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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

or

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

For the transition period from _____________ to ___________

Commission File Number 1-8462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**16-1194720**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
20 Florence Avenue, Batavia, New York	**14020**
(Address of principal executive offices)	**(Zip Code)**

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 definition 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 October 30, 2019, there were outstanding 9,883,017 shares of the registrant's common stock, par value $.10 per share.

Graham Corporation and Subsidiaries

Index to Form 10-Q

As of September 30, 2019 and March 31, 2019 and for the Three and Six-Month Periods Ended September 30, 2019 and 2018

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

SEPTEMBER 30, 2019

PART I – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
	(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)	
Net sales	$ 21,643	$ 21,441	$ 42,236	$ 50,992
Cost of products sold	16,695	15,214	32,574	37,623
Gross profit	4,948	6,227	9,662	13,369
Other expenses and income:				
Selling, general and administrative	3,847	4,718	8,403	9,269
Selling, general and administrative – amortization	—	60	11	119
Other expense	—	—	523	—
Other income	(87)	(206)	(174)	(412)
Interest income	(363)	(351)	(762)	(640)
Interest expense	4	1	7	3
Total other expenses and income	3,401	4,222	8,008	8,339
Income before provision for income taxes	1,547	2,005	1,654	5,030
Provision for income taxes	342	178	367	880
Net income	$ 1,205	$ 1,827	$ 1,287	$ 4,150
Per share data				
Basic:				
Net income	$ 0.12	$ 0.19	$ 0.13	$ 0.42
Diluted:				
Net income	$ 0.12	$ 0.19	$ 0.13	$ 0.42
Weighted average common shares outstanding:				
Basic	9,883	9,832	9,869	9,810
Diluted	9,885	9,848	9,872	9,826
Dividends declared per share	$ 0.11	$ 0.10	$ 0.21	$ 0.19

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
	(Amounts in thousands)		(Amounts in thousands)	
Net income	$ 1,205	$ 1,827	$ 1,287	$ 4,150
Other comprehensive income:				
Foreign currency translation adjustment	(136)	(134)	(223)	(333)
Defined benefit pension and other postretirement plans net of income tax expense of $54 and $48, for the three months ended September 30, 2019 and 2018, respectively, and $109 and $97 for the six months ended September 30, 2019 and 2018, respectively	195	170	389	340
Total other comprehensive income	59	36	166	7
Total comprehensive income	$ 1,264	$ 1,863	$ 1,453	$ 4,157

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2019	March 31, 2019
	(Amounts in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 11,882	$ 15,021
Investments	61,914	62,732
Trade accounts receivable, net of allowances ($26 and $33 at September 30 and March 31, 2019, respectively)	12,120	17,582
Unbilled revenue	13,036	7,522
Inventories	23,597	24,670
Prepaid expenses and other current assets	1,165	1,333
Income taxes receivable	840	1,073
Assets held for sale	—	4,850
Total current assets	124,554	134,783
Property, plant and equipment, net	16,761	17,071
Prepaid pension asset	4,702	4,267
Operating lease assets	312	—
Other assets	135	149
Total assets	$ 146,464	$ 156,270
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of capital lease obligations	$ 50	$ 51
Accounts payable	7,617	12,405
Accrued compensation	5,273	5,126
Accrued expenses and other current liabilities	2,443	2,933
Customer deposits	29,609	30,847
Operating lease liabilities	148	—
Liabilities held for sale	—	3,525
Total current liabilities	45,140	54,887
Capital lease obligations	71	95
Operating lease liabilities	157	—
Deferred income tax liability	1,283	1,056
Accrued pension liability	704	662
Accrued postretirement benefits	614	604
Total liabilities	47,969	57,304
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500 shares authorized	—	—
Common stock, $.10 par value, 25,500 shares authorized, 10,699 and 10,650 shares issued and 9,883 and 9,843 shares outstanding at September 30 and March 31, 2019, respectively	1,070	1,065
Capital in excess of par value	25,714	25,277
Retained earnings	92,979	93,847
Accumulated other comprehensive loss	(8,667)	(8,833)
Treasury stock (816 and 807 shares at September 30 and March 31, 2019, respectively)	(12,601)	(12,390)
Total stockholders' equity	98,495	98,966
Total liabilities and stockholders' equity	$ 146,464	$ 156,270

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended September 30, 2019	Six Months Ended September 30, 2018
Operating activities:	(Dollar amounts in thousands)	
Net income	$ 1,287	$ 4,150
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation	980	980
Amortization	11	119
Amortization of unrecognized prior service cost and actuarial losses	498	437
Equity-based compensation expense	412	534
Loss on disposal or sale of property, plant and equipment	—	30
Loss on sale of Energy Steel & Supply Co.	87	—
Deferred income taxes	119	207
(Increase) decrease in operating assets:		
Accounts receivable	5,287	2,656
Unbilled revenue	(5,514)	(5,276)
Inventories	990	3,652
Prepaid expenses and other current and non-current assets	109	(679)
Income taxes receivable	233	(303)
Operating lease assets	138	—
Prepaid pension asset	(435)	(576)
Increase (decrease) in operating liabilities:		
Accounts payable	(4,721)	(6,097)
Accrued compensation, accrued expenses and other current and non-current liabilities	(268)	1,086
Customer deposits	(1,116)	4,096
Operating lease liabilities	(64)	—
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	52	59
Net cash (used) provided by operating activities	(1,915)	5,075
Investing activities:		
Purchase of property, plant and equipment	(679)	(367)
Proceeds from the sale of Energy Steel & Supply Co.	602	—
Purchase of investments	(82,414)	(64,611)
Redemption of investments at maturity	83,232	45,023
Net cash provided (used) by investing activities	741	(19,955)
Financing activities:		
Principal repayments on capital lease obligations	(25)	(52)
Issuance of common stock	—	171
Dividends paid	(2,075)	(1,868)
Purchase of treasury stock	(230)	(146)
Net cash used by financing activities	(2,330)	(1,895)
Effect of exchange rate changes on cash	(187)	(303)
Net decrease in cash and cash equivalents, including cash classified within current assets held for sale	(3,691)	(17,078)
Plus: Net decrease in cash classified within current assets held for sale	552	—
Net decrease in cash and cash equivalents	(3,139)	(17,078)
Cash and cash equivalents at beginning of period	15,021	40,456
Cash and cash equivalents at end of period	$ 11,882	$ 23,378

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

SIX MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(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, 2019	10,650	$ 1,065	$ 25,277	$ 93,847	$ (8,833)	$ (12,390)	$ 98,966
Cumulative effect of change in accounting principle				(80)			(80)
Comprehensive income				82	107		189
Issuance of shares	83	8	(8)				—
Forfeiture of shares	(34)	(3)	3				—
Dividends				(988)			(988)
Recognition of equity-based compensation expense			88				88
Purchase of treasury stock						(230)	(230)
Balance at June 30, 2019	10,699	1,070	25,360	92,861	(8,726)	(12,620)	97,945
Comprehensive income				1,205	59		1,264
Dividends				(1,087)			(1,087)
Recognition of equity-based compensation expense			324				324
Issuance of treasury stock			30			19	49
Balance at September 30, 2019	10,699	$ 1,070	$ 25,714	$ 92,979	$ (8,667)	$ (12,601)	$ 98,495

	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, 2018	10,579	$ 1,058	$ 23,826	$ 99,011	$ (8,250)	$ (12,296)	$ 103,349
Cumulative effect of change in accounting principle				(1,022)			(1,022)
Comprehensive income				2,323	(29)		2,294
Issuance of shares	59	6	96				102
Dividends				(885)			(885)
Recognition of equity-based compensation expense			260				260
Purchase of treasury stock						(146)	(146)
Balance at June 30, 2018	10,638	1,064	24,182	99,427	(8,279)	(12,442)	103,952
Comprehensive income				1,827	36		1,863
Issuance of shares	4		69				69
Dividends				(983)			(983)
Recognition of equity-based compensation expense			274				274
Issuance of treasury stock			47			32	79
Balance at September 30, 2018	10,642	$ 1,064	$ 24,572	$ 100,271	$ (8,243)	$ (12,410)	$ 105,254

See Notes to Condensed Consolidated Financial Statements.

NOTE 1 – BASIS OF PRESENTATION:

Graham Corporation's (the "Company's") Condensed Consolidated Financial Statements include its wholly-owned foreign subsidiaries located in Suzhou, China and Ahmedabad, India. During the fiscal year ended March 31, 2019 ("fiscal 2019") the Company decided to divest of its wholly-owned domestic subsidiary, Energy Steel & Supply Co. ("Energy Steel"), located in Lapeer, Michigan. The sale of Energy Steel was completed in June 2019 and the accompanying Condensed Consolidated Financial Statements include the results of operations of Energy Steel for the period April 1, 2018 through June 23, 2019. 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 10-01 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, 2019 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2019. 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, 2019 fiscal 2019. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair presentation, have been included in the Company's Condensed Consolidated Financial Statements.

The Company's results of operations and cash flows for the three and six months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the current fiscal year, which ends March 31, 2020 ("fiscal 2020").

NOTE 2 – REVENUE RECOGNITION:

The Company accounts for revenue in accordance with Accounting Standard Codification 606, “Revenue from Contracts with Customers” (“ASC 606”), which it adopted on April 1, 2018 using the modified retrospective approach.

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
Product Line	2019	2018	2019	2018
Heat transfer equipment	$ 6,479	$ 6,173	$ 14,331	$ 10,331
Vacuum equipment	8,733	7,842	14,263	25,058
All other	6,431	7,426	13,642	15,603
Net sales	$ 21,643	$ 21,441	$ 42,236	$ 50,992
Geographic Region				
Asia	$ 1,018	$ 1,876	$ 4,237	$ 4,625
Canada	1,896	3,473	3,244	15,123
Middle East	512	464	1,285	899
South America	2,117	68	2,476	192
U.S.	15,731	15,073	30,179	28,526
All other	369	487	815	1,627
Net sales	$ 21,643	$ 21,441	$ 42,236	$ 50,992

A performance obligation represents a promise in a contract to provide a distinct good or service to a customer and is the unit of accounting pursuant to ASC 606. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Transaction price reflects the amount of consideration to which the Company expects to be entitled in exchange for transferred products. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized as the performance obligation is satisfied. In certain cases, the Company may separate a contract into more than one performance obligation, while in other cases, several products may be part of a fully integrated solution and are bundled into a single performance obligation. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods underlying each performance obligation. The Company has made an accounting policy election to exclude from the measurement of the contract price all taxes assessed by government authorities that are collected by the Company from its customers. The Company does not adjust the contract price for the effects of a financing component if the Company expects, at contract inception, that the period between when a product is transferred to a customer and when the customer pays for the product will be one year or less. Shipping and handling fees billed to the customer are recorded in revenue and the related costs incurred for shipping and handling are included in cost of products sold.

Revenue on the majority of the Company's contracts, as measured by number of contracts, is recognized upon shipment to the customer, however, revenue on larger contracts, which are fewer in number but represent the majority of revenue, is recognized over time as these contracts meet specific criteria established in ASC 606. Revenue from contracts that is recognized upon shipment accounted for approximately 30% and 35% of revenue for the three-month periods ended September 30, 2019 and 2018, respectively, and revenue from contracts that is recognized over time accounted for approximately 70% and 65% of revenue for the three-month periods ended September 30, 2019 and 2018, respectively. Revenue from contracts that is recognized upon shipment accounted for approximately 35% of revenue in each of the six-month periods ended September 30, 2019 and 2018 and revenue from contracts that is recognized over time accounted for approximately 65% of revenue for each of the six-month periods ended September 30, 2019 and 2018. 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 or an output method based upon completion of operational milestones, depending upon the nature of the contract. The Company has established the systems and procedures essential to developing the estimates required to account for performance obligations over time. These procedures include monthly review by management of costs incurred, progress towards completion, identified risks and opportunities, sourcing determinations, changes in estimates of costs yet to be incurred, availability of materials, and execution by subcontractors. Sales and earnings are adjusted in current accounting periods based on revisions in the contract value due to pricing changes and estimated costs at completion. Losses on contracts are recognized immediately when evident to management.

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

Net contract assets (liabilities) consisted of the following:

	September 30, 2019	March 31, 2019	Change
Unbilled revenue (contract assets)	$ 13,036	$ 7,522	$ 5,514
Customer deposits (contract liabilities)	(29,609)	(30,847)	1,238
Net contract liabilities	$ (16,573)	$ (23,325)	$ 6,752

Contract liabilities at September 30, 2019 and March 31, 2019 include $3,904 and $6,382, respectively, of customer deposits for which the Company has an unconditional right to collect payment. Trade accounts receivable, as presented on the Condensed Consolidated Balance Sheets, includes corresponding balances at September 30, 2019 and March 31, 2019, respectively. Revenue recognized in the three and six months ended September 30, 2019 that was included in the contract liability balance at March 31, 2019 was $5,610 and $11,032, respectively. Changes in the net contract liability balance during the six months ended September 30, 2019 were impacted by a $5,514 increase in contract assets, of which $6,590 was due to contract progress offset by invoicing to customers of $1,076. In addition, contract liabilities decreased $1,238 driven by revenue recognized in the current period that was included in the contract liability balance at March 31, 2019 offset by new customer deposits of $9,794.

