Graham Corporation 2015 Annual Report

GRAHAM CORPORATION

2015 | Solid Performance. Outstanding Year.

Solid Performance. Outstanding Year.

About **Graham Corporation**

Graham Corporation is a global business that designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. Energy markets include oil refining, cogeneration, nuclear and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. Graham's global brand is built upon our world renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible service and unsurpassed quality. We design and manufacture custom engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. We are also a leading nuclear code accredited fabrication and specialty machining company. We supply components used inside reactor vessels and outside containment vessels of nuclear power facilities. 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, heating, ventilating and air conditioning.

Graham routinely posts news and other important information on its website, www.graham-mfg.com, where additional comprehensive information on Graham Corporation and its subsidiaries can be found. Unless indicated, information on Graham's website is not part of this Annual Report.

Ten-Year **Financial Highlights**

Fiscal Years **Ended March 31**

Operating Performance

- Revenue
- Gross profit
- Gross profit margin (%)
- Selling, general and administrative
- Restructuring charge
- Operating margin (%)
- Net income
- Diluted earnings per share
- Weighted average shares outstanding - diluted

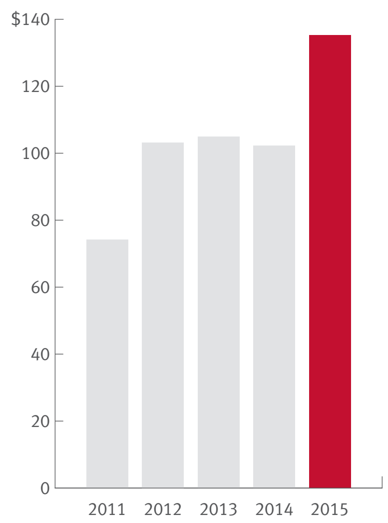
Year-End Financial Position

- Total assets
- Long-term debt, including capital lease obligations
- Cash, cash equivalents and investments
- Stockholders' equity
- Book value per share
- Dividend per share

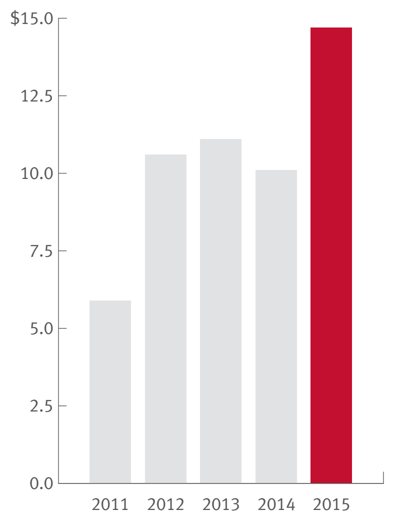
Other Data

- Working capital
- Depreciation and amortization
- Capital expenditures
- Backlog at March 31
- Number of employees

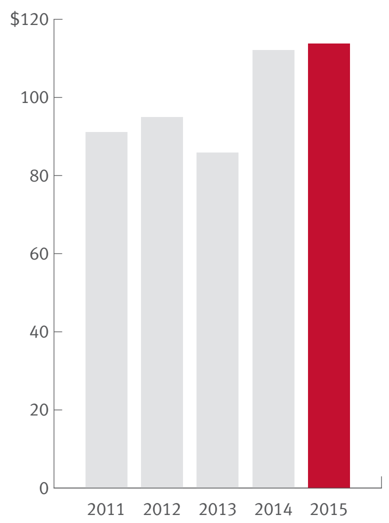
Revenue
(Dollars in millions)



Net Income
(Dollars in millions)



Backlog*
(Dollars in millions)



**at March 31*

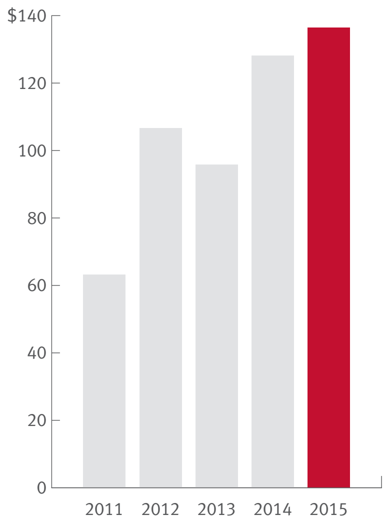
(Dollars in thousands, except per share data)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
	$ 135,169	102,218	104,973	103,186	74,235	62,189	101,111	86,428	65,822	55,208
	$ 41,804	31,812	31,822	32,635	21,851	22,231	41,712	34,162	16,819	15,959
	30.9 %	31.1 %	30.3 %	31.6 %	29.4 %	35.7 %	41.3 %	39.5 %	25.6 %	28.9 %
	$ 18,512	17,195	16,560	15,540	13,076	12,093	14,825	13,074	10,806	10,505
	$ 1,718	–	–	–	–	96	559	–	–	–
	16.0 %	14.3 %	14.5 %	16.6 %	11.8 %	16.1 %	26.0 %	24.4 %	9.1 %	9.9 %
	$ 14,735	10,145	11,148	10,553	5,874	6,361	17,467	15,034	5,761	3,586
	$ 1.45	1.00	1.11	1.06	0.59	0.64	1.71	1.49	0.58	0.38
	10,143	10,104	10,051	9,998	9,958	9,937	10,195	10,085	9,850	9,336

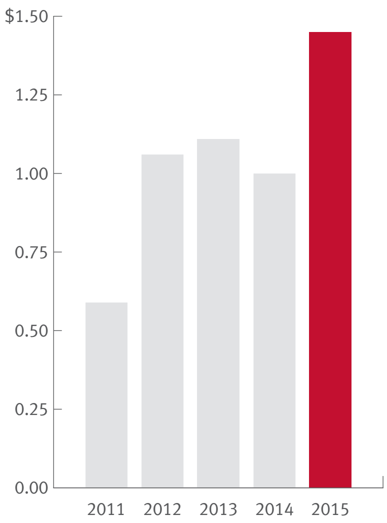
	$ 154,654	141,634	126,733	114,977	118,071	108,979	86,924	70,711	48,878	40,556
	$ 98	136	127	203	116	144	31	36	56	30
	$ 60,271	61,146	51,692	41,688	43,083	74,590	46,209	36,793	15,051	10,988
	$ 116,551	105,908	92,995	81,620	73,655	69,074	61,111	48,536	30,654	27,107
	$ 11.50	10.49	9.30	8.20	7.47	7.01	6.21	4.86	3.15	2.83
	$ 0.20	0.13	0.09	0.08	0.08	0.08	0.08	0.05	0.05	0.04

	$ 81,367	71,346	64,026	52,730	44,493	56,704	49,547	36,998	20,119	16,779
	$ 2,308	2,199	2,079	2,024	1,648	1,119	1,005	885	887	793
	$ 5,300	5,263	1,655	3,243	1,979	1,003	1,492	1,027	1,637	1,048
	$ 113,811	112,108	85,768	94,934	91,096	94,255	48,290	75,662	54,184	33,083
	397	389	376	346	317	237	270	281	265	250

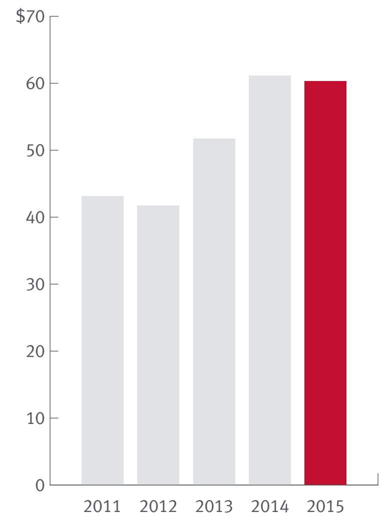
Orders
(Dollars in millions)



Diluted Earnings per Share



Cash and Cash Equivalents*
(Dollars in millions)



*at March 31

Fiscal 2015 **Letter To Shareholders**

Dear Fellow Shareholders,

Fiscal 2015 was an outstanding year. The strategic importance of our commitment of continuing to invest to take market share and address higher levels of customer demand was validated by our strong performance as we set new records for sales, orders and year-end backlog.

I believe that it was our forward-thinking actions during fiscal 2012 through 2014 that enabled the Company to deliver both 32% revenue growth and a record year-end backlog of $113.8 million. We made investments in people, tools and operational improvements. These investments not only transformed our culture to one which promotes empowerment, but also integrated modern machine tools and welding equipment in our processes and expanded significantly our production facilities. We also continued our relentless pursuit to reduce lead time in all of our processes and procedures. It was gratifying to observe our talented team deliver such exceptional performance. I commend the leadership team, management and all of our employees for the success we realized in the year and what we expect in years to come.

Key Highlights for Fiscal 2015 Include:

- Revenue of $135.2 million, a record level, up 32% from $102.2 million last year
- Net income of $14.7 million, up 45% from $10.1 million last year; excluding one-time restructuring charges, fiscal 2015 net income was $15.9 million
- Orders of $136.5 million, a record level, including approximately 25% that came from the U.S. Navy
- Backlog at a year-end was a record level of $113.8 million
- 10% expansion of predictable, less cyclical, sales
- Third consecutive year of improved workplace safety

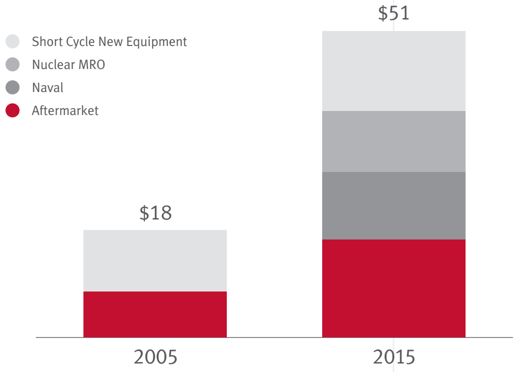
Diversifying Revenue and Reducing Earnings Volatility

Our concurrent strategies of driving growth in our historic markets as well as expanding predictable sales in the naval and nuclear markets have raised our earnings power base and reduced the impact of cyclical sales to the refining and petrochemical industries. In fiscal 2015, predictable base sales were $51 million, compared with $18 million in fiscal 2005. We expect this nearly threefold expansion will be even more important now that we have entered a cyclical decline in the refining and petrochemical industries.

We have successfully grown our predictable base business through several initiatives. We increased accountability and put greater focus on the massive, global installed base of Graham equipment supplied over the past eight decades. This additional focus has increased aftermarket sales. Actions to leverage our assets to develop strong naval and nuclear market sales drove record orders. Our short-cycle new equipment sales expanded 30% during this time period.

Annual Predictable Base Business

(Dollars in millions)



Adjusting for a Different Near-Term Outlook

Entering fiscal 2015, we were buoyed by vibrant market conditions and a rich bid pipeline that complemented the investments we made over the past few years. However, there was a sudden and abrupt change in our markets during the fall of calendar year 2014, when crude oil prices fell by approximately 50%. Some of our customers delayed their execution schedules or, in two cases, cancelled orders that had been in our backlog. Our refining and chemical industry customers were – and continue to be – in turmoil as a result and this led to soft orders from these markets in the second half of fiscal 2015.

As a result, fiscal 2016's outlook is materially different from our planning premise 18 months ago. In response to this new climate, we implemented cost savings actions to control expenses.

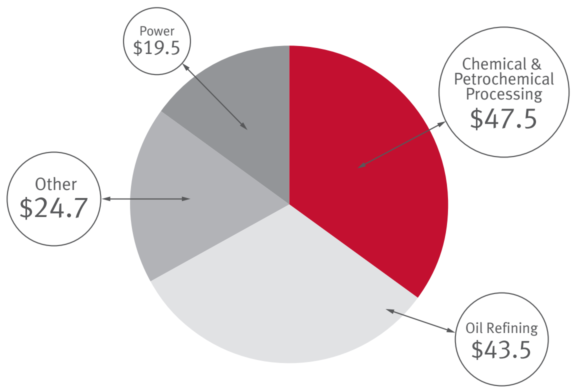
We reduced our workforce by 10%, primarily through voluntary separations. On an annualized basis, these headcount reductions are expected to lower our expenses by about $3 million, of which approximately $2 million will be realized in fiscal 2016.

We will closely monitor the direction of our markets and are prepared to take further cost reduction measures if necessary.

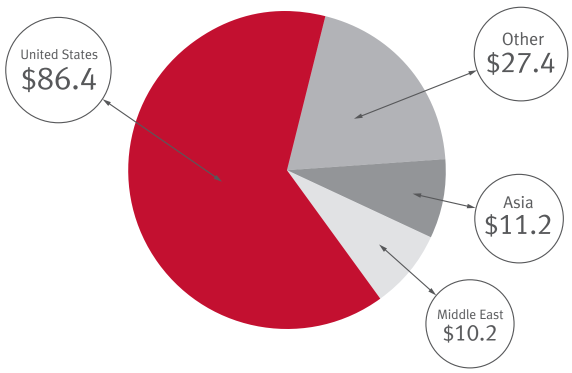
Striking a Balance

We believe that our markets will recover and that the underlying demand drivers are unchanged. As a result, we continue to view the longer-term outlook enthusiastically. Yet, moving assertively and reducing costs was inevitable once the extent of the pullback

2015 Revenue by Industry



2015 Revenue by Geographic Market



by our oil refining and chemical industry markets was understood. Faced with the near-term realities, balanced with the understanding of the value of the substantial investments made in capacity, competencies and capabilities, we elected to resist cutting too deeply to avoid negatively affecting growth in the future.

I believe that fiscal 2016, and perhaps fiscal 2017, will strike an appropriate balance between current period profitability and longer-term capability to serve customers and persistently pursue top line growth.

Staying the Course

Our vision is unchanged and our goal to double revenue is intact, although the timeframe has shifted somewhat due to this unforeseen market disruption. Regardless of market conditions, organic growth strategies continue to center on expanding market share. We intend to capitalize on long-term global energy growth and leverage our corporate financial, engineering, manufacturing and sales assets into countercyclical areas to diversify our revenue streams. We plan to complement these actions by leveraging our strong balance sheet to expand and diversify our revenue opportunities. We intend to use all our assets to strengthen and reposition your Company for strong growth exiting this pullback.

Our Board of Directors

I would like to extend our sincere thanks and appreciation to two of our long-standing Directors who have chosen to retire from our Board.

Helen Berkeley has served on our Board since 1998 and, remarkably, the Berkeley family has been part of Graham continuously since 1941. I will miss her counsel and unwavering commitment to our core values.

Jerald Bidlack has served as our Chairman since 1998 and has served Graham for 30 years. Jerry has guided management, the Board and the Company through its transformation into a high-performing public company and I thank him for his dedication and perseverance.

Jim Malvaso, a Board member since 2003, will now serve as Chairman of the Board. Jim has significant experience in strategy, organizational development, competitive positioning and operational performance, and I look forward to working with him in his new role.

Also, recall that two outstanding professionals joined our Board last year. Jonathan Painter, President and CEO of Kadant, Inc. and Lisa Schnorr, Senior Vice President, Total Rewards of Constellation Brands, were elected to our Board at last year's annual meeting. Each complements and adds to the capabilities of our Board.

Fiscal 2015 – An Outstanding Year

During fiscal 2015 we doubled our dividend, our third consecutive year with a dividend increase. The Company now pays an annual dividend of 32 cents per share, compared to eight cents per share in fiscal 2012. Additionally, in fiscal 2015 the Board instituted a share repurchase plan for up to $18 million of common stock.

In closing, we achieved exceptional growth and strong financial performance in fiscal 2015. To our employees, I extend my heartfelt appreciation and admiration of your talent and commitment. I also value greatly and thank each of our Directors for the insight, wisdom and support provided to me. Finally, I thank you, our shareholders, for your confidence and support of our growth strategy. We intend to be persistent in driving your Company in the successful execution of that strategy.

Sincerely,

James R. Lines
President and CEO
June 15, 2015

Graham Corporation **Stockholder Information**

Stock Exchange Listing

NYSE: **GHM**

Annual Meeting

The 2015 Annual Meeting of Stockholders will be held on Thursday, July 30, 2015 at 11:00 a.m., Eastern Time, at the Hilton Garden Inn, Buffalo Airport, 4201 Genesee Street, Buffalo, New York 14225

Transfer Agent and Registrar

Computershare
Computershare Investor Services
P.O. Box 43078
Providence, Rhode Island 02940-3078

Overnight Delivery
Computershare Investor Services
250 Royall Street
Canton, Massachusetts 02021

U.S. Stockholders: 800-288-9541

TDD U.S. Hearing Impaired: 800-231-5469

International Stockholders: 201-680-6578

TDD International Stockholders: 201-680-6610

www.computershare.com/investor

Investor Relations

Investors, stockholders, security analysts and others seeking information about Graham Corporation should contact:

Jeffrey F. Glajch
Vice President-Finance & Administration,
Chief Financial Officer and Corporate Secretary
Phone: (585) 343-2216
Email: jglajch@graham-mfg.com

Deborah K. Pawlowski
Kei Advisors LLC
Phone: (716) 843-3908
Email: dpawlowski@keiadvisors.com

Karen L. Howard
Kei Advisors LLC
Phone: (716) 843-3942
Email: khoward@keiadvisors.com

Additional information is available on our website at: **www.graham-mfg.com.**

Information on the website is not a part of this Annual Report.

Independent Auditors
Deloitte & Touche LLP
910 Bausch & Lomb Place
Rochester, New York 14604

Corporate Counsel
Harter Secrest & Emery LLP
1600 Bausch & Lomb Place
Rochester, New York 14604

Executive Team

James R. Lines
President and Chief Executive Officer

Jeffrey F. Glajch
Vice President-Finance & Administration,
Chief Financial Officer and Corporate Secretary

Alan E. Smith
Vice President of Operations

Jennifer R. Condame
Corporate Controller and Chief Accounting Officer

Board of Directors

James J. Barber, Ph.D [1, 2]
Employee Benefits Committee Chair
Director Since 2011
Principal, Barber Advisors, LLC

Alan Fortier [1, 3, 4]
Corporate Governance and Nominating Committee Chair
Director Since 2008
President, Fortier & Associates, Inc.

James R. Lines
President and Chief Executive Officer
Director Since 2006

James J. Malvaso [1, 3, 4]
Chairman of the Board
Director Since 2003
Senior Advisor, Toyota Material Handling Group

Gerard T. Mazurkiewicz [1, 2]
Audit Committee Chair
Director Since 2007
Tax Partner, Dopkins & Company, LLP

Jonathan Painter [1, 3, 4]
Director Since 2014
President, Chief Executive Officer and Director of Kadant Inc.

Lisa Schnorr [2, 3]
Compensation Committee Chair
Director Since 2014
Senior Vice President, Total Rewards, Constellation Brands, Inc.

Jerald D. Bidlack*
Director Since 1985
President, Griffin Automation, Inc.

Helen H. Berkeley*
Director Since 1998
Private Investor

1 - Audit Committee
2 - Employee Benefits Committee
3 - Compensation Committee
4 - Corporate Governance Committee and Nominating Committee

** Jerald Bidlack and Helen Berkeley retired from the Board on or before the July 30, 2015 annual meeting and each will serve as a Director Emeritus*

"Fiscal 2016, and perhaps fiscal 2017, will strike an appropriate balance between current period profitability and longer-term capability to serve customers and persistently pursue top line growth."

The following Annual Report on Form 10-K for the year ended March 31, 2015
was filed with the U.S. Securities and Exchange Commission on June 2, 2015

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

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2015

or

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

For the transition period from to .

Commission File Number 1-8462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock (Par Value $.10)	**NYSE**

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

Title of Class

Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by checkmark 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 checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was $273,126,754. The market value calculation was determined using the closing price of the registrant's common stock on September 30, 2014, as reported on the NYSE (the exchange on which the registrant's common stock was then listed). For purposes of the foregoing calculation only, all directors, officers and the Employee Stock Ownership Plan of the registrant have been deemed affiliates.

As of May 22, 2015, the registrant had outstanding 10,138,983 shares of common stock, $.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed in connection with the registrant's 2015 Annual Meeting of Stockholders to be held on July 30, 2015, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this filing.

Table of Contents

GRAHAM CORPORATION
Annual Report on Form 10-K
Year Ended March 31, 2015

Note: Portions of the registrant's definitive Proxy Statement, to be issued in connection with the registrant's 2015 Annual Meeting of Stockholders to be held on July 30, 2015, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

PART I

(Dollar amounts in thousands except per share data)

Item 1. *Business*

Graham Corporation ("we," "us," "our") is a global business that designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. Energy markets include oil refining, cogeneration, nuclear and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. Graham's global brand is built upon our world-renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible service and unsurpassed quality. We design and manufacture custom-engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. We are also a leading nuclear code accredited fabrication and specialty machining company. We supply components used inside reactor vessels and outside containment vessels of nuclear power facilities. 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, 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 and also at our wholly-owned subsidiary, Energy Steel & Supply Co. ("Energy Steel"), located in Lapeer, Michigan. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("GVHTT"), located in Suzhou, China. GVHTT provides sales and engineering support for us in the People's Republic of China and management oversight throughout Southeast Asia.

