

**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, 2020

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 1-08462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
20 Florence Avenue, Batavia, New York
(Address of principal executive offices)

16-1194720
(I.R.S. Employer
Identification No.)
14020
(Zip Code)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 27, 2020, there were outstanding 9,976,893 shares of the registrant's common stock, par value \$0.10 per share.

Graham Corporation and Subsidiaries

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As of September 30, 2020 and March 31, 2020 and for the Three and Six-Month Periods Ended September 30, 2020 and 2019

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GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

SEPTEMBER 30, 2020

PART I – FINANCIAL INFORMATION

GRAHAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
	(Amounts in thousands, except per share data)		(Amounts in thousands, except per share data)	
Net sales	\$ 27,954	\$ 21,643	\$ 44,664	\$ 42,236
Cost of products sold	20,261	16,695	35,403	32,574
Gross profit	7,693	4,948	9,261	9,662
Other expenses and income:				
Selling, general and administrative	4,253	3,847	8,155	8,403
Selling, general and administrative – amortization	—	—	—	11
Other expense	—	—	—	523
Other income	(54)	(87)	(109)	(174)
Interest income	(26)	(363)	(120)	(762)
Interest expense	3	4	8	7
Total other expenses and income	4,176	3,401	7,934	8,008
Income before provision for income taxes	3,517	1,547	1,327	1,654
Provision for income taxes	773	342	401	367
Net income	<u>\$ 2,744</u>	<u>\$ 1,205</u>	<u>\$ 926</u>	<u>\$ 1,287</u>
Per share data				
Basic:				
Net income	<u>\$ 0.27</u>	<u>\$ 0.12</u>	<u>\$ 0.09</u>	<u>\$ 0.13</u>
Diluted:				
Net income	<u>\$ 0.27</u>	<u>\$ 0.12</u>	<u>\$ 0.09</u>	<u>\$ 0.13</u>
Weighted average common shares outstanding:				
Basic	9,977	9,883	9,936	9,869
Diluted	9,977	9,885	9,936	9,872
Dividends declared per share	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.21

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,	
	2020	2019	2020	2019
	(Amounts in thousands)		(Amounts in thousands)	
Net income	\$ 2,744	\$ 1,205	\$ 926	\$ 1,287
Other comprehensive income:				
Foreign currency translation adjustment	146	(136)	155	(223)
Defined benefit pension and other postretirement plans net of income tax expense of \$63 and \$54 for the three months ended September 30, 2020 and 2019, respectively, and \$124 and \$109 for the six months ended September 30, 2020 and 2019, respectively	204	195	409	389
Total other comprehensive income	350	59	564	166
Total comprehensive income	<u>\$ 3,094</u>	<u>\$ 1,264</u>	<u>\$ 1,490</u>	<u>\$ 1,453</u>

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2020	March 31, 2020
(Amounts in thousands, except per share data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 62,356	\$ 32,955
Investments	5,500	40,048
Trade accounts receivable, net of allowances (\$41 and \$33 at September 30 and March 31, 2020, respectively)	19,276	15,400
Unbilled revenue	13,691	14,592
Inventories	20,615	22,291
Prepaid expenses and other current assets	1,378	906
Income taxes receivable	322	485
Total current assets	123,138	126,677
Property, plant and equipment, net	17,327	17,587
Prepaid pension asset	3,881	3,460
Operating lease assets	171	243
Other assets	105	153
Total assets	<u>\$ 144,622</u>	<u>\$ 148,120</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of finance lease obligations	\$ 26	\$ 40
Accounts payable	11,669	14,253
Accrued compensation	5,082	4,453
Accrued expenses and other current liabilities	3,867	3,352
Customer deposits	24,838	26,983
Operating lease liabilities	110	153
Total current liabilities	45,592	49,234
Finance lease obligations	45	55
Operating lease liabilities	53	82
Deferred income tax liability	988	721
Accrued pension liability	800	747
Accrued postretirement benefits	567	557
Total liabilities	<u>48,045</u>	<u>51,396</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$1.00 par value, 500 shares authorized	—	—
Common stock, \$0.10 par value, 25,500 shares authorized, 10,780 and 10,689 shares issued and 9,977 and 9,881 shares outstanding at September 30 and March 31, 2020, respectively	1,078	1,069
Capital in excess of par value	26,866	26,361
Retained earnings	90,120	91,389
Accumulated other comprehensive loss	(8,992)	(9,556)
Treasury stock (803 and 808 shares at September 30 and March 31, 2020, respectively)	(12,495)	(12,539)
Total stockholders' equity	<u>96,577</u>	<u>96,724</u>
Total liabilities and stockholders' equity	<u>\$ 144,622</u>	<u>\$ 148,120</u>

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended September 30,	
	2020	2019
(Dollar amounts in thousands)		
Operating activities:		
Net income	\$ 926	\$ 1,287
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	972	980
Amortization	—	11
Amortization of actuarial losses	533	498
Equity-based compensation expense	494	412
Gain on disposal or sale of property, plant and equipment	3	—
Loss on sale of Energy Steel & Supply Co.	—	87
Deferred income taxes	191	119
(Increase) decrease in operating assets:		
Accounts receivable	(3,820)	5,287
Unbilled revenue	901	(5,514)
Inventories	1,808	990
Prepaid expenses and other current and non-current assets	(456)	109
Income taxes receivable	163	233
Operating lease assets	75	138
Prepaid pension asset	(421)	(435)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,544)	(4,721)
Accrued compensation, accrued expenses and other current and non-current liabilities	1,214	(268)
Customer deposits	(2,285)	(1,116)
Operating lease liabilities	(75)	(64)
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	63	52
Net cash used by operating activities	<u>(2,258)</u>	<u>(1,915)</u>
Investing activities:		
Purchase of property, plant and equipment	(797)	(679)
Proceeds from disposal of property, plant and equipment	6	—
Proceeds from the sale of Energy Steel & Supply Co.	—	602
Purchase of investments	(31,603)	(82,414)
Redemption of investments at maturity	66,151	83,232
Net cash provided by investing activities	<u>33,757</u>	<u>741</u>
Financing activities:		
Principal repayments on finance lease obligations	(24)	(25)
Principal repayments on long-term debt	(4,599)	
Proceeds from the issuance of long-term debt	4,599	
Dividends paid	(2,195)	(2,075)
Purchase of treasury stock	(23)	(230)
Net cash used by financing activities	<u>(2,242)</u>	<u>(2,330)</u>
Effect of exchange rate changes on cash	144	(187)
Net increase (decrease) in cash and cash equivalents, including cash classified within current assets held for sale	29,401	(3,691)
Net decrease in cash classified within current assets held for sale	—	552
Net increase (decrease) in cash and cash equivalents	29,401	(3,139)
Cash and cash equivalents at beginning of period	32,955	15,021
Cash and cash equivalents at end of period	<u>\$ 62,356</u>	<u>\$ 11,882</u>

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

SIX MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(Unaudited)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Par Value					
Balance at April 1, 2020	10,689	\$ 1,069	\$ 26,361	\$ 91,389	\$ (9,556)	\$ (12,539)	\$ 96,724
Comprehensive income				(1,818)	214		(1,604)
Issuance of shares	113	11	(11)				—
Forfeiture of shares	(22)	(2)	2				—
Dividends				(1,097)			(1,097)
Recognition of equity-based compensation expense			164				164
Purchase of treasury stock						(23)	(23)
Balance at June 30, 2020	10,780	1,078	26,516	88,474	(9,342)	(12,562)	94,164
Comprehensive income				2,744	350		3,094
Dividends				(1,098)			(1,098)
Recognition of equity-based compensation expense			330				330
Issuance of treasury stock			20			67	87
Balance at September 30, 2020	<u>10,780</u>	<u>\$ 1,078</u>	<u>\$ 26,866</u>	<u>\$ 90,120</u>	<u>\$ (8,992)</u>	<u>\$ (12,495)</u>	<u>\$ 96,577</u>

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Par Value					
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	<u>10,699</u>	<u>\$ 1,070</u>	<u>\$ 25,714</u>	<u>\$ 92,979</u>	<u>\$ (8,667)</u>	<u>\$ (12,601)</u>	<u>\$ 98,495</u>

See Notes to Condensed Consolidated Financial Statements.

GRAHAM CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except per share data)

NOTE 1 – BASIS OF PRESENTATION:

Graham Corporation's (the "Company's") Condensed Consolidated Financial Statements include its wholly-owned foreign subsidiaries located in Suzhou, China and Ahmedabad, India. The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") for interim financial information and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X, each as promulgated by the U.S. Securities and Exchange Commission. The Company's Condensed Consolidated Financial Statements do not include all information and notes required by GAAP for complete financial statements. The unaudited Condensed Consolidated Balance Sheet as of March 31, 2020 presented herein was derived from the Company's audited Consolidated Balance Sheet as of March 31, 2020. 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, 2020 ("fiscal 2020"). 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, 2020 are not necessarily indicative of the results that may be expected for the current fiscal year, which ends March 31, 2021 ("fiscal 2021").