Receivables billed but not paid under retainage provisions in the Company's customer contracts were $2,319 and $2,214 at September 30, 2019 and March 31, 2019, respectively.

Incremental costs to obtain a contract consist of sales employee and agent commissions. Commissions paid to employees and sales agents are capitalized when paid and amortized to selling, general and administrative expense when the related revenue is recognized. Capitalized costs, net of amortization, to obtain a contract were $100 and $133 at September 30, 2019 and March 31, 2019, respectively, and are included in the line item "Prepaid expenses and other current assets" in the Condensed Consolidated Balance Sheets. The related amortization expense was $40 and $42 in the three months ended September 30, 2019 and 2018, respectively, and $86 and $82 in the six months ended September 30, 2019 and 2018, respectively.

The Company's remaining unsatisfied performance obligations represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. The Company also refers to this measure as backlog. As of September 30, 2019, the Company had remaining unsatisfied performance obligations of $127,765. The Company expects to recognize revenue on approximately 55% to 60% of the remaining performance obligations within one year, 10% to 15% in one to two years and the remaining beyond two years.

NOTE 3 – INVESTMENTS:

Investments consist of certificates of deposits with financial institutions. All investments have original maturities of greater than three months and less than one year and are classified as held-to-maturity, as the Company believes it has the intent and ability to hold the securities to maturity. Investments are stated at amortized cost which approximates fair value. All investments held by the Company at September 30, 2019 are scheduled to mature on or before December 30, 2019.

NOTE 4 – INVENTORIES:

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

Major classifications of inventories are as follows:

	September 30, 2019	March 31, 2019
Raw materials and supplies	$ 2,616	$ 2,787
Work in process	19,722	20,553
Finished products	1,259	1,330
Total	$ 23,597	$ 24,670

NOTE 5 – ASSETS AND LIABILITIES HELD FOR SALE:

In March 2019, the Company's Board of Directors approved a plan to sell Energy Steel. Energy Steel met all of the criteria to classify its assets and liabilities as held for sale at March 31, 2019. The disposal of Energy Steel did not represent a strategic shift that would have a major effect on the Company's operations and financial results and was, therefore, not classified as discontinued operations in accordance with ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operation And Disclosures of Disposals Of Components Of An Entity." As part of the required assessment under the held for sale guidance, the Company determined that the approximate fair value less costs to sell the operations was less than its carrying value and, as a result, an impairment loss totaling $6,449 was recorded in fiscal 2019.

On June 24, 2019, the Company completed the sale of Energy Steel to Hayward Tyler, a division of Avingtrans PLC, a global leader in performance-critical pumps and motors for the energy sector. Under the terms of the stock purchase agreement, the Company received proceeds of $602, subject to certain adjustments, including a customary working capital adjustment. The purchase price was finalized within 90 days of the sale and no adjustments to the purchase price were required. In addition, $202 of Energy Steel's net accounts receivable was retained by the Company. The Company recognized a loss on the disposal of $87 in the first quarter of fiscal 2020. As of June 24, 2019, all of the Energy Steel assets and liabilities were legally transferred, and therefore, are not included in the Company's Condensed Consolidated Balance Sheet at September 30, 2019.

The following table reconciles the major classes of assets and liabilities classified as held for sale in the Condensed Consolidated Balance Sheet at March 31, 2019:

		March 31, 2019
Major classes of assets included as held for sale		
Cash	$	552
Trade accounts receivable, net of allowances		1,921
Unbilled revenue		302
Inventories		1,809
Prepaid expenses and other current assets		130
Income taxes receivable		10
Deferred tax asset		126
Total major classes of assets included as held for sale	$	4,850
Major classes of liabilities included as held for sale		
Accounts payable	$	520
Accrued compensation		326
Accrued expenses and other current liabilities		746
Customer deposits		1,933
Total major classes of liabilities included as held for sale	$	3,525

NOTE 6 – EQUITY-BASED COMPENSATION:

The Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value, as approved by the Company's stockholders at the Annual Meeting on July 28, 2016, provides for the issuance of up to 1,375 shares of common stock in connection with grants of incentive stock options, non-qualified stock options, stock awards and performance awards to officers, key employees and outside directors; provided, however, that no more than 467 shares of common stock may be used for awards other than stock options. Stock options may be granted at prices not less than the fair market value at the date of grant and expire no later than ten years after the date of grant.

No restricted stock awards were granted in the three-month periods ended September 30, 2019 and 2018. Restricted stock awards granted in the six-month periods ended September 30, 2019 and 2018 were 83 and 53, respectively. Restricted shares of 40 and 27 granted to officers in fiscal 2020 and fiscal 2019, respectively, vest 100% on the third anniversary of the grant date subject to the satisfaction of the performance metrics for the applicable three-year period. Restricted shares of 28 and 20 granted to officers and key employees in fiscal 2020 and fiscal 2019, respectively, vest 33⅓% per year over a three-year term. Restricted shares of 15 and 6 granted to directors in fiscal 2020 and fiscal 2019, respectively, vest 100% on the first year anniversary of the grant date. No stock option awards were granted in the three-month or six-month periods ended September 30, 2019 and 2018.

During the three months ended September 30, 2019 and 2018, the Company recognized equity-based compensation costs related to restricted stock awards of $313 and $274, respectively. The income tax benefit recognized related to equity-based compensation was $69 and $60 for the three months ended September 30, 2019 and 2018, respectively. During the six months ended September 30, 2019 and 2018, the Company recognized equity-based compensation costs related to restricted stock awards of $401 and $534, respectively. The income tax benefit recognized related to equity-based compensation was $89 and $118 for the six months ended September 30, 2019 and 2018, respectively.

The Company has an Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock at a discount of up to 15% of its fair market value on the (1) last, (2) first or (3) lower of the last or first day of the six-month offering period. A total of 200 shares of common stock may be purchased under the ESPP. During the three months ended September 30, 2019 and 2018, the Company recognized equity-based compensation costs of $11 and $0, respectively, related to the ESPP and $2 and $0, respectively, of related tax benefits. During the six months ended September 30, 2019 and 2018, the Company recognized equity-based compensation costs of $11 and $0, respectively, related to the ESPP and $2 and $0, respectively, of related tax benefits.

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 September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Basic income per share				
Numerator:				
Net income	$ 1,205	$ 1,827	$ 1,287	$ 4,150
Denominator:				
Weighted average common shares outstanding	9,883	9,832	9,869	9,810
Basic income per share	$ .12	$ .19	$ .13	$ .42
Diluted income per share				
Numerator:				
Net income	$ 1,205	$ 1,827	$ 1,287	$ 4,150
Denominator:				
Weighted average common shares outstanding	9,883	9,832	9,869	9,810
Stock options outstanding	2	16	3	16
Weighted average common and potential common shares outstanding	9,885	9,848	9,872	9,826
Diluted income per share	$ .12	$ .19	$ .13	$ .42

Options to purchase a total of 4 shares of common stock were outstanding at September 30, 2019, but were not included in the above computation of diluted income per share given their exercise prices as they would not be dilutive upon issuance.

NOTE 8 – PRODUCT WARRANTY LIABILITY:

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Balance at beginning of period	$ 358	$ 492	$ 366	$ 493
Expense (income) for product warranties	1	(37)	28	11
Product warranty claims paid	(11)	(106)	(46)	(155)
Balance at end of period	$ 348	$ 349	$ 348	$ 349

Income of $37 for product warranties in the three months ended September 30, 2018 resulted from the reversal of provisions made that were no longer required due to lower claims experience.

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

NOTE 9 – LEASES:

The Company accounts for leases in accordance with Accounting Standard Codification 842, "Leases," which it adopted on April 1, 2019 using the modified retrospective approach. See Note 16 to the Condensed Consolidated Financial Statements for further discussion of this adoption.

The Company leases certain manufacturing facilities, office space, machinery and office equipment. An arrangement is considered to contain a lease if it conveys the right to use and control an identified asset for a period of time in exchange for consideration. If it is determined that an arrangement contains a lease, then a classification of a lease as operating or finance is determined by evaluating the five criteria outlined in the lease accounting guidance at inception. Leases generally have remaining terms of one year to five years, whereas leases with an initial term of twelve months or less are not recorded on the Condensed Consolidated Balance Sheets. The depreciable life of leased assets related to finance leases is limited by the expected term of the lease, unless there is a transfer of title or purchase option that the Company believes is reasonably certain of exercise. Certain leases include options to renew or terminate. Renewal options are exercisable per the discretion of the Company and vary based on the nature of each lease. The term of the lease includes renewal periods only if the Company is reasonably certain that it will exercise the renewal option. When determining if a renewal option is reasonably certain of being exercised, the Company considers several factors, including but not limited to, the cost of moving to another location, the cost of disrupting operations, whether the purpose or location of the leased asset is unique and the contractual terms associated with extending the lease. The Company's lease agreements do not contain any residual value guarantees or any material restrictive covenants and the Company does not sublease to any third parties. As of September 30, 2019, the Company did not have any material leases that have been signed but not commenced.

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

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

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

	September 30, 2019
Finance Leases	
Weighted-average remaining lease term in years	1.65
Weighted-average discount rate	9.27 %
Operating Leases	
Weighted-average remaining lease term in years	2.13
Weighted-average discount rate	5.50 %

The components of lease expense are as follows:

	Three Months Ended September 30, 2019	Six Months Ended September 30, 2019
Finance lease cost:		
Amortization of right-of-use assets	$ 13	$ 26
Interest on lease liabilities	3	6
Operating lease cost	37	146
Short-term lease cost	6	17
Total lease cost	$ 59	$ 195

Operating lease costs during the three and six months ended September 30, 2019 were included within cost of sales and selling, general and administrative expenses.

As of September 30, 2019, future minimum payments required under non-cancelable leases are:

	Operating Leases	Finance Leases
Remainder of 2020	$ 66	$ 31
2021	159	48
2022	62	26
2023	32	26
2024	7	11
2025	—	—
Total lease payments	326	142
Less – amount representing interest	21	21
Present value of net minimum lease payments	$ 305	$ 121

The Company's future minimum lease commitments for operating leases as of March 31, 2019 for the fiscal years 2020 through 2024 were $501, $301, $37, $32, and $8, respectively. Future minimum lease commitments for finance leases as of March 31, 2019 for the fiscal years 2020 through 2024 were $62, $47, $26, $26, and $11, respectively.

ROU assets obtained in exchange for new operating lease liabilities were $78 and $221 in the three and six months ended September 30, 2019, respectively.

NOTE 10 – CASH FLOW STATEMENT:

Interest paid was $7 and $3 in the six-month periods ended September 30, 2019 and 2018, respectively. Income taxes paid for the six months ended September 30, 2019 and 2018 were $14 and $976, respectively.

In the six months ended September 30, 2019 and 2018, non-cash activities included the issuance of treasury stock valued at $49 and $79, respectively, to the Company's ESPP.

At September 30, 2019 and 2018, there were $87 and $68, respectively, of capital purchases that were recorded in accounts payable and are not included in the caption "Purchase of property, plant and equipment" in the Condensed Consolidated Statements of Cash Flows.

NOTE 11 – EMPLOYEE BENEFIT PLANS:

The components of pension cost are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Service cost	$ 124	$ 143	$ 248	$ 286
Interest cost	323	335	646	670
Expected return on assets	(665)	(765)	(1,329)	(1,531)
Amortization of actuarial loss	242	211	484	423
Net pension cost (income)	$ 24	$ (76)	$ 49	$ (152)

The Company made no contributions to its defined benefit pension plan during the six months ended September 30, 2019 and does not expect to make any contributions to the plan for the balance of fiscal 2020.

The components of the postretirement benefit cost are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Interest cost	$ 6	$ 6	$ 11	$ 12
Amortization of actuarial loss	7	7	14	14
Net postretirement benefit cost	$ 13	$ 13	$ 25	$ 26

The Company paid benefits of $1 related to its postretirement benefit plan during the six months ended September 30, 2019. The Company expects to pay benefits of approximately $77 for the balance of fiscal 2020.

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

The Company self-funds the medical insurance coverage it provides to its U.S. based employees. The Company maintains a stop loss insurance policy in order to limit its exposure to claims. The liability of $135 and $150 on September 30, 2019 and March 31, 2019, respectively, related to the self-insured medical plan is primarily based upon claim history and is included in the caption "Accrued compensation" as a current liability in the Condensed Consolidated Balance Sheets.

NOTE 12 – COMMITMENTS AND CONTINGENCIES:

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

As of September 30, 2019, 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, 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.

NOTE 13 – 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 2015 through 2018 and examination in state tax jurisdictions for the tax years 2014 through 2018. The Company is subject to examination in the People's Republic of China for tax years 2016 through 2018.

There was no liability for unrecognized tax benefits at either September 30, 2019 or March 31, 2019.