We were incorporated in Delaware in 1983 and are the successor to Graham Manufacturing Co., Inc., which was incorporated in New York in 1936. As of March 31, 2015, we had 397 employees. Our stock is traded on the NYSE under the ticker symbol "GHM".

Unless indicated otherwise, dollar figures in this Annual Report on Form 10-K are reported in thousands.

Our Products, Customers and Markets

Our products are used in a wide range of industrial process applications primarily in energy markets, including:

- ***Petroleum Refining***
  - — conventional oil refining
  - — oil sands extraction
- ***Defense***
  - — propulsion systems for nuclear-powered aircraft carriers and submarines
- ***Chemical and Petrochemical Processing***
  - — fertilizer plants
  - — ethylene, methanol and nitrogen producing plants
  - — plastics, resins and fibers plants
  - — petrochemical intermediate plants
  - — coal-to-chemicals plants
  - — gas-to-liquids plants
- ***Power Generation /Alternative Energy***
  - — nuclear power generation
  - — fossil fuel plants

— biomass plants

— cogeneration power plants

— geothermal power plants

— ethanol plants

- ***Other***

— soap manufacturing plants

— air conditioning and water heating systems

— food processing plants

— pharmaceutical plants

— liquefied natural gas production facilities

Our customers include end users of our products in their manufacturing, refining and power generation processes, large engineering companies that build installations for companies in such industries, and the original equipment manufacturers, who combine our products with their equipment prior to its sale to end users.

Our products are sold by a team of sales engineers we employ directly as well as by independent sales representatives located worldwide. There may be short periods of time, a fiscal year for example, where one customer may make up greater than 10% of our business. However, if this occurs in multiple years, it is usually not the same customer, or the same project, over such a multi-year period.

Over a business cycle, domestic sales will generally range between 40% to 60% of total sales. The mix of domestic and international sales can vary from year to year.

A breakdown of our net sales by geographic area and product class for our fiscal years ended March 31, 2015, 2014 and 2013, which we refer to as "fiscal 2015," "fiscal 2014" and "fiscal 2013", respectively, is contained in Note 13 to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K and such breakdown is incorporated into this Item 1 by reference. We refer to our fiscal year ending March 31, 2016 as "fiscal 2016". Our backlog at March 31, 2015 was $113,811, compared with $112,108 at March 31, 2014.

Our Strengths

Our core strengths include:

- *We have strong brand recognition.* Over the past 79 years, we believe that we have built a reputation for top quality, reliable products and high standards of customer service. We have also established a large installed application base. As a result, the Graham name is well known not only by our existing customers, but also by many of our potential customers. We believe that the recognition of the Graham brand allows us to capitalize on market opportunities in both existing and potential markets. Moreover, our wholly-owned subsidiary, Energy Steel, has more than a 30 year history of providing products and support to its customers, especially the U.S. nuclear power industry, and is a recognized brand name in its markets.
- *We custom engineer and manufacture high quality products and systems that address the particular needs of our customers.* With 79 years of engineering expertise, we believe that we are renowned for our knowledge in vacuum and heat transfer technologies. We maintain strict quality control and manufacturing standards in order to manufacture products of the highest quality.
- *We have a global presence.* Our products are used worldwide, and we have sales representatives located in many countries throughout the world.
- *We have a strong reputation.* We believe that we have a well-deserved reputation for both placing customers first and for standing behind our products. We believe that our relationships are strong both with our existing customer base as well as with our key suppliers.
- *We have a highly trained workforce.* We maintain a long-tenured, highly skilled and extremely flexible workforce.

- *We have a strong balance sheet.* We maintain significant cash and investments on hand, and no bank debt, which we believe provides us with the flexibility to pursue our business strategy. Our defined benefit pension plan obligations are over funded.
- *We have a high quality credit facility*. Our credit facilities provide us with a $30,000 borrowing capacity that is expandable at our option to provide us with up to a total of $55,000 in borrowing capacity.

Our Strategy

We intend to strategically leverage and deploy our assets, including but not limited to, financial, technical, manufacturing and know-how, in order to capture expanded market share within the geographies and industries we serve, to expand revenue opportunities in adjacent and countercyclical markets and to continually improve our results of operations in order to:

- Generate sustainable earnings growth;
- Reduce earnings volatility;
- Improve our operating performance;
- Generate strong cash flow from operations; and
- Improve value provided to our customers.

To accomplish our objectives and strategic focus, we believe that we must:

- Successfully deploy corporate assets to expand market share in currently served industries, access and develop a stronger presence in industries where we do not have a historically strong presence, and pursue acquisitions, partnerships or other business combinations in order to enter new geographic or industrial markets or new product lines.
- Capitalize on the strength of the Graham and Energy Steel brands in order to both win more business in our traditional markets as well as enter new markets.
- Identify organic growth opportunities and consummate acquisitions where we believe our brand strength will provide us with the ability to expand and will complement our core businesses. We intend to extend our existing product lines, move into complementary product lines and expand our global sales presence in order to further broaden our existing markets and reach additional markets.
- Expand our market penetration in the domestic nuclear industry. We also intend to identify additional domestic and international opportunities to serve the commercial nuclear power industry.
- Expand our market presence in the U.S. Navy's Nuclear Propulsion Program. We plan to demonstrate our proficiency by successfully executing the complex Nuclear Propulsion Program orders that are currently in our backlog by controlling both cost and risk, providing high-quality custom fabrication to exacting military quality control requirements and through disciplined project management. We intend to become a preferred supplier of equipment to the Nuclear Propulsion Program for both surface and submarine vessels.
- Continue to invest in people and capital equipment to meet the anticipated long-term growth in demand for our products in the oil refining, petrochemical processing and power generation industries, especially in emerging markets.
- Continue to deliver the highest quality products and solutions that enable our customers to achieve their operating objectives. We believe that our high quality and technical expertise differentiates us from our competitors and allows us to win new orders based on value.

In order to effectively implement our strategy, we also believe that we must continually invest in and leverage our unique customer value enhancing differentiators, the keys of which are listed below:

- Invest in engineering resources and technology in order to advance our vacuum and heat transfer technology market penetration.
- Enhance our engineering capacity and capability, especially in connection with product design, in order to more quickly respond to existing and future customer demands.

- Invest in our manufacturing facilities to expand capacity where needed and identify out-sourced capacity to complement internal capacity.
- Accelerate our ability to quickly and efficiently bid on available projects through our ongoing implementation of front-end bid automation and design processes.
- Expand our capabilities and penetrate the existing sales channel and customer base in the nuclear market.
- Invest in resources to further serve the U.S. Navy in our core competency areas of engineering and manufacturing, where our commercial capabilities meet U.S. Navy requirements.
- Implement and expand upon our operational efficiencies through our ongoing refinement of our flexible manufacturing flow model as well as our achievement of other cost efficiencies.
- Focus on improving quality to eliminate errors and rework, thereby reducing lead time.
- Develop a cross-trained, flexible workforce able to adjust to variable product demand by our customers.

Competition

Our business is highly competitive. The principal bases on which we compete include technology, price, performance, reputation, delivery, and quality. Our competitors in our primary markets include:

NORTH AMERICA

Market	Principal Competitors
Refining vacuum distillation	Gardner Denver, Inc.
Chemicals/petrochemicals	Croll Reynolds Company, Inc.; Schutte Koerting; Gardner Denver, Inc.
Turbomachinery Original Equipment Manufacturer (“OEM”) — refining, petrochemical	Ambassador; KEMCO; SPX Heat Transfer; Donghwa Entec Co., Ltd..; Oeltechnik GmbH
Turbomachinery OEM — power and power producer	Holtec; Thermal Engineering International (USA), Inc.; KEMCO; SPX Heat Transfer; Maarky Thermal Systems
Nuclear	Dubose, Consolidated, Tioga, Nova, Joseph Oats, Energy & Process, Nusource
Navy Nuclear Propulsion Program / Defense	DC Fabricators, Joseph Oats, Triumph Aerospace, Xylem, PCC

INTERNATIONAL

Market	Principal Competitors
Refining vacuum distillation	Gardner Denver, Inc.; GEA Wiegand GmbH; Edwards, Ltd.; Korting Hannover AG
Chemicals/petrochemicals	Croll Reynolds Company, Inc.; Schutte Koerting; Gardner Denver, Inc.; GEA Wiegand GmbH; Korting Hannover AG; Edwards, Ltd.
Turbomachinery OEM — refining, petrochemical	Donghwa Entec Co., Ltd.; Hangzhou Turbine Equipment Co., Ltd.; Chem Process Systems, Mazda (India), Oeltechnik GmbH; KEMCO
Turbomachinery OEM — power and power producer	Holtec; Thermal Engineering International; KEMCO; SPX Heat Transfer, Chem Process Systems, Mazda (India)

Intellectual Property

Our success depends in part on our ability to protect our proprietary technology. We rely on a combination of patent, copyright, trademark, trade secret laws and contractual confidentiality provisions to establish and protect our proprietary rights. We also depend heavily on the brand recognition of the Graham and Energy Steel names in the marketplace.

Availability of Raw Materials

Historically, we have not been materially adversely impacted by the availability of raw materials.

Working Capital Practices

Our business does not require us to carry significant amounts of inventory or materials beyond what is needed for work in process. We do not provide rights to return goods, or payment terms to customers that we consider to be extended in the context of the industries we serve. However, we do provide for warranty claims.

Environmental Matters

We believe that we are in material compliance with applicable existing environmental laws and regulations. We do not anticipate that our compliance with federal, state and local laws regulating the discharge of material in the environment or otherwise pertaining to the protection of the environment will have a material adverse effect upon our capital expenditures, earnings or competitive position.

Seasonality

No material part of our business is seasonal in nature. However, our business is highly cyclical in nature as it depends on the willingness of our customers to invest in major capital projects.

Research and Development Activities

During fiscal 2015, fiscal 2014 and fiscal 2013, we spent $3,585, $3,436 and $3,579, respectively, on research and development activities related both to new products and services and the ongoing improvement of existing products and services.

Information Regarding International Sales

The sale of our products outside the U.S. accounted for a significant portion of our total revenue during our last three fiscal years. Approximately 36%, 38% and 47% of our revenue in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, resulted from foreign sales. Sales in Asia constituted approximately 8%, 11% and 16% of our revenue in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Sales in the Middle East constituted approximately 8%, 4% and 14% of our revenue in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Our foreign sales and operations are subject to numerous risks, as discussed under the heading "Risk Factors" in Item 1A of Part I and elsewhere in this Annual Report on Form 10-K.

Employees

As of March 31, 2015, we had 397 employees. We believe that our relationship with our employees is good.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Therefore, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). The SEC maintains a website (located at www.sec.gov) that contains reports, proxy statements and other information for registrants that file electronically. Additionally, such reports may be read and copied at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. Information regarding the SEC's Public Reference Room can be obtained by calling 1-800-SEC-0330.

We maintain a website located at www.graham-mfg.com. On our website, we provide a link to the SEC's website that contains the reports, proxy statements and other information we file electronically. We do not provide this information on our website because it is more cost effective for us to provide a link to the SEC's website. Copies of all documents we file with the SEC are available in print for any stockholder who makes a request. Such requests should be made to our Corporate Secretary at our corporate headquarters. The other information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

Item 1A. ***Risk Factors***

Our business and operations are subject to numerous risks, many of which are described below and elsewhere in this Annual Report on Form 10-K. If any of the events described below or elsewhere in this Annual Report on Form 10-K occur, our business and results of operations could be harmed. Additional risks and uncertainties that are not presently known to us, or which we currently deem to be immaterial, could also harm our business and results of operations.

Risks related to our business

The industries in which we operate are cyclical, and downturns in such industries may adversely affect our operating results.

A substantial portion of our revenue is derived from the sale of our products to companies in the chemical, petrochemical, petroleum refining and power generating industries and to the U.S. Navy, or to firms that design and construct facilities for these industries. The core industries in which our products are used are highly cyclical and have historically experienced severe downturns. The dramatic decline in global oil prices in the second half of calendar year 2014 that translated into an abrupt contraction in orders in the energy markets is the most recent example of the cyclical nature of our markets. We believe that for the long-term, we are in an expansion for demand for our products in the petrochemical, petroleum refining and power generating industries, however, the recent decline in oil prices confirms that cyclical downturns will occur periodically. A sustained or renewed deterioration in any of the industries we serve would materially harm our business and operating results because our customers would not likely have the resources necessary to purchase our products, nor would they likely have the need to build additional facilities or improve existing facilities. A cyclical downturn can occur suddenly and result in extremely different financial performance sequentially from quarter to quarter or on an annual comparative basis due to an inability to rapidly adjust costs.

The larger markets we serve include the petroleum refining and petrochemical industries. These industries are both highly cyclical in nature and dependent on the price of crude oil and natural gas as well as on the differential between the two prices. As a result, volatility in the prices of oil and natural gas may negatively impact our operating results.

The prices of crude oil and natural gas have historically been very volatile, as evidenced by the approximately 50% decline in oil prices in the second half of calendar 2014. Importantly, this caused a steep decline in orders from the energy markets. The increased supply and reduction of cost of natural gas in North America has also caused a significant change in the global energy markets in the past few years. During times of significant volatility in the market for crude oil or natural gas, our customers often refrain from placing orders until the market stabilizes. If our customers refrain from placing orders with us, our revenue would decline and there could be a material adverse effect on our business and results of operations. We believe that the global consumption of crude oil and natural gas will increase over the course of the next 20 years and that such increased consumption will result in a need to continually increase global capacity. Many of our products are purchased in connection with oil refinery construction, revamps and upgrades to expand global capacity.

The relative costs of oil, natural gas, nuclear power, hydropower and numerous forms of alternative energy production may have a material adverse impact on our business and operating results.

Global and regional energy supply comes from many sources, including oil, natural gas, coal, hydro, nuclear, solar, wind, geothermal and biomass, among others. A cost or supply shift among these sources could negatively impact our business opportunities going forward. A demand shift, where technological advances favor the utilization of one or a few sources of energy may also impact demand for our products. If demand shifts in a manner that increases energy utilization outside of our traditional customer base or expertise, our business and financial results could be materially adversely affected. In addition, governmental policy can affect the relative importance of various forms of energy sources. Non-fossil based sources may require government tax incentives to foster investment.

Our business is highly competitive. If we are unable to successfully implement our business strategy and compete against entities with greater resources than us or against competitors who have a relative cost advantage, we risk losing market share to current and future competitors.

We encounter intense competition in all of our markets. Some of our present and potential competitors may have substantially greater financial, marketing, technical or manufacturing resources. Our competitors may also be able to respond more quickly to new technologies or processes and changes in customer demands and they may be able to devote greater resources towards the development, promotion and sale of their products. Certain of our competitors may also have a cost advantage compared to us and may compete against us based on price. This may affect our ability to secure new business and maintain our level of profitability. In addition, our current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of our customers. Moreover, customer buying patterns can change if customers become more price sensitive and accepting of lower cost suppliers. If we cannot compete successfully against current or future competitors, our business will be materially adversely affected.

A change in our end use customers, our markets, or a change in the engineering procurement and construction companies serving our markets could harm our business and negatively impact our financial results.

Although we have long-term relationships with many of our end use customers and with many engineering, procurement and construction companies, the project management requirements, pricing levels and costs to support each customer and customer type are often different. As our markets continue to grow, and new market opportunities expand, we could see a shift in pricing as a result of facing competitors with lower production costs, which may have a material adverse impact on our results of operations and financial results. In certain developing geographies, the relative importance of cost versus quality may lead to decisions which look at short-term costs instead of total long-term cost of operations.

The loss of, or significant reduction or delay in, purchases by our largest customers could reduce our revenue and adversely affect our results of operations.

A small number of customers has accounted for a substantial portion of our historical net sales. For example, sales to our top ten customers accounted for 38%, 32% and 41% of consolidated net sales in fiscal 2015, 2014 and 2013, respectively. We expect that a limited number of customers will continue to represent a substantial portion of our sales for the foreseeable future. The loss of any of our major customers, a decrease or delay in orders or anticipated spending by such customers or a delay in the production of existing orders could materially adversely affect our revenues and results of operations.

A large percentage of our sales occur outside of the U.S. As a result, we are subject to the economic, political, regulatory and other risks of international operations.

For fiscal 2015, 36% of our revenue was from customers located outside of the U.S. Moreover, we maintain a subsidiary and a sales office in China. We believe that revenue from the sale of our products outside the U.S. will continue to account for a significant portion of our total revenue for the foreseeable future. We intend to continue to expand our international operations to the extent that suitable opportunities become available. Our foreign operations and sales could be adversely affected as a result of:

- nationalization of private enterprises and assets;
- political or economic instability in certain countries and regions, such as the ongoing instability throughout the Middle East or portions of the former Soviet Union;

- differences in foreign laws, including increased difficulties in protecting intellectual property and uncertainty in enforcement of contract rights;
- the possibility that foreign governments may adopt regulations or take other actions that could directly or indirectly harm our business and growth strategy;
- credit risks;
- currency fluctuations;
- tariff and tax increases;
- export and import restrictions and restrictive regulations of foreign governments;
- shipping products during times of crisis or wars;
- our failure to comply with U.S. laws regarding doing business in foreign jurisdictions, such as the Foreign Corrupt Practices Act; and
- other factors inherent in maintaining foreign operations.

Global demand growth could be led by emerging markets, which could result in lower profit margins and increased competition.

The increase in global demand could be led by emerging markets. If this is the case, we may face increased competition from lower cost suppliers, which in turn could lead to lower profit margins on our products. Customers in emerging markets may also place less emphasis on our high quality and brand name than do customers in the U.S. and certain other industrialized countries where we compete. If we are forced to compete for business with customers that place less emphasis on quality and brand recognition than our current customers, our results of operations could be materially adversely affected.

The operations of our Chinese subsidiary may be adversely affected by China's evolving economic, political and social conditions.

We conduct our business in China primarily through a wholly-owned Chinese subsidiary. The results of operations and future prospects of our Chinese subsidiary are subject to evolving economic, political and social developments in China. In particular, the results of operations of our Chinese subsidiary may be adversely affected by, among other things, changes in China's political, economic and social conditions, changes in policies of the Chinese government, changes in laws and regulations or in the interpretation of existing laws and regulations, changes in foreign exchange regulations, measures that may be introduced to control inflation, such as interest rate increases, and changes in the rates or methods of taxation. In addition, changes in demand could result from increased competition from local Chinese manufacturers who have cost advantages or who may be preferred suppliers for Chinese end users. Also, Chinese commercial laws, regulations and interpretations applicable to non-Chinese owned market participants, such as us, are continually changing. These laws, regulations and interpretations could impose restrictions on our ownership or operations of our interests in China and have a material adverse effect on our business.

Intellectual property rights are difficult to enforce in China, which could harm our business.

Chinese commercial law is relatively undeveloped compared with the commercial law in many of our other major markets and limited protection of intellectual property is available in China as a practical matter. Although we take precautions in the operations of our Chinese subsidiary to protect our intellectual property, any local design or manufacture of products that we undertake in China could subject us to an increased risk that unauthorized parties will be able to copy or otherwise obtain or use our intellectual property, which could harm our business. We may also have limited legal recourse in the event we encounter patent or trademark infringers, which could have a material adverse effect on our business and results of operations.

Uncertainties with respect to the Chinese legal system may adversely affect the operations of our Chinese subsidiary.

Our Chinese subsidiary is subject to laws and regulations applicable to foreign investment in China. There are uncertainties regarding the interpretation and enforcement of laws, rules and policies in China. The Chinese legal system is based on written statutes, and prior court decisions have limited precedential value. Because many laws and regulations are relatively new and the Chinese legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform. Moreover, the relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of any litigation, and the interpretation of statutes and regulations may be subject to government policies reflecting domestic political agendas. Finally, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic. For the preceding reasons, it may be difficult for us to obtain swift or equitable enforcement of laws ostensibly designed to protect companies like ours, which could have a material adverse effect on our business and results of operations.

Changes in energy policy regulations could adversely affect our business.

Energy policy in the U.S. and in the other countries where we sell our products is evolving rapidly and we anticipate that energy policy will continue to be an important legislative priority in the jurisdictions where we sell our products. It is difficult, if not impossible, to predict the changes in energy policy that could occur. The elimination of, or a change in, any of the current rules and regulations in any of our markets could create a regulatory environment that makes our end users less likely to purchase our products, which would have a material adverse effect on our business. Government subsidies or taxes, which favor or disfavor certain energy sources compared with others, could have a material adverse effect on our business and operating results.

Regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and/or increase the cost of certain metals used in manufacturing our products.

SEC rules require disclosures of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by companies filing public reports. This rule, which became effective for the 2013 calendar year, requires companies to perform due diligence, disclose, and report whether such minerals originate from the Democratic Republic of Congo or an adjoining country. This rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products. Moreover, the number of suppliers who provide conflict-free minerals may become limited. In addition, there may be significant costs associated with complying with the disclosure requirements. We also may not be able to sufficiently verify the origins of the relevant conflict minerals used in our products through the due diligence procedures that we have implemented, which could harm our reputation.

Efforts to reduce large U.S. federal budget deficits could result in government cutbacks in defense spending or in reduced incentives to pursue alternative energy projects, resulting in reduced demand for our products, which could harm our business and results of operations.

