upon our then-current consolidated total leverage ratio; provided, however, for a period of one year following the closing date, the applicable margin shall be set at 1.25% per annum in the case of any term SOFR loan and 0.25% per annum in the case of any base rate loan. As of December 31, 2023, the SOFR rate was 5.34%.

In connection with the termination of the old revolving credit facility and term loan with Bank of America, the Company paid $752 in exit costs and recognized an extinguishment charge of $726.

See Note 13 to the Condensed Consolidated Financial Statements included in Item 1 in this Quarterly Report on Form 10-Q for additional information.

We did not have any off-balance sheet arrangements as of December 31, 2023 and 2022, 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 our New Revolving Credit Facility will be adequate to meet our cash needs and fund our long-term strategic growth objectives.

Orders and Backlog

In addition to the non-GAAP measures discussed above, management uses the following key performance metrics to analyze and measure the Company's financial performance and results of operations; orders, backlog, and book-to-bill ratio. Management uses orders and backlog as measures of current and future business and financial performance and these may not be comparable with measures provided by other companies. Orders represent written communications received from customers requesting us to provide products and/or services. Backlog is defined as the total dollar value of net orders received for which revenue has not yet been recognized. Management believes tracking orders and backlog are useful as it often times is a leading indicator of future performance. In accordance with industry practice, contracts may include provisions for cancellation, termination, or suspension at the discretion of the customer.

The book-to-bill ratio is an operational measure that management uses to track the growth prospects of the Company. The Company calculates the book-to-bill ratio for a given period as net orders divided by net sales.

Given that each of orders, backlog and book-to-bill ratio is an operational measure and that the Company's methodology for calculating these measures does not meet the definition of a non-GAAP measure, as that term is defined by the SEC, a quantitative reconciliation for each is not required or provided.

The following tables provide our orders by product line and geographic region including the percentage of total and change in comparison to the prior year for each category and period presented:

	Three Months Ended December 31,				Change		Nine Months Ended December 31,				Change	
Market	2023	%	2022	%	$	%	2023	%	2022	%	$	%
Refining	$ 5,372	4%	$ 3,764	19%	$ 1,608	43%	$ 23,778	10%	$ 23,978	16%	$ (200)	-1%
Chemical/Petrochemical	5,803	5%	2,313	12%	3,490	151%	20,908	9%	12,464	8%	8,444	68%
Space	6,086	5%	1,631	8%	4,455	273%	13,741	6%	12,647	8%	1,094	9%
Defense	103,233	84%	7,788	39%	95,445	1226%	157,036	69%	88,703	58%	68,333	77%
Other	2,773	2%	4,548	23%	(1,775)	-39%	12,202	5%	14,071	9%	(1,869)	-13%
Total orders	$ 123,267	100%	$ 20,044	100%	$ 103,223	515%	$ 227,665	100%	$ 151,863	100%	$ 75,802	50%
Geographic Region												
United States	$ 117,323	95%	$ 7,924	40%	$ 109,399	1381%	$ 201,398	88%	$ 122,536	81%	$ 78,862	64%
International	5,944	5%	12,120	60%	(6,176)	-51%	26,267	12%	29,327	19%	(3,060)	-10%
Total orders	$ 123,267	100%	$ 20,044	100%	$ 103,223	515%	$ 227,665	100%	$ 151,863	100%	$ 75,802	50%

Orders booked the three-month period ended December 31, 2023 were $123,267, an increase of $103,223 over the comparable period of fiscal 2023. Orders booked for the nine-month period ended December 31,2023 were $227,665, an increase of $75,802 over the comparable period of fiscal 2023. These increases were primarily related to large defense orders received in the third quarter of fiscal 2024. For the nine-month period ended December 31, 2023, our book-to-bill ratio was 1.7x. Orders during the first nine months of 2024 included the following:

•Approximately $103,233 in defense orders which were primarily related to follow-on orders for critical U.S. Navy programs related to the Columbia Class submarine and Ford Class carrier programs. These defense orders are expected to be recognized in revenue beginning in the fourth quarter of fiscal 2025 through early fiscal 2030.

•$22,000 of the defense orders related to a strategic investment and follow-on orders from a major defense customer. These orders include $13,500 to expand and enhance our Batavia, N.Y. production capabilities, primarily for machinery and equipment, in order to support the U.S. Navy's shipbuilding schedule.