NOTE 14 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS:

The changes in accumulated other comprehensive loss by component for the six months ended September 30, 2019 and 2018 are as follows:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2019	$ (8,947)	$ 114	$ (8,833)
Other comprehensive loss before reclassifications	—	(223)	(223)
Amounts reclassified from accumulated other comprehensive loss	389	—	389
Net current-period other comprehensive income (loss)	389	(223)	166
Balance at September 30, 2019	$ (8,558)	$ (109)	$ (8,667)

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2018	$ (8,599)	$ 349	$ (8,250)
Other comprehensive loss before reclassifications	—	(333)	(333)
Amounts reclassified from accumulated other comprehensive loss	340	—	340
Net current-period other comprehensive income (loss)	340	(333)	7
Balance at September 30, 2018	$ (8,259)	$ 16	$ (8,243)

The reclassifications out of accumulated other comprehensive loss by component for the three and six months ended September 30, 2019 and 2018 are as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Condensed Consolidated Statements of Income
	Three Months Ended September 30,		
	2019	2018	
Pension and other postretirement benefit items:			
Amortization of actuarial loss	$ (249) (1)	$ (218) (1)	Income before provision for income taxes
	(54)	(48)	Provision for income taxes
	$ (195)	$ (170)	Net income

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Six Months Ended September 30, 2019	2018	Affected Line Item in the Condensed Consolidated Statements of Income
Pension and other postretirement benefit items:			
Amortization of actuarial loss	$ (498) (1)	$ (437) (1)	Income before provision for income taxes
	(109)	(97)	Provision for income taxes
	$ (389)	$ (340)	Net income

(1) These accumulated other comprehensive loss components are included within the computation of pension and other postretirement benefit costs. See Note 11.

NOTE 15 – OTHER EXPENSE:

On June 24, 2019, the Company sold Energy Steel and recognized a loss on the sale of $87. See Note 5 to the Condensed Consolidated Financial Statements for further discussion of the sale. In addition, during the first quarter of fiscal 2019, the Company incurred a bad debt charge of $98 and an inventory write down of $338 related to the bankruptcy of Westinghouse Electric Company. All of these items are included in the line item “Other expense” in the Condensed Consolidated Statement of Income for the six months ended September 30, 2019.

NOTE 16 – ACCOUNTING AND REPORTING CHANGES:

In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB"), the Securities and Exchange Commission, the Emerging Issues Task Force, the American Institute of Certified Public Accountants or any other authoritative accounting bodies to determine the potential impact they may have on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)," which requires companies to recognize all leases as assets and liabilities on the consolidated balance sheet. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. This ASU retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous accounting guidance. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted.

The Company adopted the new standard using the modified retrospective approach on April 1, 2019. The Company elected the available transition method that uses the effective date of the amended guidance as the date of initial application. The guidance provided for several practical expedients. The Company elected the package of practical expedients permitted under the transition guidance which allows entities to carry forward historical lease classification. The Company made an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. The Company recognizes those lease payments in the Condensed Consolidated Statements of Income and on a straight-line basis over the lease term. On April 1, 2019, the Company recognized the cumulative effect of initially applying the amended guidance which resulted in the recognition of operating lease ROU assets of $676, lease liabilities of $732 and a decrease to the opening balance of retained earnings of $80. Other current assets and the deferred income tax liability were reduced by $47 and $20, respectively. Approximately $500 of ROU assets and lease liabilities were related to the business held for sale at March 31, 2019 and subsequently sold on June 24, 2019. See Note 9 to the Condensed Consolidated Financial Statements for additional information on the Company’s leases.

Management does not expect any other recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company's consolidated financial statements.

Item 2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**
(Dollar amounts in thousands, except per share data)

Overview

We are a global business that designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. For the chemical and petrochemical industries, our equipment is used in fertilizer, ethylene, methanol and downstream chemical facilities.

Our global brand is built upon our world-renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible service and high quality standards. We design and manufacture custom-engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. Our equipment can also be found in other diverse applications such as metal refining, pulp and paper processing, water heating, refrigeration, desalination, food processing, pharmaceutical, and heating, ventilating and air conditioning.

Our corporate headquarters are located in Batavia, New York. We have production facilities co-located with our headquarters in Batavia. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("GVHTT"), located in Suzhou, China. GVHTT provides sales and engineering support for us in the People's Republic of China and management oversight throughout Southeast Asia. In our fiscal year ended March 31, 2019 (which we refer to as "fiscal 2019"), we established Graham India Private Limited ("GIPL") as a wholly-owned subsidiary. GIPL, located in Ahmedabad, India, serves as a sales and market development office focusing on the refining, petrochemical and fertilizer markets.

In the first quarter of fiscal 2020, we completed the sale of our commercial nuclear business, Energy Steel and Supply Co. ("Energy Steel").

Our current fiscal year (which we refer to as "fiscal 2020") ends March 31, 2020.

Highlights

Highlights for the three and six months ended September 30, 2019 include:

- Net sales for the second quarter of fiscal 2020 were $21,643 up 1% compared with $21,441 for the second quarter of fiscal 2019. Net sales for the first six months of fiscal 2020 were $42,236, down 17% compared with net sales of $50,992 for the first six months of fiscal 2019.

- Net income and income per diluted share for the second quarter of fiscal 2020 were $1,205 and $0.12, respectively, compared with $1,827 and $0.19, respectively, in the second quarter of fiscal 2019. Excluding the results in the second quarter of fiscal 2019 of our commercial nuclear business, net income and income per diluted share for the second quarter of fiscal 2019 were $2,390 and $0.24, respectively. Net income and income per diluted share for the first six months of fiscal 2020 were $1,287 and $0.13, respectively, compared with net income of $4,150 and income per diluted share of $0.42 for the first six months of fiscal 2019. Excluding the results in the first quarter of fiscal 2020 of our commercial nuclear business as well as the costs related to the sale of that business, net income and income per diluted share for the first six months of fiscal 2020 were $2,187 and $0.22, compared with net income of $5,112 and income per diluted share of $0.52 for the first six months of fiscal 2019. We believe that, when used in conjunction with measures prepared in accordance with GAAP, non-GAAP financial measures help in the understanding of our operating performance. See "Non-GAAP Financial Measures", under the "Results of Operations" section for reconciliations to non-GAAP financial measures.

- Orders booked in the second quarter of fiscal 2020 were $32,552, compared with the second quarter of fiscal 2019 when orders booked were $34,416. Included in last year's second quarter orders were orders of $2,305 from our commercial nuclear business. Orders booked in the first six months of fiscal 2020 were $47,641, compared with the first six months of fiscal 2019, when orders were $56,393. Excluding orders from our commercial nuclear business, orders booked in the first six months of fiscal 2020 and fiscal 2019 were $44,645 and $50,089, respectively.

- Backlog was $127,765 at September 30, 2019, compared with $117,185 at June 30, 2019 and $132,127 at March 31, 2019. Backlog at March 31, 2019 included $8,039 related to the commercial nuclear business we sold in the first quarter of fiscal 2020.

- Gross profit margin and operating margin for the second quarter of fiscal 2020 were 23% and 5%, respectively, compared with 29% and 7%, respectively, for the second quarter of fiscal 2019. Gross profit margin and operating margin for the first six months of fiscal 2020 were 23% and 2%, respectively. Excluding the results of the commercial nuclear business, gross profit margin and operating margin for the first six months of fiscal 2020 were 24% and 5%, respectively, compared with 29% and 11%, respectively, for the first six months of fiscal 2019.

- Cash and short-term investments at September 30, 2019 were $73,796, compared with $77,753 on March 31, 2019.

Forward-Looking Statements

This report and other documents we file with the Securities and Exchange Commission 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.

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. Such factors include, but are not limited to, the risks and uncertainties identified by us under the heading "Risk Factors" in Item 1A of our Annual Report on Form 10-K for fiscal 2019.

Forward-looking statements may also include, but are not limited to, statements about:

- the current and future economic environments affecting us and the markets we serve;
- expectations regarding investments in new projects by our customers;
- sources of revenue and anticipated revenue, including the contribution from anticipated growth;
- expectations regarding achievement of revenue and profitability;
- plans for future products and services and for enhancements to existing products and services;
- our operations in foreign countries;
- political instability in regions in which our customers are located;
- tariffs and trade relations between the United States and its trading partners;
- our ability to affect our growth and acquisition strategy;
- our ability to maintain or expand work for the U.S. Navy;
- our ability to successfully execute our existing contracts;
- estimates regarding our liquidity and capital requirements;
- timing of conversion of backlog to sales;
- our ability to attract or retain customers;
- the outcome of any existing or future litigation; and
- our ability to increase our productivity and capacity.

Forward-looking statements are usually accompanied by words such as "anticipate," "believe," "estimate," "may," "might," "intend," "interest," "appear," "expect," "suggest," "plan," "predict," "project," "should," "will," "encourage," "potential," "contemplate," "continue," "could" and similar expressions. Actual results could differ materially from historical results or those implied by the forward-looking statements contained in this report.

Undue reliance should not be placed on our forward-looking statements. 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

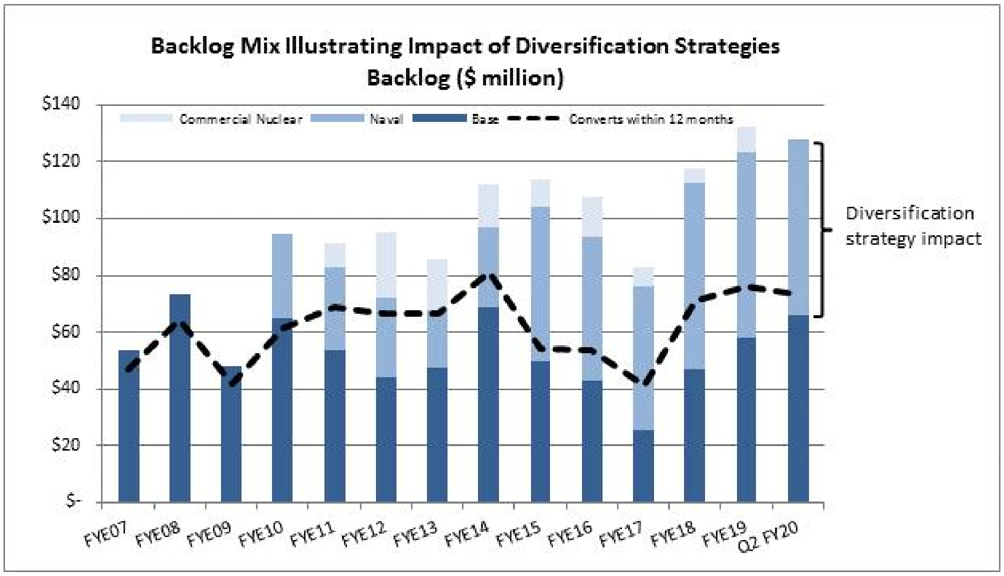
Our global energy and petrochemical markets continued to show improvement in the first half of fiscal 2020. While general global economic conditions appear to be weakening, we continue to see strong activity by our customers in the downstream energy sector. Customers are investing in upgrading and turnaround maintenance for existing facilities and, in certain geographies, are looking at new capacity. While this additional activity continues to be encouraging, we cannot predict the pace and longevity of the market improvement.

Our long-term view for the global energy and petrochemical markets is that general economic fundamentals will drive increasing demand and result in continued capital investment to satisfy increasing global energy demand. These fundamentals include rising populations, emerging market economic growth, and long-term global economic expansion. However, the energy markets we serve will also by impacted by increased use of renewable energy sources and conservation.

Our naval nuclear propulsion market has demand tied to aircraft carrier and submarine vessel construction schedules of the primary shipyards that service the U.S. Navy. We expect growth in our naval nuclear propulsion business to result from our strategic actions to increase our market share, our successful performance, and expected increases in demand.

We believe the long-term outlook in our key markets supports our growth plans. In the near term, new order levels are expected to remain variable, resulting in both relatively strong and weak periods. We believe, however, order activity will continue to improve through the remainder of fiscal 2020 and at least through our fiscal year which ends March 31, 2021.

The chart below shows the historical impact of our diversification strategy. Over half of our current backlog is from markets not served by us in the fiscal 2007-2009 time frame. Included in the graph for prior periods, but not the second quarter of fiscal 2020 (referred to as “Q2 FY20" on the chart below) is the backlog for our commercial nuclear business which was divested in June 2019. At the end of fiscal 2019 (referred to as "FYE19" on the chart below), backlog for our commercial nuclear business was $8,039.