NOTE 2 – REVENUE RECOGNITION:

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

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

Product Line	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Heat transfer equipment	\$ 13,307	\$ 6,479	\$ 23,980	\$ 14,331
Vacuum equipment	9,381	8,733	11,932	14,263
All other	5,266	6,431	8,752	13,642
Net sales	<u>\$ 27,954</u>	<u>\$ 21,643</u>	<u>\$ 44,664</u>	<u>\$ 42,236</u>

Geographic Region	Three Months Ended		Six Months Ended	
	2020	2019	2020	2019
Asia	\$ 4,529	\$ 1,018	\$ 9,692	\$ 4,237
Canada	1,938	1,896	2,930	3,244
Middle East	988	512	1,437	1,285
South America	2,592	2,117	2,812	2,476
U.S.	17,252	15,731	26,690	30,179
All other	655	369	1,103	815
Net sales	<u>\$ 27,954</u>	<u>\$ 21,643</u>	<u>\$ 44,664</u>	<u>\$ 42,236</u>

A performance obligation represents a promise in a contract to provide a distinct good or service to a customer. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Transaction price reflects the

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

Revenue on the majority of the Company's contracts, as measured by number of contracts, is recognized upon shipment to the customer. Revenue on larger contracts, which are fewer in number but represent the majority of revenue, is recognized over time. Revenue from contracts that is recognized upon shipment accounted for approximately 40% and 30% of revenue for the three-month periods ended September 30, 2020 and 2019, respectively, and revenue from contracts that is recognized over time accounted for approximately 60% and 70% of revenue for the three-month periods ended September 30, 2020 and 2019, respectively. Revenue from contracts that is recognized upon shipment accounted for approximately 50% and 35% of revenue for the six-month periods ended September 30, 2020 and 2019, respectively, and revenue from contracts that is recognized over time accounted for approximately 50% and 65% of revenue for the six-month periods ended September 30, 2020 and 2019, respectively. During the six months ended September 30, 2020, revenue recognized over time as a percentage of total revenue was lower as compared with the prior year period due to limited production on large contracts during the first quarter of fiscal 2021 as a result of the COVID-19 pandemic. 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:

	<u>September 30, 2020</u>	<u>March 31, 2020</u>	<u>Change</u>
Unbilled revenue (contract assets)	\$ 13,691	\$ 14,592	\$ (901)
Customer deposits (contract liabilities)	<u>(24,838)</u>	<u>(26,983)</u>	<u>2,145</u>
Net contract liabilities	<u>\$ (11,147)</u>	<u>\$ (12,391)</u>	<u>\$ 1,244</u>

Contract liabilities at September 30, 2020 and March 31, 2020 include \$2,420 and \$3,660, 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, 2020 and March 31, 2020, respectively. Revenue recognized in the three and six months ended September 30, 2020 that was included in the contract liability balance at March 31, 2020 was \$2,700 and \$10,050, respectively. Changes in the net contract liability balance during the six months ended September 30, 2020 were impacted by a \$901 decrease in contract assets, of which \$12,283 was due to contract progress offset by invoicing to customers

of \$13,184. In addition, contract liabilities decreased \$2,145 driven by revenue recognized in the current period that was included in the contract liability balance at March 31, 2020 offset by new customer deposits of \$7,905.

Receivables billed but not paid under retainage provisions in the Company's customer contracts were \$2,232 and \$2,016 at September 30, 2020 and March 31, 2020, 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 \$309 and \$45 at September 30, 2020 and March 31, 2020, 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 \$89 and \$40 in the three months ended September 30, 2020 and 2019, respectively, and \$251 and \$86 in the six months ended September 30, 2020 and 2019, 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, 2020, the Company had remaining unsatisfied performance obligations of \$114,851. The Company expects to recognize revenue on approximately 60% to 65% of the remaining performance obligations within one year, 15% to 20% 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, 2020 are scheduled to mature on or before December 24, 2020.

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, 2020	March 31, 2020
Raw materials and supplies	\$ 3,302	\$ 3,061
Work in process	14,832	18,018
Finished products	2,481	1,212
Total	\$ 20,615	\$ 22,291

NOTE 5 – EQUITY-BASED COMPENSATION:

The 2020 Graham Corporation Equity Incentive Plan (the "2020 Plan") was approved by the Company's stockholders at the Annual Meeting on August 11, 2020 and provides for the issuance of 422 shares of common stock in connection with grants of incentive stock options, non-qualified stock options, restricted stock units and stock awards to officers, key employees and outside directors. The shares available for issuance include 112 remaining available shares under the Company's prior plan, the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value (the "2000 Plan"). As of August 11, 2020, the effective date of the 2020 Plan, no further awards will be granted under the 2000 Plan. However, any previously outstanding award granted under the 2000 Plan remains subject to the terms of such plan until the time it is no longer outstanding.

No restricted stock awards were granted in the three-month periods ended September 30, 2020 and 2019. Restricted stock awards granted in the six-month periods ended September 30, 2020 and 2019 were 113 and 83, respectively. Restricted shares of 54 and 40 granted to officers in fiscal 2021 and fiscal 2020, 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 38 and 28 granted to officers and key employees in fiscal 2021 and fiscal 2020, respectively, vest 33⅓% per year over a three-year term. Restricted shares of 21 and 15 granted to directors in fiscal 2021 and fiscal 2020, respectively, vest 100% on the first year anniversary of the grant date. 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 stock option awards were granted in the three-month or six-month periods ended September 30, 2020 and 2019.

During the three months ended September 30, 2020 and 2019, the Company recognized equity-based compensation costs related to restricted stock awards of \$16 and \$313, respectively. The income tax benefit recognized related to equity-based compensation was \$73 and \$69 for the three months ended September 30, 2020 and 2019, respectively. During the six months ended September 30, 2020 and 2019, the Company recognized equity-based compensation costs related to restricted stock awards of \$471 and \$401, respectively. The income tax benefit recognized related to equity-based compensation was \$111 and \$89 for the six months ended September 30, 2020 and 2019, 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, 2020 and 2019, the Company recognized equity-based compensation costs of \$14 and \$11, respectively, related to the ESPP and \$3 and \$2, respectively, of related tax benefits. During the six months ended September 30, 2020 and 2019, the Company recognized equity-based compensation costs of \$23 and \$11, respectively, related to the ESPP and \$5 and \$2, respectively, of related tax benefits.

NOTE 6 – 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		Six Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Basic income per share				
Numerator:				
Net income	\$ 2,744	\$ 1,205	\$ 926	\$ 1,287
Denominator:				
Weighted average common shares outstanding	9,977	9,883	9,936	9,869
Basic income per share	\$ 0.27	\$ 0.12	\$ 0.09	\$ 0.13
Diluted income per share				
Numerator:				
Net income	\$ 2,744	\$ 1,205	\$ 926	\$ 1,287
Denominator:				
Weighted average common shares outstanding	9,977	9,883	9,936	9,869
Stock options outstanding	—	2	—	3
Weighted average common and potential common shares outstanding	9,977	9,885	9,936	9,872
Diluted income per share	\$ 0.27	\$ 0.12	\$ 0.09	\$ 0.13

Options to purchase a total of 37 and 4 shares of common stock were outstanding at September 30, 2020 and 2019, respectively, 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 7 – 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,	
	2020	2019	2020	2019
Balance at beginning of period	\$ 305	\$ 358	\$ 359	\$ 366
(Income) expense for product warranties	14	1	(5)	28
Product warranty claims paid	(11)	(11)	(46)	(46)
Balance at end of period	<u>\$ 308</u>	<u>\$ 348</u>	<u>\$ 308</u>	<u>\$ 348</u>

Income of \$5 for product warranties in the six months ended September 30, 2020 resulted from the reversal of provisions made that were no longer required due to lower claims experience.

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

NOTE 8 – CASH FLOW STATEMENT:

Interest paid was \$8 and \$7 in the six-month periods ended September 30, 2020 and 2019, respectively. Income taxes (refunded) paid for the six months ended September 30, 2020 and 2019 were \$(93) and \$14, respectively.

In the six months ended September 30, 2020 and 2019, non-cash activities included the issuance of treasury stock valued at \$7 and \$49, respectively, to the Company's ESPP.

At September 30, 2020 and 2019, there were \$86 and \$87, 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 9 – EMPLOYEE BENEFIT PLANS:

The components of pension cost are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Service cost	\$ 115	\$ 124	\$ 231	\$ 248
Interest cost	303	323	606	646
Expected return on assets	(628)	(665)	(1,257)	(1,329)
Amortization of actuarial loss	260	242	520	484
Net pension cost	<u>\$ 50</u>	<u>\$ 24</u>	<u>\$ 100</u>	<u>\$ 49</u>

The Company made no contributions to its defined benefit pension plan during the six months ended September 30, 2020 and does not expect to make any contributions to the plan for the balance of fiscal 2021.

The components of the postretirement benefit cost are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Interest cost	\$ 4	\$ 6	\$ 9	\$ 11
Amortization of actuarial loss	7	7	13	14
Net postretirement benefit cost	<u>\$ 11</u>	<u>\$ 13</u>	<u>\$ 22</u>	<u>\$ 25</u>

The Company paid no benefits related to its postretirement benefit plan during the six months ended September 30, 2020. The Company expects to pay benefits of approximately \$77 for the balance of fiscal 2021.

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 \$160 and \$124 on September 30, 2020 and March 31, 2020, respectively, related to the self-insured medical plan is primarily based upon claim history and is included in the caption “Accrued compensation” as a current liability in the Condensed Consolidated Balance Sheets.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

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

As of September 30, 2020, the Company was subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business.

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

NOTE 11 – INCOME TAXES:

The Company files federal and state income tax returns in several domestic and international jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is subject to U.S. federal examination for the tax years 2016 through 2019 and examination in state tax jurisdictions for the tax years 2015 through 2019. The Company is subject to examination in the People’s Republic of China for tax years 2016 through 2019 and in India for tax year 2019.

There was no liability for unrecognized tax benefits at either September 30, 2020 or March 31, 2020.

NOTE 12 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS:

The changes in accumulated other comprehensive loss by component for the six months ended September 30, 2020 and 2019 are as follows:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2020	\$ (9,472)	\$ (84)	\$ (9,556)
Other comprehensive income before reclassifications	—	155	155
Amounts reclassified from accumulated other comprehensive loss	409	—	409
Net current-period other comprehensive income	409	155	564
Balance at September 30, 2020	\$ (9,063)	\$ 71	\$ (8,992)

	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)

The reclassifications out of accumulated other comprehensive loss by component for the three and six months ended September 30, 2020 and 2019 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,		
	2020	2019	
Pension and other postretirement benefit items:			
Amortization of actuarial loss	\$ (267) (1)	\$ (249) (1)	Income before provision for income taxes
	(63)	(54)	Provision for income taxes
	<u>\$ (204)</u>	<u>\$ (195)</u>	Net income
Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Condensed Consolidated Statements of Income
	Six Months Ended		
	September 30,		
	2020	2019	
Pension and other postretirement benefit items:			
Amortization of actuarial loss	\$ (533) (1)	\$ (498) (1)	Income before provision for income taxes
	(124)	(109)	Provision for income taxes
	<u>\$ (409)</u>	<u>\$ (389)</u>	Net income

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

NOTE 13 – OTHER EXPENSE:

On June 24, 2019, the Company completed the sale of its subsidiary, Energy Steel & Supply Co., 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 Company recognized a loss on the disposal of \$87 in the first quarter of fiscal 2020. In addition, during the first quarter of fiscal 2020, 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 14 – 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 body to determine the potential impact they may have on the Company’s consolidated financial statements.