Our business strategy calls for us to continue to pursue defense-related projects as well as projects for end users in the alternative energy markets in the U.S. In recent years the U.S. federal government has incurred large budget deficits. In the event that U.S. federal government defense spending is reduced or alternative energy related incentives are reduced or eliminated in an effort to reduce federal budget deficits, projects related to defense or alternative energy may become less plentiful. The impact of such reductions could have a material adverse effect on our business and results of operations, as well as our growth opportunities.

U.S. Navy orders are subject to annual government funding. A disruption in expected funding could adversely impact our business.

One of our growth strategies is to increase our penetration of U.S. Navy related opportunities. Projects for the U.S. Navy and its contractors generally have a much longer order-to-shipment time period than our commercial orders. The time between receipt of an order to complete shipment can take three to five years, or possibly longer. Annual government funding is required to continue the production of this equipment. Disruption of government funding, short or long term, could impact the ability for us to continue our production activity on these orders. Such a disruption, should it occur, could adversely impact the sales and profitability of our business.

Changes in tax policies and tax rates in the U.S. could result in adverse impacts for domestic manufacturing investments, resulting in reduced demand for our products.

Our business is dependent on significant manufacturing investment in the U.S. The impact of changes to U.S. tax policy around capital investment and related depreciation could reduce our customers' willingness to invest in domestic capacity. The impact of such reductions could have a materially adverse affect on our business and operations.

We serve markets that are capital intensive. Volatility and disruption of the capital and credit markets and adverse changes in the global economy may negatively impact our operating results. Such volatility and disruption may also negatively impact our ability to access additional financing if and when needed.

If adverse economic and credit conditions occur, we would likely experience decreased revenue from our operations attributable to decreases in the spending levels of our customers. Moreover, adverse economic and credit conditions might also have a negative adverse effect on our cash flows if customers demand that we accept smaller project deposits and less frequent progress payments. In addition, adverse economic and credit conditions could lead to increased downward pricing pressure. Any of the foregoing could have a material adverse effect on our business and results of operations.

Adverse conditions in the capital and credit markets could also have a material adverse effect on our ability to obtain additional financing on commercially reasonable terms, or at all, should we determine such financing is necessary or desirable to maintain or expand our business or effectively pursue our business strategy.

Political and regulatory developments could make the utilization and growth of nuclear power as an energy source less desirable, which would harm the business and results of operations of our subsidiary Energy Steel.

A global event, such as a major earthquake or terrorist activity, may impact the desirability of operating nuclear power plants. These events can create uncertainties worldwide regarding, among other things, the desirability of operating existing nuclear power plants and the building of new or replacement nuclear power plants. Should public opinion or political pressure result in the closing of existing nuclear facilities or otherwise result in the failure of the nuclear power industry to grow, especially within the U.S., the business, results of operations and growth prospects of our subsidiary Energy Steel in the nuclear market could be materially adversely impacted.

In addition, the U.S. Nuclear Regulatory Commission, or NRC, performs operational and safety reviews of nuclear facilities in the U.S. It is possible that the NRC could take actions or impose regulations that adversely affect the demand for Energy Steel's products and services, or otherwise delay or prohibit construction of new nuclear power generation facilities, even temporarily. If any such event were to occur, the business or operations of Energy Steel could be materially adversely impacted.

A change in supply or cost of the materials used in our products could harm our profit margins.

Our profitability depends in part on the price and continuity of supply of the materials used in the manufacture of our products which, in many instances, are supplied by a limited number of sources. The availability and costs of these commodities may be influenced by, among other things, market forces of supply and demand, changes in world politics, labor relations between the producers and their work forces, export quotas, and inflation. Any restrictions on the supply of the materials used by us in manufacturing our products could significantly reduce our profit margins, which could harm our results of operations. Likewise, any efforts we may engage in to mitigate restrictions on the supply or price increases of materials by entering into long-term purchase agreements, by implementing productivity improvements or by passing cost increases on to our customers may not be successful. In addition, the ability of our suppliers to meet quality and delivery requirements can also impact our ability to meet commitments to customers. Future shortages or lower cost of raw materials could result in decreased sales as well as margins, or otherwise materially adversely affect our business.

We are subject to contract cancellations and delays by our customers, which may adversely affect our operating results.

The value of our backlog as of March 31, 2015 was $113,811. Our backlog can be significantly affected by the timing of large orders. The amount of our backlog at March 31, 2015 is not necessarily indicative of future backlog levels or the rate at which our backlog will be recognized as sales. Although historically the amount of modifications and terminations of our orders has not been material compared with our total contract volume, customers can, and sometimes do, terminate or modify their orders. This generally occurs more often in times of end market or capital market turmoil. As evidence of this, we had two orders totaling $5,895 cancelled in the fourth quarter of fiscal 2015. We cannot predict whether cancellations will occur or accelerate in the future. Although certain of our contracts in backlog may contain provisions allowing for us to assess cancellation charges to our customers to compensate us for costs incurred on cancelled contracts, cancellations of purchase orders or modifications made to existing contracts could substantially and materially reduce our backlog and, consequently, our future sales and results of operations. Moreover, delay of contract execution by our customers can result in volatility in our operating results.

Our current backlog contains a number of large orders from the U.S. Navy project. In addition, we are continuing to pursue business in these end markets which offer large multi-year projects which have an added risk profile beyond that of our historic customer base. A delay, long term extension or cancellation in any of these projects could have a material adverse effect on our business and results of operations.

Our accounts receivables and unbilled revenue may be at potential risk if a project is terminated or canceled or if our customers encounter financial difficulties.

Our contracts often require us to satisfy or achieve certain milestones in order to receive payment for the work performed. In general, payments to us are such that we are ahead of our costs, however, if the customer does not proceed with the completion of the project or if the customer defaults on its payment obligations, we may face difficulties in collecting payment of amounts due to us. If we are unable to collect amounts owed to us, this would have an adverse effect on our results of operations, financial position and cash flows.

If we are unable to effectively outsource a portion of our production during times when we are experiencing strong demand, our results of operations might be adversely affected. In addition, outsourcing may negatively affect our profit margins.

We from time to time increase our manufacturing capacity through outsourcing selected fabrication processes. We could experience difficulty in outsourcing if customers demand that our products be manufactured by us exclusively. Furthermore, our ability to effectively outsource production could be adversely affected by worldwide manufacturing capacity. If we are unable to effectively outsource our production capacity when circumstances warrant, our results of operations could be materially adversely affected and we might not be able to deliver products to our customers on a timely basis. In addition, any disputes between us and the entities that we outsource to may delay our ability to fulfill our obligations to our customers, which may harm our reputation and in turn could have a material adverse effect on our business and results of operations. Further, outsourcing to complete our products and services can increase the costs associated with such products and services. If we rely too heavily on outsourcing and are not able to increase our own production capacity during times when there is high demand for our products and services, our profit margins may be negatively impacted.

Our exposure to fixed-price contracts and the timely completion of such contracts could negatively impact our results of operations.

A substantial portion of our sales is derived from fixed-price contracts, which may involve long-term fixed price commitments by us to our customers. While we believe our contract management processes are strong, we nevertheless could experience difficulties in executing large contracts, including but not limited to, cost overruns, supplier failures and customer disputes. To the extent that any of our fixed-price contracts are delayed, our subcontractors fail to perform, contract counterparties successfully assert claims against us, the original cost estimates in these or other contracts prove to be inaccurate or the contracts do not permit us to pass increased costs on to our customers, our profitability from a particular contract may decrease or losses may be incurred, which, in turn, could have a material adverse effect on our business and results of operations.

We utilize percentage of completion accounting on the majority of our sales. Changes in estimates for production could result in a reduction or elimination of previously reported sales and earnings.

For the majority of our sales, cost of goods sold and operating profit are recognized using percentage of completion method of accounting. This accounting method requires updated recognition of sales and cost for each project on a quarterly basis. If the portion of a project is under or over-estimated, a correction is required to be made in the current period. Corrections for large projects could significantly impact short term financial results. Large revisions could reverse sales, costs and earnings reported in prior periods.

If we lose any member of our management team and we experience difficulty in finding a qualified replacement, our business would be harmed.

Competition for qualified management and key technical and sales personnel in our industry is intense. Moreover, our technology is highly specialized and it may be difficult to replace the loss of any of our key technical and sales personnel. Many of the companies with which we compete for management and key technical and sales personnel have greater financial and other resources than we do or are located in geographic areas which may be considered by some to be more desirable places to live. If we are not able to retain any of our key management, technical or sales personnel, it could have a material adverse effect on our business and results of operations.

A dramatic short-term change in our end markets and our reaction to it may impact our ability to execute our strategic plan over the long term.

Execution of our strategic plan requires us to invest in our equipment, people and other resources with a view toward the long term. Achieving our long-term objectives may require us to pre-invest and add costs to our business before the matching revenue occurs. This is necessary to ensure that the development of our employees is such that we may effectively serve our customers. When there is a dramatic and unforeseen change in market conditions, which affects our customers and therefore our business, we may have to choose between continuing to pre-invest, which will impact near-term profitability or to eliminate costs which may impede our long-term ability to execute our strategic plan.

During certain high demand periods, there can be a shortage of skilled production workers, especially those with high-end welding capabilities. We could experience difficulty hiring or replacing those individuals, which could adversely affect our business.

Our fabrication processes require highly skilled production workers, especially welders. Welding has not been an educational field that has been popular over the past few decades as manufacturing has moved overseas. If we were to be unable to retain, hire or train an adequate number of individuals with high-end welding capability, this could impact our ability to achieve our financial objectives. In addition, if demand for highly skilled production workers were to significantly outstrip supply, wages for these skilled workers could dramatically increase in our and related industries and that could affect our financial performance.

If we are unable to make necessary capital investments or respond to pricing pressures, our business may be harmed.

In order to remain competitive, we need to invest continuously in manufacturing, customer service and support, research and development and marketing. From time to time we also have to adjust the prices of our products to remain competitive. We may not have available sufficient financial or other resources to continue to make the investment necessary to lower our production costs and help us maintain our competitive position, which could have a material adverse effect on our business and results of operations.

Our acquisition strategy may not be successful or may increase business risk.

The success of our acquisition strategy will depend, in part, on our ability to identify suitable companies or businesses to purchase and then successfully negotiate and close acquisition transactions. In addition, our success depends in part on our ability to integrate acquisitions and realize the anticipated benefits from combining the acquisition with our historical business, operations and management. We cannot provide any assurances that we will be able to complete any acquisitions and then successfully integrate the business and operations of those acquisitions without encountering difficulties, including unanticipated costs, difficulty in retaining customers and supplier or other relationships, failure to retain key employees, diversion of our management's attention, failure to integrate information and accounting systems or establish and maintain proper internal control over financial reporting. Moreover, as part of the integration process, we must incorporate an acquisition's existing business culture and compensation structure with our existing business. If we are not able to efficiently integrate an acquisition's business and operations into our organization in a timely and efficient manner, or at all, the anticipated benefits of the acquisition may not be realized, or it may take longer to realize these benefits than we currently expect, either of which could have a material adverse effect on our business or results of operations.

Should a portion of our intangible assets be impaired, results of operations could be materially adversely affected.

Our balance sheet includes intangible assets, including goodwill and other separately identifiable intangible assets, primarily as a result of our acquisition of Energy Steel. The value of these intangible assets may increase in the future if we complete additional acquisitions as part of our overall business strategy. We are required to review our intangible assets for impairment on an annual basis, or more frequently if certain indicators of permanent impairment arise. Factors that could indicate that our intangible assets are impaired could include, among other things, a decline in our stock price and market capitalization, lower than projected operating results and cash flows, and slower than expected growth rates in our markets. If a portion of our intangible assets becomes impaired as a result of such a review, the impaired portion of such assets would have to be written-off during that period. Such a write-off could have a material adverse effect on our business and results of operations.

If we become subject to product liability, warranty or other claims, our results of operations and financial condition could be adversely affected.

The manufacture and sale of our products exposes us to potential product liability claims, including those that may arise from failure to meet product specifications, misuse or malfunction of our products, design flaws in our products, or use of our products with systems not manufactured or sold by us. For example, our equipment is installed in facilities that operate dangerous processes and the misapplication, improper installation or failure of our equipment may result in exposure to potentially hazardous substances, personal injury or property damage.

Provisions contained in our contracts with customers that attempt to limit our damages may not be enforceable or may fail to protect us from liability for damages and we may not negotiate such contractual limitations of liability in certain circumstances. Our insurance may not cover all liabilities nor may our historical experience reflect any liabilities we may face in the future. Our risk of liability may increase as we manufacture more complex or larger projects. We also may not be able to continue to maintain such insurance at a reasonable cost or on reasonable terms, or at all. Any material liability not covered by provisions in our contracts or by insurance could have a material adverse effect on our business and financial condition.

Furthermore, if a customer suffers damage as a result of an event related to one of our products, even if we are not at fault, they may reduce their business with us. We may also incur significant warranty claims, which are not covered by insurance. In the event a customer ceases doing business with us as a result of a product malfunction or defect, perceived or actual, or if we incur significant warranty costs in the future, there could be a material adverse effect on our business and results of operations.

If we fail to introduce enhancements to our existing products or to keep abreast of technological changes in our markets, our business and results of operations could be adversely affected.

Although technologies in the vacuum and heat transfer areas are well established, we believe our future success depends, in part, on our ability to enhance our existing products and develop new products in order to continue to meet customer demands. Our failure to introduce new or enhanced products on a timely and cost-competitive basis, or the development of processes that make our existing technologies or products obsolete could have a material adverse effect on our business and results of operations.

If third parties infringe upon our intellectual property or if we were to infringe upon the intellectual property of third parties, we may expend significant resources enforcing or defending our rights or suffer competitive injury.

Our success depends in part on our proprietary technology. We rely on a combination of patent, copyright, trademark, trade secret laws and confidentiality provisions to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer. We may also be required to spend significant resources to monitor and police our intellectual property rights. Similarly, if we were found to have infringed on the intellectual property rights of others, our competitive position could suffer. Furthermore, other companies may develop technologies that are similar or superior to our technologies, duplicate or reverse engineer our technologies or design around our proprietary technologies. Any of the foregoing could have a material adverse effect on our business and results of operations.

In some instances, litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products infringe their intellectual property rights. Any litigation or claims brought by or against us, whether with or without merit, could result in substantial costs to us and divert the attention of our management, which could materially harm our business and results of operations. In addition, any intellectual property litigation or claims against us could result in the loss or compromise of our intellectual property and proprietary rights, subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling certain products or require us to redesign certain products, any of which could have a material adverse effect on our business and results of operations.

We are subject to foreign currency fluctuations which may adversely affect our operating results.

We are exposed to the risk of currency fluctuations between the U.S. dollar and the currencies of the countries in which we sell our products to the extent that such sales are not based on U.S. dollars. 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. While we may enter into currency exchange rate hedges from time to time to mitigate these types of fluctuations, we cannot remove all fluctuations or hedge all exposures and our earnings are impacted by changes in currency exchange rates. In addition, if the counter-parties to such exchange contracts do not fulfill their obligations to deliver the contractual foreign currencies, we could be at risk for fluctuations, if any, required to settle the obligation. Any of the foregoing could adversely affect our business and results of operations. At March 31, 2015, we held no forward foreign currency exchange contracts.

Changes in our effective tax rate and tax policies may impact our profitability.

We are subject to income and other taxes in the U.S. and China. A change in tax laws or interpretation of tax laws, introduction of new tax accounting standards and regulation, our global mix of earnings, the ability to utilize deferred tax assets and changes in uncertain tax positions could affect our effective tax rate and impact the financial performance of the company. Changes in tax laws of other jurisdictions could impact the profitability of our competitors, which could affect our competitive position relative to those competitors.

Security threats and other sophisticated computer intrusions could harm our information systems, which in turn could harm our business and financial results.

We utilize information systems and computer technology throughout our business. We store sensitive data, proprietary information and perform engineering designs and calculations on these systems. Information systems are subject to threats and sophisticated computer crimes, which pose a risk to the stability and security of our business. A failure or breach in security could expose our company as well as our customers and suppliers to risks of misuse of information, compromising confidential information and technology, destruction of data, production disruptions and other business risks which could damage our reputation, competitive position and financial results of our operations. In addition, defending ourselves against these threats may increase costs or slow operational efficiencies of our business. If any of the foregoing were to occur, it could have a material adverse effect on our business and results of operations.

We face potential liability from asbestos exposure and similar claims that could result in substantial costs to us as well as divert attention of our management, which could have a material adverse effect on our business and results of operations.

We are a defendant in a number of lawsuits alleging illnesses from exposure to asbestos or asbestos-containing products and seeking unspecified compensatory and punitive damages. We cannot predict with certainty the outcome of these lawsuits or whether we could become subject to any similar, related or additional lawsuits in the future. In addition, because some of our products are used in systems that handle toxic or hazardous substances, any failure or alleged failure of our products in the future could result in litigation against us. For example, a claim could be made under various regulations for the adverse consequences of environmental contamination. Any litigation brought against us, whether with or without merit, could result in substantial costs to us as well as divert the attention of our management, which could have a material adverse effect on our business and results of operations.

Any failure to comply with the United States Foreign Corrupt Practices Act could adversely impact our competitive position and subject us to penalties and other adverse consequences, which could harm our business and results of operations.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Many foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in certain of the jurisdictions in which we may operate or sell our products. While we strictly prohibit our employees and agents from engaging in such conduct and have established procedures, controls and training to prevent such conduct from occurring, it is possible that our employees or agents will engage in such conduct and that we might be held responsible. If our employees or other agents are alleged or are found to have engaged in such practices, we could incur significant costs and suffer severe penalties or other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Risks related to the ownership of our common stock

Provisions contained in our certificate of incorporation and bylaws could impair or delay stockholders' ability to change our management and could discourage takeover transactions that our stockholders might consider to be in their best interests.

Provisions of our certificate of incorporation and bylaws could impede attempts by our stockholders to remove or replace our management and could discourage others from initiating a potential merger, takeover or other change of control transaction, including a potential transaction at a premium over the market price of our common stock, that our stockholders might consider to be in their best interests. Such provisions include:

- We could issue shares of preferred stock with terms adverse to our common stock. Under our certificate of incorporation, our Board of Directors is authorized to issue shares of preferred stock and to determine the rights, preferences and privileges of such shares without obtaining any further approval from the holders of our common stock. We could issue shares of preferred stock with voting and conversion rights that adversely affect the voting power of the holders of our common stock, or that have the effect of delaying or preventing a change in control of our company.

- Only a minority of our directors may be elected in a given year. Our bylaws provide for a classified Board of Directors, with only approximately one-third of our Board elected each year. This provision makes it more difficult to effect a change of control because at least two annual stockholder meetings are necessary to replace a majority of our directors.

- Our bylaws contain advance notice requirements. Our bylaws also provide that any stockholder who wishes to bring business before an annual meeting of our stockholders or to nominate candidates for election as directors at an annual meeting of our stockholders must deliver advance notice of their proposals to us before the meeting. Such advance notice provisions may have the effect of making it more difficult to introduce business at stockholder meetings or nominate candidates for election as director.

- Our certificate of incorporation requires supermajority voting to approve a change of control transaction. Seventy-five percent of our outstanding shares entitled to vote are required to approve any merger, consolidation, sale of all or substantially all of our assets and similar transactions if the other party to such transaction owns 5% or more of our shares entitled to vote. In addition, a majority of the shares entitled to vote not owned by such 5% or greater stockholder are also required to approve any such transaction.

- Amendments to our certificate of incorporation require supermajority voting. Our certificate of incorporation contains provisions that make its amendment require the affirmative vote of both 75% of our outstanding shares entitled to vote and a majority of the shares entitled to vote not owned by any person who may hold 50% or more of our shares unless the proposed amendment was previously recommended to our stockholders by an affirmative vote of 75% of our Board. This provision makes it more difficult to implement a change to our certificate of incorporation that stockholders might otherwise consider to be in their best interests without approval of our Board.

- Amendments to our bylaws require supermajority voting. Although our Board of Directors is permitted to amend our bylaws at any time, our stockholders may only amend our bylaws upon the affirmative vote of both 75% of our outstanding shares entitled to vote and a majority of the shares entitled to vote not owned by any person who owns 50% or more of our shares. This provision makes it more difficult for our stockholders to implement a change they may consider to be in their best interests without approval of our Board.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

Our corporate headquarters, located at 20 Florence Avenue, Batavia, New York, consists of a 45,000 square foot building. Our manufacturing facilities, also located in Batavia, consist of approximately 33 acres and contain about 260,000 square feet in several buildings, including 206,000 square feet in manufacturing facilities, 48,000 square feet for warehousing and a 6,000 square-foot building for product research and development. We also lease approximately 15,000 square feet of office space and 45,000 square feet of manufacturing facilities for our subsidiary, Energy Steel, located in Lapeer, Michigan. Additionally, we lease an approximately 1,500 square foot U.S. sales office in Houston, Texas and GVHTT leases an approximately 4,900 square foot sales and engineering office in Suzhou, China.

We believe that our properties are generally in good condition, are well maintained, and are suitable and adequate to carry on our business.

Item 3. ***Legal Proceedings***

The information required by this Item 3 is contained in Note 15 to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K and is incorporated herein by reference.