*Note: FYE refers to fiscal year ended March 31

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 Quarterly Report on Form 10-Q.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net sales	$ 21,643	$ 21,441	$ 42,236	$ 50,992
Gross profit	$ 4,948	$ 6,227	$ 9,662	$ 13,369
Gross profit margin	23 %	29 %	23 %	26 %
SG&A expense (1)	$ 3,847	$ 4,778	$ 8,414	$ 9,388
SG&A as a percent of sales	18 %	22 %	20 %	18 %
Net income	$ 1,205	$ 1,827	$ 1,287	$ 4,150
Diluted income per share	$ 0.12	$ 0.19	$ 0.13	$ 0.42
Total assets	$ 146,464	$ 157,058	$ 146,464	$ 157,058
Total assets excluding cash, cash equivalents and investments	$ 72,668	$ 78,069	$ 72,668	$ 78,069

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

Non-GAAP Financial Measures:

We believe that, when used in conjunction with measures prepared in accordance with GAAP, adjusted revenue, adjusted gross profit, adjusted gross margin, adjusted operating profit, adjusted operating margin, adjusted net income and adjusted diluted earnings per share, which are non-GAAP measures, help in the understanding of our operating performance.

The following table reconciles gross margin to adjusted gross margin for the periods indicated:

	Three Months Ended		Six Months Ended	
	2019	2018	2019	2018
Revenue	$ 21,643	$ 21,441	$ 42,236	$ 50,992
- Revenue of commercial nuclear utility business	—	(1,819)	(1,276)	(4,741)
Adjusted revenue	$ 21,643	$ 19,622	$ 40,960	$ 46,251
Gross profit	$ 4,948	$ 6,227	$ 9,662	$ 13,369
- Gross profit of commercial nuclear utility business	—	36	(41)	(101)
Adjusted gross profit	$ 4,948	$ 6,263	$ 9,621	$ 13,268
Adjusted gross margin	22.9 %	31.9 %	23.5 %	28.7 %

The following table reconciles operating margin to adjusted operating margin for the periods indicated:

	Three Months Ended		Six Months Ended	
	2019	2018	2019	2018
Revenue	$ 21,643	$ 21,441	$ 42,236	$ 50,992
- Revenue of commercial nuclear utility business	—	(1,819)	(1,276)	(4,741)
Adjusted revenue	$ 21,643	$ 19,622	$ 40,960	$ 46,251
Operating (loss) profit	$ 1,101	$ 1,449	$ 725	$ 3,981
+ Loss on sale of commercial nuclear utility business	—	—	87	—
+ Operating loss of commercial nuclear utility business	—	683	1,016	1,181
Adjusted operating profit	$ 1,101	$ 2,132	$ 1,828	$ 5,162
Adjusted operating margin	5.1 %	10.9 %	4.5 %	11.2 %

The following table reconciles net income to adjusted net income for the periods indicated:

	Three Months Ended				Six Months Ended			
	2019		2018		2019		2018	
		Per Diluted Share		Per Diluted Share		Per Diluted Share		Per Diluted Share
Net income	$ 1,205	$ 0.12	$ 1,827	$ 0.19	$ 1,287	$ 0.13	$ 4,150	$ 0.42
+ Loss on sale of commercial nuclear utility business	—	—	—	—	87	0.01	—	—
+ Operating loss of commercial nuclear utility business	—	—	683	0.07	1,016	0.10	1,181	0.12
- Tax effect of above	—	—	(120)	(0.01)	(203)	(0.02)	(219)	(0.02)
Adjusted net income	$ 1,205	$ 0.12	$ 2,390	$ 0.24	$ 2,187	$ 0.22	$ 5,112	$ 0.52

The Second Quarter and First Six Months of Fiscal 2020 Compared With the Second Quarter and First Six Months of Fiscal 2019

Sales for the second quarter of fiscal 2020 were $21,643, a 1% increase as compared with sales of $21,441 for the second quarter of fiscal 2019. Our domestic sales, as a percentage of aggregate product sales, were 73% in the second quarter of fiscal 2020 compared with 70% in the second quarter of fiscal 2019. Domestic sales year-over-year increased $658, or 4%. International sales decreased $456, or 7%, in the second quarter of fiscal 2020 compared with the second quarter of fiscal 2019. Sales in the three months ended September 30, 2019 were 29% to the refining industry, 48% to the chemical and petrochemical industries, 3% to the power industry, and 20% to other commercial and industrial applications, including the U.S. Navy. Sales in the three months ended September 30, 2018 were 45% to the refining industry, 18% to the chemical and petrochemical industries, 10% to the power industry, including the commercial nuclear market, and 27% to other commercial and industrial applications, including the U.S. Navy. Fluctuation in sales among markets, products and geographic locations varies, sometimes significantly, from quarter-to-quarter based on timing, quantity, and value of projects. See also "Current Market Conditions," above. For additional information on anticipated future sales and our markets, see "Orders and Backlog" below.

Sales for the first six months of fiscal 2020 were $42,236, a decrease of $8,756, or 17% compared with sales of $50,992 for the first six months of fiscal 2019. Our domestic sales, as a percentage of aggregate product sales, were 71% in the first six months of fiscal 2020 compared with 56% in the same period in fiscal 2019. Domestic sales increased $1,653, or 6%, while international sales decreased by $10,409, or 46%; primarily driven by one large project in Canada in the first half of fiscal 2019. International sales accounted for 29% and 44% of total sales for the first six months of fiscal 2020 and fiscal 2019, respectively. Sales in the first six months of fiscal 2020 were 33% to the refining industry, 42% to the chemical and petrochemical industries, 4% to the power industry, including the nuclear market, and 21% to other commercial and industrial applications, including the U.S. Navy. Sales in the first six months of fiscal 2019 were 58% to the refining industry, 13% to the chemical and petrochemical industries, 10% to the power industry, including the commercial nuclear market, and 19% to other commercial and industrial applications, including the U.S. Navy.

Gross profit margin for the second quarter of fiscal 2020 was 23% compared with 29% for the second quarter of fiscal 2019. Gross profit for the second quarter of fiscal 2020 decreased 21% compared with fiscal 2019, to $4,948 from $6,227. Gross profit was lower due to an unfavorable mix of projects.

Gross profit margin for the first six months of fiscal 2020 was 23% compared with 26% for the first six months of fiscal 2019. Gross profit for the first six months of fiscal 2020 decreased 28% compared with the second quarter of fiscal 2019, to $9,662 from $13,369. The decrease in gross profit, as well as gross margins, was due to lower volume and an unfavorable mix of projects compared with the first six months of fiscal 2019.

SG&A expenses as a percent of sales for the three and six-month periods ended September 30, 2019 were 18% and 20%, respectively. SG&A expenses in the second quarter of fiscal 2020 were $3,847, a decrease of $931 compared with SG&A expenses of $4,778 in the second quarter of fiscal 2019. SG&A expenses in the first six months of fiscal 2020 were $8,414, a decrease of $974 compared with SG&A expenses of $9,388 in the first six months of fiscal 2019. The sale of our commercial nuclear business in June 2019 was the primary driver of lower costs in the second quarter and fiscal year-to-date spending. In addition, the timing of certain expenses also contributed to the lower SG&A costs in fiscal 2020. SG&A expenses excluding our commercial nuclear business in the second quarter of fiscal 2019 were $4,131 and 21% of sales. SG&A expenses excluding our commercial nuclear business in the six-month periods ended September 30, 2019 and 2018 were $7,793 and $8,106, respectively. SG&A expenses as a percent of sales excluding our commercial nuclear business for the six-month periods ended September 30, 2019 and 2018 were 19% and 18%, respectively.

Interest income for the three and six-month periods ended September 30, 2019 was $363 and $762, respectively, compared with $351 and $640, respectively, for the same periods ended September 30, 2018. The increase in interest income is due to higher market investment rates compared with rates a year ago. Interest expense for the three and six-month periods ended September 30, 2019 was $4 and $7, respectively, compared with $1 and $3, respectively, for the same periods ended September 30, 2018.

Our effective tax rate for each of the three and six-month periods ended September 30, 2019 was 22%. The effective tax rate for the three and six-month periods ended September 30, 2018 was 9% and 17%, respectively.

Net income and income per diluted share for the second quarter of fiscal 2020 were $1,205 and $0.12, respectively, compared with $1,827 and $0.19, respectively, in the second quarter of fiscal 2019. Excluding the results in the second quarter of fiscal 2019 of our commercial nuclear business, net income and income per diluted share for the second quarter of fiscal 2019 were $2,390 and $0.24, respectively. Net income and income per diluted share for the first six months of fiscal 2020 were $1,287 and $0.13, respectively, compared with net income of $4,150 and income per diluted share of $0.42 for the first six months of fiscal 2019. Excluding the results in the first quarter of fiscal 2020 of our commercial nuclear business as well as the costs related to the sale of that business, net income and income per diluted share for the first six months of fiscal 2020 were $2,187 and $0.22, compared with net income of $5,112 and income per diluted share of $0.52 for the first six months of fiscal 2019.

Liquidity and Capital Resources

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

	September 30, 2019	March 31, 2019
Cash and investments	$ 73,796	$ 77,753
Working capital	79,414	79,896
Working capital ratio(1)	2.8	2.5
Working capital excluding cash and investments	5,618	2,143
Working capital excluding cash and investments as a percent of net sales(2)	7.2%	2.3%

(1) Working capital ratio equals current assets divided by current liabilities.
(2) Working capital excluding cash and investments as a percent of net sales is based upon trailing twelve month sales.

Net cash used by operating activities for the first six months of fiscal 2020 was $1,915, compared with cash generated of $5,075 for the first six months of fiscal 2019. The cash usage comparison year over year was attributable primarily to a reduction in customer deposits and lower earnings, partially offset by accounts receivables.

Dividend payments and capital expenditures in the first six months of fiscal 2020 were $2,075 and $679, respectively, compared with $1,868 and $367, respectively, for the first six months of fiscal 2019.

Capital expenditures for fiscal 2020 are expected to be between approximately $2,500 and $2,800. Approximately 75% to 80% of our fiscal 2020 capital expenditures are expected to be for machinery and equipment, with the remaining amounts expected to be used for other items.

Cash and investments were $73,796 on September 30, 2019 compared with $77,753 on March 31, 2019, down $3,957.

We invest net cash generated from operations in excess of cash held for near-term needs in short-term, less than 365 days, certificates of deposit, money market accounts or U.S. government instruments, generally with maturity periods of up to 180 days. Our money market account is used to securitize our outstanding letters of credit, which reduces our cost on those letters of credit. Approximately 95% of our cash and investments are held in the U.S. The remaining 5% is invested in our China operations.

Our revolving credit facility with JP Morgan Chase, N.A. ("JP Morgan Chase") provides us with a line of credit of $25,000, including letters of credit and bank guarantees. In addition, our JP Morgan Chase agreement allows us to increase the line of credit, at our discretion, up to another $25,000, for total availability of $50,000. Borrowings under this credit facility are secured by all of our assets. We also had a $5,000 unsecured line of credit with HSBC, N.A. ("HSBC") on September 30, 2019. This line was increased to $10,000 on October 8, 2019 to support our international business activities. Letters of credit outstanding on September 30, 2019 and March 31, 2019 were $11,265 and $8,503, respectively. The outstanding letters of credit as of September 30, 2019 were issued by JP Morgan Chase and HSBC, as well as Bank of America, under our previous credit facility. There were no other amounts outstanding on our credit facilities at September 30, 2019 and March 31, 2019. The borrowing rate under our JP Morgan Chase facility as of September 30, 2019 was the bank's prime rate, or 5.00%. Availa bility under the JP Morgan Chase and HSBC lines of credit was $19,355 and $22,505, respectively, at September 30, 2019 and March 31, 2019, respectively. We believe that cash generated from operations, combined with our investments and available financing capacity under our credit facility, will be adequate both to meet our cash needs for the immediate future and to support our growth strategies.

Orders and Backlog

Orders for the three-month period ended September 30, 2019 were $32,552 compared with $34,416 for the same period last year. Excluding orders of $2,305 from our commercial nuclear utility business in last year's second quarter, orders increased $441. Orders represent written communications received from customers requesting us to supply products and/or services. Domestic orders were 33% of total orders, or $10,759, and international orders were 67% of total orders, or $21,793, in the second quarter of fiscal 2020 compared with the second quarter of fiscal 2019 when domestic orders were 58%, or $19,970, of total orders, and international orders were 42%, or $14,446, of total orders.

During the first six months of fiscal 2020, orders were $47,641, compared with $56,393 for the same period of fiscal 2019. Included in the orders for the first six months of fiscal 2020 and fiscal 2019 were $2,996 and $6,304, respectively, for the commercial nuclear utility market, a business which was divested in June 2019. Domestic orders were 46% of total orders, or $21,916, and international orders were 54% of total orders, or $25,725, in the first six months of fiscal 2020 compared with the same period of fiscal 2019 when domestic orders were 70%, or $39,495, of total orders, and international orders were 30%, or $16,898, of total orders.

For the first six months of fiscal 2020, refining orders increased by $4,904, chemical and petrochemical decreased by $7,940, and other commercial and industrial applications, including the U.S. Navy, decreased by $2,345 as compared with the prior year period. See "Current Market Conditions" for additional information.