Management does not expect any 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. Our energy markets include oil refining, cogeneration, and alternative power. 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 wholly-owned foreign subsidiaries, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("GVHTT"), located in Suzhou, China and Graham India Private Limited ("GIPL"), located in Ahmedabad, India. GVHTT provides sales and engineering support for us in the People's Republic of China and management oversight throughout Southeast Asia. GIPL serves as a sales and market development office focusing on the refining, petrochemical and fertilizer markets in India.

In the first quarter of the fiscal year ended March 31, 2020 (which we refer to as "fiscal 2020"), we completed the sale of our commercial nuclear utility business, Energy Steel and Supply Co. ("Energy Steel").

Our current fiscal year (which we refer to as "fiscal 2021") ends March 31, 2021.

Highlights

Highlights for the three and six months ended September 30, 2020 include:

- Net sales for the second quarter of fiscal 2021 were \$27,954 up 29% compared with \$21,643 for the second quarter of fiscal 2020. Net sales for the first six months of fiscal 2021 were \$44,664, up 6% compared with net sales of \$42,236 for the first six months of fiscal 2020. Included in the first six months of fiscal 2020 were sales of \$1,276 for our commercial nuclear utility business, which was sold in the first quarter of fiscal 2020.
- Net income and income per diluted share for the second quarter of fiscal 2021 were \$2,744 and \$0.27, respectively, compared with \$1,205 and \$0.12, respectively, in the second quarter of fiscal 2020. Net income and income per diluted share for the first six months of fiscal 2021 were \$926 and \$0.09, respectively, compared with net income of \$1,287 and income per diluted share of \$0.13 for the first six months of fiscal 2020. Included in net income and income per diluted share for the first six months of fiscal 2020 was a loss of \$893 and \$0.09, respectively, for our commercial nuclear utility business, which was sold in the first quarter of fiscal 2020.
- Results in the first half of fiscal 2021 were impacted by the COVID-19 pandemic. During the first quarter, we purposely reduced production at our facility in Batavia, New York to proactively address the risk to our employees from the COVID-19 pandemic. We began the first quarter at 10% of normal staffing capacity and gradually increased production, reaching to normal capacity by early June 2020. On average, we were at approximately 50% of normal staffing capacity across the first quarter. This reduction in staffing significantly affected our sales and earnings in such quarter, which negatively impacted the first six months of fiscal 2021. Our staffing in the second quarter was back to normal levels.
- Orders booked in the second quarter of fiscal 2021 were \$34,974, compared with the second quarter of fiscal 2020 when orders booked were \$32,552. Orders booked in the first six months of fiscal 2021 were \$46,442, compared with the first six months of fiscal 2020 when orders booked were \$47,641.
- Backlog was \$114,851 at September 30, 2020, compared with \$107,220 at June 30, 2020 and \$112,389 at March 31, 2020.

- Gross profit margin and operating margin for the second quarter of fiscal 2021 were 28% and 12%, respectively, compared with 23% and 5%, respectively, for the second quarter of fiscal 2020. Gross profit margin and operating margin for the first six months of fiscal 2021 were 21% and 2%, respectively, compared with 23% and 2%, respectively, for the first six months of fiscal 2020
- Cash and short-term investments at September 30, 2020 were \$67,856, compared with \$73,003 at March 31, 2020.

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 2020.

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

- the impacts of, and risks caused by, the COVID-19 pandemic on our business operations, our customers and our markets;
- the current and future economic environments, including the downturn associated with the COVID-19 pandemic, 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 execute 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," "contemplate," "continue," "could," "estimate," "may," "might," "intend," "interest," "appear," "expect," "suggest," "plan," "predict," "project," "encourage," "potential," "should," "view," "will," 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

We continue to operate within disrupted energy and petrochemical markets (which we refer to as our "commercial markets"). A slowdown in our commercial markets began during the latter part of fiscal 2020. This slowdown was primarily caused

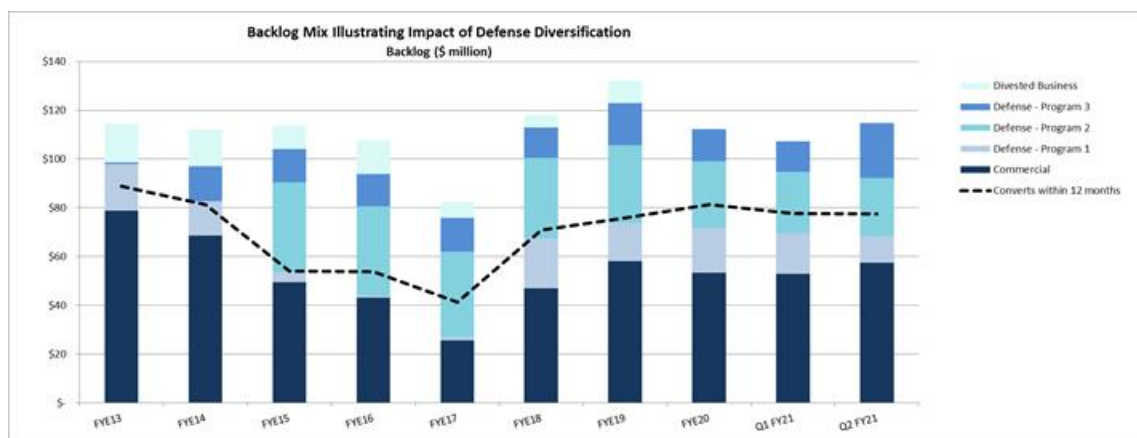
by an excess supply of crude oil, which had a negative impact on commodity pricing. The economic slowdown and corresponding reductions in demand for transportation fuel and petrochemical products caused by the ongoing COVID-19 global pandemic further adversely affected our commercial markets. As a result of this combination of adverse supply-side and demand-side disruptions, our commercial customers have significantly reduced their operating budgets for products and services like those that we offer. The timing and catalyst for a recovery in our commercial markets remains uncertain and we believe that in the near term the quantity of projects available for us to compete for will be fewer and that the pricing environment will continue to be challenging.

Over the long-term, however, we expect that population growth, an expanding global middle class and an increasing desire for more industrial products will drive increased demand for chemical and petrochemical products. Moreover, once global economies return to stable growth, we expect investment in new global chemical and petrochemical capacity will resume and that such investments will drive growth in demand for our products and services.

Energy markets, in particular crude oil refining, are undergoing a more fundamental evolution. We believe that systemic changes in the energy markets are being driven, in part, by the increasing use by consumers of alternative fuels in lieu of fossil fuel. As a result, we anticipate demand growth for fossil-based fuels will be less than the global GDP growth rate and that crude oil refiners will focus new investments toward the installed base, and that inefficient refineries will close and new refining capacity will be co-located where fuels and petrochemicals are produced. We also anticipate that future investment by refiners in renewable fuels (e.g., renewable diesel), in existing refineries (e.g., to expand feedstock processing flexibility, improve conversion of oil to refined products) to gain greater throughput, or to build new capacity (e.g., integrated refineries with petrochemical products capabilities) will continue to drive demand for our products and services.

Demand for our products in the defense industry is related to the naval nuclear propulsion market which is tied to aircraft carrier and submarine vessel construction schedules of the primary shipyards contracted by the U.S. Navy. We expect growth in our naval nuclear propulsion business will result from our strategic actions to increase our market share, our successful performance, and expected demand increases. The economic slowdown caused by the COVID-19 pandemic has not adversely effected demand for our products or services in the naval market.

The chart below shows the impact of our successful diversification strategy into multiple U.S. Navy defense platforms. Our U.S. Navy defense business, which began with our entry into the nuclear carrier program and expanded into both the Virginia and Columbia class nuclear submarine programs, made up 50% of our total backlog at September 30, 2020. Each vessel platform has made up at least 10% of our total backlog for the past three years. We believe this diversification is especially beneficial when our commercial markets are weak, as is presently the case.



*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,	
	2020	2019	2020	2019
Net sales	\$ 27,954	\$ 21,643	\$ 44,664	\$ 42,236
Gross profit	\$ 7,693	\$ 4,948	\$ 9,261	\$ 9,662
Gross profit margin	28%	23%	21%	23%
SG&A expense (1)	\$ 4,253	\$ 3,847	\$ 8,155	\$ 8,414
SG&A as a percent of sales	15%	18%	18%	20%
Net income	\$ 2,744	\$ 1,205	\$ 926	\$ 1,287
Diluted income per share	\$ 0.27	\$ 0.12	\$ 0.09	\$ 0.13
Total assets	\$ 144,622	\$ 146,464	\$ 144,622	\$ 146,464
Total assets excluding cash, cash equivalents and investments	\$ 76,766	\$ 72,668	\$ 76,766	\$ 72,668

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

The Second Quarter and First Six Months of Fiscal 2021 Compared With the Second Quarter and First Six Months of Fiscal 2020

Sales for the second quarter of fiscal 2021 were \$27,954, a 29% increase compared with \$21,643 for the second quarter of fiscal 2020. Our domestic sales, as a percentage of aggregate product sales, were 62% in the second quarter of fiscal 2021 compared with 73% in the second quarter of fiscal 2020. Domestic sales year-over-year increased \$1,521, or 10%. International sales increased \$4,790, or 81%, in the second quarter of fiscal 2021 compared with the second quarter of fiscal 2020. Sales in the three months ended September 30, 2020 were 37% to the refining industry, 19% to the chemical and petrochemical industries, 34% for the defense (U.S. Navy) industry, and 10% to other commercial and industrial applications. Sales in the three months ended September 30, 2019 were 29% to the refining industry, 48% to the chemical and petrochemical industries, 12% for the defense (U.S. Navy) industry, and 11% to other commercial and industrial applications. Fluctuation in sales among markets, products and geographic locations varies, sometimes significantly, from quarter-to-quarter based on timing, 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 2021 were \$44,664, an increase of \$2,428, or 6% compared with \$42,236 for the first six months of fiscal 2020. Our domestic sales, as a percentage of aggregate product sales, were 60% in the first six months of fiscal 2021 compared with 71% in the same period in fiscal 2020. Domestic sales decreased \$3,489, or 12%, while international sales increased by \$5,917, or 49%, each as compared with the same prior year period. International sales accounted for 40% and 29% of total sales for the first six months of fiscal 2021 and fiscal 2020, respectively. Sales in the six months ended September 30, 2020 were 29% to the refining industry, 30% to the chemical and petrochemical industries, 29% for the defense industry (U.S. Navy), and 12% to other commercial and industrial applications. Sales in the six months ended September 30, 2019 were 33% to the refining industry, 42% to the chemical and petrochemical industries, 11% for the defense (U.S. Navy) industry, and 14% to other commercial and industrial applications.