•$9,100 for a vacuum distillation system for a refinery in India.

•Approximately $27,000 of aftermarket orders to the refining and chemical/petrochemical markets.

•$1,094 increase in space industry orders which is primarily due to continued growth in this business, as well as the acquisition of P3 partially offset by a decline due to the Virgin Orbit bankruptcy.

We believe the repeat U.S. Navy orders and strategic investment received validates the investments we made, our position as a key supplier to the defense industry and our customer's confidence in our execution. Additionally, we believe the strong aftermarket orders are significant because they historically have been a leading indicator of a cyclical upturn in capital project orders. However, we do not expect the next cycle to be as robust as years past due to the factors discussed above under "Current Market Conditions."

Orders to the U.S. represented 95% of total orders for the third quarter of fiscal 2024 compared to 40% in the third quarter of the prior year. Orders to the U.S. represented 88% of total orders for the first nine months of fiscal 2024 compared to 81% in the comparable prior year period. These orders were primarily to the defense market which are U.S. based.

The following table provides our backlog by market, including the percentage of total backlog, for each category and period presented:

Market	December 31, 2023	%	December 31, 2022	%	Change $	%
Refining	$ 27,428	7 %	$ 26,255	9 %	$ 1,173	4 %
Chemical/Petrochemical	14,815	5 %	10,996	5 %	3,819	35 %
Space	11,059	3 %	12,492	4 %	(1,433)	-11 %
Defense	334,455	84 %	234,485	80 %	99,970	43 %
Other	11,487	3 %	9,443	3 %	2,044	22 %
Total backlog	$ 399,244	100 %	$ 293,671	100 %	$ 105,573	36 %

Backlog was $399,244 at December 31, 2023, an increase of 36% compared with $293,671 at December 31, 2022. We expect to recognize revenue on approximately 40% of the backlog within one year, 25 to 30% in one to two years and the remaining beyond two years. The majority of the orders that are expected to convert beyond twenty-four months are for the defense industry, specifically the U.S. Navy that have a long conversion cycle (generally up to six years). During the third quarter of fiscal 2024, backlog acquired from P3 Technologies was $6,225. During the second quarter of fiscal 2024, we shipped the last of the first article units related to the Columbia Class submarine and Ford Class carrier programs. While we expect to continue to have first article programs in our backlog as we win new programs and applications, the amount as a percentage of total backlog should be reduced moving forward.

Outlook

We are providing the following fiscal 2024 outlook reflecting our current expectations:

Net Sales	$175 million to $185 million
Gross Profit	~20% of sales
SG&A Expenses(1)	~16-17% of sales
Tax Rate	22% to 23%
Adjusted EBITDA(2)	$15 million to $16 million

(1) Includes approximately $4.5 million to $5 million of BN Performance Bonus, P3 acquisition and integration, and ERP conversion costs included in SG&A expense.

(2) Excludes approximately $4.5 million to $5 million of BN Performance Bonus, P3 acquisition and integration, and ERP conversion costs included in SG&A expense and approximately $0.7 million of debt extinguishment charges.

See "Cautionary Note Regarding Forward-Looking Statements" and "Non-GAAP Measures" above for additional information about forward-looking statements and non-GAAP measures. 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.

We have made significant progress with the advancements in our business, which we believe puts us on schedule in achieving our fiscal 2027 goals of 8% to 10% average annualized organic revenue growth and Adjusted EBITDA margins in the low to mid-teens.

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, do not experience significant global health related disruptions, and assumes no further impact from Virgin Orbit or any other unforeseen events.

Commitments and Contingencies

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.

During the third quarter of fiscal 2024, the Audit Committee of the Board of Directors, with the assistance of external counsel and forensic professionals, concluded an investigation into a whistleblower complaint received regarding GIPL. The investigation identified both evidence supporting the complaint and other misconduct by employees. The other misconduct totaled $150 over a period of four years and was isolated to GIPL. All involved employees have been terminated and we have implemented remedial actions, including strengthening our compliance program and internal controls. As a result of the investigation, during the third quarter of fiscal 2024, the statutory auditor and bookkeeper of GIPL tendered their resignations and new firms were appointed. We have voluntarily reported the findings of our investigation to the appropriate authorities in India and the U.S. Department of Justice and the Securities and Exchange Commission. Although the resolutions of these matters are inherently uncertain, we do not believe any remaining impact will be material to our overall consolidated results of operations, financial position, or cash flows. For the first nine months of fiscal 2024 we incurred approximately $750 in costs related to this investigation.