Backlog was $127,765 at September 30, 2019, compared with $117,185 on June 30, 2019, up 9% and $132,127 at March 31, 2019. The March 31, 2019 backlog includes $8,039 of backlog for our commercial nuclear utility business which we sold in June 2019. Excluding the commercial nuclear utility business, backlog increased to $127,765 from $124,088, an increase of 3%. Backlog is defined as the total dollar value of orders received for which revenue has not yet been recognized. Approximately 55% to 60% of orders currently in our backlog are expected to be converted to sales within one year. The majority of the orders that are expected to convert beyond twelve months are for the U.S. Navy. At September 30, 2019, 32% of our backlog was attributable to equipment for refinery project work, 16% for chemical and petrochemical projects, 48% for U.S. Navy projects and 4% for power and other industrial applications. At September 30, 2018, 24% of our backlog was attributable to equipment for refinery project work, 16% for chemical and petrochemical projects, 51% for U.S. Navy projects and 9% for power and other industrial applications. At September 30, 2019, we had no projects on hold.

Outlook

Capital spending in the energy markets we serve began to increase during the second half of fiscal 2018 and this trend has continued. Likewise, orders in the chemical and petrochemical markets began to increase in fiscal 2019. While our bidding pipeline has been strong, our customers continue to be cautious about releasing orders and as a result, we expect quarterly fluctuations in order levels to occur. At September 30, 2019, 48% of our backlog was for U.S. Navy.

We continue to believe in the long-term strength of the energy and petrochemical markets. Coupled with our diversification strategy with the U.S. Navy, we believe that the long-term strength of our markets will support our goal to significantly grow our business. We have invested in capacity to serve our commercial customers as well as to expand the work we do for the U.S. Navy. We intend to continue to look for organic growth opportunities as well as acquisitions or other business combinations that we believe will allow us to expand our presence in both our existing and ancillary markets. We are focused on continuing to reduce earnings volatility, grow our business and diversify our business and product lines.

We expect revenue in fiscal 2020 to be approximately $100,000 to $105,000; this excludes our commercial nuclear utility business which was sold in the first quarter of fiscal 2020. This would be an anticipated increase of 20% to 26% when compared with $83,495 for fiscal 2019 and excluding our commercial nuclear business which was sold in the first quarter of fiscal 2019.

We expect gross profit margin in fiscal 2020 to be in the 24% to 26% range, compared with 23.9% in fiscal 2019. SG&A during fiscal 2020 is expected to be between $17,000 and $18,000, excluding the SG&A incurred in the first quarter in our commercial nuclear business. Our effective tax rate during fiscal 2020 is expected to be approximately 20%.

We expect that cash flow in fiscal 2020 will continue to be solid. We continue to believe that the long-term outlook for the energy and petrochemical markets is positive. We expect to have better insight into the strength, durability and sustainability of the recent improvements in our core markets as we continue to work through fiscal 2020.

Contingencies and Commitments

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

As of September 30, 2019, 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, we do not believe that the outcomes, either individually or in the aggregate, will have a material effect on our results of operations, financial position or cash flows.

Critical Accounting Policies, Estimates, and Judgments

Our unaudited condensed consolidated financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. We believe that the most critical accounting estimates used in the preparation of our condensed consolidated financial statements relate to labor hour estimates and establishment of operational milestones which are used to recognize revenue under the overtime recognition model, 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, 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, 2019.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of September 30, 2019 or March 31, 2019, other than letters of credit.

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, project cancellation risk and trade policy.

The assumptions applied in preparing the following qualitative and quantitative disclosures regarding foreign currency exchange rate, price risk and project cancellation 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 three and six months ended September 30, 2019 were 27% and 29%, respectively, of total sales compared with 30% and 44%, respectively, for the same periods of fiscal 2019. 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 the first three and six months of fiscal 2020 and fiscal 2019, 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 or Chinese RMB).

We have limited exposure to foreign currency purchases. In the three and six months ended September 30, 2019, our purchases in foreign currencies represented 0% and 1% of cost of products sold, respectively. In each of the three and six months ended September 30, 2018, our purchases in foreign currencies represented 2% of cost of products sold, respectively. 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 on in this Quarterly Report on Form 10-Q and as of September 30, 2019 and March 31, 2019, 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, responsive and flexible service, and engineering experience and excellence, among other things, such lower production costs and more favorable economic conditions mean that certain of our competitors are able to offer products similar to ours at lower prices. The cost of metals and other materials used in our products can experience significant volatility, and as such, can impact our ability to reflect this volatility in our pricing.

Project Cancellation and Project Continuation Risk

Open orders are reviewed continuously through communications with customers. If it becomes evident to us that a project is delayed well beyond its original shipment date, management will move the project into "placed on hold" (i.e. suspended) category. Furthermore, if a project is cancelled by our customer, it is removed from our backlog. We attempt to mitigate the risk of cancellation by structuring contracts with our customers to maximize the likelihood that progress payments made to us for individual projects cover the costs we have incurred. As a result, we do not believe we have a significant cash exposure to projects which may be cancelled. At September 30, 2019, we had no projects on hold.

Item 4. Controls and Procedures

Conclusion regarding the effectiveness of disclosure controls and procedures

Our President and Chief Executive Officer (principal executive officer) and Vice President-Finance & Administration and Chief Financial Officer (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 & Administration and Chief Financial Officer concluded that our disclosure controls and procedures were effective in all material respects.

Changes in internal control over financial reporting

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.

Item 6. Exhibits

INDEX OF EXHIBITS

	(10)	Material Contracts	
+		10.1	Letter Agreement dated October 8, 2019, with respect to the continuing Letter of Credit Facility dated March 24, 2014, between the Company and HSBC Bank USA, National Association.
+		10.2	Pledge Agreement between the Company and HSBC Bank USA, National Association dated October 8, 2019.
+		10.3	Letter Consent Agreement dated October 8, 2019 pursuant to the Credit Agreement dated December 2, 2015 between the Company and JP Morgan Chase Bank, N.A.
#		10.4	First Amendment to Amended and Restated Employment Agreement effective as of September 12, 2019 is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 12, 2019.
	(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	XBRL Instance Document
+		101.SCH	XBRL Taxonomy Extension Schema Document
+		101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
+		101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
+		101.LAB	XBRL Taxonomy Extension Label Linkbase Document
+		101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+Exhibit filed with this report

#Management contract or compensation plan

SIGNATURES

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

GRAHAM CORPORATION

By: /s/ Jeffrey Glajch
Jeffrey Glajch
Vice President-Finance & Administration and
Chief Financial Officer
(On behalf of the Registrant and as Principal Financial Officer)

Date: November 5, 2019

HSBC BANK USA, NATIONAL ASSOCIATION
452 Fifth Avenue
New York, New York 10018

October 8, 2019

GRAHAM CORPORATION
20 Florence Avenue
Batavia, New York 14020

Ladies and Gentlemen:

HSBC Bank USA, National Association (the "Bank") is pleased to advise you that, subject to the terms and conditions set forth herein, we are prepared to extend to Graham Corporation, a Delaware corporation (the "Company"), an uncommitted discretionary demand line of credit up to an aggregate amount of $10,000,000.00 to be used solely for Performance standby letters of credit (the "Facility").

This letter agreement amends and restates in its entirety that certain facility letter dated March 24, 2014, between the Company and Bank (the "Existing Line Letter"). Nothing in this letter agreement shall constitute a novation or a termination of the obligations or liabilities under the Existing Line Letter.

The Facility.

The Facility , is subject to the provisions set forth herein and in the Standard Trade Terms (as may be amended, restated, supplemented or otherwise modified from time to time, the "STT"), which STT can be accessed, read and printed by Company at http://www.gbm.hsbc.com/gtrfstt or alternatively Company can request a copy of the STT from Company's Relationship Manager at Bank. Any reference to the "Customer" in the STT shall mean Company. By signing this agreement, Company acknowledges receipt of a copy of the STT and confirms that it has read, understood and accepted such terms and conditions. To the extent that any of the terms of the STT (or any document replacing the STT) conflict with the provisions of this agreement then the terms of this agreement shall prevail.

Additionally, each issuance of a letter of credit under the Facility shall be issued only pursuant to Bank's standard form of application (the "Application"). Company shall pay the fees specified in the pricing schedule set forth in Schedule A attached hereto and as applicable, quarterly in arrears, in immediately available funds, to Bank, together with Bank's customary fees and charges specified therein.

Each letter of credit shall have an expiry date (i) not later than twelve (12) months after such letter of credit's date of issuance and (ii) not to occur after the expiration date of the Facility, unless Bank has approved in writing such expiry date in its sole and absolute discretion; provided that (a) if the expiry date of a letter of credit shall occur after the expiration date of the Facility, then within 60 days prior to the expiration date of the Facility (or such shorter period of time as Bank may agree to in writing) or (b) if any LC Obligations (as defined hereinafter) remain outstanding for any reason after the termination or expiration of the Facility, then immediately (but in no event later than one (1) business day after the termination or expiration of the Facility), Company shall either (in the case of clause (a) or (b), as applicable) (x) deliver to, and deposit with, Bank cash collateral in an amount equal to (i) 105% of the stated amount of such letter of credit with respect to clause (a) above or (ii) 105% of the LC Obligations with respect to clause (b) above or (y) cause to be issued an irrevocable standby letter of credit in favor of Bank and issued by a bank or other financial institution acceptable to Bank (in its sole discretion) and in form and substance, and in an amount, acceptable to Bank (in its sole discretion). Such cash collateral and deposits provided under this paragraph shall be held by Bank as collateral for the payment and performance of the LC Obligations. Company hereby grants to Bank and agrees to maintain a first priority security interest in all such cash, deposits accounts and all balances therein and in all proceeds of the foregoing to secure the LC Obligations and other obligations for which the cash collateral was so provided, free and clear of all other security interests and liens. Bank shall have exclusive dominion and control, including the exclusive right of withdrawal, over such deposit account in which the cash collateral is maintained. "LC Obligations" as used herein shall mean, on any date of determination, the aggregate amount of the undrawn stated amount of all outstanding letters of credit issued under the Facility, plus the aggregate amount drawn under letters of credit issued under the Facility for which Bank has not received payment or reimbursement.

General Terms of the Facility.

Borrowings and any other extensions of credit and obligations under the Facility shall be secured by secured Certificates of Deposit held by Bank.

The Facility is subject to annual renewal by Bank in its sole and absolute discretion on July 31 st of each year (or if such day is not a business day, then on the next business day thereafter provided, however, THE CONTINUING AVAILABILITY OF THE FACILITY SHALL AT ALL TIMES BE AS DETERMINED BY BANK IN ITS SOLE AND ABSOLUTE DISCRETION. Either of Company or Bank may terminate all or any portion of the Facility at any time. In the event of termination by either party, Company's obligations hereunder and under the STT, the Note and the other documentation entered into in connection with the Facility shall remain in full force and effect until all amounts outstanding under the Facility have been indefeasibly paid in full.

ANYTHING IN THIS AGREEMENT, THE NOTE OR ANY OTHER DOCUMENTS RELATING TO THE FACILITY TO THE CONTRARY NOTWITHSTANDING, THE ENUMERATION IN THIS AGREEMENT, THE NOTE OR IN SUCH OTHER DOCUMENTS OF SPECIFIC OBLIGATIONS TO BANK AND/OR CONDITIONS TO THE AVAILABILITY OF THE FACILITY AND THE NOTE SHALL NOT BE CONSTRUED TO QUALIFY, DEFINE OR OTHERWISE LIMIT BANK'S RIGHT, POWER OR ABILITY, AT ANY TIME, UNDER APPLICABLE LAW, TO MAKE DEMAND FOR PAYMENT OF THE ENTIRE

HSBC

OUTSTANDING PRINCIPAL OF , INTEREST AND OTHER AMOUNTS DUE UNDER THE FACILITY AND THE NOTE OR BANK'S RIGHT NOT TO MAKE ANY EXTENSION OF CREDIT UNDER THE FACILITY AND COMPANY AGREES THAT COMPANY'S BREACH OF OR DEFAULT UNDER ANY SUCH ENUMERATED OBLIGATIONS OR CONDITIONS IS NOT THE ONLY BASIS FOR DEMAND TO BE MADE OR FOR A REQUEST FOR AN EXTENSION OF CREDIT TO BE DENIED, AS COMPANY'S OBLIGATION TO MAKE PAYMENT SHALL AT ALL TIMES REMAIN A DEMAND OBLIGATION. NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, THIS AGREEMENT DOES NOT CREATE A COMMITMENT OR OBLIGATION BY BANK TO EXTEND CREDIT TO COMPANY AND COMPANY ACKNOWLEDGES THAT BANK HAS NO OBLIGATION TO EXTEND ANY CREDIT UNDER THE FACILITY.

So long as any obligations, liabilities or other amounts payable under, arising from, or with respect to the Facility and the related documents shall remain unpaid and the Facility has not been terminated, Company shall furnish to Bank each of the following:

i. Annual audited financial statements of Company, prepared on a consolidated basis, to be received within 120 days from fiscal year end;
ii. Prompt written notice of any default by Company that shall have occurred beyond any applicable grace period under any other agreement between Company and Bank or any of Bank's affiliates; and
iii. Such other information, including interim financial statements, concerning Company's business, affairs, or financial condition as Bank may request from time to time.