Gross profit margin for the second quarter of fiscal 2021 was 28% compared with 23% for the second quarter of fiscal 2020. Gross profit for the second quarter of fiscal 2021 increased 55% compared with fiscal 2020, to \$7,693 from \$4,948. The increase in gross profit was driven by higher volume, which was due to increased throughput at our Batavia facility, as well as, accelerated conversion at our global fabrication partner's facilities and the completion of a materials only order.

Gross profit margin for the first six months of fiscal 2021 was 21% compared with 23% for the first six months of fiscal 2020. Gross profit for the first six months of fiscal 2021 decreased 4% compared with the first six months of fiscal 2020, to \$9,261 from \$9,662. Gross profit margin in the first six months of fiscal 2021 was adversely impacted by the underutilization of our Batavia facility in the first quarter as a result of the COVID-19 pandemic.

SG&A expenses as a percent of sales for the three and six-month periods ended September 30, 2020 were 15% and 18%, respectively. SG&A expenses in the second quarter of fiscal 2021 were \$4,253, an increase of \$406 compared with SG&A expenses of \$3,847 in the second quarter of fiscal 2020. SG&A expenses in the first six months of fiscal 2021 were \$8,155, a decrease of \$259 compared with SG&A expenses of \$8,414 in the first six months of fiscal 2020. Included in the first six months of fiscal 2020, was \$621 for the divested commercial nuclear utility business.

Interest income for the three and six-month periods ended September 30, 2020 was \$26 and \$120, respectively, compared with \$363 and \$762, respectively, for the same periods ended September 30, 2019. The decrease in interest income is due to market investment rates, which are significantly lower when compared with rates a year ago. Interest expense for the three and six-month periods ended September 30, 2020 was \$3 and \$8, respectively, compared with \$4 and \$7, respectively, for the same periods ended September 30, 2019.

Our effective tax rate for each of the three and six-month periods ended September 30, 2020 was 22% and 30%, respectively. The effective tax rate for each of the three and six-month periods ended September 30, 2019 was 22%. The higher six-month tax rate in fiscal 2021 was due to the loss we incurred in the first quarter of fiscal 2021. Our effective tax rate for the full fiscal year is expected to be closer to 22%.

Net income and income per diluted share for the second quarter of fiscal 2021 were \$2,744 and \$0.27, respectively, compared with \$1,205 and \$0.12, respectively, in the second quarter of fiscal 2020. Net income and income per diluted share for the first six months of fiscal 2021 were \$926 and \$0.09, respectively, compared with net income of \$1,287 and income per diluted share of \$0.13 for the first six months of fiscal 2020. Included in net income and income per diluted share for the first six months of fiscal 2020 was a loss of \$893 and \$0.09, respectively, for our commercial nuclear utility business, which was sold in the first quarter of fiscal 2020.

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, 2020	March 31, 2020
Cash and investments	\$ 67,856	\$ 73,003
Working capital	77,546	77,443
Working capital ratio ⁽¹⁾	2.7	2.6
Working capital excluding cash and investments	9,690	4,440
Working capital excluding cash and investments as a percent of net sales ⁽²⁾	10.4%	4.9%

(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 2021 was \$2,258, compared with cash usage of \$1,915 for the first six months of fiscal 2020. The cash usage comparison year over year was attributable primarily to an increase in accounts receivable, mostly offset by a decrease in unbilled revenue due to timing. The increase in working capital excluding cash and investments as a percent of net sales was due to timing of working capital.

Dividend payments and capital expenditures in the first six months of fiscal 2021 were \$2,195 and \$797, respectively, compared with \$2,075 and \$679, respectively, for the first six months of fiscal 2020.

Capital expenditures for fiscal 2021 are expected to be between approximately \$2,000 and \$2,500.

Cash and investments were \$67,856 on September 30, 2020 compared with \$73,003 on March 31, 2020, down \$5,146.

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 have a \$14,000 line of credit with HSBC, N.A. ("HSBC") secured by certain of our deposit accounts with HSBC. Letters of credit outstanding on September 30, 2020 and March 31, 2020 were \$17,161 and \$13,328, respectively. The outstanding letters of credit as of September 30, 2020 were issued by JP Morgan Chase and HSBC. There were no other amounts outstanding on our credit facilities at September 30, 2020 and March 31, 2020. The borrowing rate under our JP Morgan Chase facility as of September 30,

2020 was the bank's prime rate, or 3.25%. Availability under the JP Morgan Chase and HSBC lines of credit was \$21,839 and \$21,672, respectively, at September 30, 2020 and March 31, 2020, 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, 2020 were \$34,974, net of a change order reduction of \$1,264, compared with \$32,552 for the same period last year. Orders represent written communications received from customers requesting us to supply products and/or services. Domestic orders were 46% of total orders, or \$16,117, and international orders were 54% of total orders, or \$18,857, in the second quarter of fiscal 2021 compared with the second quarter of fiscal 2020 when domestic orders were 33%, or \$10,759, of total orders, and international orders were 67%, or \$21,793, of total orders.

During the first six months of fiscal 2021, orders were \$46,442, compared with \$47,641 for the same period of fiscal 2020. Domestic orders were 42% of total orders, or \$19,349, and international orders were 58% of total orders, or \$27,093, in the first six months of fiscal 2021 compared with the same period of fiscal 2020 when domestic orders were 46%, or \$21,916, of total orders, and international orders were 54%, or \$25,725, of total orders.

Backlog was \$114,851 at September 30, 2020, compared with \$107,220 on June 30, 2020, and \$112,389 at March 31, 2020. Backlog is defined as the total dollar value of orders received for which revenue has not yet been recognized. Approximately 60% to 65% of orders currently in our backlog are expected to be converted to sales within one year. The majority of the backlog that is expected to convert beyond twelve months is for the defense industry, specifically the U.S. Navy. At September 30, 2020, 37% of our backlog was attributable to equipment for refinery project work, 9% for chemical and petrochemical projects, 50% for defense (U.S. Navy) projects and 4% for other commercial and industrial applications. 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. We had two projects totaling \$3,165 cancelled in fiscal 2020 and a third project of \$654 cancelled in the first six months of fiscal 2021. At September 30, 2020, we had two projects totaling \$562 on hold.

Outlook

Capital spending in the energy markets we serve began to decrease during the second half of fiscal 2020 and the pace of activity materially contracted as COVID-19 became a global pandemic in the fourth quarter of fiscal 2020. The weak energy markets have continued into fiscal 2021 and are particularly evident in our North American markets. As a result, our overall bidding activity has slowed. There has also been a shift toward more opportunities in emerging markets. At September 30, 2020, 50% of our backlog was for the defense industry, specifically the U.S. Navy. Our pipeline for the U.S. Navy continues to be robust, but quarterly fluctuations in order levels will occur due to the size and timing of release of the U.S. Navy projects. Defense programs in backlog are planned to deliver \$20 to \$30 million per year of revenue in fiscal 2021 and beyond.

Near term opportunities in the global energy and petrochemical markets have slowed significantly due to the combined impact of the COVID-19 pandemic and the geopolitical imbalance of supply. Although we do not know when the COVID-19 pandemic will end or when the supply imbalance will subside, we continue to believe that the energy and petrochemical markets provide long-term growth opportunities for our products and services. Coupled with our diversification strategy into the defense industry, we remain confident in our ability to achieve the long-term goal of significantly growing 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.

Our expectations for sales and profitability in fiscal 2021 assume that we are able to operate our production facility in Batavia, New York at or near normal capacity for the last two quarters of fiscal 2021 without any additional COVID-19 related reductions in production capacity. In our first quarter of fiscal 2021, our production capability was significantly reduced due to the COVID-19 pandemic. Our production was at approximately 50% of normal production across the first quarter of fiscal 2021. Our production capacity returned to a normal level in the second quarter of fiscal 2021. Our outlook is based upon the assumption that we are able to operate our production facility, have access to the global supply chain, including our subcontractors, with minimal or no disruptions, whether as a result of the COVID-19 pandemic or any other circumstances.

We project that approximately 60% to 65% of our \$114,851 backlog at September 30, 2020 will convert to sales over the next twelve months. We expect the remaining backlog will convert beyond twelve months, which includes a combination of U.S. Navy orders that have a long conversion cycle (up to five years) as well as certain commercial orders, the conversion of which has been extended by our customers. We had two projects totaling \$3,165 cancelled in fiscal 2020 and a third project of \$654 cancelled in

the first six months of fiscal 2021. At September 30, 2020, we had two projects totaling \$562 on hold by our customers. In addition, we have three projects which have been delayed by our customers due to COVID-19 and related energy market dynamics, and we therefore expect revenue of \$4,118 to be delayed beyond fiscal 2021. None of these amounts changed during the second quarter of fiscal 2021.

We expect fiscal year 2021 revenue to be between \$90,000 and \$95,000, gross profit margin to be in the 22% to 24% range and SG&A expenses to be between \$17,000 and \$17,500. We expect interest income to be de minimis, given the low market rates on short term cash and investments. Our effective tax rate during fiscal 2021 is expected to be approximately 22%. This outlook incorporates the very challenged first quarter which we experienced as a result of the COVID-19 pandemic, and assumes that we are able to continue to operate near normal capacity for the last six months of fiscal 2021.

Cash flow was negative in the first six months of fiscal 2021, however, we expect positive cash flow from operations for the remainder of fiscal 2021.

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, 2020, we are subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business. Although the outcome of the lawsuits, legal proceedings or potential claims to which we are or may become a party cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made for the majority of the claims, we do not believe that the outcomes, either individually or in the aggregate, will have a material 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, 2020.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of September 30, 2020 or March 31, 2020, 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, 2020 were 38% and 40%, respectively, of total sales compared with 27% and 29%, respectively, for the same periods of fiscal 2020. 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 2021 and fiscal 2020, 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 each of the three and six months ended September 30, 2020, our purchases in foreign currencies represented 2% of cost of products sold. 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. 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, 2020 and March 31, 2020, 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, 2020, we had two projects totaling \$562 on hold by our customers.