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

(Amounts in thousands, except per share data)

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is traded on the NYSE exchange under the symbol "GHM". As of May 22, 2015, there were 10,139 shares of our common stock outstanding that were held by approximately 148 stockholders of record.

The following table shows the high and low per share prices of our common stock for the periods indicated(1).

	High	Low
Fiscal year 2015		
First quarter	$34.88	$26.20
Second quarter	35.35	27.99
Third quarter	34.65	26.06
Fourth quarter	28.86	20.58
Fiscal year 2014		
First quarter	$31.41	$22.36
Second quarter	38.96	30.26
Third quarter	41.94	32.95
Fourth quarter	37.23	30.23

Subject to the rights of any preferred stock we may then have outstanding, the holders of our common stock are entitled to receive dividends as may be declared from time to time by our Board of Directors out of funds legally available for the payment of dividends. Dividends declared per share by our Board of Directors for the first, second, third and fourth quarters of fiscal 2015 were $.04, $.04, $.04 and $.08, respectively. Dividends declared per share for the first, second, third and fourth quarters of fiscal 2014 were $.03, $.03, $.03 and $.04, respectively. There can be no assurance that we will pay cash dividends in any future period or that the level of cash dividends paid by us will remain constant.

Our senior credit facility contains provisions pertaining to the maintenance of a maximum funded debt to earnings before interest expense, income taxes, depreciation and amortization, or EBITDA, ratio and a minimum level of earnings before interest expense and income taxes to interest ratio as well as restrictions on the payment of dividends to stockholders. The facility limits the payment of dividends to stockholders to 25% of net income if our funded debt to EBITDA ratio is greater than 2.0 to 1. As of March 31 and May 30, 2015 we did not have any funded debt outstanding. More information regarding our senior credit facility can be found in Note 7 to the Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

On January 29, 2015, our Board of Directors authorized a stock repurchase program. Under the stock repurchase program, up to $18,000 of our common stock is permitted to be repurchased by us from time to time either in the open market or through privately negotiated transactions.

(1) The historical prices for our common stock prior to May 2, 2014 is based on the high and low per share prices on the NYSE MKT exchange, where our common stock was then listed. On such date our common stock began trading on the NYSE.

Item 6. ***Selected Financial Data***

GRAHAM CORPORATION — FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA
(Amounts in thousands, except per share data)
(for fiscal years ended March 31)

	2015	2014	2013	2012	2011(1)
Operations:					
Net sales	$135,169	$102,218	$104,973	$103,186	$ 74,235
Gross profit	41,804	31,812	31,822	32,635	21,851
Gross profit percentage	30.9%	31.1%	30.3%	31.6%	29.4%
Net income	14,735	10,145	11,148	10,553	5,874
Cash dividends	2,026	1,308	899	793	790
Common stock:					
Basic earnings from continuing operations per share	$ 1.46	$ 1.01	$ 1.11	$ 1.06	$ .59
Diluted earnings from continuing operations per share	1.45	1.00	1.11	1.06	.59
Stockholders' equity per share	11.50	10.49	9.30	8.20	7.47
Dividends declared per share	.20	.13	.09	.08	.08
Market price range of common stock					
High	35.35	41.94	24.80	26.30	24.58
Low	20.58	22.36	16.20	14.36	13.50
Average common shares outstanding — diluted	10,143	10,104	10,051	9,998	9,958
Financial data at March 31:					
Cash and cash equivalents and investments	$ 60,271	$ 61,146	$ 51,692	$ 41,688	$ 43,083
Working capital	81,367	71,346	64,026	52,730	44,493
Capital expenditures	5,300	5,263	1,655	3,243	1,979
Depreciation	2,079	1,977	1,851	1,685	1,334
Total assets	154,654	141,634	126,733	114,977	118,071
Long-term debt, including capital lease obligations	98	136	127	203	116
Stockholders' equity	116,551	105,908	92,995	81,620	73,655

(1) The financial data presented for fiscal 2011 includes the financial results of Energy Steel from the date of acquisition, which was December 14, 2010.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

(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. Energy markets include oil refining, cogeneration, nuclear and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. Graham's global brand is built upon our world-renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible service and unsurpassed quality. We design and manufacture custom-engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. We are also a leading nuclear code accredited fabrication and specialty machining company. We supply components used inside reactor vessels and outside containment vessels of nuclear power facilities. 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, 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 and also at our wholly-owned subsidiary, Energy Steel & Supply Co. ("Energy Steel"), located in Lapeer, Michigan. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("GVHTT"), located in Suzhou, China. GVHTT provides sales and engineering support for us in the People's Republic of China and management oversight throughout Southeast Asia.

Highlights

Highlights for our fiscal year ended March 31, 2015, which we refer to as "fiscal 2015" include:

- Net income and income per diluted share for fiscal 2015, were $14,735 and $1.45 compared with net income and income per diluted share of $10,145 and $1.00, respectively, for the fiscal year ended March 31, 2014, which we refer to as "fiscal 2014." Net income and income per diluted share for fiscal 2015 were $15,899 and $1.57 excluding the impact of a nonrecurring restructuring charge. Net income increased 57% compared with the prior year on this basis.
- Net sales for fiscal 2015 were a record $135,169, up 32% compared with $102,218 for fiscal 2014.
- Operating cash flow for fiscal 2015 was $6,279, down from $15,230 in fiscal 2014.
- Orders received in fiscal 2015 were a record $136,533, up 7% compared with fiscal 2014, when orders were $128,152.
- Backlog on March 31, 2015 was a fiscal year end record at $113,811, up 2% from backlog of $112,108 on March 31, 2014.
- Gross profit and operating margins for fiscal 2015 were 30.9% and 16.0% compared with 31.1% and 14.3%, respectively, for fiscal 2014. Fiscal 2015 operating margin was 17.2%, excluding the impact of nonrecurring restructuring expenses.
- Cash and cash equivalents and short-term investments at March 31, 2015 were $60,271 compared with $61,146 as of March 31, 2014.
- At fiscal year end, we had a solid balance sheet that was free of bank debt and which we believe provides us with the financial flexibility to pursue our business strategy.

Forward-Looking Statements

This report and other documents we file with the Securities and Exchange Commission ("SEC") include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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 Part I and elsewhere in this Annual Report on Form 10-K.

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

- the current and future economic environments affecting us and the markets we serve;
- expectations regarding investments in new projects by our customers;
- sources of revenue and anticipated revenue, including the contribution from the growth of new products, services and markets;
- expectations regarding achievement of revenue and profitability expectations;
- 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;
- our ability to continue to pursue our growth and acquisition strategy;
- our ability to expand nuclear power work into new markets;
- our ability to maintain or expand nuclear work for the U.S. Navy;
- our ability to successfully execute our existing contracts;
- estimates regarding our liquidity and capital requirements;
- timing of conversion of backlog to sales;
- our ability to attract or retain customers;
- the outcome of any existing or future litigation; and
- our ability to increase our productivity and capacity.

Forward-looking statements are usually accompanied by words such as "anticipate," "believe," "estimate," "may," "might," "intend," "interest," "appear," "expect," "suggest," "plan," "encourage," "potential" 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.

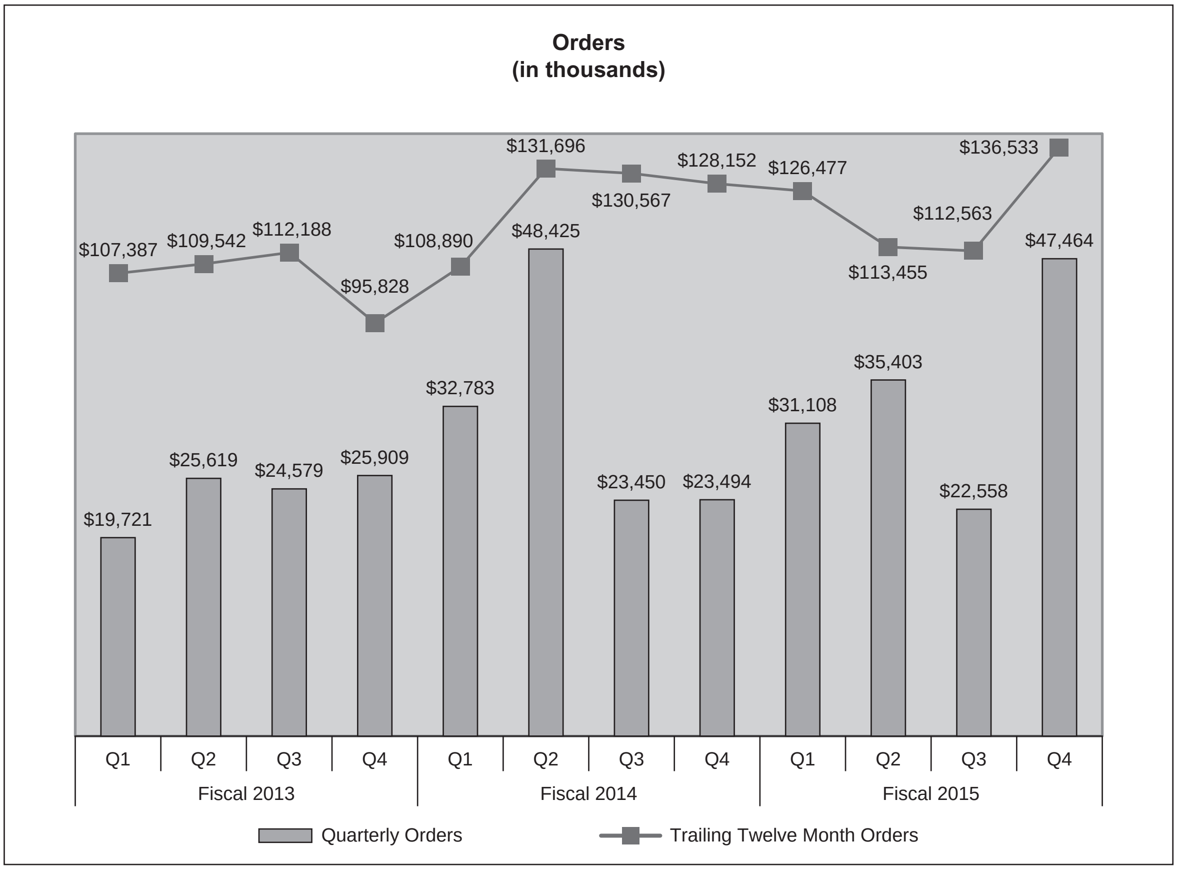
Current Market Conditions

Demand for our products and services to the oil refining and chemical industries depends on capital investment for new capacity, retrofit and debottlenecking projects and for planned or unplanned maintenance activity. The recent precipitous reduction in global cost for crude oil has caused a significant slowdown in investment by our oil refining and chemical industry customers, especially compared to 12 to 18 months earlier. These markets appear to be in a contraction due to the rapid change in the cost of crude oil. The timing of the recovery is uncertain and will depend upon the future price of crude oil which is currently depressed. Within the nuclear utility market, demand is affected by investment in maintenance, repair, life extension and nuclear regulatory mandated investment along with global investment in new capacity. We continue to view this market as providing steady growth. Our naval nuclear propulsion market has demand tied to surface and submarine vessel construction schedules of the primary shipyards who service the U.S. Navy.

Our long term perspective for oil refining and chemical markets remains optimistic notwithstanding the severity of the current downturn in these markets. Long-term demand drivers are unchanged, such as, increasing global energy demand, rising population growth and expanding middle class in emerging markets. Our strategy is to continue to invest in our capabilities and capacity to expand market share in the oil refining and chemical industry markets.

We believe the long-term outlook in our key markets supports our strategy to organically double our business over the next cycle. New order levels are anticipated to remain volatile, resulting in both relatively strong and weak periods. As the chart below indicates, quarterly orders can vary significantly.

We believe that looking at our order level in any one or two quarters does not provide an accurate indication of our future expectations or performance. Rather, we believe that looking at our orders and backlog over a trailing twelve month period provides a better measure of our business. Our quarterly order levels and trailing twelve month order levels for fiscal 2015, fiscal 2014 and fiscal 2013, respectively, are set forth in the table below.



Results of Operations

For an understanding of the significant factors that influenced our performance, the following discussion should be read in conjunction with our consolidated financial statements and the notes to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

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

	Year Ended March 31,		
	2015	2014	2013
Net sales	$135,169	$102,218	$104,973
Net income	$ 14,735	$ 10,145	$ 11,148
Diluted income per share	$ 1.45	$ 1.00	$ 1.11
Total assets	$154,654	$141,634	$126,733

Fiscal 2015 Compared with Fiscal 2014

Sales for fiscal 2015 were $135,169, up $32,951 or 32%, as compared with sales of $102,218 for fiscal 2014. Domestic sales were $86,399 or 64% of total sales, up from $63,850 or 62% of total sales in fiscal 2014. Domestic sales increased $22,549, or 35%, compared with fiscal 2014 driven principally by new capacity investment in the U.S. chemical industry. International sales accounted for $48,770 or 36% of total sales for fiscal 2015, up from $38,368, or 38%, of total sales in fiscal 2014. International sales increased $10,402, or 27%, compared with fiscal 2014. By market, sales for fiscal 2015 were 32% to the refining industry, down from 35% in fiscal 2014, 35% to the chemical and petrochemical industries, up from 24% in fiscal 2014, 15% to the power markets, down from 23% in fiscal 2014, and 18% to other industrial applications, including the U.S. Navy, the same as in fiscal 2014.

Our gross margin for fiscal 2015 was 30.9% compared with 31.1% for fiscal 2014. Leverage from 33% greater revenue in 2015 versus 2014 was muted by lower pricing for certain orders and the extent of subcontracting that was required due to timing of customer requirements and near-term capacity limitations. Gross profit for fiscal 2015 increased $9,992, or 31% compared with fiscal 2014 due to higher sales volume.

Selling, general and administrative, or SG&A, expense for fiscal 2015 was $18,512, up 8% or $1,317, compared with $17,195 in fiscal 2014. However, SG&A as a percentage of sales in fiscal 2015 was 13.7% of sales compared with 16.8% of sales in fiscal 2014.

We incurred a pre-tax restructuring charge of $1,718 ($1,164 after tax) for severance costs related to largely a voluntary early retirement program we offered in the fourth quarter of fiscal 2015 and to certain involuntary headcount reductions which occurred in the same quarter. Our reduction in headcount was approximately 10% of our global workforce. Approximately 20% of the headcount reductions occurred in the fourth quarter of fiscal 2015. The remaining headcount reductions will occur in the first four months of fiscal 2016. The expected annual savings from these reductions is expected to be $3,000, of which $2,000 will be realized in fiscal 2016.

Interest income for fiscal 2015 was $189, up from $94 in fiscal 2014. Interest expense for fiscal 2015 was $11 compared with $1 in fiscal 2014.

Our effective tax rate in fiscal 2015 was 32% compared with an effective tax rate of 31% for fiscal 2014.

Net income for fiscal 2015 and income per diluted share was $14,735 and $1.45, respectively.

Net income, excluding the impact of the restructuring charge, was $15,899 or $1.57 per diluted share, up 57% compared with $10,145 and $1.00, respectively, in fiscal 2014.

Fiscal 2014 Compared with Fiscal 2013

Sales for fiscal 2014 were $102,218, down $2,755 or 3%, as compared with sales of $104,973 for fiscal 2013. Domestic sales were $63,850, or 62%, of total sales, up from $55,695, or 53%, of total sales in fiscal 2013. Domestic sales increased $8,155, or 15% compared with fiscal 2013. International sales accounted for $38,368, or 38%, of total sales for fiscal 2014, down from $49,278, or 47%, of total sales in fiscal 2013. International sales decreased $10,910, or 22%, compared with fiscal 2013. By market, sales for fiscal 2014 were 35% to the refining industry, up from 34% in fiscal 2013, 24% to the chemical and petrochemical industries, the same as in fiscal 2013, 23% to the power markets, up from 22% in fiscal 2013, and 18% to other industrial applications, including the U.S. Navy, down from 20% in fiscal 2013.

Our gross margin for fiscal 2014 was 31.1% compared with 30.3% for fiscal 2013. Gross margins in fiscal 2014 increased compared with fiscal 2013, primarily due to an increase in higher margin, short cycle sales in the first half of fiscal 2014. Gross profit for fiscal 2014 decreased $10, compared with fiscal 2013 due to lower revenue offsetting the higher gross margin rate.

SG&A expense for fiscal 2014 was $17,195, up 4% or $635, compared with $16,560 in fiscal 2013. However, fiscal 2013 SG&A included the benefit of a $975 reversal of a reserve for the potential earn-out for year two following the Energy Steel acquisition. The earn-out for the second year, calendar year 2012, had been partly reserved for at the time of acquisition with the remaining charges added subsequent to the acquisition. However, due to lower order volume levels experienced in calendar year 2012 and project timing, the 2012 Energy Steel earn out criteria was not achieved. As a result, the reserve of $975 was adjusted to $0, and $975 was recorded as a reduction of SG&A expenses in the third quarter of fiscal 2013. Excluding the reserve adjustment, SG&A in fiscal 2013 would have been $17,535. Comparing fiscal 2014 SG&A to the adjusted number, SG&A in fiscal 2014 was down $340, or 2%.

SG&A as a percentage of sales in fiscal 2014 was 16.8% of sales compared with 15.8% of sales (and 16.7% of sales excluding the $975 reserve reversal noted above) in fiscal 2013.

Interest income for fiscal 2014 was $94, up from $51 in fiscal 2013.

Interest expense was $1 compared with a credit of $264 in fiscal 2013. The credit in fiscal 2013 was due to the interest charges being reversed for a research and development tax credit audit resolution reached with the Internal Revenue Service (the "IRS"). It is our policy to recognize any interest related to uncertain tax positions in interest expense. In fiscal 2013, due to lower than expected assessments by the IRS, we reversed provisions that had been made in earlier periods for interest related to previously uncertain tax positions.

Our effective tax rate in fiscal 2014 was 31% compared with an effective tax rate of 28% for fiscal 2013. The tax rate in fiscal 2013 was favorably impacted by the reversal of the earn-out reserve noted above in the SG&A discussion which was not tax affected. Excluding the reversal of the earn-out reserve, the effective tax rate in fiscal 2013 was 30%.

Net income for fiscal 2014 and fiscal 2013 was $10,145 and $11,148, respectively. Income per diluted share was $1.00 and $1.11 for the respective periods.

Stockholders' Equity

The following discussion should be read in conjunction with our consolidated statements of changes in stockholders' equity that can be found in Item 8 of Part II of this Annual Report on Form 10-K. The following table shows the balance of stockholders' equity on the dates indicated:

March 31, 2015	March 31, 2014	March 31, 2013
$116,551	$105,908	$92,995

Fiscal 2015 Compared with Fiscal 2014

Stockholders' equity increased $10,643 or 10%, at March 31, 2015 compared with March 31, 2014. This increase was primarily due to net income earned in fiscal 2015.

On March 31, 2015, our net book value per share was $11.50, up 10% over March 31, 2014.

Fiscal 2014 Compared with Fiscal 2013

Stockholders' equity increased $12,913 or 14%, at March 31, 2014 compared with March 31, 2013. This increase was primarily due to net income earned in fiscal 2014.

On March 31, 2014, our net book value per share was $10.49, up 13% over March 31, 2013.

Liquidity and Capital Resources

The following discussion should be read in conjunction with our consolidated statements of cash flows and consolidated balance sheets appearing in Item 8 of Part II of this Annual Report on Form 10-K:

	March 31,	
	2015	2014
Cash and investments	$60,271	$61,146
Working capital(1)	81,367	71,346
Working capital ratio(2)	3.7	3.7

(1) Working capital equals current assets minus current liabilities.

(2) Working capital ratio equals current assets divided by current liabilities.

We use the above ratios to measure our liquidity and overall financial strength.

Net cash generated by operating activities for fiscal 2015 was $6,279, compared with $15,230 for fiscal 2014. Increases in net income, accounts payable and accrued compensation were more than offset by increases in accounts receivable and unbilled revenue. The latter items are timing-related due to strong sales levels in the second half of fiscal 2015.

Capital spending in fiscal 2015 was $5,300, compared with $5,263 in fiscal 2014. The capital expansion at our Batavia, NY manufacturing facility, which started in the middle of fiscal 2014, was completed in the middle of fiscal 2015. This expansion was to support our growth strategies in refining, petrochemical and U.S. Navy. Approximately 65% of our capital in the past two fiscal years was to support this expansion. Capital expenditures in fiscal 2015 were approximately 90% for facilities along with machinery and equipment and the remaining 10% for all other items. Approximately eighty percent of our capital spending was for the expansion noted above and productivity improvements. The balance of capital spending was primarily to upgrade existing equipment.

Cash and investments were $60,271 on March 31, 2015 compared with $61,146 on March 31, 2014, down $875 or 1%.

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 is held in the U.S. The remaining 5% is invested in our China operations.

Capital expenditures for fiscal 2016 are expected to be between approximately $2,000 and $2,500. Approximately 90% of our fiscal 2016 capital expenditures are expected to be for machinery and equipment, with the remaining amounts expected to be used for information technology and other items.