All payments of principal, interest and fees payable by Company under the Facility shall be made in U.S. dollars, in immediately available funds without set off, counterclaim or withholding at Bank's office at 452 Fifth Avenue, New York, New York 10018 and may be charged to any account Company maintains with Bank.

The Facility is further subject to Bank's receipt in form and substance satisfactory to Bank of the following, in each case, as applicable, duly executed and delivered on behalf of Company by an authorized person thereof:

i. certified copy of resolutions of Company's board of directors (or equivalent governing body) authorizing Company's execution, delivery and performance of this agreement, the Note and each of the other documents herein referred to;
ii. signature cards for Company's authorized signatories;
iii. an executed copy of Bank's standard form of Pledge Agreement;
iv. an executed copy of the Application(s) related to the Facility;
v. an executed copy of Bank's standard form of Trade Finance Services Authorization related to the Facility ; and
vi. all other documents, instruments and other agreements or deliverables requested by Bank.

No amendment, modification or waiver of any provision of this agreement nor any consent to any departure by Bank therefrom shall effective, irrespective of any course of dealing, unless the same shall be in writing and signed by Bank and then such waiver or consent shall effective only in the specific instance and for the specific purpose for which given.

Further, on the date hereof and on and as of the date any extension of credit is made under the Facility, Company makes the representations and warranties, and agrees to the provisions, set forth on Schedule B attached hereto. Each request for an extension of credit under the Facility shall be deemed to be a certification by Company both at the time of such request and at the time the related extension of credit is made that the representations and warranties contained on Schedule B are true and correct at each such time.

This agreement shall be governed by and construed in accordance with the laws of the State of New York. Please note that to the extent the terms or provisions of this agreement conflict with those contained in the Note or any of the other above-mentioned documents (other the STT), the terms and provisions of such Note and of such other documents shall govern.

COMPANY AND BANK AGREE THAT ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS AGREEMENT, THE NOTE OR ANY OTHER DOCUMENTS RELATING TO THE FACILITY MAY BE INITIATED AND PROSECUTED IN THE STATE OR FEDERAL COURTS, AS THE CASE MAY BE, LOCATED IN NEW YORK COUNTY, NEW YORK.

EACH OF COMPANY AND BANK HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY OR AGAINST IT IN ANY MATTERS WHATSOEVER, IN CONTRACT OR IN TORT, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, THE NOTE OR ANY OTHER DOCUMENTS RELATING TO THE FACILITY. COMPANY ALSO HEREBY WAIVES THE RIGHT TO INTERPOSE ANY DEFENSE BASED UPON ANY CLAIM OF LACHES OR SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE, AND ANY CLAIM FOR INDIRECT, CONSEQUENTIAL, PUNITIVE, INCIDENTAL, EXEMPLARY OR SPECIAL DAMAGES.

Bank hereby notifies Company that pursuant to the requirements of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Pub. L. 107-56, 115 Stat. 272 (Oct. 26, 2001)) (the “USA Patriot Act”) and the requirements of 31 C.F.R. Sec. 1010.230 (the “Beneficial Ownership Regulation”), Bank is required to obtain, verify and record information that identifies Company, which information includes the name, address and beneficial ownership of Company and other information that will allow Bank to identify Company in accordance with the USA Patriot Act and the Beneficial Ownership Regulation, and Company agrees to provide such information and any applicable certifications from time to time to Bank.

This agreement may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery by a party of its executed signature page of this agreement, by telecopy, electronic transmission (e.g., a “pdf” or "tif" file transmitted by e-mail) or other electronic means, shall be effective execution and delivery of this agreement by such party, the same as if an original manually executed counterpart were delivered by such party.

[Remainder of page intentionally left blank]

EXHIBIT 10.1

If this agreement is acceptable to you, please sign and return this agreement and the other documents referred to above within two weeks from the date of this agreement.

Very truly yours,

HSBC Bank USA, National Association

By: /s/Joseph W. Burden

Name: Joseph W. Burden
Title: Vice President

AGREED TO AND ACCEPTED:

GRAHAM CORPORATION	**SIGNATURE VERIFICATION: (For Bank use)**
By: /s/Jeffrey F. Glajch	By: /s/Joseph W. Burden
Name: Jeffrey F. Glajch	Name: Joseph W. Burden
Title: Chief Financial Officer	Title: Vice President

SCHEDULE A
Pricing*

Performance Standby (Tenor of 1 year or less)	65 basis points per annum, if tenor is less than 24 months from the date of issuance through the maturity date, payable annually 70 basis points per annum, if tenor is 25 to 48 months from the date of issuance through the maturity date, payable annually 75 basis points per annum if tenor is over 48 months from the date of issuance through the maturity date, payable annually - Minimum commission of USD 500
Annual Facility Fee	$5,000.00
Default Interest	3% plus the Prime Rate

***Please see Annex I to Schedule A, attached hereto, for other relevant fees.**

Pricing is subject to change upon thirty (30) days' prior written notice to Company.

Definitions:

"Performance Standby Letter of Credit" means a letter of credit or similar arrangement, however named or described, other than a Financial Standby Letter of Credit, issued, confirmed or paid, or in respect of which value is transferred (including acceptance of a draft), by Bank and/or an affiliate of Bank (or correspondent bank), for account of one or more applicants, that represents an irrevocable obligation to the beneficiary on the part of the issuer to make payment on account of any default by the account party in the performance of a non-financial or commercial obligation. The determination that a letter of credit or similar arrangement is a Performance Standby Letter of Credit shall be made by Bank in its sole and absolute discretion.

"Prime Rate" means the rate of interest publicly announced by Bank from time to time as its prime rate and is a base rate for calculating interest on certain loans. In no event shall the interest rate under this agreement exceed the maximum rate authorized by applicable law. Any change in the interest rate resulting from a change in the Prime Rate shall be effective on the date of such change.

HSBC

Annex I to Schedule A

PRICING SCHEDULE

IMPORT LETTERS OF CREDIT

LC Issuance: Manual	0.25% per Qtr., Min $150
LC Issuance: Electronic	0.25% per Qtr., Min $100
Issuance Cable	$75
Amendment: Manual*	$100
Amendment: Electronic*	$85
Amendment: Increase / Extension	0.25% per Qtr., Min $85/$100
Amendment Cable	$45
Discrepancy**	$100
Payment Commission: Sight	0.25%, Min $125
Payment Commission: Time	0.25%, Min $150
Acceptance / Deferred Payment	2% Per Annum, Min $150
Reinstatement / Expired LC	$100
Overdrawn LC	$100
LC Cancellation / Unutilized	$100
Document Safekeeping	$50 / Mo. after 30 days
Special Handling**	$50

EXPORT LETTERS OF CREDIT

Pre-Advice	$50
Advice: Manual	$125
Advice: Electronic	$100
Amendment: Manual	$100
Amendment: Electronic	$75
Discrepancy	$100
Document Examination / Payment Commission	0.125%, Min $150
Discount	By Agreement, Min $200
Confirmation	By Agreement, Min $200
Acceptance / Deferred Payment Confirmation	2% Per Annum, Min $150
Transfer	0.25%, Min $300
Assignment of Proceeds	0.25%, Min $300
Reimbursement	$75
Back to Back Handling	$250
LC Cancellation	$100

* More than five amendments subject to additional $50 Charge.

** To be charged to the account of the beneficiary.

STANDBY LETTERS OF CREDIT

Issuance	$200
Issuance Cable	$75
Commission	By Agreement or 2% P.A., Min $500
Consultation / Structuring	$500
Amendment	$150
Amendment: Increase / Extension	By Agreement or 2% P.A., Min $100
Amendment Cable	$45
Auto Increase / Decrease	$100
Rescission of Draw	$100
Confirmation	By Agreement, Min $250
Payment Commission	0.25%, Min $150
Discrepancy	$100
Transfer	0.25%, Min $300
Assignment of Proceeds	0.25%, Min $300
Advice	$250
Amendment Advice	$100
Cancellation	$150
Evergreen	$200

COLLECTIONS

Import Collection	0.125%, Min $100
Export Collection	0.125%, Min $100
Direct Sends Collection	$100
Bills Purchased	0.125%, Min $100
Protest Commission	$150 + Costs
Document Safekeeping	$50 / Mo after 30 days
Cancellation	$100

MISCELLANEOUS

Steamship Guarantee / Airway Release	0.25%, Min $150
Unredeemed SG / AR	$75 / Mo. after 30 days
Mail Domestic Registered	$20
Courier: Domestic	$30
Courier: International	$100
Courier: Company Acct	$10
Fax	$15
Cable	$50
CHIPS / FED Payment	$35
Cashiers Check	$50
Urgent Handling	$150

Prices are subject to change without notification. Additional fees will apply for non-standard service.

Effective as of February 15, 2018

SCHEDULE B
Representations and Warranties

Anti-money Laundering
Company represents and warrants that each of Company and its subsidiaries is in compliance, in all material respects, with all applicable anti-money laundering rules and regulations.

Sanctions
Company represents and warrants that none of Company, any of its subsidiaries, or any director, officer, employee, agent, or affiliate of Company or any of its subsidiaries, is an individual or entity ("Person") that is, or is owned or controlled by Persons that are: (i) the target of any sanctions administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control, the U.S. Department of State, the United Nations Security Council, the European Union, Her Majesty's Treasury, the Hong Kong Monetary Authority or other relevant sanctions authority (collectively, "Sanctions") or (ii) located, organized or resident in a country or territory that is the target of Sanctions, including, currently, the Crimea region, Cuba, Iran, North Korea and Syria. Company will not, directly or indirectly, use the proceeds of the Facility, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, (i) to fund any activities or business of or with any Person, or in any country or territory, that, at the time of such funding, is the target of Sanctions, or (ii) in any other manner that would result in a violation of Sanctions by any Person (including any Person participating in the Facility, whether as underwriter, advisor, investor, or otherwise).

Anti-Bribery and Corruption
Company represents and warrants that none of Company, nor to the knowledge of Company, any director, officer, agent, employee, affiliate or other Person acting on behalf of Company or any of its subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such Persons of any applicable anti-bribery law, including but not limited to, the United Kingdom Bribery Act 2010 (the " UK Bribery Act ") and the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"). Furthermore, Company represents and warrants that Company and, to the knowledge of Company, its affiliates have conducted their businesses in compliance with the UK Bribery Act, the FCPA and similar laws, rules or regulations and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith. No part of the proceeds of the Facility will be used, directly or indirectly, for any payments that could constitute a violation of any applicable anti-bribery law.

USA Patriot Act and Beneficial Ownership Regulation
Company represents and warrants that any information, documentation or certification provided by Company as required by the USA Patriot Act, the Beneficial Ownership Regulation or any other anti-money laundering rules and regulations is true and correct in all respects.

HSBC

PLEDGE AGREEMENT

(Hypothecation)

This AGREEMENT is entered into at New York, New York, as of **October 8, 2019**, between **GRAHAM CORPORATION, a Delaware corporation**, with an address of **20 Florence Avenue**, **Batavia**, **New York 14020** (the "Pledgor") and HSBC Bank USA, National Association, a bank organized under the laws of the United States of America with an address of 452 Fifth Avenue, 4th Floor, New York, New York 10018 (the "Bank").

1. Pledge. In consideration of the Bank's extending credit and other financial accommodations to or for the benefit of the Pledgor, whether evidenced by notes or not, the Pledgor hereby grants to the Bank a security interest in, a lien on and pledge and assignment of the Collateral (as hereinafter defined). The security interest granted by this Agreement is given to and shall be held by the Bank as security for the payment and performance of all Obligations (as hereinafter defined). The Bank shall have the unrestricted right from time to time to apply (or to change any application already made of) the proceeds of any of the Collateral to any of the Obligations, as the Bank in its sole discretion may determine.

2. Definitions. The following definitions shall apply:

(a) "Bank Affiliate" shall mean any "Affiliate" of the Bank or any lender acting as a participant under any loan arrangement between the Bank and the Borrower(s). The term "Affiliate" shall mean with respect to any person, (a) any person which, directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such person, or (b) any person who is a director or officer (i) of such person, (ii) of any subsidiary of such person, or (iii) any person described in clause (a) above. For purposes of this definition, control of a person shall mean the power, direct or indirect, (x) to vote 5% or more of the Capital Stock having ordinary voting power for the election of directors (or comparable equivalent) of such person, or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. Control may be by ownership, contract, or otherwise.

(b) "Code" shall mean the Uniform Commercial Code in effect in New York, as amended from time to time.

(c) "Collateral" shall mean all the Pledgor's present and future right, title and interest in and to any and all of the property listed on Schedule A attached hereto, any additional property which may at any time and from time to time be delivered by or on behalf of the Pledgor to the Bank to be held pursuant to this Agreement, all books, records, and papers relating to the foregoing , all substitutions or renewals therefore, and all proceeds of the foregoing, including, without limitation, all deposit accounts and all cash, securities, instruments, promissory notes or other property at any time and from time to time receivable or otherwise distributed in respect of or in exchange for any of or all of the foregoing.