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. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our non-productive employees were working remotely during the majority of the first quarter due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

GRAHAM CORPORATION AND SUBSIDIARIES

FORM 10-Q

SEPTEMBER 30, 2020

PART II - OTHER INFORMATION

Item 1A. Risk Factors

Except as stated below, there have been no material changes from the risk factors previously disclosed in Part I – Item 1A of the Company’s Form 10-K for the fiscal year ended March 31, 2020.

Our business, financial condition and results of operations have been and may continue to be adversely affected by global public health pandemics, including the ongoing COVID-19 pandemic.

Our business, financial condition and results of operations have been and may continue to be adversely affected if the COVID-19 pandemic, or another global health crisis, impacts our employees, suppliers, customers, financing sources or others’ ability to conduct business or negatively affects consumer and business confidence or the global economy. The COVID-19 pandemic has affected large segments of the global economy, including the markets we operate in, since the fourth quarter of fiscal 2020. In response to the COVID-19 pandemic, beginning in late March 2020, we reduced staffing at our facility in Batavia, New York. We began the first quarter of fiscal 2021 at 10% of normal staffing capacity and gradually increased to normal capacity by early June 2020 while applying numerous new health and safety protocols for those working on site.

The pandemic and any additional preventative or protective actions that governments or we may take in response to the COVID-19 pandemic may have a material adverse effect on our business or our suppliers, distribution channels, and customers, including business shutdowns or disruptions for an indefinite period of time, reduced operations, restrictions on shipping, fabricating or installing products, reduced consumer demand or customers’ ability to make payments. We have and may continue to experience additional operating costs due to increased challenges with our workforce (including as a result of illness, absenteeism or government orders), implementing further precautionary measures to protect the health of our workforce, increased project cancellations or projects put on hold, access to supplies, capital, and fundamental support services (such as shipping and transportation). During the first quarter of fiscal 2021 we had two projects on hold, one project cancelled, and three projects delayed by our customers due to the COVID-19 pandemic and related energy market dynamics. Any resulting financial impact from the pandemic cannot be fully estimated at this time, but may materially affect our business, financial condition or results of operations. The extent to which the COVID-19 pandemic affects our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain the pandemic or treat its impact, among others.

The impact of the COVID-19 pandemic may also exacerbate other risks discussed in Item 1A - Risk Factors of our Form 10-K for the fiscal year ended March 31, 2020, any of which could have a material adverse effect on us. The situation surrounding the COVID-19 pandemic and its impact continue to change rapidly and additional impacts that we are presently unaware of may arise.

Item 6. Exhibits

INDEX OF EXHIBITS

(10)	Material Contracts	
+	10.1	<u>First Amendment to the Letter Agreement dated May 1, 2020 with respect to the continuing Letter of Credit Facility dated March 24, 2014, between the Company and HSBC Bank USA, National Association, effective as of August 23, 2020.</u>
+	10.2	<u>Pledge Agreement between the Company and HSBC Bank USA, National Association dated August 13, 2020.</u>
#	10.3	<u>Graham Corporation Annual Executive Cash Bonus Program in effect for the fiscal year ending March 31, 2021 is incorporated by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated August 11, 2020.</u>
+#	10.4	<u>2020 Graham Corporation Equity Incentive Plan</u>
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
+	31.1	<u>Certification of Principal Executive Officer</u>
+	31.2	<u>Certification of Principal Financial Officer</u>
(32)	Section 1350 Certification	
+	32.1	<u>Section 1350 Certifications</u>
(101)	Interactive Data File	
+	101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
+	101.SCH	Inline XBRL Taxonomy Extension Schema Document
+	101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
+	101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
+	101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
+	101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
	104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).
		+ 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: October 30, 2020



HSBC BANK USA, NATIONAL ASSOCIATION

452 Fifth Avenue
New York, New York 10018

August 13, 2020

GRAHAM CORPORATION

20 Florence Avenue
Batavia, New York 14020
(the "Company")

Gentleman:

Reference is made to your uncommitted discretionary demand facility as set forth in the letter dated May 1, 2020 between HSBC Bank USA, N.A. ("Bank") and Company (as supplemented and amended from time to time, the "Agreement").

This shall confirm our mutual understanding and agreement that effective as of the date hereof, the Agreement shall be amended and restated as follows:

1. The first paragraph under the heading General Terms of the Facility on page 2 of the Agreement is hereby deleted in its entirety and replaced with:

Borrowings and any other extensions of credit and obligations under the Facility shall be cash collateralized.

Except as hereby modified and amended, all terms and provision of the Agreement shall remain in full force and effect.

Please indicate Company's acceptance of the foregoing by signing and returning the enclosed copy of this letter.

Remainder of page intentionally left blank

INTERNAL

Very truly yours,

HSBC Bank USA, National Association

By: /s/ JOSEPH W. BURDEN

Joseph W. Burden
Vice President

AGREED TO AND ACCEPTED:

GRAHAM CORPORATION

By: /s/ JEFFREY F. GLAJCH

Jeffrey F. Glajch
Chief Financial Officer



PLEDGE AGREEMENT

(Hypothecation)

This AGREEMENT is entered into at New York, New York, as of **August 13, 2020**, 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
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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
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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 duerecordation 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
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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 rollover 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 any 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.
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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.
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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 August 13, 2020.

Accepted HSBC Bank USA, National Association
/s/ JOSEPH W. BURDEN
Name: Joseph W. Burden
Title: Vice President

Pledger: GRAHAM CORPORATION
/s/ JEFFREY F. GLAJCH
Name: Jeffrey F. Glajch
Title: Chief Financial Officer

Accepted HSBC Bank USA, National Association

RESTRICTED

2020 GRAHAM CORPORATION EQUITY INCENTIVE PLAN

Effective August 11, 2020

Section 1. Purpose.

The purpose of the Plan is to increase stockholder value by promoting growth and profitability of the Corporation; to provide certain directors and key executives of the Corporation with an incentive to achieve corporate objectives; to attract and retain directors and key executives of outstanding competence; and to provide such directors and key executives with an equity interest in the Corporation.

Section 2. Definitions.

Unless the context clearly indicates otherwise, the following terms, when used in the Plan, shall have the meanings set forth in this Section 2:

- (a) “Award” shall mean any Option, Stock Award or Restricted Stock Units granted under the Plan to a Participant by the Committee pursuant to such terms, conditions, restrictions and/or limitations, if any, as the Committee may establish by the Award Agreement or otherwise.
- (b) “Award Agreement” shall mean the written document establishing the terms, conditions, restrictions and limitations of an Award in addition to those established by the Plan and by the Committee’s exercise of its administrative powers.
- (c) “Board” shall mean the Board of Directors of the Corporation.
- (d) “CEO” shall mean the Chief Executive Officer of the Corporation.
- (e) “Change in Control” shall mean any of the following events:
 - (i) the reorganization, merger or consolidation of the Corporation with one or more other Persons, other than a transaction following which at least 51% of the ownership interests of the institution resulting from such transaction are owned by Persons who, immediately prior to such transaction, owned at least 51% of the outstanding voting share of Corporation;
 - (ii) the acquisition of more than 25% of the voting shares of the Corporation by any Person or Persons acting in concert;
 - (iii) the acquisition of substantially all of the assets of the Corporation by any Person or Persons acting in concert; or
 - (iv) the occurrence of any event if, immediately following such event, at least 50% of the members of the Board do not belong to any of the following groups:
 - (A) individuals who were members of the Board on August 11, 2020; or
 - (B) individuals who first became members of the Board after August 11, 2020 either:
 - (1) upon election to serve as a member of the Board by the affirmative vote of a majority of the members of the Board, or a nominating committee thereof, in office at the time of such first election; or
 - (2) upon election by the stockholders of the Corporation to serve as a member of the Board, but only if nominated for election by the

affirmative vote of a majority of the members of the Board, or a nominating committee thereof, in office at the time of such first nomination;

provided, however, that no benefit conferred under the Plan, or under the terms of any Award granted under the Plan, solely as a result of the occurrence of a Change in Control of the Corporation shall be conferred upon any Person, or any member of the group of Persons, who makes an acquisition described in Section 2(e)(ii) and for purposes of this provision, the term Change in Control as applied to such a Person shall not include any acquisition made by such group of Persons of which he is a member.

With respect to any Award that constitutes a nonqualified deferred compensation plan within the meaning of Section 409A and provides for accelerated payment in connection with a change in control (whether or not in conjunction with a termination of employment), "Change in Control" for purposes of such accelerated payment shall mean a Change in Control as described above in this Section 2(e) that is also a "change in the ownership of a corporation," a "change in the effective control of a corporation" or a "change in the ownership of a substantial portion of a corporation" within the meaning of Section 409A.

- (f) "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time, including the regulations promulgated and other official guidance issued thereunder and any successor provisions and the regulations promulgated and other official guidance issued thereto.
- (g) "Committee" shall mean the Compensation Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan; provided that the Committee shall consist of not fewer than two Directors, and each member shall be a "Non-Employee Director" and a Director meeting the independence requirements for compensation committee members under the rules and regulations of the Exchange. The Committee shall be appointed by and serve at the pleasure of the Board.
- (h) "Corporation" shall mean Graham Corporation, a Delaware corporation.
- (i) "Director" shall mean a member of the Board. For purposes of qualifying as an Eligible Individual, "Director" shall also include a member of the board of directors of a Subsidiary.
- (j) "Disability" shall mean permanent and total disability as defined by Section 22(e)(3) of the Code. Notwithstanding the foregoing, to the extent required for exemption from or compliance with Section 409A, "Disability" shall have the meaning given such term by Section 409A, which generally provides that "Disability" of a Participant means either (i) the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) the Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering the employees of the Participant's employer.
- (k) "Effective Date" shall mean August 11, 2020.
- (l) "Eligible Individual" shall mean any individual who is an Employee or non-Employee Director of the Corporation or a Subsidiary.
- (m) "Employee" shall mean any person employed by the Corporation or its Subsidiaries on a full or part-time basis, including Directors who are otherwise employed by the Corporation or its Subsidiaries.