Our revolving credit facility with Bank of America, N.A. provides us with a line of credit of $25,000, including letters of credit and bank guarantees. In addition, the Bank of America 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 our credit facility are secured by all of our assets. We also have a $5,000 unsecured line of credit with HSBC, N.A. Letters of credit outstanding under our credit facilities on March 31, 2015 and 2014 were $10,903 and $15,473, respectively. There were no other amounts outstanding on either of our credit facilities at March 31, 2015 and 2014. Our borrowing rate for our Bank of America facility as of March 31, 2015 was the bank's prime rate, or 3.25%. Availability under the Bank of America and HSBC lines of credit were $14,842 and $4,255, respectively, at March 31, 2015. We believe that cash generated from operations, combined with our investments and available financing capacity under our credit facility, will be adequate to meet our cash needs for the immediate future and to support our growth strategies.

Contractual Obligations

As of March 31, 2015, our contractual and commercial obligations for the next five fiscal years ending March 31 and thereafter were as follows:

		Payments Due by Period			
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	Thereafter
Capital lease obligations[1]	$ 176	$ 68	$ 74	$ 34	$ —
Operating leases[1]	589	405	169	15	—
Pension and postretirement benefits[2]	92	92	—	—	—
Accrued compensation	1,876	1,752	124	—	—
Accrued pension liability	341	26	52	52	211
Total	$3,074	$2,343	$419	$101	$211

(1) For additional information, see Note 6 to the consolidated financial statements in Item 8 of Part II of this Annual Report on Form 10-K.

(2) Amounts represent anticipated contributions during fiscal 2015 to our postretirement medical benefit plan, which provides healthcare benefits for eligible retirees and eligible survivors of retirees. On February 4, 2003, we terminated postretirement healthcare benefits for our U.S. employees. Benefits payable to retirees of record on April 1, 2003 remained unchanged. We expect to be required to make cash contributions in connection with these plans beyond one year, but such amounts cannot be estimated. No contributions are expected to be made to our defined benefit pension plan for fiscal 2016.

Orders and Backlog

Orders in fiscal 2015 increased 7% to $136,533 from $128,152 in fiscal 2014, net of $5,895 that was booked in the first part of fiscal 2015 and subsequently cancelled during the fourth quarter of fiscal 2015. Orders represent communications received from customers requesting us to supply products and services. Revenue is recognized on orders received in accordance with our revenue recognition policy described in Note 1 to the consolidated financial statements contained in Item 8 of Part II of this Annual Report on Form 10-K.

Domestic orders were 67%, or $92,115, and international orders were 33%, or $44,418, of our total orders in fiscal 2015. This compared to domestic orders of $92,838, or 72%, of total orders, and international orders of $35,314, or 28%, of our total orders in fiscal 2014. Domestic orders decreased by $723, or 1%, due to lower demand in the petrochemical processing industries offset by a large increase in U.S. Navy orders. International orders increased by $9,104, or 26%, due to a large increase in orders from Canada, partially offset by lower orders in the Middle East and Central and South America.

Backlog was $113,811 at March 31, 2015, up 2% compared with $112,108 at March 31, 2014. Backlog is defined by us as the total dollar value of orders received for which revenue has not yet been recognized. All orders in backlog represent orders from our traditional markets in established product lines. Approximately 45% to 50% of orders currently in our backlog are expected to be converted to sales within one year and 40% to 45% beyond two years. The majority of these orders are for the U.S. Navy, with an additional $10,000 of projects which had been expected to convert to revenue in fiscal 2016 and are now expected to convert in fiscal 2017 due to delays requested by our customers. At March 31, 2015, approximately 24% of our backlog was attributed to equipment for refinery project work, 15% for chemical and petrochemical projects, 9% for power, including nuclear energy, 48% for U.S. Navy projects and 4% for other industrial or commercial applications. At March 31, 2014, approximately 26% of our backlog was for refinery project work, 28% for chemical and petrochemical projects, 16% for power, including nuclear energy, 25% for U.S. Navy projects and 5% for other industrial or commercial applications. At March 31, 2015, although we had no projects on hold, we have $10,000 of projects that have been delayed until fiscal 2017. We had two projects for $5,895 cancelled in fiscal 2015, both of which were won and cancelled within fiscal 2015.

Strategy and Outlook

The dramatic drop in oil prices during the second half of calendar 2014 has affected the recovery in the refinery and petrochemical markets that we experienced in our orders in fiscal 2014 and the first half of fiscal 2015. The U.S. petrochemical market was very strong in fiscal 2014 and the broader global refining and petrochemical markets began to improve at the start of fiscal 2015. Our pipeline has abruptly slowed as our customers have begun to decrease their capital spending in reaction to lower oil prices. Fiscal 2016 is expected to be weaker than fiscal 2015; however, the expected duration of this downturn is uncertain. We continue to believe in the long-term strength of the energy markets. Coupled with our diversification strategy with the U.S. Navy and into the power market, we believe this long term strength will support our strategy to double the size of our business when the energy markets recover. We have invested to gain capacity to serve our commercial customers as well as to expand the work we do for the U.S. Navy. We intend to continue to look for organic growth opportunities as well as acquisitions or other business combinations that we believe will allow us to expand our presence in both our existing and ancillary markets. We are focused on reducing earnings volatility, growing our business and diversifying our business and product lines.

In reaction to the slowdown in the energy markets, in the fourth quarter of fiscal 2015 we implemented a cost reduction program that included a voluntary early retirement program as well as additional headcount reductions. The impact of this restructuring program was to reduce our headcount by 10% and eliminate $3,000 in annual costs. The cost reductions will be fully implemented by the second quarter of fiscal 2016.

We implemented a prudent cost reduction plan to balance near-term reduction in revenue, retaining capabilities, competencies and capacity to expand revenue quickly, when our oil refining and chemical industry markets return to stronger capital spending activity.

Our orders in fiscal 2015 were at a record level. However, approximately 35-40% of those new orders will have no revenue conversion in fiscal 2016. The orders which will convert beyond fiscal 2016 are a combination of U.S. Navy orders, which have a long conversion cycle, as well as certain commercial orders whose conversion has been delayed by our customers.

We expect revenue to be approximately $95,000 to $105,000 in fiscal 2016, a decrease when compared with fiscal 2015. Along with the new orders noted above, which will not convert until after fiscal 2016, we also have existing U. S. Navy orders which have a multi-year conversion period. Therefore, we project that approximately 45% to 50% of our March 31, 2015 backlog to convert to sales in fiscal 2016.

We expect gross profit margin in fiscal 2016 to be in the 26% to 28% range, down from 30.9% in fiscal 2015. While order pricing in fiscal 2015 was improved compared with fiscal 2014, we expect pricing pressure to occur in fiscal 2016. In addition, with the lower revenue expectations in fiscal 2016, our production facility utilization and production overhead absorption will decrease which in turn will put further pressure on gross profit margins.

SG&A spending during fiscal 2016 is expected to be between 17% and 18% of sales. Our effective tax rate during fiscal 2016 is expected to be between 32% and 33%.

Cash flow in fiscal 2016 is expected to be strong as the build-up of accounts receivable and unbilled revenue which occurred in the latter portion of fiscal 2015 is converted to cash.

We continue to believe that the long term outlook for the energy markets is strong. We will continue to look toward future growth while being mindful of near term profitability, given short-term challenges.

Contingencies and Commitments

We have been named as a defendant in lawsuits alleging personal injury from exposure to asbestos allegedly contained in 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 are similar to 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 March 31, 2015, 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 to which we are a party cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made, we do not believe that the outcomes, either individually or in the aggregate, will have a material effect on our results of operations, financial position or cash flows.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon the consolidated financial statements and the notes to consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the U.S.

Critical accounting policies are defined as those that reflect significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions.

Revenue Recognition. We recognize revenue on all contracts with a planned manufacturing process in excess of four weeks (which approximates 575 direct labor hours) using the percentage-of-completion method. The majority of our revenue is recognized under this methodology. The percentage-of-completion method is determined by comparing actual labor incurred as of a specific date to our estimate of the total labor to be incurred on each contract or completion of operational milestones assigned to each contract. Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in the contract value and estimated material and labor costs at completion. Losses on contracts are recognized immediately, when evident to management.

Revenue on contracts not accounted for using the percentage-of-completion method is recognized utilizing the completed contract method. The majority of the contracts we enter into have a planned manufacturing process of less than four weeks and the results reported under this method do not vary materially from the percentage-of-completion method. We recognize revenue and all related costs on the completed contract method upon substantial completion or shipment of products to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is required throughout the construction process and we have no further material obligations under the contracts after the revenue is recognized.

Business Combinations and Intangible Assets. Assets and liabilities acquired in a business combination are recorded at their estimated fair values at the acquisition date. The fair value of identifiable intangible assets is based upon detailed valuations that use various assumptions made by management. Goodwill is recorded when the purchase price exceeds the estimated fair value of the net identifiable tangible and intangible assets acquired. Definite lived intangible assets are amortized over their estimated useful lives and are assessed for impairment if certain indicators are present. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to impairment testing annually or earlier if an event or change in circumstances indicates that the fair value of a reporting unit may have been reduced below its carrying value.

Pension and Postretirement Benefits. Defined benefit pension and other postretirement benefit costs and obligations are dependent on actuarial assumptions used in calculating such amounts. These assumptions are reviewed annually and include the discount rate, long-term expected rate of return on plan assets, salary growth, healthcare cost trend rate and other economic and demographic factors. We base the discount rate assumption for our plans on Moody's or Citigroup Pension Liability Index AA-rated corporate long-term bond yield rate. The long-term expected rate of return on plan assets is based on the plan's asset allocation, historical returns and expectations as to future returns that are expected to be realized over the estimated remaining life of the plan liabilities that will be funded with the plan assets. The salary growth assumptions are determined based on long-term actual experience and future and near-term outlook. The healthcare cost trend rate assumptions are based on historical cost and payment data, the near-term outlook, and an assessment of likely long-term trends.

Income Taxes. We use the liability method to account for income taxes. Under this method, deferred tax liabilities and assets are recognized for the tax effects of temporary differences between the financial reporting and tax bases of liabilities and assets measured using the enacted tax rate.

Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using current tax rates. We evaluate available information about future taxable income and other possible sources of realization of deferred income tax assets and record valuation allowances to reduce deferred income tax assets to an amount that represents our best estimates of the amounts of such deferred income tax assets that more likely than not will be realized.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for uncertain tax positions when we believe that certain tax positions do not meet the more likely than not threshold. We adjust these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or the lapse of the statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to the reserves that are considered appropriate.

Critical Accounting Estimates and Judgments

We have evaluated the accounting policies used in the preparation of the consolidated financial statements and the notes to consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K and believe those policies to be reasonable and appropriate.

We believe that the most critical accounting estimates used in the preparation of our consolidated financial statements relate to labor hour estimates and establishment of operational milestones which are used to recognize revenue under the percentage-of-completion method, fair value estimates of identifiable tangible and intangible assets acquired in business combinations, 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.

As discussed above under the heading "Critical Accounting Policies," we recognize a majority of our revenue using the percentage-of-completion method. The key estimate of percentage-of-completion accounting is total labor to be incurred on each contract and to the extent that this estimate changes, it may significantly impact revenue recognized in each period.

We base the fair value of identifiable tangible and intangible assets on detailed valuations that use information and assumptions provided by management. The fair values of the assets acquired and liabilities assumed are determined using one of three valuation approaches: market, income or cost. The selection of a particular method for a given asset depends on the reliability of available data and the nature of the asset. The market approach values the asset based on available market pricing for comparable assets. The income approach values the asset based on the present value of cash flows projected to be generated by that asset. The projected cash flows are discounted at a required rate of return that reflects the relative risk of the transaction and the time value of money. The projected cash flows for each asset considers multiple factors, including current revenue from existing customers, the high cost barrier to entry of markets, and expected profit margins giving consideration to historical and expected margins. The cost approach values the asset by determining the current cost of replacing that asset with another of equivalent economic utility. The cost to replace the asset reflects the replacement cost, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

Contingencies, by their nature, relate to uncertainties that require us to exercise judgment both in assessing the likelihood that a liability has been incurred as well as in estimating the amount of potential loss. For more information on these matters see the notes to consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Accounting for pensions and other postretirement benefits involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical costs and discount rates. These assumptions are reviewed annually.

The discount rate used in accounting for pensions and other postretirement benefits expense (income) is determined in conjunction with our actuary by reference to a current yield curve and by considering the timing and amount of projected future benefit payments. The discount rate assumption for fiscal 2015 was 4.46% for our defined benefit pension plan and 3.59% for our other postretirement benefit plan. A reduction in the discount rate of 50 basis points, with all other assumptions held constant, would have increased fiscal 2015 net periodic benefit expense for our defined benefit pension plan and other postretirement benefit plan by approximately $206 and $0, respectively.

The expected return on plan assets assumption of 8.0% used in accounting for our pension plan is determined by evaluating the mix of investments that comprise plan assets and external forecasts of future long-term investment returns. A reduction in the rate of return of 50 basis points, with other assumptions held constant, would have increased fiscal 2015 net periodic pension expense by approximately $190.

Prior to fiscal 2015, the mortality assumption used in accounting for our pension plan was based upon the RP 2000 Mortality Table projected to 2015, weighted 50% blue collar for males and the RP 2000 combined Healthy Table for females projected to 2015. In fiscal 2015, we changed the mortality table used to the sex district RP 2014 dollar weighted annuitant and non-annuitant Mortality Table, projected to 2020 using scale MP-2014. The impact of this change was a $2,145 increase to our project benefit obligation.

As part of our ongoing financial reporting process, a collaborative effort is undertaken involving our managers with functional responsibilities for financial, credit, tax, engineering, manufacturing and benefit matters, and outside advisors such as lawyers, consultants and actuaries. We believe that the results of this effort provide management with the necessary information on which to base their judgments and to develop the estimates and assumptions used to prepare the financial statements.

We believe that the amounts recorded in the consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K related to revenue, contingencies, pensions, other postretirement benefits and other matters requiring the use of estimates and judgments are reasonable, although actual outcomes could differ materially from our estimates.

New Accounting Pronouncements

In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB"), the SEC, 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 our consolidated financial statements.

In May 2014, the FASB issued guidance related to the accounting for revenue from contracts with customers. This guidance establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. The guidance requires companies to apply a five-step model when recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also includes a comprehensive set of disclosure requirements regarding revenue recognition. The provisions of the guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016; however, the FASB has proposed a one year delay in the effective date of this guidance. The Company is currently evaluating the impact this guidance will have on its financial position, results of operations and cash flows. See Note 1 to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K for a description of the Company's current revenue recognition policy. We do not expect any other recently issued accounting pronouncements, which have not already been adopted, to have a material impact on our consolidated financial statements.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements as of March 31, 2015 or March 31, 2014, other than operating leases and letters of credit incurred in the ordinary course of business.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

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

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 fiscal 2015 were 36% of total sales, down from 38% of sales in fiscal 2014. Operating in markets throughout the world exposes us to movements in currency exchange rates. Currency movements can affect sales in several ways, the foremost being our ability to compete for orders against foreign competitors that base their prices on relatively weaker currencies. Business lost due to competition for orders against competitors using a relatively weaker currency cannot be quantified. In addition, cash can be adversely impacted by the conversion of sales made by us in a foreign currency to U.S. dollars. In each of fiscal 2015, fiscal 2014, and fiscal 2013, all sales for which we or our subsidiaries were paid were denominated in the local currency (U.S. dollars or Chinese RMB).

We have limited exposure to foreign currency purchases. In each of fiscal 2015, fiscal 2014 and fiscal 2013, our purchases in foreign currencies represented 1% of the cost of products sold. At certain times, we may enter into forward foreign currency exchange agreements to hedge our exposure against potential unfavorable changes in foreign currency values on significant sales and purchase contracts negotiated in foreign currencies. Forward foreign currency exchange contracts were not used in fiscal 2015 or fiscal 2014, and as of March 31, 2015 and 2014, respectively, 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 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. In extreme market downturns, such as we are currently experiencing, we typically see depressed price levels. Moreover, the cost of metals and other materials used in our products have experienced significant volatility. Such factors, in addition to the global effects of the recent volatility and disruption of the capital and credit markets, have resulted in downward demand and pricing pressure on our products.

Project Cancellation and Project Continuation Risk

Adverse economic or specific project conditions can lead to a project being placed on hold or cancelled by our customers. In fiscal 2015, we had two projects totaling $5,895 which were cancelled. Both of these orders were received in and cancelled within fiscal 2015. At March 31, 2015, we had no projects on hold. 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.

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.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2015	2014	2013
	(Amounts in thousands, except per share data)		
Net sales	$135,169	$102,218	$104,973
Cost of products sold	93,365	70,406	73,151
Gross profit	41,804	31,812	31,822
Other expenses and income:			
Selling, general and administrative	18,283	16,973	16,332
Selling, general and administrative — amortization	229	222	228
Restructuring charge	1,718	—	—
Interest income	(189)	(94)	(51)
Interest expense	11	1	(264)
Total other expenses and income	20,052	17,102	16,245
Income before provision for income taxes	21,752	14,710	15,577
Provision for income taxes	7,017	4,565	4,429
Net income	$ 14,735	$ 10,145	$ 11,148
Per share data			
Basic:			
Net income	$ 1.46	$ 1.01	$ 1.11
Diluted:			
Net income	$ 1.45	$ 1.00	$ 1.11
Average common shares outstanding:			
Basic	10,123	10,070	10,027
Diluted	10,143	10,104	10,051
Dividends declared per share	$ .20	$ .13	$ .09

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended March 31,		
	2015	2014	2013
	(Amounts in thousands)		
Net income	$14,735	$10,145	$11,148
Other comprehensive income:			
Foreign currency translation adjustment	3	(7)	35
Defined benefit pension and other postretirement plans, net of income tax (benefit) provision, of $(1,802), $1,244, and $50 for the years ended March 31, 2015, 2014 and 2013, respectively	(3,294)	2,275	92
Total other comprehensive income	(3,291)	2,268	127
Total comprehensive income	$11,444	$12,413	$11,275

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	March 31, 2015	March 31, 2014
	(Amounts in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 27,271	$ 32,146
Investments	33,000	29,000
Trade accounts receivable, net of allowances ($62 and $46 at March 31, 2015 and 2014, respectively)	17,249	10,339
Unbilled revenue	18,665	7,830
Inventories	13,994	16,518
Prepaid expenses and other current assets	529	457
Income taxes receivable	339	498
Deferred income tax asset	647	668
Total current assets	111,694	97,456
Property, plant and equipment, net	19,812	16,449
Prepaid pension asset	1,332	5,759
Goodwill	6,938	6,938
Permits	10,300	10,300
Other intangible assets, net	4,428	4,608
Other assets	150	124
Total assets	$154,654	$141,634
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of capital lease obligations	$ 60	$ 80
Accounts payable	13,334	10,084
Accrued compensation	9,343	5,701
Accrued expenses and other current liabilities	3,247	2,233
Customer deposits	4,179	8,012
Deferred income tax liability	164	—
Total current liabilities	30,327	26,110
Capital lease obligations	98	136
Accrued compensation	124	158
Deferred income tax liability	6,363	8,197
Accrued pension liability	315	272
Accrued postretirement benefits	876	853
Total liabilities	38,103	35,726
Commitments and contingencies (Notes 6 and 15)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500 shares authorized		
Common stock, $.10 par value, 25,500 shares authorized 10,433 and 10,409 shares issued and 10,133 and 10,098 shares outstanding	1,043	1,041
Capital in excess of par value	21,398	20,274
Retained earnings	106,178	93,469
Accumulated other comprehensive loss	(9,056)	(5,765)
Treasury stock, (299 and 311 shares)	(3,012)	(3,111)
Total stockholders' equity	116,551	105,908
Total liabilities and stockholders' equity	$154,654	$141,634

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2015	2014	2013
	(Dollar amounts in thousands)		
Operating activities:			
Net income	$ 14,735	$ 10,145	$ 11,148
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,079	1,977	1,851
Amortization	229	222	228
Amortization of unrecognized prior service cost and actuarial losses	514	886	893
Discount accretion on investments	—	(8)	(15)
Stock-based compensation expense	653	639	576
Loss on disposal or sale of property, plant and equipment	14	223	85
Deferred income taxes	157	(1,011)	(2,357)
(Increase) decrease in operating assets:			
Accounts receivable	(6,910)	(1,001)	2,264
Unbilled revenue	(10,835)	5,318	(415)
Inventories	2,525	(5,161)	(5,311)
Income taxes receivable/payable	158	2,137	1,845
Prepaid expenses and other current and non-current assets	(152)	185	(300)
Prepaid pension asset	(1,108)	(793)	(767)
Increase (decrease) in operating liabilities:			
Accounts payable	3,115	595	2,957
Accrued compensation, accrued expenses and other current and non-current liabilities	4,981	28	59
Customer deposits	(3,834)	1,009	(255)
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	(42)	(160)	(54)
Net cash provided by operating activities	6,279	15,230	12,432
Investing activities:			
Purchase of property, plant and equipment	(5,300)	(5,263)	(1,655)
Proceeds from disposal of property, plant and equipment	1	32	37
Purchase of investments	(50,000)	(109,494)	(83,984)
Redemption of investments at maturity	46,000	108,000	73,000
Net cash used by investing activities	(9,299)	(6,725)	(12,602)
Financing activities:			
Principal repayments on capital lease obligations	(80)	(88)	(85)
Issuance of common stock	47	581	83
Dividends paid	(2,026)	(1,308)	(899)
Excess tax deduction on stock awards	200	271	43
Net cash used by financing activities	(1,859)	(544)	(858)
Effect of exchange rate changes on cash	4	(9)	33
Net (decrease) increase in cash and cash equivalents	(4,875)	7,952	(995)
Cash and cash equivalents at beginning of year	32,146	24,194	25,189
Cash and cash equivalents at end of year	$ 27,271	$ 32,146	$ 24,194

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended March 31, 2015, 2014 and 2013

(Dollar and share amounts in thousands)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Stockholders' Equity
	Shares	Par Value					
Balance at April 1, 2012	10,297	$1,030	$17,745	$ 74,383	$(8,160)	$(3,378)	$ 81,620
Comprehensive income				11,148	127		11,275
Issuance of shares	34	3	80				83
Stock award tax benefit			43				43
Dividends				(899)			(899)
Recognition of equity-based compensation expense			576				576
Issuance of treasury stock			152			145	297
Balance at March 31, 2013	10,331	1,033	18,596	84,632	(8,033)	(3,233)	92,995
Comprehensive income				10,145	2,268		12,413
Issuance of shares	78	8	573				581
Stock award tax benefit			271				271
Dividends				(1,308)			(1,308)
Recognition of equity-based compensation expense			639				639
Issuance of treasury stock			195			122	317
Balance at March 31, 2014	10,409	1,041	20,274	93,469	(5,765)	(3,111)	105,908
Comprehensive income				14,735	(3,291)		11,444
Issuance of shares	24	2	45				47
Stock award tax benefit			200				200
Dividends				(2,026)			(2,026)
Recognition of equity-based compensation expense			653				653
Issuance of treasury stock			226			99	325
Balance at March 31, 2015	10,433	$1,043	$21,398	$106,178	$(9,056)	$(3,012)	$116,551

See Notes to Consolidated Financial Statements.