As of December 31, 2023, 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. See Note 10 to the Condensed Consolidated Financial Statements included in Item 1 in this Quarterly Report on Form 10-Q for additional information.

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, 2023.

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 nine months of fiscal 2024 were 17% of total sales compared with 20% for the same period of fiscal 2023. 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 nine months of fiscal 2024 and fiscal 2023, 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 nine months of fiscal 2024, foreign currency exchange rate fluctuations reduced our cash balances by $39 primarily due to the strengthening of the U.S. dollar.

We have limited exposure to foreign currency purchases. In the first nine months of fiscal 2024, our purchases in foreign currencies represented approximately 4% 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 December 31, 2023 and March 31, 2023, 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, including those associated with the impact of COVID-19. International conflicts or other geopolitical events, including the 2022 Russian invasion of Ukraine and the Israel-Hamas war, 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 order to fund our strategic growth objectives, including acquisitions, we borrow funds under our revolving credit facility that bears interest at a variable rate. 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 December 31, 2023, we had $3,000 of variable rate debt outstanding on our revolving credit facility and no interest rate derivatives outstanding. See "Debt" in Note 13 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 $3,000 of variable rate debt outstanding at December 31, 2023 would have an impact of approximately $30 on our interest expense for fiscal 2024.

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 P3 Technologies 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.

P3 Technologies Acquisition

On November 9, 2023, we acquired P3 Technologies, LLC, a privately-owned custom turbomachinery engineering, product development and manufacturing business located in Jupiter, Florida. For additional information regarding the acquisition, refer to Note 2 to the 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 end of the period covered by this report does not include P3 Technologies, LLC. We plan to include P3 Technologies, LLC in our annual assessment for the fiscal year ending March 31, 2025.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

If we fail to successfully integrate the operations of P3 Technologies, LLC, our financial condition and results of operations could be adversely affected.

On November 9, 2023, we acquired P3 Technologies, LLC, a privately-owned custom turbomachinery engineering, product development, and manufacturing business that serves the space, new energy and medical industries. We cannot provide any assurances that we will be able to integrate the operations of P3 Technologies, LLC without encountering difficulties, including unanticipated costs, difficulty in retaining customers and supplier or other relationships, failure to retain key employees, diversion of management's attention, failure to integrate our information and accounting systems or establish and maintain proper internal control over financial reporting, any of which would harm our business and results of operations.

Furthermore, we may not realize the revenue and net income that we expect to achieve or that would justify our investment in P3 Technologies, LLC, and we may incur costs in excess of what we anticipate. To effectively manage our expected future growth, we must continue to successfully manage our integration of P3 Technologies, LLC and continue to improve our operational systems, internal procedures, accounts receivable and management, financial and operational controls. If we fail in any of these areas, our business and results of operations could be harmed.

Our acquisition of P3 Technologies, LLC might subject us to unknown and unforeseen liabilities.

P3 Technologies, LLC may have unknown liabilities, including, but not limited to, product liability, workers' compensation liability, tax liability and liability for improper business practices. Although we are entitled to indemnification from the seller of P3 Technologies, LLC for these and other matters, we could experience difficulty enforcing those obligations or we could incur material liabilities for the past activities of P3 Technologies, LLC. Such liabilities and related legal or other costs could harm our business or results of operations.

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. Any future determination by our board of directors regarding dividends will depend on a variety of factors, including our compliance with the terms of our revolving credit facility, 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	Credit Agreement, dated as of October 13, 2023, by and among Graham Corporation, as borrower, and Wells Fargo Bank, National Association, as lender, is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 13, 2023.
	(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 With Embedded Linkbase Documents
(104)			Cover Page Interactive Data File embedded within the Inline XBRL document

+ Exhibit filed with this report
++ Exhibit furnished with this report
* Certain schedules of this exhibit have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission or its staff a copy of the omitted schedules upon request.

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: February 5, 2024

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: February 5, 2024

/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: February 5, 2024

/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 December 31, 2023 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: February 5, 2024

/s/CHRISTOPHER J. THOME
Christopher J. Thome
Vice President-Finance and Chief Financial Officer
(Principal Financial Officer)
Date: February 5, 2024

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.