- (n) “Exchange” shall mean the New York Stock Exchange or such other principal securities market on which the Stock is traded.
- (o) “Exchange Act” shall mean the Securities Exchange Act of 1934, as it may be amended from time to time, including the rules thereunder and any successor provisions and the rules thereto.
- (p) “Exercise Price” shall mean the price per share at which Stock subject to an Option may be purchased upon exercise of the Option, determined in accordance with Section 6.
- (q) “Fair Market Value” shall mean, with respect to a share of Stock on a specified date, for purposes of Section 6(b)(i), the per share closing price of the Stock reported by the Exchange on such date, or, if there is no such reported closing price on such date, then the per share closing price of the Stock reported by the Exchange on the last previous day on which such closing price was reported, or, if the Stock is not traded on an Exchange, the Fair Market Value determined by the Committee in accordance with applicable law. The Fair Market Value of a share of Stock for other purposes, and the Fair Market Value of property other than Stock, shall be the market value of such property as determined by the Committee using such methods or procedures as it shall establish from time to time.
- (r) “ISO” shall mean an Option granted pursuant to the Plan to purchase shares of Stock that is intended to qualify as an incentive stock option under Section 422 of the Code.
- (s) “NQSO” shall mean an Option granted pursuant to the Plan to purchase shares of Stock that is not intended to qualify as an ISO or that is granted to a non-Employee Director.
- (t) “Non-Employee Director” shall mean a “Non-Employee Director” within the meaning of Rule 16b-3 under the Exchange Act.
- (u) “Options” shall mean an award granted pursuant to Section 6 evidencing the right to acquire shares of Stock for the stated Exercise Price, and shall include both NQSOs and ISOs.
- (v) “Participant” shall mean any Eligible Individual who receives an Award under the Plan.
- (w) “Person” shall mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an estate, an unincorporated organization and any other business organization.
- (x) “Plan” shall mean this 2020 Graham Corporation Equity Incentive Plan, as set forth herein and as amended from time to time.
- (y) “Prior Plan” shall mean the Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value.
- (z) “Remaining Number of Available Shares” shall have the meaning given such term in Section 3(a).
- (aa) “Restricted Stock Unit” shall mean an award granted pursuant to Section 8 evidencing the right to receive shares of Stock (or a cash payment equal to the Fair Market Value of such shares of Stock) at some future date.
- (bb) “Securities Act” shall mean the Securities Act of 1933, as it may be amended from time to time, including the rules thereunder and any successor provisions and the rules thereto.
- (cc) “Stock” shall mean shares of the common stock of the Corporation, par value \$0.10 per share.
- (dd) “Stock Award” shall mean an award of shares of Stock or restricted shares of Stock granted pursuant to Section 7.

- (ee) “Subsidiary” shall mean any corporation, limited liability company, partnership, joint venture or similar entity in which the Corporation owns, directly or indirectly, an equity interest possessing more than 50% of the combined voting power of the total outstanding equity interests of such entity; provided that for an ISO, the term “Subsidiary” shall only mean a “subsidiary corporation” of the Corporation within the meaning of Section 424(f) of the Code.
- (ff) “Substitute Awards” shall mean Awards granted under the Plan in assumption of, or in substitution or exchange for, outstanding awards previously granted by a company acquired by the Corporation or any Subsidiary or with which the Corporation or any Subsidiary combines.
- (gg) “Ten Percent Stockholder” shall mean any person who, as of the date of grant of an ISO, owns (or is deemed to own within the meaning of Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Corporation or of any Subsidiary.

Section 3. Shares of Stock Subject to the Plan.

- (a) In General. The maximum number of shares of Stock which shall be available for the grant or issuance of Awards under the Plan during its term shall not exceed 310,167, plus the number of remaining shares of Stock not issued or subject to outstanding grants under the Prior Plan on the Effective Date (the “Remaining Number of Available Shares”), plus any shares of Stock that are subject to awards granted under the Prior Plan that expire, are forfeited or canceled or terminate for any other reason after the Effective Date without the issuance of shares. Such amounts shall be subject to adjustment as provided in Section 3(b). Any shares of Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares shall be available again for grant under the Plan. Except for expired, forfeited or cancelled shares, the Plan is intended to restrict the “recycling” of shares of Stock back into the Plan; this means that shares of Stock exchanged or withheld to pay the aggregate Exercise Price of an Option or to satisfy tax withholding obligations with respect to an Award count against the numerical limits of the Plan. The shares of Stock available for issuance under the Plan may be authorized and unissued shares or treasury shares, including shares purchased in open market or private transactions. For the avoidance of doubt, any shares of Stock that are subject to outstanding awards granted under the Prior Plan that are used to pay the exercise price of an option or withheld to satisfy the tax withholding obligations related to any award under the Prior Plan after the Effective Date shall not become available under the Plan. If the Plan is approved by the Company’s stockholders on the Effective Date, no awards may be granted under the Prior Plan on or after the Effective Date.
- (b) Adjustment Upon Changes in Capitalization. In the event of any reclassification, recapitalization, merger, consolidation, reorganization, issuance of warrants, rights or debentures, stock dividend, stock split or reverse stock split, cash dividend, property dividend, combination or exchange of shares, repurchase of shares or any other change in corporate structure which in the judgment of the Committee materially affects the value of shares, then the Committee shall determine the substitutions or adjustments to the maximum number of shares available for the grant or issuance of Awards under the Plan pursuant to Section 3(a), the number and class of shares and the Exercise Price set forth in any Award theretofore granted, the limits in Section 5(c), or any other affected terms of an Award or the Plan as the Committee, in its sole discretion and without liability to any person, deems equitable or appropriate. In making an adjustment to an Award pursuant to this Section 3(b), unless the Committee determines another adjustment to be in the best interests of the Corporation or its Subsidiaries, the Committee shall attempt to make the adjustments as follows: (i) for an ISO, in a manner that would not cause the ISO to fail to qualify as an incentive stock option under Section 422 of the Code; (ii) for an NQSO, in a manner that would not be treated as a “modification” of the NQSO under Section 409A; and (iii) for any Award, in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act for such Award.

- (c) Substitute Awards. The number of shares of Stock covered by a Substitute Award or to which a Substitute Award relates shall not be counted against the maximum number of shares of Stock available for the grant or issuance of Awards under the Plan.

Section 4. Administration of the Plan.

- (a) In General. The Committee shall have total and exclusive responsibility to control, operate, manage and administer the Plan in accordance with its terms. The Committee may act only by a majority of its members. Any determination of the Committee may be made, without a meeting, by a writing or writings signed by all of the members of the Committee. The decisions of the Committee and its actions with respect to the Plan shall be final, binding and conclusive upon all persons having or claiming to have any right or interest in or under the Plan.
- (b) Authority. The Committee shall have all the authority that may be necessary or helpful to enable it to discharge its responsibilities with respect to the Plan. Without limiting the generality of the preceding sentence, the Committee shall have the exclusive right to:
 - (i) determine eligibility for participation in the Plan;
 - (ii) select the Eligible Individuals and determine the type of Awards to be made to Eligible Individuals, the number of shares of Stock subject to Awards and the terms, conditions, restrictions and limitations of the Awards, including, but not by way of limitation, restrictions on the transferability of Awards and conditions with respect to continued employment or performance criteria;
 - (iii) interpret the Plan or any Award Agreement;
 - (iv) construe any ambiguous provision, correct any default, supply any omission, and reconcile any inconsistency of the Plan or an Award Agreement;
 - (v) to the extent permitted under the Plan, grant waivers of Plan terms, conditions, restrictions and limitations;
 - (vi) promulgate rules and regulations regarding treatment of Awards of a Participant under the Plan in the event of such Participant's death, Disability, retirement, or other termination from the Corporation, or in the event of a Change in Control of the Corporation; provided that:
 - (A) any acceleration of the exercisability, vesting or payment of, or the lapse of restrictions or deemed satisfaction of any performance objective with respect to, an Award in connection with a Change in Control may occur only if (1) the Change in Control occurs and (2) either the employment or service of the Participant is terminated (i.e., "double-trigger") or the acquirer does not agree to the assumption or substitution of outstanding Awards; and
 - (B) with respect to any Award that is earned or vests based upon achievement of one or more performance objectives, unless otherwise required by an employment agreement or other agreement, the amount deemed earned or vested in connection with the Change in Control or associated termination of employment or services shall be based upon the level of actual achievement of the performance objectives and/or the period of time elapsed in the performance period, each as of the applicable date;
 - (vii) subject to Section 4(d), grant Awards in replacement of Awards previously granted under the Plan or any other executive compensation plan of the Corporation;

- (viii) determine the terms and provisions of any Award Agreements entered into hereunder, including, a provision in an Award Agreement that requires, upon the occurrence of a Change in Control, the cancellation for cash of outstanding vested Awards or the issuance of comparable replacement Awards granted by the successor entity in such event; and
 - (ix) take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan, including making factual determinations.
- (c) Delegation. Subject to applicable law, the Committee may allocate all or any portion of its responsibilities and powers under the Plan to any one or more of its members, the CEO or other senior members of management as the Committee deems appropriate and may delegate all or any part of its responsibilities and powers to any such person or persons, provided that any such allocation or delegation be in writing; provided, however, that only the Committee, or other committee consisting of two or more Non-Employee Directors may select and grant Awards to Eligible Individuals who are subject to Section 16 of the Exchange Act. The Committee may revoke any such allocation or delegation at any time for any reason with or without prior notice.
- (d) Repricing. Notwithstanding any provision of the Plan, except for adjustments pursuant to Section 3(b), the Committee shall not reprice, adjust or amend the Exercise Price of Options previously awarded to any Participant, whether through amendment, cancellation and replacement grant, or any other means, unless such action is approved by the stockholders of the Corporation. For purposes of the Plan, the term “reprice” shall mean: (i) the reduction, directly or indirectly, in the Exercise Price of an outstanding Option by amendment, cancellation or substitution; (ii) any action that is treated as a repricing under United States generally accepted accounting principles; (iii) cancelling an Option in exchange for another Option or other equity security (unless the cancellation and exchange occurs in connection with a merger, acquisition, or similar transaction); and (iv) any other action that is treated as a repricing by the rules or regulations of the Exchange. In addition, notwithstanding any other provision in the Plan to the contrary, an Option may not be surrendered in consideration of or exchanged for cash, other Awards, or a new Option having an Exercise Price below that of the Option which was surrendered or exchanged, unless the exchange occurs in connection with a merger, acquisition, or similar transaction, or such action is approved by the stockholders of the Corporation. Any amendment or repeal of this Section 4(d) shall require the approval of the stockholders of the Corporation.