Note 1 — The Company and Its Accounting Policies:

Graham Corporation, and its operating subsidiaries, (together, the Company), is a global designer, manufacturer and supplier of vacuum and heat transfer equipment used in the chemical, petrochemical, petroleum refining, and electric power generating industries. Energy Steel & Supply Co. ("Energy Steel"), a wholly-owned subsidiary, is a nuclear code accredited fabrication and specialty machining company which provides products to the nuclear industry. The Company's significant accounting policies are set forth below.

The Company's fiscal years ended March 31, 2015, 2014 and 2013 are referred to as fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

Principles of consolidation and use of estimates in the preparation of financial statements

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Energy Steel, located in Lapeer, Michigan, and Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd., located in China. All intercompany balances, transactions and profits are eliminated in consolidation.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the related revenues and expenses during the reporting period. Actual amounts could differ from those estimated.

Translation of foreign currencies

Assets and liabilities of the Company's foreign subsidiary are translated into U.S. dollars at currency exchange rates in effect at year-end and revenues and expenses are translated at average exchange rates in effect for the year. Gains and losses resulting from foreign currency transactions are included in results of operations. The Company's sales and purchases in foreign currencies are minimal. Therefore, foreign currency transaction gains and losses are not significant. Gains and losses resulting from translation of foreign subsidiary balance sheets are included in a separate component of stockholders' equity. Translation adjustments are not adjusted for income taxes since they relate to an investment, which is permanent in nature.

Revenue recognition

Percentage-of-Completion Method

The Company recognizes revenue on all contracts with a planned manufacturing process in excess of four weeks (which approximates 575 direct labor hours) using the percentage-of-completion method. The majority of the Company's revenue is recognized under this methodology. The Company has established the systems and procedures essential to developing the estimates required to account for contracts using the percentage-of-completion method. The percentage-of-completion method is determined by comparing actual labor incurred to a specific date to management's estimate of the total labor to be incurred on each contract or completion of operational milestones assigned to each contract.

Contracts in progress are reviewed monthly, and sales and earnings are adjusted in current accounting periods based on revisions in the contract value and estimated costs at completion. Losses on contracts are recognized immediately when evident to management. Revenue recognized on contracts accounted for utilizing percentage-of-completion are presented in net sales in the Consolidated Statement of Operations and unbilled revenue in the Consolidated Balance Sheets to the extent that the revenue recognized exceeds the amounts billed to customers. See "Inventories" below.

Receivables billed but not paid under retainage provisions in its customer contracts were $1,751 and $901 at March 31, 2015 and 2014, respectively.

Completed Contract Method

Revenue on contracts not accounted for using the percentage-of-completion method is recognized utilizing the completed contract method. The majority of the Company's contracts (as opposed to revenue) have a planned manufacturing process of less than four weeks and the results reported under this method do not vary materially from the percentage-of-completion method. The Company recognizes revenue and all related costs on these contracts upon substantial completion or shipment to the customer. Substantial completion is consistently defined as at least 95% complete with regard to direct labor hours. Customer acceptance is generally required throughout the construction process and the Company has no further obligations under the contract after the revenue is recognized.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid, short-term investments with maturities at the time of purchase of three months or less.

Shipping and handling fees and costs

Shipping and handling fees billed to the customer are recorded in net sales and the related costs incurred for shipping and handling are included in cost of products sold.

Investments

Investments consist of certificates of deposits with financial institutions and fixed-income debt securities issued by the U.S. Treasury. 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. The investments are stated at amortized cost which approximates fair value. All investments held by the Company at March 31, 2015 are scheduled to mature on or before February 10, 2016.

Inventories

Inventories are stated at the lower of cost or market, using the average cost method. For contracts accounted for on the completed contract method, progress payments received are netted against inventory to the extent the payment is less than the inventory balance relating to the applicable contract. Progress payments that are in excess of the corresponding inventory balance are presented as customer deposits in the Consolidated Balance Sheets. Unbilled revenue in the Consolidated Balance Sheets represents revenue recognized that has not been billed to customers on contracts accounted for on the percentage-of-completion method. For contracts accounted for on the percentage-of-completion method, progress payments are netted against unbilled revenue to the extent the payment is less than the unbilled revenue for the applicable contract. Progress payments exceeding unbilled revenue are netted against inventory to the extent the payment is less than or equal to the inventory balance relating to the applicable contract, and the excess is presented as customer deposits in the Consolidated Balance Sheets.

A summary of costs and estimated earnings on contracts in progress at March 31, 2015 and 2014 is as follows:

	March 31,	
	2015	**2014**
Costs incurred since inception on contracts in progress	$64,912	$42,019
Estimated earnings since inception on contracts in progress	16,067	10,208
	80,979	52,227
Less billings to date	69,636	57,489
Net under (over) billings	$11,343	$ (5,262)

The above activity is included in the accompanying Consolidated Balance Sheets under the following captions at March 31, 2015 and 2014 or Notes to Consolidated Financial Statements:

	March 31,	
	2015	2014
Unbilled revenue	$18,665	$ 7,830
Progress payments reducing inventory (Note 2)	(3,143)	(5,080)
Customer deposits	(4,179)	(8,012)
Net under (over) billings	$11,343	$(5,262)

Property, plant, equipment, depreciation and amortization

Property, plant and equipment are stated at cost net of accumulated depreciation and amortization. Major additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided based upon the estimated useful lives, or lease term if shorter, under the straight line method. Estimated useful lives range from approximately five to eight years for office equipment, eight to 25 years for manufacturing equipment and 40 years for buildings and improvements. Upon sale or retirement of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations.

Business combinations

The Company records its business combinations under the acquisition method of accounting. Under the acquisition method of accounting, the Company allocates the purchase price of each acquisition to the tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. The fair value of identifiable intangible assets is based upon detailed valuations that use various assumptions made by management. Any excess of the purchase price over the fair value of the net tangible and intangible assets acquired is allocated to goodwill. Direct acquisition-related costs are expensed as incurred.

Intangible assets

Acquired intangible assets other than goodwill consist of permits, customer relationships, and tradenames. The Company amortizes its definite-lived intangible assets on a straight-line basis over their estimated useful lives. The estimated useful life is fifteen years for customer relationships. All other intangibles have indefinite lives and are not amortized.

Impairment of long-lived assets

The Company assesses the impairment of definite-lived long-lived assets or asset groups when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered in deciding when to perform an impairment review include: a significant decrease in the market price of the asset or asset group; a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50%.

Recoverability potential is measured by comparing the carrying amount of the asset or asset group to its related total future undiscounted cash flows. If the carrying value is not recoverable through related cash flows, the asset or asset group is considered to be impaired. Impairment is measured by comparing the asset or asset group's carrying amount to its fair value. When it is determined that useful lives of assets are shorter than originally estimated, and no impairment is present, the rate of depreciation is accelerated in order to fully depreciate the assets over their new shorter useful lives.

Goodwill and intangible assets with indefinite lives are tested annually for impairment. The Company assesses goodwill for impairment by comparing the fair value of its reporting units to their carrying amounts. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting unit is less than its carrying value. Fair values for reporting units are determined based on discounted cash flows. Indefinite lived intangible assets are assessed for impairment by comparing the fair value of the asset to its carrying value.

Product warranties

The Company estimates the costs that may be incurred under its product warranties and records a liability in the amount of such costs at the time revenue is recognized. The reserve for product warranties is based upon past claims experience and ongoing evaluations of any specific probable claims from customers. A reconciliation of the changes in the product warranty liability is presented in Note 5.

Research and development

Research and development costs are expensed as incurred. The Company incurred research and development costs of $3,585, $3,436 and $3,579 in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Research and development costs are included in the line item "Cost of goods sold" in the Consolidated Statements of Operations.

Income taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. The Company evaluates the available evidence about future taxable income and other possible sources of realization of deferred income tax assets and records a valuation allowance to reduce deferred income tax assets to an amount that represents the Company's best estimate of the amount of such deferred income tax assets that more likely than not will be realized.

The Company accounts for uncertain tax positions using a "more likely than not" recognition threshold. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective resolution of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. These tax positions are evaluated on a quarterly basis. It is the Company's policy to recognize any interest related to uncertain tax positions in interest expense and any penalties related to uncertain tax positions in selling, general and administrative expense.

The Company files federal and state income tax returns in several U.S. and non-U.S. domestic and foreign 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.

Stock-based compensation

The Company records compensation costs related to stock-based awards based on the estimated fair value of the award on the grant date. Compensation cost is recognized in the Company's Consolidated Statements of Operations over the applicable vesting period. The Company uses the Black-Scholes valuation model as the method for determining the fair value of its equity awards. For restricted stock awards, the fair market value of the award is determined based upon the closing value of the Company's stock price on the grant date. The amount of stock-based compensation expense recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates the forfeiture rate at the grant date by analyzing historical data and revises the estimates in subsequent periods if the actual forfeiture rate differs from the estimates.

Stock repurchase program

On January 29, 2015, the Company's Board of Directors authorized a stock repurchase program. Under the stock repurchase program, up to $18,000 of the Company's common stock is permitted to be repurchased by the Company from time to time either in the open market or through privately negotiated transactions.

Income per share data

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Common shares outstanding include share equivalent units which are contingently issuable shares. 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:

	Year ended March 31,		
	2015	**2014**	**2013**
Basic income per share:			
Numerator:			
Net income	$14,735	$10,145	$11,148
Denominator:			
Weighted common shares outstanding	10,123	10,056	9,984
Share equivalent units ("SEUs") outstanding	—	14	43
Weighted average common shares and SEUs outstanding	10,123	10,070	10,027
Basic income per share	$ 1.46	$ 1.01	$ 1.11
Diluted income per share:			
Numerator:			
Net income	$14,735	$10,145	$11,148
Denominator:			
Weighted average common shares and SEUs outstanding	10,123	10,070	10,027
Stock options outstanding	20	34	24
Weighted average common and potential common shares outstanding	10,143	10,104	10,051
Diluted income per share	$ 1.45	$ 1.00	$ 1.11

There were 12, 2 and 14 options to purchase shares of common stock at various exercise prices in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, which were not included in the computation of diluted income per share as the effect would be anti-dilutive.

Cash flow statement

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Interest paid was $11 in fiscal 2015, $12 in fiscal 2014, and $59 in fiscal 2013. In addition, income taxes paid were $6,491 in fiscal 2015, $3,302 in fiscal 2014, and $4,064 in fiscal 2013.

In fiscal 2015, fiscal 2014, and fiscal 2013, non-cash activities included pension and other postretirement benefit adjustments, net of income tax, of $3,294, $(2,275) and $(92), respectively. Also, in fiscal 2015, fiscal 2014 and fiscal 2013, non-cash activities included the issuance of treasury stock valued at $325, $317 and $297, respectively, to the Company's Employee Stock Purchase Plan (See Note 11).

At March 31, 2015, 2014, and 2013, there were $174, $40, and $142, 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 Consolidated Statements of Cash Flows. In fiscal 2015, fiscal 2014 and fiscal 2013, capital expenditures totaling $22, $90 and $11, respectively, were financed through the issuance of capital leases.

Accumulated other comprehensive loss

Comprehensive income is comprised of net income and other comprehensive income or loss items, which are accumulated as a separate component of stockholders’ equity. For the Company, other comprehensive income or loss items include a foreign currency translation adjustment and pension and other postretirement benefit adjustments.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date. The accounting standards for fair value establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 — Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, the type of asset/liability, whether the asset/liability is established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are required to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of sales and expenses during the reporting period. Actual results could differ materially from those estimates.

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 ("SEC"), 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.

In May 2014, the FASB issued guidance related to the accounting for revenue from contracts with customers. This guidance establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. The guidance requires companies to apply a five-step model when recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also includes a comprehensive set of disclosure requirements regarding revenue recognition. The provisions of the guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016; however, the FASB has proposed a one year delay in the effective date of this guidance. The Company is currently evaluating the impact this guidance will have on its financial position, results of operations and cash flows. See Note 1 for a description of the Company's current revenue recognition policy.

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

Note 2 — Inventories:

Major classifications of inventories are as follows:

	March 31, 2015	March 31, 2014
Raw materials and supplies	$ 2,763	$ 3,185
Work in process	13,685	17,767
Finished products	689	646
	17,137	21,598
Less — progress payments	3,143	5,080
	$13,994	$16,518

Note 3 — Property, Plant and Equipment:

Major classifications of property, plant and equipment are as follows:

	March 31, 2015	March 31, 2014
Land	$ 210	$ 210
Buildings and leasehold improvements	18,682	13,249
Machinery and equipment	27,749	24,904
Construction in progress	70	3,025
	46,711	41,388
Less — accumulated depreciation and amortization	26,899	24,939
	$19,812	$16,449

Depreciation expense in fiscal 2015, fiscal 2014, and fiscal 2013 was $2,079, $1,977, and $1,851, respectively.

Note 4 — Intangible Assets:

Intangible assets are comprised of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
At March 31, 2015			
Intangibles subject to amortization:			
Customer relationships	$ 2,700	$772	$ 1,928
Intangibles not subject to amortization:			
Permits	$10,300	$ —	$10,300
Tradename	2,500	—	2,500
	$12,800	$ —	$12,800
At March 31, 2014			
Intangibles subject to amortization:			
Customer relationships	$ 2,700	$592	$ 2,108
Intangibles not subject to amortization:			
Permits	$10,300	$ —	$10,300
Tradename	2,500	—	2,500
	$12,800	$ —	$12,800

Intangible assets are amortized on a straight line basis over their estimated useful lives. Intangible amortization expense was $180 in each of fiscal 2015, fiscal 2014 and fiscal 2013. As of March 31, 2015, amortization expense is estimated to be $180 in each of the fiscal years ending March 31, 2016, 2017, 2018, 2019 and 2020.

There was no change in goodwill during fiscal 2015 or fiscal 2014. Goodwill was $6,938 at March 31, 2015 and 2014.

Note 5 — Product Warranty Liability:

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

	Year ended March 31,	
	2015	2014
Balance at beginning of year	$ 308	$ 408
Expense for product warranties	930	125
Product warranty claims paid	(585)	(225)
Balance at end of year	$ 653	$ 308

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

Note 6 — Leases:

The Company leases equipment and office space under various operating leases. Lease expense applicable to operating leases was $596, $563 and $513 in fiscal 2015, fiscal 2014, and fiscal 2013, respectively.

Property, plant and equipment include the following amounts for leases which have been capitalized:

	March 31, 2015	March 31, 2014
Machinery and equipment	$288	$457
Less accumulated amortization	135	240
	$153	$217

Amortization of machinery and equipment under capital leases amounted to $54, $72 and $84 in fiscal 2015, fiscal 2014, and fiscal 2013, respectively, and is included in depreciation expense.

As of March 31, 2015, future minimum payments required under non-cancelable leases are:

	Operating Leases	Capital Leases
2016	$405	$ 68
2017	117	40
2018	52	34
2019	15	29
2020	—	5
Total minimum lease payments	$589	176
Less — amount representing interest		18
Present value of net minimum lease payments		$158

Note 7 — Debt:

Short-Term Debt

The Company and its subsidiaries had no short-term borrowings outstanding at March 31, 2015 and 2014.

On December 3, 2010, the Company entered into a revolving credit facility agreement that provides a $25,000 line of credit, including letters of credit and bank guarantees, expandable at the Company's option at any time up to a total of $50,000. There are no sublimits in the agreement with regard to borrowings, issuance of letters of credit or issuance of bank guarantees for the Company's Chinese subsidiary. The agreement has a three year term, with two automatic one year extensions. The agreement was automatically extended for one year in December 2014 and December 2013.

At the Company's option, amounts outstanding under the agreement will bear interest at either: (i) a rate equal to the bank's prime rate; or (ii) a rate equal to LIBOR plus a margin. The margin is based upon the Company's funded debt to earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") and may range from 2.00% to 1.00%. Amounts available for borrowing under the agreement are subject to an unused commitment fee of between 0.375% and 0.200%, depending on the above ratio. The bank's prime rate was 3.25% at March 31, 2015 and 2014.

Outstanding letters of credit under the agreement are subject to a fee of between 1.25% and 0.75%, depending on the Company's ratio of funded debt to EBITDA. The agreement allows the Company to reduce the fee on outstanding letters of credit to a fixed rate of 0.55% by securing outstanding letters of credit with cash and cash equivalents. At March 31, 2015, all outstanding letters of credit were secured by cash and cash equivalents. Availability under the line of credit was $14,842 at March 31, 2015.

Under the Company's revolving credit facility, the Company covenants to maintain a maximum funded debt to EBITDA ratio, as defined in such credit facility, of 3.5 to 1.0 and a minimum earnings before interest expense and income taxes ("EBIT") to interest ratio, as defined in such credit facility, of 4.0 to 1.0. The agreement also provides that the Company is permitted to pay dividends without limitation if it maintains a funded debt to

EBITDA ratio equal to or less than 2.0 to 1.0 and permits the Company to pay dividends in an amount equal to 25% of net income if it maintains a funded debt to EBITDA ratio of greater than 2.0 to 1.0. The Company was in compliance with all such provisions as of and for the year ended March 31, 2015. Assets with a book value of $111,325 have been pledged to secure borrowings under the credit facility.

On March 24, 2014, the Company entered into a letter of credit facility agreement to further support its international operations. The agreement provides a $5,000 line of credit to be used for the issuance of letters of credit. Under the agreement, the Company incurs an annual facility fee of 0.375% of the maximum amount available under the facility and outstanding letters of credit are subject to a fee of between 1.25% and 0.75%, depending on the Company's ratio of funded debt to EBITDA, as defined in such credit facility. The facility requires the Company to maintain a maximum funded debt to EBITDA ratio of 3.5 to 1.0 and a minimum EBIT to interest ratio, as defined in such credit facility, of 4.0 to 1.0. Availability under the letter of credit facility was $4,255 at March 31, 2015.

Long-Term Debt

The Company and its subsidiaries had long-term capital lease obligations outstanding as follows:

	March 31,	
	2015	**2014**
Capital lease obligations (Note 6)	$158	$216
Less: current amounts	60	80
Total	$ 98	$136

With the exception of capital leases, there are no long-term debt payment requirements over the next five years as of March 31, 2015.

Note 8 — Financial Instruments and Derivative Financial Instruments:

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, investments, and trade accounts receivable. The Company places its cash, cash equivalents, and investments with high credit quality financial institutions, and evaluates the credit worthiness of these financial institutions on a regular basis. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the Company's customer base and their geographic dispersion. At March 31, 2015 and 2014, the Company had no significant concentrations of credit risk.

Letters of Credit

The Company has entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At March 31, 2015 and 2014, the Company was contingently liable on outstanding standby letters of credit aggregating $10,903 and $15,473, respectively. See Note 7.