(d) "Event of Default" shall mean the occurrence of any one or more of the following events:

(i) default of any liability, obligation, covenant or undertaking of the Pledgor or any guarantor of the Obligations to the Bank, hereunder or otherwise, including, without limitation, failure to pay in full and when due any installment of principal or interest or default of the Pledgor or any guarantor of the Obligations under any other Loan Document or any other agreement with the Bank;

(ii) failure of the Pledgor or any guarantor of the Obligations to maintain aggregate collateral security value satisfactory to the Bank in the good faith exercise of its business judgment ;

(iii) default of any material liability, obligation or undertaking of the Pledgor or any guarantor of the Obligations to any other party in aggregate principal amount in excess of $500,000, and the effect of such default is to permit the holder of such obligation to accelerate the payment thereof;

(iv) if any statement, representation or warranty heretofore, now or hereafter made by the Pledgor or any guarantor of the Obligations in connection with this Agreement or in any supporting financial statement of the Pledgor or any guarantor of the Obligations shall be determined by the Bank to have been false or misleading in any material respect when made;

(v) if the Pledgor or any guarantor of the Obligations is a corporation, trust, partnership or limited liability company, the liquidation, termination or dissolution of any such organization, or the merger or consolidation of such organization into another entity, or the division of such organization into one or more entities, or its ceasing to carry on actively its present business or the appointment of a receiver for its property;

(vi) the death of the Pledgor or any guarantor of the Obligations and, if the Pledgor or any guarantor of the Obligations is a partnership or limited liability company, the death or judicial declaration of incompetence of any partner or member;

(vii) the institution by or against the Pledgor or any guarantor of the Obligations of any proceedings under the Bankruptcy Code 11 USC §101 *et seq.* or any other law in which the Pledgor or any guarantor of the Obligations is alleged to be insolvent or unable to pay its debts as they mature, or the making by the Pledgor or any guarantor of the Obligations of an assignment for the benefit of creditors or the granting by the Pledgor or any guarantor of the Obligations of a trust mortgage for the benefit of creditors (each of the foregoing in this subclause, an "Insolvency Default");

(viii) the service upon the Bank of a writ in which the Bank is named as trustee of the Pledgor or any guarantor of the Obligations;

(ix) a judgment or judgments for the payment of money shall be rendered against the Pledgor or any guarantor of the Obligations in aggregate principal amount in excess of $500,000;

(x) , and any such judgment shall remain unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution;

(xi) any levy, lien (including mechanics lien), seizure, attachment, execution or similar process shall be issued or levied on any of the property of the Pledgor or any guarantor of the Obligations;

(xii) the termination or revocation of any guaranty of the Obligations

(e) "Loan Documents" shall mean this Agreement and all other agreements between the Bank and the Pledgor.

(f) "Obligation(s)" shall include without limitation all loans, advances, indebtedness, notes, liabilities, rate swap transactions, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, forward transactions, currency swap transactions, cross-currency rate swap transactions, currency options (provided, however, that if and only if the Pledgor is not an "eligible contract participant" (as defined in the Commodity Exchange Act (7 U.S.C. § 1 et seq.) and any applicable rules, as amended), then to the extent applicable law prohibits such Pledgor from entering into an agreement to secure any obligations in respect of a "swap" (as defined in the Commodity Exchange Act and any applicable rules, as amended, and referred to herein as a "Swap"), Obligations shall not include obligations of the Pledgor to Bank under any Swap) and amounts, liquidated or unliquidated, owing by the Pledgor to the Bank or any Bank Affiliate at any time, of each and every kind, nature and description, whether arising under this Agreement, any of the Loan Documents or otherwise, and whether secured or unsecured, direct or indirect (that is, whether the same are due directly by the Pledgor to the Bank or any Bank Affiliate; or are due indirectly by the Pledgor to the Bank or any Bank Affiliate as endorser, guarantor or other surety, or as obligor of obligations due third persons which have been endorsed or assigned to the Bank or any Bank Affiliate, or otherwise), absolute or contingent, due or to become due, now existing or hereafter contracted, including, without limitation, payment when due of all amounts outstanding respecting any of the Loan Documents. Said term shall also include all interest and other charges chargeable to the Pledgor or due from the Pledgor to the Bank or any Bank Affiliate from time to time and all costs and expenses referred to in this Agreement.

(g) "Person" or "party" shall include individuals, partnerships, corporations, limited liability companies and all other entities.

All words and terms used in this Agreement other than those specifically defined herein shall have the meanings accorded to them in the Code.

3. Costs and Expenses. The Pledgor shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or the Obligations, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to the Collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of the Obligations.

4. Representations, Warranties and Covenants. The Pledgor represents, warrants and covenants that:

(a) the Pledgor shall at the Pledgor's cost and expense execute all such instruments, documents and papers, and will do all such acts as the Bank may request from time to time to carry into effect the provisions and intent of this Agreement, including, without limitation, as applicable, the execution of stock transfer orders and stock powers, endorsement of promissory notes, certificates of deposit, passbooks and instruments, notifications to obligors on the Collateral, and all such other acts as the Bank may request with respect to the perfection and protection of the security interest granted herein and the assignment effected hereby and the Pledgor hereby authorizes the Bank to take any of the foregoing actions without notice and without further approval of any kind;

(b) the Pledgor has good and marketable title to the Collateral free and clear of any lien other than the security interest granted herein and the Pledgor shall keep the Collateral free and clear of all liens, encumbrances, attachments, security interests, pledges and charges, and it shall not sell, lease, assign or otherwise dispose of, transfer or grant options with respect to, any Collateral;

(c) the Pledgor shall deliver to the Bank when received by the Pledgor, any item representing or constituting any of the Collateral, including, without limitation, all cash dividends, all stock certificates whether now existing or hereafter received as a result of any stock dividends, stock splits or otherwise, and all promissory notes, certificates of deposit, passbooks and instruments, in each case in suitable form for transfer by delivery or accompanied by duly executed instruments of transfer or assignment in blank. Any and all Collateral and cash, promissory notes, certificates of deposit, passbooks and instruments, securities and other distributions of property which are received by the Pledgor contrary to the provisions of this Agreement, shall be held by the Pledgor in trust for the benefit of the Bank and shall be immediately delivered to the Bank in the form so received (with any necessary endorsement or instrument of transfer or assignment);

(d) the Pledgor, if a corporation or other entity, shall not change its name, state of organization and/or registration or the location of its chief executive office or principal place of business, and if an individual, his or her primary residence, except in each case upon not less than 30 days prior written notice to Bank;

(e) the Pledgor has not performed and will not perform any acts which might prevent the Bank from enforcing any of the terms of this Agreement or which would limit the Bank in any such enforcement and the Pledgor shall not exercise any right with respect to the Collateral which would dilute or materially adversely affect the Bank's rights in the Collateral. Other than financing statements or other similar or equivalent documents or instruments with respect to the security interests granted hereunder in favor of the Bank,no financing statement, mortgage, security agreement or similar or equivalent document or instrument covering all or any part of the Collateral is on file or of record in any jurisdiction in which such filing or recording would be effective to perfect a lien on such Collateral. No Collateral is in the possession of any person asserting any claim thereto or security interest therein other than the Bank or its designee unless such person has entered into a control agreement satisfactory to the Bank;

(f) the security interests granted hereunder constitute, under the Code, valid security interests in all Collateral, securing the Obligations and (i) upon the delivery of any of the Collateral to the Bank in accordance herewith, the security interest in such Collateral will be perfected, subject to no prior lien and the Bank will have "control" (as defined in the Code) thereof, (ii) with respect to Collateral, if any, in the possession of a third party, the Bank will have a perfected, first priority security interest in such Collateral upon execution by such third party of a control agreement in form and substance satisfactory to the Bank and (iii) when UCC financing statements in the appropriate form are filed in the appropriate offices, the security interest granted hereunder will constitute a perfected security interest to the extent that a security interest may be perfected by filing pursuant to the Code, prior to all liens and rights of others;

(g) the Pledgor has full power and authority to enter into this Agreement and to pledge the Collateral hereunder and except for the filing of UCC financing statements, no registration, recordation or filing with any governmental body, agency or official is required in connection with the execution or delivery hereof or is necessary for the validity or enforceability thereof or for the perfection or due recordation of the security interest granted hereunder or for the enforcement thereof;

(h) as to Collateral, if any, comprised of deposit accounts, the Pledgor has delivered to the Bank every certificate of deposit included in the Collateral, duly endorsed to the Bank and every passbook or other document or instrument evidencing or comprising the Collateral; and

(i) as to Collateral, if any, comprised of securities:

(i) the Pledgor shall, upon the request of the Bank, cause the issuer of any uncertificated securities to issue certificates with respect thereto;

(ii) the Pledgor shall, upon the request of the Bank, cause any certificated securities to be issued in the name of the Bank, as pledgee;

(iii) the Pledgor shall not cause or permit any certificated securities to be converted to uncertificated securities;

(iv) the Pledgor shall not, without the Bank's prior written consent, file any affidavit for replacement of lost stock certificates or bonds; and

(v) the Pledgor shall not vote the Collateral in favor of or consent to any resolution which might impose any restrictions upon the sale, transfer or disposition of the Collateral; result in the issuance of any additional shares of stock of any class; vest additional powers, privileges, preferences or priorities to any other class of stock; or adversely affect the rights of the Bank hereunder;

(vi) all shares of capital stock identified in any Schedule to this Agreement are beneficially owned by the Pledgor, have been duly authorized and validly issued, are fully paid and non-assessable, and are subject to no option to purchase or similar right of any person. The Pledgor is not and will not become a party to or otherwise bound by any agreement (including without limitation any voting agreement), other than the Loan Documents, which restricts in any manner the rights of any present or future holder of any Collateral with respect thereto.

5. Power of Attorney. The Pledgor hereby irrevocably constitutes and appoints the Bank as the Pledgor's true and lawful attorney, with full power of substitution at the sole cost and expense of the Pledgor but for the sole benefit of the Bank, to endorse in favor of the Bank any of the Collateral; execute and deliver instruments of assignment and/or orders for withdrawal; cause the transfer of any of the Collateral in such name as the Bank may, from time to time, determine; cause the issuance of certificates for book entry and/or uncertificated securities; provide notification in connection with book entry securities or general intangibles and/or provide instructions to the issuers of uncertificated securities or securities intermediaries, as necessary; to renew, extend or roll over any Collateral; and make demand and initiate actions to enforce any of the Obligations. The Bank may take such action with respect to the Collateral as the Bank may reasonably determine to be necessary to protect and preserve its interests in the Collateral. The Bank shall also have and may exercise at any time all rights, remedies, powers, privileges and discretion of the Pledgor with respect to and under the Collateral, provided, however, the Bank shall have no right until an Event of Default has occurred to exercise any voting rights available to the Pledgor at any time the Collateral is held by the Bank solely as pledgee hereunder. Except as limited above, all the rights, remedies, powers, privileges and discretion included in this paragraph may be exercised by the Bank whether or not any of the Obligations are then due and whether or not an Event of Default has occurred. All powers conferred upon Bank by this Agreement, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all Obligations are irrevocably paid in full and the Collateral is released. The power of attorney shall not be affected by subsequent disability or incapacity of the Pledgor. The Bank shall not be liable for any act or omission to act pursuant to this Paragraph except for any act or omission to act which is caused by the Bank's gross negligence or willful misconduct.

6. Further Assurances. The Pledgor will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may reasonably request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Agreement (including, without limitation, to correct clerical errors) or to vest more fully in, or assure to the Bank the security interest in, the Collateral or to comply with applicable statute or law. To the extent permitted by applicable law, the Pledgor authorizes the Bank to file financing statements, continuation statements or amendments, and any such financing statements, continuation statements or amendments may be filed at any time in any jurisdiction. The Bank may at any time and from time to time file financing statements, continuation statements and amendments thereto which contain any information required by Article 9 of the Code for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether the Pledgor is an organization, the type of organization and any organization identification number issued to the Pledgor. The Pledgor agrees to furnish any such information to the Bank promptly upon request. In addition, the Pledgor shall at any time and from time to time take such steps as the Bank may reasonably request for the Bank (i) to obtain an acknowledgment, in form and substance satisfactory to the Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for the Bank, (ii) to obtain "control" of any Collateral comprised of investment property or deposit accounts (as such terms are defined in the Code), with any agreements establishing control to be in form and substance satisfactory to the Bank, and (iii) otherwise to insure the continued perfection and priority of the Bank's security interest in any of the Collateral and the preservation of its rights therein. The Pledgor hereby constitutes the Bank its attorney-in-fact to execute and file all filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all Obligations are irrevocably paid in full and the Collateral is released.

7. Default. If an Event of Default shall occur, at the election of the Bank (but automatically in the case of an Insolvency Default), all Obligations shall become immediately due and payable without notice or demand, except with respect to Obligations payable on demand, which shall be due and payable on demand, whether or not an Event of Default has occurred.