Section 5. Awards.

- (a) Eligibility. All Eligible Individuals are eligible to participate in the Plan; provided, however, only Employees are eligible to receive ISOs. The Committee shall determine and designate from time to time those Eligible Individuals who are to be granted Awards, the type of each Award granted and the number of shares of Stock subject to each such Award.
- (b) In General. Awards may, at the Committee’s sole discretion, be granted in the form of Options pursuant to Section 6, Stock Awards pursuant to Section 7, Restricted Stock Units pursuant to Section 8 or a combination thereof. Each Award shall be subject to the terms, conditions, restrictions and limitations of the Plan and the Award Agreement for such Award. Awards under a particular Section of the Plan need not be uniform and Awards under two or more Sections may be combined into a single Award Agreement. Any combination of Awards may be granted at one time and on more than one occasion to the same Eligible Individual.
- (c) Award Limitation. Subject to adjustment as provided by Section 3(b), and notwithstanding any provision contained in the Plan to the contrary:
- (i) the maximum number of shares of Stock for which Awards may be granted to any Participant during a calendar year is 60,000;

- (ii) the maximum aggregate number of shares of Stock for which Awards may be granted to all Participants during any continuous 36-month period is 3% of the Corporation's total number of authorized shares of Stock as of the beginning of such period;
 - (iii) the maximum aggregate number of shares of Stock that may be issued under the Plan upon the exercise of ISOs is 310,167, plus the Remaining Number of Available Shares;
 - (iv) the aggregate Fair Market Value (determined at the time an ISO is granted) of the Stock with respect to which ISOs are exercisable for the first time by any Employee during any calendar year under all plans of the Corporation and any Subsidiary shall not exceed \$100,000; and
 - (v) the aggregate grant date fair value of NQSOs, Stock Awards and Restricted Stock Units granted to a non-Employee Director during any calendar year shall not exceed \$50,000, and the total fees paid to a non-Employee Director in cash for services in any calendar year shall not exceed \$100,000.
- (d) Foreign Jurisdictions. With respect to Eligible Individuals who reside or work outside of the United States, the Committee may, in its sole and absolute discretion, amend the terms of the Plan or Awards with respect to such Eligible Individuals in order to conform such terms with the provisions of local law and practice or otherwise as deemed necessary or desirable by the Committee.
- (e) Exclusion from Minimum Vesting and Continued Employment Requirements. Awards granted under Section 6, Section 7 and Section 8 shall be subject to the minimum vesting period and continued employment or service requirement specified for the Award by such Section, as applicable, except that: (i) up to a maximum of five percent (5%) of the maximum number of shares of Stock that may be issued under the Plan pursuant to Section 3(a) may be issued pursuant to Awards granted under Section 6, Section 7 or Section 8 without regard for any minimum exercisability or vesting period requirements set forth in such Section; and (ii) continued employment or service for exercisability or vesting shall not be required as (A) the Committee may determine or permit otherwise in the event of death, Disability, retirement or other termination of a Participant, or, subject to Section 4(b)(vi), in connection with a corporate transaction (which includes but is not limited to a divestiture, spin-off, split-off, asset transfer, outsourcing or joint venture formation) (each such event, a "Defined Event"), and (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards.
- (f) Recoupment. Notwithstanding anything in the Plan or in any Award Agreement to the contrary, the Corporation will be entitled to the extent required by applicable law (including, without limitation, Section 10D of the Exchange Act and any rules promulgated with respect thereto) or Exchange listing conditions, in each case as in effect from time to time, to recoup compensation of whatever kind paid under the Plan by the Corporation at any time.

Section 6. Stock Options.

- (a) In General. Awards may be granted in the form of Options. Options granted under the Plan may be of two types: ISOs and NQSOs. The Committee shall have the authority and discretion to grant to an Eligible Individual either ISOs, NQSOs, or both, but shall clearly designate the nature of each Option at the time of grant. Only Employees may receive ISOs.
- (b) Terms of Options. Subject to the limits in Section 5, if applicable, an Option shall be exercisable in accordance with such terms and conditions and at such times and during such periods as may be determined by the Committee not inconsistent with the terms of the Plan. In addition to any such

terms and conditions, the following terms and conditions shall apply to all Options granted under the Plan:

- (i) the Exercise Price of an Option shall be not less than 100% of the Fair Market Value of a share of the Stock on the date such Option is granted, provided, however, that the Exercise Price shall not be less than 110% of such Fair Market Value for any ISO granted to a Ten Percent Stockholder; provided that an Option that is a Substitute Award may be granted with an Exercise Price lower than the Fair Market Value of a share of Stock on the date such Option is granted if such Option is granted in a manner satisfying the provisions of Section 422 of the Code in the case of a Substitute Award for an option that is an ISO, or the provisions of Section 409A in the case of a Substitute Award for an option that is an NQSO;
 - (ii) the term of each Option shall be determined by the Committee, provided that no Option shall be exercisable after more than ten years from the date such Option is granted, and provided further that no ISO granted to a Ten Percent Stockholder shall be exercisable after more than five years from the date of grant; and
 - (iii) Options shall not vest for at least one year after the date of grant, except as (A) the Committee may determine or permit otherwise in the event of a Defined Event, (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards, or (C) otherwise permitted by Section 5(e).
- (c) Exercise of Options. Except as provided in Section 10: (i) no Option granted to an Employee shall be exercised unless at the time of such exercise the Participant is then an Employee; and (ii) no Option granted to a non-Employee Director shall be exercised unless at the time of such exercise the Participant is then a non-Employee Director. Upon exercise, the aggregate Exercise Price of an Option may be paid in cash, by directing the Corporation to withhold shares of Stock issuable pursuant to the exercise of the Option with a Fair Market Value sufficient to pay the aggregate Exercise Price or, to the extent permitted by the Committee, by tendering, by either actual delivery of shares or by attestation, shares of Stock, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting shares of Stock, whether restricted or unrestricted, and may impose such conditions as it deems appropriate on the use of shares of Stock to exercise an Option. Options granted under the Plan may also be exercised by way of a broker-assisted stock option exercise program, if any, provided such program is available at the time of the Participant's exercise. Notwithstanding the foregoing or the provision of any Award Agreement, a Participant may not pay the aggregate Exercise Price of an Option using shares of Stock if there is a substantial likelihood that the use of such form of payment would result in adverse accounting treatment to the Corporation.

Section 7. Stock Awards.

- (a) In General. Awards may be granted in the form of Stock Awards; provided, however, that the Committee may grant Stock Awards of unrestricted shares of Stock only to non-Employee Directors and only if made in lieu of cash fees. Subject to the terms of the Plan, Stock Awards shall be granted in such numbers, at such times and subject to such terms as the Committee shall determine.
- (b) Restrictions. Subject to the limits in Section 5, if applicable, the Committee may condition, restrict or limit the grant or vesting of a Stock Award on the achievement of enumerated performance objectives or, on the Employee's or non-Employee Director's continued employment or service to the Corporation or a Subsidiary through a specified period of time, not inconsistent with the terms of the Plan. Except as provided in Section 7(a) with respect to Awards of unrestricted shares of Stock to non-Employee Directors, Stock Awards shall not vest for at least one year after the date of grant, except as (A) the Committee may determine or permit otherwise in the event of a Defined

Event, (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards, or (C) otherwise permitted by Section 5(e).

- (c) Rights as Stockholders. During the period in which any shares of Stock received pursuant to a Stock Award are subject to any restrictions, the Committee may, in its sole and absolute discretion, deny the Participant to whom such shares have been awarded all or any of the rights of a stockholder with respect to such shares, including, but not by way of limitation, limiting the right to vote such shares or the right to receive dividends on such shares.
- (d) Dividends. Dividends may, at the Committee's discretion, be held in escrow (with or without the accrual of interest), or be reinvested into additional shares of Stock subject to the same vesting or performance conditions as the underlying Stock Award.

Section 8. Restricted Stock Units.

- (a) In General. Awards may be granted in the form of Restricted Stock Units in such numbers, at such times and subject to such terms as the Committee shall determine not inconsistent with the terms of the Plan.
- (b) Vesting and Payment. Subject to the limits in Section 5, if applicable, the Committee may condition, restrict or limit the vesting or payment of Restricted Stock Units on the achievement of enumerated performance objectives or, on the Employee's or non-Employee Director's continued employment or service to the Corporation or a Subsidiary through a specified period of time consistent with the terms of the Plan. Restricted Stock Units shall not vest for at least one year after the date of grant, except as (A) the Committee may determine or permit otherwise in the event of a Defined Event, (B) may be required or otherwise be deemed advisable by the Committee in connection with Substitute Awards, or (C) otherwise permitted by Section 5(e).
- (c) Rights of Holders of Restricted Stock Units. A Participant receiving Restricted Stock Units shall not possess voting rights, nor the right to receive cash dividends, with respect to such Restricted Stock Units or the shares of Stock underlying such Restricted Stock Units unless and until the vesting of the Restricted Stock Units and the payment to the Participant of shares of Stock.
- (d) Dividend Equivalents. If a right to dividend equivalents for Restricted Stock Units is included in the Award Agreement, then dividend equivalents in an amount equal to any cash dividends declared and paid with respect to the shares of Stock shall be paid to the Participant at the time specified in the Award Agreement. Dividend equivalents may, at the Committee's discretion, be held in escrow (with or without the accrual of interest), or be reinvested into additional shares of Stock subject to the same vesting or performance conditions as the underlying Restricted Stock Unit.

Section 9. Payment of Awards.

- (a) In General. Absent a Plan or Award Agreement provision to the contrary, payment of Awards may, at the discretion of the Committee, be made in cash, Stock, a combination of cash and Stock, or any other form of property as the Committee shall determine. In addition, payment of Awards may include such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, in the case of Awards paid in the form of Stock, restrictions on transfer and forfeiture provisions; provided, however, such terms, conditions, restrictions and/or limitations are not inconsistent with the Plan.
- (b) Withholding. The Corporation shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the minimum amount of all applicable income and employment taxes required by law to be withheld (or such higher amount that would not have an adverse accounting effect) with respect to such payment or may require the Participant to pay to

the Corporation such tax prior to and as a condition of the making of such payment. The Committee may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by withholding from any payment of shares of Stock due as a result of such Award, or by permitting the Participant to deliver to the Corporation, shares of Stock having a Fair Market Value equal to the minimum amount of such required withholding taxes (or such other amount that would not have an adverse accounting effect). Notwithstanding the foregoing or the provisions of any Award Agreement, a Participant may not pay the amount of taxes required by law to be withheld using shares of Stock if there is a substantial likelihood that the use of such form of payment would result in adverse accounting treatment to the Corporation.