Foreign Exchange Risk Management

The Company, as a result of its global operating and financial activities, is exposed to market risks from changes in foreign exchange rates. In seeking to minimize the risks and/or costs associated with such activities, the Company may utilize foreign exchange forward contracts with fixed dates of maturity and exchange rates. The Company does not hold or issue financial instruments for trading or other speculative purposes and only holds contracts with high quality financial institutions. If the counter-parties to any such exchange contracts do not fulfill their obligations to deliver the contracted foreign currencies, the Company could be at risk for fluctuations, if any, required to settle the obligation. At March 31, 2015 and 2014, there were no foreign exchange forward contracts held by the Company.

Fair Value of Financial Instruments

The estimates of the fair value of financial instruments are summarized as follows:

Cash and cash equivalents: The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of these instruments and are considered Level 1 assets in the fair value hierarchy.

Investments: The fair value of investments at March 31, 2015 and 2014 approximated the carrying value and are considered Level 2 assets in the fair value hierarchy.

Note 9 — Income Taxes:

An analysis of the components of income before income taxes is presented below:

	Year ended March 31,		
	2015	2014	2013
United States	$20,799	$14,127	$14,597
China	953	583	980
	$21,752	$14,710	$15,577

The provision for income taxes related to income before income taxes consists of:

	Year ended March 31,		
	2015	2014	2013
Current:			
Federal	$6,616	$ 5,146	$ 6,721
State	165	68	65
Foreign	79	362	—
	6,860	5,576	6,786
Deferred:			
Federal	(46)	(761)	(2,538)
State	(184)	(184)	(223)
Foreign	173	(240)	260
Changes in valuation allowance	214	174	144
	157	(1,011)	(2,357)
Total provision for income taxes	$7,017	$ 4,565	$ 4,429

The reconciliation of the provision calculated using the U.S. federal tax rate with the provision for income taxes presented in the consolidated financial statements is as follows:

	Year ended March 31,		
	2015	2014	2013
Provision for income taxes at federal rate	$7,613	$5,149	$5,452
State taxes	(103)	(139)	(173)
Charges not deductible for income tax purposes	79	59	78
Recognition of tax benefit generated by qualified production activities deduction	(382)	(403)	(417)
Research and development tax credits	(180)	(80)	(307)
Valuation allowance	214	174	144
Uncertain tax positions	—	(134)	90
Contingent earn-out	—	—	(326)
Other	(224)	(61)	(112)
Provision for income taxes	$7,017	$4,565	$4,429

The net deferred income tax liability recorded in the Consolidated Balance Sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the Company's net deferred income tax liability follows:

	March 31, 2015	March 31, 2014
Depreciation	$(2,196)	$(2,207)
Accrued compensation	881	201
Prepaid pension asset	(465)	(2,026)
Accrued pension liability	121	105
Accrued postretirement benefits	342	336
Compensated absences	629	584
Inventories	(1,042)	(101)
Warranty liability	231	109
Accrued expenses	313	329
Stock-based compensation	500	419
Intangible assets	(5,230)	(5,294)
New York State investment tax credit	952	738
Other	40	24
	(4,924)	(6,783)
Less: Valuation allowance	(952)	(738)
Total	$(5,876)	$(7,521)

The net deferred income tax liability is presented in the Consolidated Balance Sheets as follows:

	March 31, 2015	March 31, 2014
Current deferred income tax asset	$ 647	$ 668
Long-term deferred income tax asset	4	8
Current deferred income tax liability	(164)	—
Long-term deferred income tax liability	(6,363)	(8,197)
	$(5,876)	$(7,521)

Deferred income taxes include the impact of state investment tax credits of $344, which expire from 2015 to 2029 and state investment tax credits of $608, which have an unlimited carryforward period.

In assessing the realizability of deferred tax assets, management considers, within each taxing jurisdiction, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the consideration of the weight of both positive and negative evidence, management determined that a portion of the deferred tax assets as of March 31, 2015 and 2014 related to certain state investment tax credits would not be realized, and recorded a valuation allowance of $952 and $738, respectively.

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 tax years 2013 through 2014 and examination in state tax jurisdictions for tax years 2010 through 2014. The Company is subject to examination in the People's Republic of China for tax years 2012 through 2014. The liability for unrecognized tax benefits was $0 at each of March 31, 2015 and 2014.

Note 10 — Employee Benefit Plans:

Retirement Plans

The Company has a qualified defined benefit plan covering U.S. employees hired prior to January 1, 2003, which is non-contributory. Benefits are based on the employee's years of service and average earnings for the five highest consecutive calendar years of compensation in the ten-year period preceding retirement. The Company's funding policy for the plan is to contribute the amount required by the Employee Retirement Income Security Act of 1974, as amended.

The components of pension cost are:

	Year ended March 31,		
	2015	2014	2013
Service cost during the period	$ 546	$ 576	$ 544
Interest cost on projected benefit obligation	1,434	1,359	1,427
Expected return on assets	(3,033)	(2,728)	(2,738)
Amortization of:			
Unrecognized prior service cost	4	4	4
Actuarial loss	580	1,002	1,011
Net pension (benefit) cost	$ (469)	$ 213	$ 248

The weighted average actuarial assumptions used to determine net pension cost are:

	Year ended March 31,		
	2015	2014	2013
Discount rate	4.46%	4.28%	4.76%
Rate of increase in compensation levels	3.00%	3.00%	3.50%
Long-term rate of return on plan assets	8.00%	8.00%	8.50%

The expected long-term rate of return is based on the mix of investments that comprise plan assets and external forecasts of future long-term investment returns, historical returns, correlations and market volatilities.

The Company does not expect to make any contributions to the plan during fiscal 2016.

Changes in the Company's benefit obligation, plan assets and funded status for the pension plan are presented below:

	Year ended March 31,	
	2015	2014
Change in the benefit obligation		
Projected benefit obligation at beginning of year	$32,789	$32,278
Service cost	442	472
Interest cost	1,434	1,359
Actuarial loss (gain)	5,573	(226)
Benefit payments	(1,186)	(1,094)
Projected benefit obligation at end of year	$39,052	$32,789

The weighted average actuarial assumptions used to determine the benefit obligation are:

	March 31, 2015	March 31, 2014
Discount rate	3.74%	4.46%
Rate of increase in compensation levels	3.00%	3.00%
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$38,548	$34,627
Employer contribution	55	—
Actual return on plan assets	2,967	5,015
Benefit and administrative expense payments	(1,186)	(1,094)
Fair value of plan assets at end of year	$40,384	$38,548
Funded status		
Funded status at end of year	$ 1,332	$ 5,759
Amount recognized in the Consolidated Balance Sheets	$ 1,332	$ 5,759

The projected benefit obligation is the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future pay increases. In fiscal 2015, the mortality assumption changed from the RP 2000 Mortality Table, projected to 2015 and weighted 50% blue collar for males and the RP 2000 Combined Healthy Table for females projected to 2015 to the sex district RP 2014 dollar weighted annuitant and non-annuitant Mortality Table projected to 2020 using scale MP-2014. This change resulted in an increase to the projected benefit obligation of approximately $2,145. The accumulated benefit obligation reflects the actuarial present value of benefits attributable to employee service rendered to date, but does not include the effects of estimated future pay increases. The accumulated benefit obligation as of March 31, 2015 and 2014 was $33,998 and $28,254, respectively. At March 31, 2015 and 2014, the pension plan was fully funded on an accumulated benefit obligation and projected benefit obligation basis.

Amounts recognized in accumulated other comprehensive loss, net of income tax, consist of:

	March 31, 2015	March 31, 2014
Net actuarial loss	$9,141	$5,939
Prior service cost	—	2
	$9,141	$5,941

The increase (decrease) in accumulated other comprehensive loss, net of income tax, consists of:

	March 31, 2015	March 31, 2014
Net actuarial loss (gain) arising during the year	$3,578	$(1,692)
Amortization of actuarial loss	(375)	(647)
Amortization of prior service cost	(3)	(3)
	$3,200	$(2,342)

The estimated net actuarial loss and prior service cost for the pension plan that will be amortized from accumulated other comprehensive loss into net pension cost in fiscal 2016 are $1,174 and $0, respectively.

The following benefit payments, which reflect future service, are expected to be paid:

2016	$ 1,263
2017	1,370
2018	1,467
2019	1,495
2020	1,635
2021-2025	9,128
Total	$16,358

The weighted average asset allocation of the plan assets by asset category is as follows:

	Target Allocation	March 31, 2015	March 31, 2014
Asset Category			
Equity securities	50-70%	66%	66%
Debt securities	20-50%	34%	34%
Other, including cash	0-10%	—%	—%
		100%	100%

The investment strategy of the plan is to generate a consistent total investment return sufficient to pay present and future plan benefits to retirees, while minimizing the long-term cost to the Company. Target allocations for asset categories are used to earn a reasonable rate of return, provide required liquidity and minimize the risk of large losses. Targets are adjusted when considered necessary to reflect trends and developments within the overall investment environment.

The fair values of the Company's pension plan assets at March 31, 2015 and 2014, by asset category, are as follows:

		Fair Value Measurements Using		
Asset Category	**At March 31, 2015**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Cash	$ 126	$ 126	$—	$—
Equity securities:				
U.S. companies	21,586	21,586	—	—
International companies	4,854	4,854	—	—
Fixed income:				
Corporate bond funds				
Intermediate-term	11,109	11,109	—	—
Short-term	2,709	2,709	—	—
	$40,384	$40,384	$—	$—

Asset Category	At March 31, 2014	Fair Value Measurements Using — Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash	$ 122	$ 122	$—	$—
Equity securities:				
U.S. companies	20,396	20,396	—	—
International companies	4,905	4,905	—	—
Fixed income:				
Corporate bond funds				
Intermediate-term	10,507	10,507	—	—
Short-term	2,618	2,618	—	—
	$38,548	$38,548	$—	$—

The fair value of Level 1 pension assets are obtained by reference to the last quoted price of the respective security on the market which it trades. See Note 1 to the Consolidated Financial Statements.

On February 4, 2003, the Company closed the defined benefit plan to all employees hired on or after January 1, 2003. In place of the defined benefit plan, these employees participate in the Company's domestic defined contribution plan. The Company contributes a fixed percentage of employee compensation to this plan on an annual basis for these employees. The Company contribution to the defined contribution plan for these employees in fiscal 2015, fiscal 2014 and fiscal 2013 was $294, $257 and $204, respectively.

The Company has a Supplemental Executive Retirement Plan ("SERP") which provides retirement benefits associated with wages in excess of the legislated qualified plan maximums. Pension expense recorded in fiscal 2015, fiscal 2014, and fiscal 2013 related to this plan was $70, $70 and $24, respectively. At March 31, 2015 and 2014, the related liability was $341 and $298, respectively. The current portion of the related liability of $26 and $26 at March 31, 2015 and 2014, respectively, is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets.

The Company has a domestic defined contribution plan (401k) covering substantially all employees. The Company provides matching contributions equal to 100% of the first 3% of an employee's salary deferral and 50% of the next 2% percent of an employee's salary deferral. Company contributions are immediately vested. Contributions were $940 in fiscal 2015, $831 in fiscal 2014 and $753 in fiscal 2013.

Other Postretirement Benefits

In addition to providing pension benefits, the Company has a plan in the U.S. that provides health care benefits for eligible retirees and eligible survivors of retirees. The Company's share of the medical premium cost has been capped at $4 for family coverage and $2 for single coverage for early retirees, and $1 for both family and single coverage for regular retirees.

On February 4, 2003, the Company terminated postretirement health care benefits for its U.S. employees. Benefits payable to retirees of record on April 1, 2003 remained unchanged.

The components of postretirement benefit income are:

	Year ended March 31, 2015	2014	2013
Interest cost on accumulated benefit obligation	$ 31	$ 33	$ 39
Amortization of prior service benefit	(106)	(166)	(166)
Amortization of actuarial loss	35	46	44
Net postretirement benefit income	$ (40)	$ (87)	$ (83)

The weighted average discount rate used to develop the net postretirement benefit cost were 3.59%, 3.26% and 3.96% in fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

Changes in the Company's benefit obligation, plan assets and funded status for the plan are as follows:

	Year ended March 31,	
	2015	**2014**
Change in the benefit obligation		
Projected benefit obligation at beginning of year	$951	$1,030
Interest cost	31	33
Actuarial loss (gain)	75	(16)
Benefit payments	(89)	(96)
Projected benefit obligation at end of year	$968	$ 951

The weighted average actuarial assumptions used to develop the accrued postretirement benefit obligation were:

	March 31,	
	2015	**2014**
Discount rate	3.11%	3.59%
Medical care cost trend rate	8.00%	8.00%

The medical care cost trend rate used in the actuarial computation ultimately reduces to 5% in 2021 and subsequent years. This was accomplished using .5% decrements for the years ended March 31, 2015 through 2021.

	Year ended March 31,	
	2015	**2014**
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contribution	89	96
Benefit payments	(89)	(96)
Fair value of plan assets at end of year	$ —	$ —
Funded status		
Funded status at end of year	$(968)	$(951)
Amount recognized in the Consolidated Balance Sheets	$(968)	$(951)

The current portion of the accrued postretirement benefit obligation of $92 and $98, at March 31, 2015 and 2014, respectively, is included in the caption "Accrued Compensation" and the long-term portion is separately presented in the Consolidated Balance Sheets.

Amounts recognized in accumulated other comprehensive loss, net of income tax, consist of:

	March 31,	
	2015	**2014**
Net actuarial loss	$321	$295
Prior service cost	—	(68)
	$321	$227

The increase (decrease) in accumulated other comprehensive loss, net of income tax, consists of:

	March 31,	
	2015	2014
Net actuarial loss (gain) arising during the year	$ 48	$ (10)
Amortization of actuarial loss	(23)	(30)
Amortization of prior service cost	69	107
	$ 94	$ 67

The estimated net actuarial loss and prior service cost for the other postretirement benefit plan that will be amortized from accumulated other comprehensive loss into net postretirement benefit income in fiscal 2016 are $38 and $0, respectively.

The following benefit payments are expected to be paid during the fiscal years ending March 31:

2016	$ 92
2017	89
2018	86
2019	82
2020	78
2021-2025	331
Total	$758

Assumed medical care cost trend rates could have a significant effect on the amounts reported for the post-retirement benefit plan. However, due to the caps imposed on the Company's share of the premium costs, a one percentage point change in assumed medical care cost trend rates would not have a significant effect on the total service and interest cost components or the postretirement benefit obligation.

Employee Stock Ownership Plan

The Company has a noncontributory Employee Stock Ownership Plan ("ESOP") that covers substantially all employees in the U.S. There were 233 and 252 shares in the ESOP at March 31, 2015 and 2014, respectively. There were no Company contributions to the ESOP in fiscal 2015, fiscal 2014 or fiscal 2013. Dividends paid on allocated shares accumulate for the benefit of the employees who participate in the ESOP.

Self-Insured Medical Plan

Effective January 1, 2014, the Company commenced self-funding the medical insurance coverage provided to its U.S. based employees. The Company has obtained a stop loss insurance policy in an effort to limit its exposure to claims. The Company has specific stop loss coverage per employee for claims incurred during the year exceeding $100 per employee with annual maximum aggregate stop loss coverage per employee of $1,000. The Company also has total plan annual maximum aggregate stop loss coverage of $3,738. The liability of $446 and $221 on March 31, 2015 and 2014, respectively, related to the self-insured medical plan is primarily based upon claim history and is included in the caption "Accrued Compensation" in the Consolidated Balance Sheets.

Note 11 — Stock Compensation Plans:

The Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value provides for the issuance of up to 1,375 shares of common stock in connection with grants of incentive stock options, non-qualified stock options, stock awards and performance awards to officers, key employees and outside directors; provided, however, that no more than 250 shares of common stock may be used for awards other than stock options. Stock options may be granted at prices not less than the fair market value at the date of grant and expire no later than ten years after the date of grant.

During fiscal 2013, 49 stock options with a term of ten years from the date of grant were awarded to officers and key employees. No stock options were awarded in fiscal 2015 and fiscal 2014. The stock option awards granted in fiscal 2013 vest 33⅓% per year over a three-year term. The Company has elected to use the straight-line method to recognize compensation costs related to such awards.

In fiscal 2015, fiscal 2014 and fiscal 2013, 30, 32 and 26 shares, respectively, of restricted stock were awarded. Restricted shares of 12, 14 and 18 granted to officers in fiscal 2015, fiscal 2014 and fiscal 2013, 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 11 and 12 granted to officers and key employees in fiscal 2015 and fiscal 2014, respectively, vest 33⅓% per year over a three-year term. The restricted shares granted to directors of 7, 6 and 8 in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, vest 100% on the anniversary of the grant date. The Company recognizes compensation cost over the period the shares vest.

During fiscal 2015, fiscal 2014, and fiscal 2013, the Company recognized $598, $582, and $524, respectively, of stock-based compensation cost related to stock option and restricted stock awards, and $210, $205 and $184, respectively, of related tax benefits.

The weighted average fair value of options granted during fiscal 2013 was $4.97 using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended March 31, 2013
Expected life	3 years
Volatility	43.17%
Risk-free interest rate	.38%
Dividend yield	.38%

The expected life represents an estimate of the weighted average period of time that options are expected to remain outstanding given consideration to vesting schedules and the Company's historical exercise patterns. Expected volatility is estimated based on the historical closing prices of the Company's common stock over the expected life of the options. The risk free interest rate is estimated based on the U.S. Federal Reserve's historical data for the maturity of nominal treasury instruments that corresponds to the expected term of the option. Expected dividend yield is based on historical trends.

The Company received cash proceeds from the exercise of stock options of $47, $581 and $83 in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. In fiscal 2015, fiscal 2014 and fiscal 2013, the Company recognized a $197, $268 and $41, respectively, increase in capital in excess of par value for the income tax benefit realized upon exercise of stock options and vesting of restricted shares in excess of the tax benefit amount recognized pertaining to the fair value of stock awards treated as compensation expense.

The following table summarizes information about the Company's stock option awards during fiscal 2015, fiscal 2014 and fiscal 2013:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at April 1, 2012	114	$13.90		
Granted	49	18.65		
Exercised	(13)	6.35		
Forfeited	(4)	18.65		
Outstanding at March 31, 2013	146	16.04		
Exercised	(52)	11.31		
Forfeited	(1)	19.15		
Outstanding at March 31, 2014	93	18.60		
Exercised	(2)	19.66		
Forfeited	(1)	18.65		
Outstanding at March 31, 2015	90	18.57	5.31 years	$598
Vested or expected to vest at March 31, 2015	87	18.57	5.24 years	582
Exercisable at March 31, 2015	76	18.56	4.97 years	524

The following table summarizes information about stock options outstanding at March 31, 2015:

Exercise Price	Options Outstanding at March 31, 2015	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
$ 6.90-7.98	9	$ 6.96	2.11
12.52-15.25	24	14.68	4.22
18.65-21.19	45	18.96	7.05
30.88-44.50	12	33.04	3.20
6.90-44.50	90	18.57	5.31

The total intrinsic value of the stock options exercised during fiscal 2015, fiscal 2014 and fiscal 2013 was $32, $1,221 and $203, respectively. As of March 31, 2015, there was $1,055 of total unrecognized stock-based compensation expense related to non-vested stock options and restricted stock. The Company expects to recognize this expense over a weighted average period of 1.44 years.

The outstanding options expire between June 2016 and May 2022. Options, stock awards and performance awards available for future grants were 403 at March 31, 2015.

The following table summarizes information about the Company's restricted stock awards during fiscal 2015, fiscal 2014 and fiscal 2013:

	Restricted Stock	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested at March 31, 2012	49	19.11	
Granted	26	18.65	
Vested	(8)	22.02	
Forfeited	(6)	19.19	
Non-vested at March 31, 2013	61	18.51	
Granted	32	24.00	
Vested	(24)	17.20	
Forfeited	(5)	15.81	
Non-vested at March 31, 2014	64	21.93	
Granted	30	28.36	
Vested	(15)	23.04	
Forfeited	(9)	21.56	
Non-vested at March 31, 2015	70	24.47	$95

During fiscal 2014, the Company terminated its Long-Term Incentive Plan, which provided for awards of share equivalent units ("SEUs") for outside directors based upon the Company's performance. Upon termination, the final value of the share equivalent units was determined and the related share equivalent units were cancelled. The liability at March 31, 2015 and 2014 was $158 and $315, respectively. During fiscal 2015, $157 was paid to the participating directors and the remaining $158 will be paid in fiscal 2016.