The Bank is hereby authorized, at its election, after an Event of Default or after demand, without any further demand or notice except to such extent as notice may be required by applicable law, to sell or otherwise dispose of all or any of the Collateral at public or private sale and/or enforce and collect the Collateral (including, without limitation, the liquidation of deposit accounts, debt instruments or securities and the exercise of conversion rights with respect to convertible securities, whether or not such instruments or securities have matured and whether or not any penalties or other charges are imposed on account of such action); and the Bank may also exercise any and all other rights and remedies of a secured party under the Code or which are otherwise accorded to it by applicable law, all as the Bank may determine. If notice of a sale or other action by the Bank is required by applicable law, the Pledgor agrees that ten (10) days' written notice to the Pledgor, or the shortest period of written notice permitted by law, whichever is smaller, shall be sufficient notice; and that to the extent permitted by law, the Bank, its officers, attorneys and agents may bid and become purchasers at any such sale, if public, and may purchase at any private sale any of the Collateral that is of a type customarily sold on a recognized market or which is the subject of widely distributed standard price quotations. Any sale (public or private) shall be free from any right of redemption, which the Pledgor hereby waives and releases. No purchaser at any sale (public or private) shall be responsible for the application of the purchase money. Any balance of the net proceeds of sale remaining after paying all Obligations of the Pledgor to the Bank shall be returned to the Pledgor or to such other party as may be legally entitled thereto; and if there is a deficiency, the Pledgor shall be responsible for the same, with interest. The Pledgor acknowledges that any exercise by the Bank of the Bank's rights upon default may be subject to compliance by the Bank with any statute, regulation, ordinance, directive or order of any Federal, state, municipal or other governmental authority, and may impose, without limitation, any of the foregoing restricting the sale of securities. The Bank, in its sole discretion at any such sale, may restrict the prospective bidders or purchasers as to their number, nature of business and investment intentions, and may impose, without limitation, a requirement that the persons making such purchases represent and agree, to the satisfaction of the Bank, that they are purchasing the Collateral for their own account, for investment, and not with a view to the distribution or resale thereof. The proceeds of any collection or of any sale or disposition of the Collateral held pursuant to this Agreement shall be applied towards the Obligations in such order and manner as the Bank determines in its sole discretion, any statute, custom or usage to the contrary notwithstanding.

8. Safe Custody and Exclusivity. The Bank shall have no duty as to the Collateral or protection of the Collateral or any income or distribution thereon, beyond the safe custody of such of the Collateral as may come into the possession of the Bank with the same due care that the bank with which the Bank would maintain its own property, and shall have no duty as to the preservation of rights against prior parties or any other rights pertaining thereto. The Bank's Rights and Remedies (as defined herein) may be exercised without resort or regard to any other source of satisfaction of the Obligations.

9. Indemnification. The Pledgor shall indemnify, defend and hold the Bank and any Bank Affiliate and their directors , officers, employees, agents and attorneys (each an "Indemnitee") harmless of and from any claim brought or threatened against any Indemnitee by the Pledgor, any guarantor or endorser of the Obligations, or any other person (as well as from attorneys' reasonable fees and expenses in connection therewith) on account of the Bank's relationship with the Pledgor, or any guarantor or endorser of the Obligations (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Pledgor), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the Obligations, and/or any termination, release or discharge executed by the Bank in favor of the Pledgor.

10. Waivers. The Pledgor waives notice of intent to accelerate, notice of acceleration, notice of nonpayment, demand, presentment, protest or notice of protest of the Obligations, and all other notices, consents to any renewals or extensions of time of payment thereof, and generally waives any and all suretyship defenses and defenses in the nature thereof. No course of dealing and no delay or omission of the Bank in exercising or enforcing any of its rights, powers, privileges, remedies, immunities or discretion (all of which are hereinafter collectively referred to as the "Bank's Rights and Remedies") hereunder or under applicable law shall constitute a waiver thereof; and no waiver by the Bank of any default of the Pledgor hereunder or of any demand hereunder shall operate as a waiver of any other default hereunder or any other demand hereunder. No term or provision hereof shall be waived, altered or modified except with the prior written consent of the Bank, which consent makes explicit reference to this Agreement. Except as provided in the preceding sentence, no other agreement or transaction, of whatsoever nature, entered into between the Bank and the Pledgor at any time (whether before, during or

after the effective date or term of this Agreement) shall be construed in any particular way as a waiver, modification or limitation of any of the Bank's Rights and Remedies under this Agreement (nor shall anything in this Agreement be construed as a waiver, modification or limitation of any of the Bank's Rights and Remedies under any such other agreement or transaction) but all the Bank's Rights and Remedies not only under the provisions of this Agreement but also under any such other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Bank at such time or times and in such order of preference as the Bank in its sole discretion may determine.

11. Severability. If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

12. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

13. Complete Agreement. This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes, all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

14. Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. The Bank may transfer and assign this Agreement and deliver the Collateral to the assignee, who shall thereupon have all of the Bank's Rights and Remedies; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement and the Collateral. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

15. Notices. Any notices under or pursuant to this Agreement shall be deemed duly received and effective if delivered in hand to any officer or agent of the Pledgor or Bank, or if mailed by registered or certified mail, return receipt requested, addressed to the Pledgor or Bank at the address set forth in this Agreement or as any party may from time to time designate by written notice to the other party.

16. Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Pledgor to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

17. Governing Law. This Agreement shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.

18. Joint and Several. If more than one Pledgor signs this Agreement, then the responsibilities hereunder are joint and several.

19. Completing and Correcting this Agreement. The Borrower authorizes the Bank to fill in any blank spaces and to otherwise complete this Agreement and to correct any patent errors herein.

20. **ADDITIONAL WAIVERS. IN ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS AGREEMENT, PLEDGOR WAIVES (i) THE RIGHT TO INTERPOSE ANY SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, (ii) ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE AND (iii) ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.**

21. Jurisdiction and Venue. The Pledgor irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Agreement. The Pledgor irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit,

action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. The Pledgor hereby consents to process being served in any such suit, action or proceeding (i) by the mailing of a copy thereof by registered or certified mail, postage prepaid, return receipt requested, to the Pledgor's address set forth herein or such other address as has been provided in writing to the Bank and (ii) in any other manner permitted by law, and agrees that such service shall in every respect be deemed effective service upon the Pledgor.

22. JURY WAIVER . THE PLEDGOR AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND (B) AGREE NOT TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CAN NOT BE, OR HAS NOT BEEN WAIVED. THE PLEDGOR CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.

Executed and dated October 8, 2019.

Signature Verified:	Pledgor:
(For Bank use)	
	GRAHAM CORPORATION
/s/Joseph W. Burden	By:/s/Jeffrey F. Glajch
Name: Joseph W. Burden	Name: Jeffrey F. Glajch
Title: Vice President	Title: Chief Financial Officer

Accepted: HSBC Bank USA, National Association

By:	/s/Joseph W. Burden
Name:	Joseph W. Burden
Title:	Vice President

JPMorgan Chase Bank, N.A.
One South Clinton Avenue, Suite 700
Rochester, New York 14604

October 8, 2019

Graham Corporation
20 Florence Avenue
Batavia, New York 14020-3318
Attn: Jeffrey Glajch

Re: Consent Pursuant to Credit Agreement between Graham Corporation and JPMorgan Chase Bank, N.A.

Dear Mr. Glajch:

Reference is made to the following agreements related to the credit facilities provided by JPMorgan Chase Bank, N.A. ("Bank") to Graham Corporation ("Borrower"):

(i) Credit Agreement dated as of December 2, 2015 between Graham Corporation and JPMorgan Chase Bank, N.A. (as amended, the "Credit Agreement"), and

(ii) Pledge and Security Agreement ("Security Agreement"), dated as of December 2, 2015 by Graham Corporation and Energy Steel & Supply Co., a Michigan corporation, a former subsidiary of the Borrower, in favor of Bank.

Capitalized terms used, but not defined, in this letter shall have the meanings given such terms in the Credit Agreement.

Borrower has advised Bank that it desires to (a) increase the maximum principal amount of its existing unsecured line of credit with HSBC, N.A. from $5,000,000 to $10,000,000 ("Increased Debt") and (b) to secure the Increased Debt with a Lien in favor of HSBC, N.A. on certain Certificates of Deposit or other cash accounts of Borrower (the "HSBC Lien"). In light of the restrictions on Indebtedness in Section 6.01 of the Credit Agreement, restrictions on Liens in Section 6.02 of the Credit Agreement and restrictions elsewhere in the Loan Documents relating to Indebtedness and Liens, Borrower has requested that Bank consent to the Increased Debt and HSBC Lien. Bank is willing to provide such consent on the terms and conditions set forth in this letter.

Bank hereby (a) consents to the Increased Debt, (b) agrees with Borrower that the reference to $5,000,000 on Schedule 6.01 to the Credit Agreement is hereby changed to $10,000,000, (c) consents to the HSBC Lien provided that such consent applies only to one or more Deposit Accounts of the Borrower held at HSBC, N.A. with an aggregate maximum balance in all such Deposit Account(s) not to exceed $10,200,000 at any time and that no

Collateral other than a maximum of $10,200,000 shall at any time secure the Increased Debt, and (d) agrees that Section 4.14 of the Security Agreement shall not apply to such Deposit Account(s) provided that the aggregate amount deposited in such Deposit Account(s) does not exceed $10,200,000.

This consent shall become effective upon satisfaction of all of the following conditions precedent: (i) the agreement(s) providing for the Increased Debt and HSBC Lien are entered into on terms and conditions and pursuant to documents in form and substance acceptable to the Bank in its sole discretion, and (ii) Borrower shall have delivered to Bank a copy of the final executed versions of such agreement(s), together with such related documents as Bank may reasonably request.

The foregoing consent shall not be deemed to establish a custom or course of dealing between the Bank and the Borrower, nor shall such consent modify the Borrower's obligations to comply with any provision of the Loan Documents.

In consideration of the foregoing, Borrower fully, finally and forever releases and discharges the Bank and each of its past, present and future officers, directors, stockholders, agents, attorneys, employees, representatives, predecessors, successors, assigns, parent, subsidiaries, affiliates and any Person acting for or on behalf of any of them, and each of them (the Bank, together with all such other Persons, are hereinafter sometimes referred to collectively as the "Bank Group"), of and from any and all claims, causes of action, indebtedness, liabilities, obligations, sums of money, controversies, agreements, obligations, promises, damages, judgments, executions, losses, and demands of any kind or nature whatsoever, whether at law, in equity or otherwise, whether known or unknown, contingent or absolute, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, disputed or undisputed, liquidated or unliquidated, matured or unmatured and whether or not accrued, and whether or not asserted or assertable in law, equity or otherwise, for, upon or by reason of any act, omission or other matter, cause or thing whatsoever from the beginning of the world until the date hereof relating to, arising from or in any manner whatsoever connected with (a) any of the Loan Documents and (b) all actions or inactions taken or contemplated to be taken in connection with, arising from, or in any manner whatsoever relating to, any of the Loan Documents, which Borrower now has, or hereafter may have, against any member of the Bank Group, in each case except for the Bank's obligations expressly set forth in this letter. Borrower hereby acknowledges and agrees that the members of the Bank Group other than the Bank are intended third party beneficiaries of this paragraph.

Borrower hereby confirms its agreement to the terms and provisions of this letter by returning to the Bank a signed counterpart of this letter. This letter may be amended, modified or waived only in a writing signed by each of the parties hereto. This letter may be signed in one or more counterparts, each of which is deemed an original and all of which taken together constitute one and the same letter. This letter may be signed by any party and transmitted by such party by emailing a scanned image, and such signing and transmission by fax or email is effective as manually signing and delivering this letter. This letter shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the conflict of law provisions thereof other than Section 5-1401 of the New York General

Obligations Law. Upon execution of this letter by all parties, the parties hereto hereby waive the provisions of Section 9.01 of the Credit Agreement with respect to the manner of delivery of this letter.

Notwithstanding the consent of the Bank, Borrower hereby acknowledges and reaffirms its obligations and duties under the Credit Agreement and Loan Documents..

Please execute and return this letter evidencing your agreement herewith.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By: /s/Elizabeth Jordan
Name: Elizabeth Jordan
Title: Underwriting Associate

Accepted, acknowledged, and agreed:

Dated: As of the date set forth above

GRAHAM CORPORATION

Borrower

By: /s/Jeffrey Glajch
Name: Jeffrey Glajch
Title: Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER

I, James R. Lines, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 5, 2019

/s/ James R. Lines
James R. Lines
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER

I, Jeffrey Glajch, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 5, 2019

/s/ Jeffrey Glajch
Jeffrey Glajch
Vice President-Finance & Administration and
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Graham Corporation (the "Company") on Form 10-Q for the period ended September 30, 2019 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/James R. Lines
James R. Lines
President and Chief Executive Officer
(Principal Executive Officer)
Date: November 5, 2019

/s/Jeffrey Glajch
Jeffrey Glajch
Vice President-Finance & Administration and
Chief Financial Officer
(Principal Financial Officer)
Date: November 5, 2019

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.