Section 10. Effect of Termination of Relationship with the Corporation.

- (a) Death. Unless otherwise decided by the Committee and provided in an Award Agreement, and subject to Section 11(j), upon a Participant's death prior to the complete exercise or vesting of an Award granted to him or her under the Plan, then:
- (i) the vested portion of any remaining Options held by the Participant at the time of his or her death may be exercised in whole or in part within one year after the date of the Participant's death and then only:
 - (A) by the beneficiary designated by the Participant in a writing submitted to the Corporation prior to the Participant's death, or in the absence of same, by the Participant's estate or by or on behalf of such person or persons to whom the Participant's rights pass under his or her will or the laws of descent and distribution;
 - (B) to the extent that the Participant would have been entitled to exercise the Option at the date of his or her death and subject to all of the conditions on exercise imposed by the Plan and the Award Agreement; and
 - (C) prior to the expiration of the term of the Option.
 - (ii) any unvested restricted shares of a Stock Award and any unvested Restricted Stock Units held by the Participant at the time of his or her death shall be forfeited.
- (b) Disability. Unless otherwise decided by the Committee and provided in an Award Agreement, and subject to Section 11(j), upon a Participant's termination of employment or service due to Disability prior to the complete exercise or vesting of an Award granted to him or her under the Plan, then:
- (i) the vested portion of any remaining Options held by the Participant at the time of his or her termination of employment or service due to Disability may be exercised in whole or in part within one year after the date of the Participant's termination of employment or service due to Disability and then only:
 - (A) by the Participant or his or her legal representative;
 - (B) to the extent that the Participant would have been entitled to exercise the Option on the date of his or her termination of employment or service due to Disability, subject to all of the conditions on exercise imposed by the Plan and the Award Agreement; and
 - (C) prior to the expiration of the term of the Option.

- (ii) any unvested restricted shares of a Stock Award and any unvested Restricted Stock Units held by the Participant at the time of his or her termination of employment or service due to Disability shall be forfeited.
- (c) Other Termination. Unless otherwise decided by the Committee and provided in an Award Agreement, and subject to Section 11(j), upon the termination of a Participant's employment or term of directorship with the Corporation or a Subsidiary for a reason other than the Participant's death or termination of employment or service due to Disability and prior to the complete exercise or vesting of an Award granted to him or her under the Plan, then:
 - (i) the vested portion of any remaining Options held by the Participant may be exercised in whole or in part within three months after the date of the Participant's termination and then only:
 - (A) by the Participant or his or her legal representative;
 - (B) to the extent that the Participant would have been entitled to exercise the Option on the date of his or her termination, subject to all of the conditions on exercise imposed by the Plan and the Award Agreement; and
 - (C) prior to the expiration of the term of the Option.
 - (ii) any unvested restricted shares of a Stock Award and any unvested Restricted Stock Units held by the Participant at the time of his or her other termination shall be forfeited.
- (d) Treatment of Intra-Corporation Transfers. In the case of an Employee, the transfer between the Corporation and any Subsidiary shall not be deemed to be a termination of employment or directorship for purposes of this Section 10.

Section 11. General Provisions.

- (a) Award Agreement. Each Award grant shall be evidenced by a written Award Agreement containing such terms and conditions, not inconsistent with the Plan, as the Committee shall approve. The terms and provisions of Award Agreements may vary among Participants and among different Awards granted to the same Participant. Any Stock Award granted under the Plan may be evidenced in such manner as the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates, with such restrictive legends and/or stop transfer instructions as the Committee deems appropriate.
- (b) Substitute Awards. Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards for which they are granted in substitution.
- (c) No Right to Further Awards or Continued Service. The grant of an Award in any year shall not give the Participant any right to similar grants in future years or any right to continue such Participant's employment or other service relationship with the Corporation or its Subsidiaries. All Participants shall remain subject to discharge to the same extent as if the Plan were not in effect.
- (d) No Right, Title, or Interest in Corporation Assets. No Participant shall have any rights as a stockholder as a result of participation in the Plan until the date of issuance of a stock certificate in his or her name or the entry on his or her behalf of an uncertificated book position on the records of the Corporation's transfer agent and registrar for such Stock or other instrument of ownership, if any, and, in the case of restricted shares of Stock, such rights are granted to the Participant under the Plan. To the extent any person acquires a right to receive payments from the Corporation under

the Plan, such rights shall be no greater than the rights of an unsecured creditor of the Corporation and the Participant shall not have any rights in or against any specific assets of the Corporation. All of the Awards granted under the Plan shall be unfunded and the Corporation shall not be required to establish any fund or make any other segregation of assets to assure the payment of any Award. Except as provided in Section 3(b), no adjustment shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, securities, other property or other forms of consideration, or any combination thereof) for which the record date is prior to the date such book entry is made or a stock certificate or other instrument of ownership, if any, is issued.

- (e) Nonassignability. No Award or other right under the Plan shall be subject to anticipation, sale, assignment, pledge, encumbrance, or charge except by will or the laws of descent and distribution and, except as provided in Section 10, an Award shall be exercisable during the Participant's lifetime only by the Participant.
- (f) Regulatory Approvals and Listings. Notwithstanding any other provision of the Plan or Award Agreements made pursuant thereto, the Corporation shall not be required to issue or deliver any certificate or certificates for shares of Stock, or make any entry on a Participant's behalf of an uncertificated book position on the records of the Corporation's transfer agent and registrar for the Stock or other instrument of ownership, if any, under the Plan prior to fulfillment of all of the following conditions:
 - (i) the listing, or approval for listing upon notice of issuance, of such shares on the Exchange;
 - (ii) any registration or other qualification of such shares under any state or federal law or regulation, or other qualification which the Board shall, in its absolute discretion and upon the advice of counsel, deem necessary or advisable;
 - (iii) the obtaining of any other consent approval or permit from any state or federal government agency which the Board shall, in its absolute discretion and upon the advice of counsel, determine to be necessary or advisable; and
 - (iv) the execution by the Participant (or the Participant's legal representative) of such written representation that the Committee may in its sole discretion deem necessary or advisable to the effect that the shares then being purchased are being purchased for investment with no present intention of reselling or otherwise disposing of such shares in any manner which may result in a violation of the Securities Act and the placement upon certificates for such shares of an appropriate legend in connection therewith.
- (g) Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of New York, except as superseded by applicable federal law, without giving effect to its conflicts of law provisions.
- (h) Construction of Language. Whenever appropriate in the Plan, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to a Section number shall refer to a Section of this Plan unless otherwise indicated.
- (i) Headings. The headings of Sections are included solely for convenience of reference. If there is any conflict between such headings and the text of the Plan, the text shall control.
- (j) Section 409A. The Awards granted under the Plan are intended to comply with or be exempt from the requirements of Section 409A of the Code ("Section 409A"), and the Plan and Award Agreements will be interpreted in a manner consistent with that intent. References to a

Participant's "termination of employment" and similar terms used in the Plan or an Award Agreement mean, to the extent necessary to comply with or be exempt from the requirements of Section 409A, the date that the Participant first incurs a "separation from service" within the meaning of Section 409A. Notwithstanding anything in the Plan to the contrary, if at the time of a Participant's separation from service, the Participant is a "specified employee" for purposes of Section 409A, and the payment of an Award as a result of such separation from service is required to be delayed by six months pursuant to Section 409A, then the Corporation will make such payment on the date that is the first day of the seventh month following the Participant's separation from service. Notwithstanding the foregoing, the Corporation and its Subsidiaries make no representations that the Awards or the grant, vesting or payment thereof provided under the Plan or any award Agreement comply with or are exempt from Section 409A, and in no event shall the Corporation or its Subsidiaries be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by a Participant on account of non-compliance with Section 409A.

- (k) No Guarantee of Tax Consequences. No person connected with the Plan in any capacity, including, but not limited to, the Corporation and its directors, officers, agents and employees, makes any representation, commitment, or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to the tax treatment of any Award, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.
- (l) Amendment or Termination. Subject to the provisions of Section 4(d), the Board may, at any time, alter, amend, suspend, discontinue or terminate the Plan in whole or in part at any time; provided, however, that no such action shall adversely affect the rights of Participants to Awards previously granted hereunder and, provided further, however, that any stockholder approval necessary or desirable in order to comply with tax, securities, or other applicable laws or regulations, including, but not limited to, the listing requirements of the Exchange, shall be obtained in the manner required therein.
- (m) Notices. Any communication required or permitted to be given under the Plan, including any notice, direction, designation, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:
 - (i) If to the Corporation:

Graham Corporation
20 Florence Avenue
Batavia, New York 14020
Attention: Chief Financial Officer
 - (ii) If to a Participant, to the Participant's address as shown in the Corporation's personnel records.
- (n) Electronic Delivery and Signatures. Any reference in the Plan or an Award Agreement to a written document includes without limitation any document delivered electronically or posted on the Corporation's or a Subsidiary's intranet or other shared electronic medium controlled by the Corporation, a Subsidiary or any agent of the Corporation or a Subsidiary. The Committee and any Participant may use facsimile and PDF signatures in signing any Award Agreement, in exercising any Option, or in any other written document in connection with the Plan's administration. The Committee and each Participant are bound by facsimile and PDF signatures, and acknowledge that the other party relies on facsimile and PDF signatures.

- (o) Duration of Plan. The Plan was approved by the Board on June 9, 2020, and will become effective on August 11, 2020, upon the date of the approval by the stockholders of the Corporation at the 2020 Annual Meeting of the Stockholders. ISOs may not be granted under the Plan after August 11, 2030, but ISOs theretofore granted may extend beyond that date.

* * * * *

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: October 30, 2020

/s/ James R. Lines

James R. Lines
President and Chief Executive Officer

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: October 30, 2020

/s/ Jeffrey Glajch

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

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, 2020 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: October 30, 2020

/s/Jeffrey Glajch

Jeffrey Glajch
Vice President-Finance & Administration and
Chief Financial Officer
(Principal Financial Officer)
Date: October 30, 2020

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.