The Company has an Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock on the last day of a six-month offering period at a purchase price equal to the lesser of 85% of the fair market value of the common stock on either the first day or the last day of the offering period. A total of 200 shares of common stock may be purchased under the ESPP. In fiscal 2015, fiscal 2014 and fiscal 2013, 12, 16 and 19 shares, respectively, were issued from treasury stock to the ESPP for the offering periods in each of the fiscal years. During fiscal 2015, fiscal 2014 and fiscal 2013, the Company recognized stock-based compensation cost of $55, $57 and $52, respectively, related to the ESPP and $19, $20 and $19, respectively, of related tax benefits. The Company recognized a $3, $3 and $2 increase in capital in excess of par value for the income tax benefit realized from disqualifying dispositions in excess of the tax benefit amount recognized pertaining to the compensation expense recorded in fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

Note 12 — Changes in Accumulated Other Comprehensive Loss:

The changes in accumulated other comprehensive loss by component for fiscal 2015 and fiscal 2014 are:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2013	$(8,443)	$410	$(8,033)
Other comprehensive income before reclassifications	1,702	(7)	1,695
Amounts reclassified from accumulated other comprehensive loss	573	—	573
Net current-period other comprehensive income	2,275	(7)	2,268
Balance at March 31, 2014	(6,168)	403	(5,765)
Other comprehensive income before reclassifications	(3,626)	3	(3,623)
Amounts reclassified from accumulated other comprehensive loss	332	—	332
Net current-period other comprehensive income	(3,294)	3	(3,291)
Balance at March 31, 2015	$(9,462)	$406	$(9,056)

The reclassifications out of accumulated other comprehensive loss by component are as follows:

	Year ended March 31, 2015	
Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statements of Operations
Pension and other postretirement benefit items:		
Amortization of unrecognized prior service benefit	$ 102(1)	
Amortization of actuarial loss	(616)(1)	
	(514)	Income before provision for income taxes
	(182)	Provision for income taxes
	$(332)	Net income

	Year ended March 31, 2014	
Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statements of Operations
Pension and other postretirement benefit items:		
Amortization of unrecognized prior service benefit	$ 162(1)	
Amortization of actuarial loss	(1,048)(1)	
	(886)	Income before provision for income taxes
	(313)	Provision for income taxes
	$ (573)	Net income

(1) These accumulated other comprehensive loss components are included within the computation of net periodic pension and other postretirement benefit costs. See Note 10.

Note 13 — Segment Information:

The Company has one reporting segment as its operating segments meet the requirement for aggregation. The Company and its operating subsidiaries design and manufacture heat transfer and vacuum equipment for the chemical, petrochemical, refining and electric power generating markets. Energy Steel supplies components and raw materials for the nuclear power generating market. Heat transfer equipment includes surface condensers, Heliflows, water heaters and various types of heat exchangers. Vacuum equipment includes steam jet ejector vacuum systems and liquid ring vacuum pumps. These products are sold individually or combined into package systems. The Company also services and sells spare parts for its equipment.

Net sales by product line for the following fiscal years are:

	Year ended March 31,		
	2015	2014	2013
Heat transfer equipment	$ 58,224	$ 37,086	$ 43,764
Vacuum equipment	28,698	27,236	22,891
All other	48,247	37,896	38,318
Net sales	$135,169	$102,218	$104,973

The breakdown of net sales by geographic area for the following fiscal years is:

	Year ended March 31,		
	2015	2014	2013
Net Sales:			
Africa	$ 237	$ 152	$ 235
Asia	11,253	11,486	17,048
Australia & New Zealand	330	307	29
Canada	15,807	11,419	7,084
Central America	1,772	3,210	4,633
Europe	943	2,091	2,027
Mexico	407	728	89
Middle East	10,155	4,350	14,834
South America	7,866	4,625	3,299
U.S.	86,399	63,850	55,695
Net sales	$135,169	$102,218	$104,973

The final destination of products shipped is the basis used to determine net sales by geographic area. No sales were made to the terrorist sponsoring nations of Sudan, Iran, Cuba, North Korea or Syria.

There were no sales to a single customer that amounted to 10% or more of total consolidated net sales in fiscal 2015, fiscal 2014 or fiscal 2013.

Note 14 — Restructuring Charge:

In the fourth quarter of fiscal 2015, the Company eliminated certain director, management, office and manufacturing positions. As a result, a restructuring charge of $1,718 was recognized, which included severance costs. This charge is included in the caption "Other Expense" in the fiscal 2015 Consolidated Statement of Operations. A reconciliation of the changes in the restructuring reserve is as follows:

	Year ended March 31, 2015
Balance at beginning of year	$ —
Expense for restructuring	1,718
Amounts paid for restructuring	—
Balance at end of year	$1,718

The current portion of the liability of $1,594 at March 31, 2015 is included in the caption "Accrued Compensation" and the long-term portion of $124 is separately presented in the Consolidated Balance Sheet.

Note 15 — Commitments and Contingencies:

The Company has been named as a defendant in lawsuits alleging personal injury from exposure to asbestos allegedly contained in 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 are similar to previous asbestos 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.

As of March 31, 2015, 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 to which the Company is a party cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made, management does not believe that the outcomes, either individually or in the aggregate, will have a material effect on the Company's results of operations, financial position or cash flows.

Note 16 — Quarterly Financial Data (Unaudited):

A capsule summary of the Company's unaudited quarterly results for fiscal 2015 and fiscal 2014 is presented below:

Year ended March 31, 2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 28,502	$ 35,566	$ 33,646	$ 37,455	$ 135,169
Gross profit	7,932	10,984	10,103	12,785	41,804
Net income	2,392	4,186	3,992	4,165(1)	14,735(1)
Per share:					
Net income:					
Basic	$ .24	$ .41	$ .39	$ .41	$ 1.46
Diluted	$ .24	$ .41	$ .39	$ .41	$ 1.45
Market price range of common stock	$26.20-34.88	$27.99-35.35	$26.06-34.65	$20.58-28.86	$20.58-35.35

Year ended March 31, 2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 28,256	$ 24,490	$ 23,385	$ 26,087	$ 102,218
Gross profit	10,015	8,289	6,090	7,418	31,812
Net income	3,808	2,589	1,431	2,317	10,145
Per share:					
Net income:					
Basic	$ .38	$ .26	$ .14	$ .23	$ 1.01
Diluted	$ .38	$ .26	$ .14	$ .23	$ 1.00
Market price range of common stock	$22.36-31.41	$30.26-38.96	$32.95-41.94	$30.23-37.23	$22.36-41.94

(1) In the fourth quarter of fiscal 2015, the Company recognized a $1,718 restructuring charge. As a result, net income includes the restructuring charge, net of tax, of $1,164.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Graham Corporation
Batavia, New York

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries (the "Company") as of March 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Graham Corporation and subsidiaries as of March 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2015, based on the criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 2, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Rochester, New York
June 2, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Graham Corporation
Batavia, New York

We have audited the internal control over financial reporting of Graham Corporation and subsidiaries (the "Company") as of March 31, 2015, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A of its Annual Report on Form 10-K for the year ended March 31, 2015. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2015, based on the criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended March 31, 2015 of the Company and our reports dated June 2, 2015 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

Deloitte & Touche LLP

Rochester, New York
June 2, 2015

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

Item 9A. ***Controls and Procedures***

Conclusion Regarding Disclosure Controls and Procedures

Management, including our President and Chief Executive Officer (principal executive officer) and Vice President-Finance & Administration and Chief Financial Officer (principal financial officer), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based upon, and as of the date of that evaluation, our President and Chief Executive Officer and Vice President-Finance & Administration and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is (i) recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to our management, including our President and Chief Executive Officer and Vice President-Finance & Administration and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change to our internal control over financial reporting during the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our organization have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Moreover, over time controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in the design of an internal control system, misstatements due to error or fraud may occur and not be detected. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Under the supervision and with the participation of management, including our President and Chief Executive Officer (principal executive officer) and Vice President — Finance & Administration and Chief Financial Officer (principal financial officer), we conducted an assessment of the effectiveness of its internal control over financial reporting based on the framework established in *Internal Control — Integrated Framework* ("2013") issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment under this framework, management concluded that our internal control over financial reporting was effective as of March 31, 2015.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting.

Item 9B. ***Other Information***

On May 28, 2015, the Company's Board of Directors amended and restated the Company's Amended and Restated By-laws (the "By-laws"). The purpose of such amendment and restatement was to amend section 4.2 of the Company's By-laws to provide that no person shall be elected to serve a term as a Director after his or her 75th birthday. Prior to such amendment and restatement a person serving as a Director could continue to serve as a Director after reaching the age of 75 provided he or she was first elected to the Board on or before October 30, 2002.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Except as otherwise stated specifically in this response to Item 10, the information required by this Item 10 is incorporated herein by reference from the statements under the headings “Election of Directors,” “Executive Officers,” “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” contained in our proxy statement for our 2015 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2015.

Code of Ethics. We have adopted a Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, and principal accounting officer. Our Code of Business Conduct and Ethics also applies to all of our other employees and to our directors. Our Code of Business Conduct and Ethics is available on our website located at www.graham-mfg.com by clicking on the “Corporate Governance” heading in the “Investor Relations” tab. We intend to satisfy any disclosure requirements pursuant to Item 5.05 of Form 8-K regarding any amendment to, or a waiver from, certain provisions of our Code of Business Conduct and Ethics by posting such information on our website.

Item 11. *Executive Compensation*

The information required by this Item 11 is incorporated herein by reference from the statements under the headings “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation” contained in our proxy statement for our 2015 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2015.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Except as set forth below, the information required by this Item 12 is incorporated herein by reference from the statements under the headings “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” contained in our proxy statement for our 2015 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2015.

Securities Authorized for Issuance under Equity Compensation Plans as of March 31, 2015

	Equity Compensation Plan Information		
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	90	$18.57	403
Equity compensation plans not approved by security holders	—	—	—
Total	90	$18.57	403

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item 13 is incorporated herein by reference from the statements under the headings “Certain Relationships and Related Transactions” and “Corporate Governance” contained in our proxy statement for our 2015 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2015.

Item 14. ***Principal Accounting Fees and Services***

The information required by this Item 14 is incorporated herein by reference from the statements under the heading "Ratification of the Selection of our Independent Registered Public Accounting Firm" contained in our proxy statement for our 2015 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2015.

Part IV

Item 15. ***Exhibits, Financial Statement Schedules***

We have filed our Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and have listed such financial statements in the Index to Financial Statements included in Item 8. In addition, the financial statement schedule entitled "Schedule II — Valuation and Qualifying Accounts" is filed as part of this Annual Report on Form 10-K under this Item 15.

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and notes thereto.

The exhibits filed as part of this Annual Report on Form 10-K are listed in the Index to Exhibits following the signature page of this Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Graham Corporation
Batavia, New York

We have audited the consolidated financial statements of Graham Corporation and subsidiaries (the "Company") as of March 31, 2015 and 2014, and for each of the three years in the period ended March 31, 2015, and the Company's internal control over financial reporting as of March 31, 2015, and have issued our reports thereon dated June 2, 2015; such consolidated financial statements and reports are included in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

Rochester, New York
June 2, 2015

GRAHAM CORPORATION AND SUBSIDIARIES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(In Thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended March 31, 2015					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 46	$ 24	$—	$ (8)	$ 62
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$308	$ 930	$—	$(585)	$ 653
Reserves included in the balance sheet caption "accrued compensation"					
Restructuring reserve	$ —	$1,718	$—	$ —	$1,718
Year ended March 31, 2014					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 33	$ 19	$—	$ (6)	$ 46
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$408	$ 125	$—	$(225)	$ 308
Year ended March 31, 2013					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 43	$ (10)	$—	$ —	$ 33
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$215	$ 360	$—	$(167)	$ 408

INDEX TO EXHIBITS

(3) Articles of Incorporation and By-Laws

3.1 Certificate of Incorporation of Graham Corporation, as amended, is incorporated herein by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008.

*3.2 Amended and Restated By-laws of Graham Corporation.

(10) Material Contracts

#10.1 Long-Term Stock Ownership Plan of Graham Corporation is incorporated herein by reference from Appendix A to the Company's Proxy Statement for its 2000 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 30, 2000.

#10.2 Graham Corporation Policy Statement for U.S. Foreign Service Employees is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated March 27, 2006.

#10.3 Employment Agreement between Graham Corporation and James R. Lines executed July 27, 2006 with an effective date of August 1, 2006, is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated July 27, 2006.

#10.4 Amended and Restated 2000 Graham Corporation Incentive Plan to Increase Shareholder Value is incorporated herein by reference from Appendix A to the Company's Proxy Statement for its 2006 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 23, 2006.

#10.5 Employment Agreement between Graham Corporation and Alan E. Smith executed August 1, 2007 with an effective date of July 30, 2007, is incorporated herein by reference from Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended March 31, 2008.

#10.6 Form of Director Non-Qualified Stock Option Agreement is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008.

#10.7 Amendment to Employment Agreement dated as of December 31, 2008 by and between Graham Corporation and James R. Lines is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated December 31, 2008.

#10.8 Amendment to Employment Agreement dated as of December 31, 2008 by and between Graham Corporation and Alan E. Smith is incorporated herein by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K dated December 31, 2008.

#10.9 Graham Corporation Annual Stock-Based Incentive Award Plan for Senior Executives is incorporated herein by reference from Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended March 31, 2009.

#10.10 Graham Corporation Annual Executive Cash Bonus Program is incorporated herein by reference from Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended March 31, 2009.

#10.11 Form of Director Restricted Stock Agreement is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009.

#10.12 Form of Employee Non-Qualified Stock Option Agreement is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009.

#10.13 Form of Employee Time-Vested Restricted Stock Agreement is incorporated herein by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013.

#10.14 Form of Indemnification Agreement between Graham Corporation and each of its Directors and Officers is incorporated herein by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K dated January 29, 2010.

#10.15 Form of Employee Performance-Vested Restricted Stock Agreement is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013.

#10.16 Amended and Restated Employment Agreement between Graham Corporation and Jeffrey F. Glajch executed and effective on July 29, 2010 is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010.

10.17 Policy Statement on Stockholder Rights Plans is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated September 9, 2010.

10.18 Lease Agreement by and between ESSC Investments, LLC, Energy Steel & Supply Co., and Graham Corporation dated December 14, 2010, is incorporated herein by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2010.

10.19 Loan Agreement between the Company and Bank of America, N.A., dated December 3, 2010, is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated December 3, 2010.

10.20 Trademark Security Agreement Amendment 1 between the Company and Bank of America, N.A., dated December 3, 2010 is incorporated herein by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K dated December 3, 2010.

#10.21 Compensation information, including information regarding restricted stock grants made to the Company's named executive officers under the Amended and Restated Graham Corporation Incentive Plan to Increase Shareholder Value and named executive officer cash bonus information, previously filed on the Company's Current Report on Form 8-K dated May 29, 2014, is incorporated herein by reference.

#10.22 Compensation information regarding named executive officer base salaries previously filed on the Company's Current Report on Form 8-K dated March 19, 2015 is incorporated herein by reference.

#10.23 Graham Corporation Supplemental Executive Retirement Plan is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012.

#10.24 Employment Agreement between Graham Corporation and Jennifer R. Condame executed and effective on July 25, 2013 is incorporated herein by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013.

10.25 Amendment No. 1 dated as of March 24, 2014 to the Loan Agreement dated as of December 3, 2010 between Graham Corporation and Bank of America, N.A. is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated March 20, 2014.

10.26 Continuing Letter of Credit Facility dated March 24, 2014 between Graham Corporation and HSBC Bank, USA, National Association is incorporated herein by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K dated March 20, 2014.

10.27 Letter Agreement dated March 24, 2014, with respect to the Continuing Letter of Credit Facility dated March 24, 2014, between Graham Corporation and HSBC Bank, USA, National Association is incorporated herein by reference from Exhibit 99.3 to the Company's Current Report on Form 8-K dated March 20, 2014.

(11) Statement re computation of per share earnings

Computation of per share earnings is included in Note 1 of the Notes to the Consolidated Financial Statements contained in this Annual Report on Form 10-K.

(14) Code of Ethics

14.1 Graham Corporation Code of Business Conduct and Ethics, as amended and restated, is incorporated herein by reference from Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2014.

(21) Subsidiaries of the registrant

*21.1 Subsidiaries of the registrant

(23) Consents of Experts and Counsel

*23.1 Consent of Deloitte & Touche LLP

(31) Rule 13a-14(a)/15d-14(a) Certifications

*31.1 Certification of Principal Executive Officer

*31.2 Certification of Principal Financial Officer

(32) Section 1350 Certifications

*32.1 Section 1350 Certifications

(101) Interactive Date File

*101.INS XBRL Instance Document

*101.SCH XBRL Taxonomy Extension Schema Document

*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

*101.DEF XBRL Taxonomy Definitions Linkbase Document

*101.LAB XBRL Taxonomy Extension Label Linkbase Document

*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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* Exhibits filed with this report.

Management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAHAM CORPORATION

June 2, 2015

By: /s/ JEFFREY F. GLAJCH
Jeffrey F. Glajch
Vice President-Finance & Administration,
Chief Financial Officer and Corporate Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature		
/s/ JAMES R. LINES James R. Lines	President and Chief Executive Officer and Director (Principal Executive Officer)	June 2, 2015
/s/ JEFFREY F. GLAJCH Jeffrey F. Glajch	Vice President-Finance & Administration, Chief Financial Officer and Corporate Secretary (Principal Financial Officer)	June 2, 2015
/s/ JENNIFER R. CONDAME Jennifer R. Condame	Chief Accounting Officer (Principal Accounting Officer)	June 2, 2015
/s/ JAMES J. BARBER James J. Barber	Director	June 2, 2015
/s/ HELEN H. BERKELEY Helen H. Berkeley	Director	June 2, 2015
/s/ ALAN FORTIER Alan Fortier	Director	June 2, 2015
/s/ JAMES J. MALVASO James J. Malvaso	Director and Chairman of the Board	June 2, 2015
/s/ GERARD T. MAZURKIEWICZ Gerard T. Mazurkiewicz	Director	June 2, 2015

Signature		
/s/ JONATHAN W. PAINTER Jonathan W. Painter	Director	June 2, 2015
/s/ LISA M. SCHNORR Lisa M. Schnorr	Director	June 2, 2015

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End of Annual Report on Form 10-K
for the year ended March 31, 2015

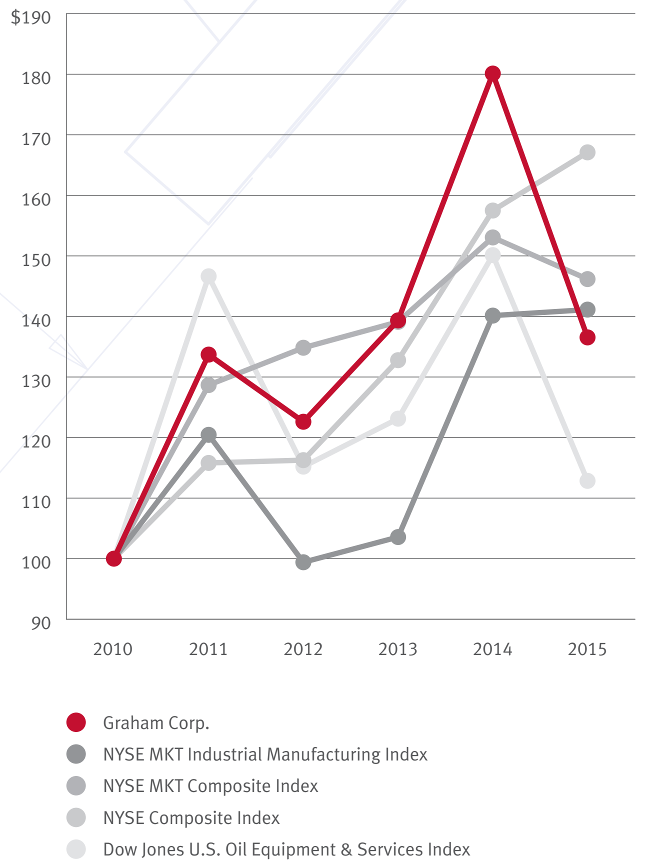
Comparison of **Five-Year Cumulative Total Return**

The line graph below assumes an investment of $100 on March 31, 2010 in: (i) our common stock; (ii) the stocks comprising the NYSE Composite Index; (iii) the stocks comprising the Dow Jones U.S. Oil Equipment & Services Index; (iv) the stocks comprising the NYSE MKT Composite Index; and (v) the stocks comprising the NYSE MKT Industrial Manufacturing Index. Total returns assume the reinvestment of all dividends.

Our stock performance may not continue into the future with the trends similar to those depicted in the accompanying graph. We neither make nor endorse any predictions as to our future stock performance.

Cumulative Total Return Summary

(March 2015)



Forward-Looking Statements

Certain statements contained in this Annual Report, including, without limitation, statements containing the words "intends," "targets," "poised," "review," "potential," "expects," "estimates," "confidence," "projects," "typically," "outlook," "anticipates," "believes," "appears," "could," "opportunities," "seeking," "plans," and words of similar import, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements addressing operating performance, events, or developments that Graham Corporation expects or anticipates will occur in the future, including but not limited to, expected expansion and growth opportunities within the domestic and international markets, anticipated revenue, the timing of conversion of backlog to sales, market presence, profit margins, tax rates, foreign sales operations, its ability to improve cost competitiveness, customer preferences, changes in market conditions in the industries in which it operates, changes in commodities prices, the effect on its business of volatility in commodities prices, changes in general economic conditions and customer behavior, forecasts regarding the timing and scope of the economic recovery in its markets, its acquisition and growth strategy and the expected performance of Energy Steel & Supply Co, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our 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" and elsewhere in our accompanying Annual Report on Form 10-K.

Statements made in this report are based on current estimates of future events, and we have no obligation to update or correct these estimates, except as required by law. Readers are cautioned that any such forward-looking statements are not guarantees of future performance.

GRAHAM CORPORATION

Graham Corporation 2015 Annual Report

Solid Performance. Outstanding Year.

Graham Corporation

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